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**Elec & Eltek 依利安達**

**Elec & Eltek International Holdings Limited**

*(Incorporated in Bermuda with Limited Liability)*

**(Stock Code: 33)**

**Recommendation to the shareholders regarding the voluntary conditional cash offers  
by Citigroup Global Markets Asia Limited on behalf of  
Ease Ever Investments Limited to acquire  
all of the issued shares in the capital of, and for the  
cancellation of all outstanding options of,  
Elec & Eltek International Holdings Limited  
(other than those already owned by Ease Ever Investments Limited  
and parties acting in concert with it)**

**Independent financial adviser**



**SOMERLEY LIMITED**

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A letter from the Independent Board Committee containing its recommendations in respect of the Offers is set out on pages 10 to 11 of this document.

A letter from Somerley Limited containing its advice to the Independent Board Committee, the Independent Shareholders and the Option Holders in respect of the Offers is set out on pages 12 to 38 of this document.

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## DEFINITIONS

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*In this document, the following expressions have the following meanings unless the context otherwise requires:*

“associate(s)”	shall have the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“B.I. Appraisals”	B.I. Appraisals Limited, a professional property valuer
“Citigroup”	Citigroup Global Markets Asia Limited
“Closing Date”	the First Closing Date, or if the Offers are extended, the closing date of the Offers as extended in accordance with the Takeovers Code
“Company”	Elec & Eltek International Holdings Limited, a company incorporated in Bermuda with limited liability, the Shares of which are listed on the Stock Exchange
“Companies Act”	the Companies Act 1981 of Bermuda (as amended)
“Condition(s)”	the conditions of the Offers
“Controlling Shareholders”	Elec & Eltek Investments Limited (which is interested in approximately 42.62% of the issued share capital of the Company, and its shareholding particulars are set out in Note 1 to the section headed “Substantial Shareholders” in Appendix 3 to this Offeree Document), Mr David So Cheung Sing, Mr Marcus Tsang Ming Pui, Mr Wilson Tam Kam Ho, Mr Johnny Ng Ho Kin and their respective spouses and children (natural or adopted) under the age of 18 years, which in aggregate are interested in approximately 50.37% of the issued share capital of the Company
“Directors”	the directors of the Company
“EEIC”	Elec & Eltek International Company Limited, a non-wholly owned subsidiary of the Company incorporated in Singapore and listed on the Singapore Exchange Securities Trading Limited
“EEIC Share(s)”	share(s) of S\$0.80 each in EEIC
“Executive”	the Executive Director of the Corporate Finance Division of the Securities and Futures Commission or any delegates of the Executive Director
“First Closing Date”	Monday, 29 November 2004
“Forms of Acceptance”	the Pink Form of Acceptance and the White Form of Acceptance
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars

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## DEFINITIONS

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“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Board Committee”	an independent board committee of the Company appointed to advise the Shareholders and the Option Holders in respect of the Offers, which committee comprises Mr Eugene Lee, Mr Kenneth Shim Hing Choi and Mr Keith Tay Ah Kee who are independent non-executive Directors
“Independent Shareholders”	Shareholders other than the Offeror and parties acting in concert with it
“Kingboard”	Kingboard Chemical Holdings Limited, a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Stock Exchange
“Kingboard Group”	Kingboard and its subsidiaries
“Latest Practicable Date”	11 November 2004, being the latest practicable date prior to the printing of this Offeree Document for the purpose of ascertaining certain information contained herein
“Listing Rules”	Rules Governing the Listing of Securities on the Stock Exchange
“Offer Document”	the offer document dated 1 November 2004 issued by Kingboard and the Offeror to the Shareholders and Option Holders setting out the terms and other particulars of the Offers
“Offeree Document”	this response document in respect of the Offers issued by the Company to the Shareholders and the Option Holders in accordance with the Takeovers Code
“Offeror”	Ease Ever Investments Limited, a company incorporated in the British Virgin Islands with limited liability and an indirect wholly owned subsidiary of Kingboard
“Offers”	the Share Offer and the Option Offer
“Option(s)”	the 22,000,000 outstanding options granted by the Company pursuant to the Scheme, each conferring on the grantee thereof the right to subscribe for one Share at the Option Exercise Price
“Option Exercise Price”	a range from HK\$1.13 to HK\$1.39 per Share, subject to adjustment, being the price at which the Option Holder may subscribe for new Shares upon exercise of the Options
“Option Holder(s)”	holder(s) of Option(s)
“Option Offer”	the voluntary conditional cash offer by Citigroup on behalf of the Offeror for the cancellation of all outstanding Options at HK\$1.90 less the Option Exercise Price per Option

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## DEFINITIONS

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“PCBs”	printed circuit boards
“Pink Form of Acceptance”	the form of acceptance and transfer in respect of the Share Offer
“Registrar”	the branch registrar of the Company in Hong Kong, being Computershare Hong Kong Investor Services Limited of 46th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong
“RMB”	Renminbi
“Scheme”	the share option scheme of the Company adopted on 29 October 2001
“SFC”	Securities and Futures Commission of Hong Kong
“SFO”	Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong
“Share(s)”	share(s) of HK\$0.10 each in the Company
“Share Offer”	the voluntary conditional cash offer by Citigroup on behalf of the Offeror to acquire all of the issued Shares at HK\$1.90 per Share (other than those already owned by the Offeror and parties acting in concert with it)
“Shareholder(s)”	holder(s) of Share(s)
“Singapore Offer”	the possible mandatory unconditional cash offer at the price of US\$2.85 per EEIC Share (other than those already owned by the Singapore Offeror and parties acting in concert with it)
“Singapore Offeror”	Elitelink Holdings Limited, a company incorporated in the British Virgin Islands with limited liability and an indirect wholly owned subsidiary of Kingboard
“Singapore Takeovers Code”	Singapore Code on Take-overs and Mergers
“Sommerley”	Sommerley Limited, a deemed licensed corporation under the SFO permitted to engage in types 1, 4, 6 and 9 of the regulated activities under the SFO and the independent financial adviser to the Independent Board Committee
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Takeovers Code”	The Hong Kong Code on Takeovers and Mergers
“Unconditional Date”	the date on which the Offers become or are declared unconditional in all respects
“US\$”	United State dollars
“White Form of Acceptance”	the form of acceptance and cancellation in respect of the Option Offer

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# LETTER FROM THE BOARD

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**Elec & Eltek 依利安達**

**Elec & Eltek International Holdings Limited**

*(Incorporated in Bermuda with Limited Liability)*

**(Stock Code: 33)**

*Executive Directors:*

Thomas Tang Koon Yiu

*(Chairman and Managing Director)*

Canice Chung Tai Keung

*Non-executive Directors:*

David So Cheung Sing

Marcus Tsang Ming Pui

Wilson Tam Kam Ho

Johnny Ng Ho Kin

Peter Lee Yip Wah

*Registered office:*

Canon's Court

22 Victoria Street

Hamilton HM12

Bermuda

*Principal office in Hong Kong:*

Unit B10, 3/F, Merit Industrial Centre

94 Tokwawan Road

Kowloon

Hong Kong

*Independent non-executive Directors:*

Eugene Lee

Kenneth Shim Hing Choi

Keith Tay Ah Kee

15 November 2004

*To the Shareholders and the Option Holders*

Dear Sir or Madam,

**VOLUNTARY CONDITIONAL CASH OFFERS  
TO ACQUIRE ALL THE ISSUED SHARES AND  
FOR CANCELLATION OF ALL OUTSTANDING OPTIONS  
(OTHER THAN THOSE ALREADY OWNED BY THE OFFEROR  
AND PARTIES ACTING IN CONCERT WITH IT)**

**INTRODUCTION**

On 12 October 2004, the directors of Kingboard announced, inter alia, that its wholly-owned subsidiary, being the Offeror, will, through Citigroup, make the Share Offer and the Option Offer.

The Independent Board Committee, comprising Mr Eugene Lee, Mr Kenneth Shim Hing Choi and Mr Keith Tay Ah Kee, has been established in accordance with Rule 2.1 of the Takeovers Code to consider the terms of the Offers and to make a recommendation to the Shareholders and the Option Holders in relation to the Offers.

As Kingboard controls more than 20% of the issued share capital of the Company, the Company is deemed an associated company of the Offeror under the Takeovers Code and Mr Thomas Tang Koon Yiu and Mr Canice Chung Tai Keung, being employees of the Company, are therefore presumed under Rule 2.8 of the Takeovers Code to have an indirect interest in the Offers and are therefore not

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## LETTER FROM THE BOARD

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considered independent. As Mr David So Cheung Sing, Mr Marcus Tsang Ming Pui, Mr Wilson Tam Kam Ho and Mr Johnny Ng Ho Kin were employees of the Company until 30 June 2004, and are senior consultants of the Company and had received consultation service fees until 1 July 2004 and their service contracts were only terminated with effect from 1 July 2004, they are also not considered by the Board to be sufficiently independent. Mr Peter Lee Yip Wah is a consultant of the legal adviser of the Company and the Board therefore also considers him not sufficiently independent to be eligible as a member of the Independent Board Committee.

Somerley has been appointed the independent financial adviser to consider the terms of the Offers and make a recommendation to the Independent Board Committee in that regard.

### THE OFFERS

The Offers, comprising the Share Offer and the Option Offer, will, on and subject to the terms and conditions set out in the Offer Document and in the Forms of Acceptance, be made by Citigroup on behalf of the Offeror on the following basis:

**For each Share . . . . . HK\$1.90 in cash**

**For each Option . . . . . HK\$1.90 less the Option Exercise Price in cash**

Under the terms of the Share Offer, Shares will be acquired with all rights attached thereto as at 1 November 2004 (being the date on which the Share Offer is made) or subsequently becoming attached thereto and free from all rights of pre-emption, options, liens, claims, equities, charges, encumbrances and third party rights.

Under the terms of the Option Offer, Options together with all rights attaching thereto will be entirely cancelled and renounced.

The Options were issued pursuant to the Scheme. According to the rules of the Scheme, the Option Holders shall be entitled to exercise their Options as yet unexercised in full or in part in the period commencing on the date on which the Share Offer becomes or is declared unconditional and ending on the earlier of:

- (a) the expiry of 3 months thereafter (unless prior to the expiry of such 3 months' period, at the recommendation of the Offeror and with the approvals of the Board and the Stock Exchange, such expiry date is extended to a later date (being a date falling not later than the date of expiry of the option period relating thereto)); or
- (b) the date of the expiry of the option period relating thereto

whereupon any Option then remaining unexercised shall lapse and be null and void. If during the aforesaid period, the Offeror becomes entitled or bound to exercise the rights of compulsory acquisition of the Shares under the Companies Act and, being entitled to do so, gives notice to the Option Holders that it intends to exercise such rights on a specified date, the Options shall remain exercisable until the specified date or the expiry of the option period relating thereto, whichever is earlier. Any Option not so exercised shall lapse provided that the rights of acquisition or obligations to acquire shall have been exercised or performed, as the case may be. If such rights of acquisition or obligations to acquire have not been exercised or performed, the Options shall, subject to the provisions regarding lapse of Options as set out in the rules of the Scheme, remain exercisable until the expiry of the option period relating thereto.

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## LETTER FROM THE BOARD

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The Offers will be conditional upon the following:

- (1) the Offers and the Singapore Offer having been approved by the shareholders of Kingboard in a general meeting;
- (2) each and every member of the Group remaining solvent and not subject to any insolvency or bankruptcy proceedings or likewise and no liquidator, provisional liquidator, receiver or other person carrying out any similar function has been appointed anywhere in the world in respect of the whole or any part of the assets or undertaking or any member of the Group from 12 October 2004 up to the date when the conditions set out in (1) above and in (3) and (4) below are all satisfied, or in the case of the condition set out in (4) below only, waived by the Offeror;
- (3) valid acceptances having been received (and not, where permitted, withdrawn) at or before 4:00 pm on the Closing Date in respect of Shares which, together with the Shares then held by the Offeror and parties acting in concert with it, will result in the Offeror and parties acting in concert with it, holding more than 50% of the voting rights of the Company;
- (4) (i) no additional directors, save for the persons nominated by the Offeror as mentioned in this condition, having been appointed to the respective boards of directors of the Company and EEIC after 12 October 2004 up to and including the third day after the day when the conditions set out in (1) and (3) above are both satisfied; (ii) five persons nominated by the Offeror having been appointed to the Board with effect no later than the third day after the day when the conditions set out in (1) and (3) above are both satisfied; and (iii) receipt by the Singapore Offeror of an irrevocable undertaking from the majority of the board of directors of EEIC regarding appointment of directors nominated by the Singapore Offeror. Under such irrevocable undertaking, the directors of EEIC (who have given the irrevocable undertaking) shall cause the appointment of five persons nominated by the Singapore Offeror to the board of directors of EEIC with effect no later than the third day after the document to be issued by the Singapore Offeror in accordance with the Singapore Takeovers Code in connection with the Singapore Offer has been dispatched to the shareholders of EEIC.

The Option Offer will be subject to and conditional upon the Share Offer becoming unconditional in all respects.

Further details on the terms and conditions of the Offers are set out in the Offer Document. Your attention is also drawn to the announcement dated 12 October 2004 issued by Kingboard in connection with the Offers and the Singapore Offer.

### **THE SINGAPORE OFFER**

As at the Latest Practicable Date, the Company is interested in approximately 51.71% of the entire issued share capital of EEIC. Upon the Offers becoming or being declared unconditional in all respects, the Singapore Offeror will make a mandatory unconditional cash offer in Singapore to acquire all the issued and paid-up ordinary shares in the share capital of EEIC (other than those already owned by the Singapore Offeror or parties acting in concert with it and those owned by the Company) in compliance with the requirements of the Singapore Takeovers Code.



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## LETTER FROM THE BOARD

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### INFORMATION ON THE OFFEROR AND THE KINGBOARD GROUP

*The information in this section has been extracted from the Offer Document.*

The Offeror is an indirect wholly-owned subsidiary of Kingboard and was incorporated in the British Virgin Islands on 16 September 2004. The directors of the Offeror are Messrs. Cheung Kwok Wing, Chan Wing Kwan, Chang Wing Yiu, Cheung Kwok Wa and Mok Cham Hung, Chadwick, all of whom are also executive directors of Kingboard. The Offeror is an investment holding company set up for making the Offers.

The Kingboard Group is principally engaged in the manufacture and sale of laminates, copper foil, glass fabric, glass yarn, bleached kraft paper, PCBs and chemicals. Most of the copper foil, glass fabric, glass yarn and bleached kraft paper produced, and are used, by the Kingboard Group in its manufacturing of laminates. The shareholding of the Offeror, Kingboard and their respective concert parties in the Company are set out in paragraph 3 titled “Disclosure of Interest” in Appendix II of the Offer Document.

### INTENTIONS OF THE OFFEROR WITH RESPECT TO THE GROUP

Your attention is drawn to the intentions of the Offeror with respect to the Group set out below, which information has been extracted from the Offer Document.

#### **Intention regarding the Company**

According to the Offer Document, it is the intention of Kingboard and the Offeror that the Company, if the Offers are completed, will continue to carry on the business of engaging in the manufacture and sale of electronic components, including double-side and multi-layered PCBs, liquid crystal displays and magnetic products, and the provision of IT consultancy and software development services. It is stated in the Offer Document that neither the Offeror nor Kingboard has intention to introduce major changes to the business including redeployment of fixed assets of the Company.

The Offer Document also states that as disclosed in Kingboard’s annual report for the year ended 31 December 2003, the interests of Kingboard in the Shares were treated as investment securities and were held for identified long term strategic purposes. If the Offers become unconditional in all respects and, as a result, the Offeror acquires more than 50% of the entire issued share capital of the Company, the Company will become a subsidiary of Kingboard and will be consolidated into the accounts of Kingboard.

#### **Compulsory Acquisition**

The Offer Document states that to the extent applicable and pursuant to the compulsory acquisition power under the Companies Act, if the Offeror acquires the prescribed percentage of Shares as required by the relevant provisions of the Companies Act, Kingboard and the Offeror may consider exercising the compulsory acquisition power under the relevant provisions of the Companies Act. Further information on the Offeror’s right of compulsory acquisition are set out in the Offer Document.

According to the Offer Document, Kingboard and the Offeror have not decided whether to maintain the listing of the Company on the Stock Exchange or to effect the compulsory acquisition of the Company in the event that the Offeror is permitted to do so under the Companies Act and further announcement will be made by Kingboard in this respect accordingly.

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## LETTER FROM THE BOARD

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### Maintaining the Listing

It is stated in the Offer Document that assuming the Offers becomes unconditional in all respects but the Offeror does not effect the compulsory acquisition (whether by reason of not acquiring the requisite percentage as required under the Companies Act or otherwise), Kingboard and the Offeror will use their reasonable endeavours to maintain the listing of the Company on the Stock Exchange and will undertake to the Stock Exchange to use their reasonable endeavours following the closing of the Offers to ensure that not less than 25% of the Shares will be held by the public by various means, including but not limited to placement of existing Shares or issue of new Shares as soon as possible in compliance with the Listing Rules.

According to the Offer Document, the directors of Kingboard and the Offeror and the new directors to be nominated by the Offeror and appointed to the Board pursuant to the Offers will jointly and severally undertake to the Stock Exchange to take appropriate steps to ensure sufficient public float exists in the Shares if listing were to be maintained.

**The Stock Exchange has stated that if, at the close of the Offers, less than the minimum prescribed percentage applicable to the Company, being 25% of the issued Shares, are held by the public, or if the Stock Exchange believes that:**

- a false market exists or may exist in the trading of the Shares; or
- that there are insufficient shares in public hands to maintain an orderly market;

**it will consider exercising its discretion to suspend dealings in the Shares.**

### Board composition and management of the Company

The Offer Document states that if the Offeror acquires a majority ownership of the Company, it is Kingboard's intention to review the existing structure of the Board. The Offer Document further states that it is also Kingboard's intention to nominate Messrs Cheung Kwok Wing, Chan Wing Kwan, Chang Wing Yiu, Cheung Kwok Wa and Mok Cham Hung, Chadwick, all of whom are also executive directors of Kingboard, the Offeror and the Singapore Offeror, to the Board.

According to the Offer Document, pending the outcome of the proposed review of the existing structure of the Board, in order to maintain continuity and minimize transaction-related business disruption, Kingboard does not have any intention to make any major changes to the management structure in the near term save for the proposed appointments to the Board as set out above.

The Board has noted the above intention of the Offeror and Kingboard with respect to the board composition and management of the Company. It is the intention of the Board to appoint the persons nominated by Kingboard as stated above to the Board in the event that the Offeror and parties acting in concert with it acquires more than 50% of the issued capital of the Company.

### INFORMATION REGARDING THE GROUP

The principal activities of the Group are the manufacture and sale of electronic components, including double-sided and multi-layer PCBs, liquid crystal displays and magnetic products.

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## LETTER FROM THE BOARD

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For the year ended 30 June 2004, the Group recorded a net profit attributable to shareholders of approximately HK\$145 million (approximately HK\$37 million for the year ended 30 June 2003) and the net asset value of the Group as at 30 June 2004 was approximately HK\$817 million (approximately HK\$684 million as at 30 June 2003). The auditor's report of the Company for the year ended 30 June 2004 is reproduced in the section titled "Audited Consolidated Financial Statements" in Appendix 1 to this Offeree Document.

As at the Latest Practicable Date, there were 1,224,672,408 Shares in issue and 22,000,000 Options outstanding. Particulars of the share capital of the Company and the terms of the Options are set out in the section titled "Share Capital and Share Options" in Appendix 3 to this Offeree Document.

### ACCEPTANCE AND SETTLEMENT

To accept the Offers, you should ensure that you return the completed relevant Forms of Acceptance as soon as possible to the Registrar (in the case of Pink Forms of Acceptance) or the company secretary of the Company (in the case of White Forms of Acceptance) by not later than 4:00 p.m. on the First Closing Date or such later time and/or date as the Offeror shall determine and announce with the consent of the Executive.

Your attention is drawn to the particulars relating to acceptance procedures and settlement set out in paragraph 12 of the Letter from Citigroup in the Offer Document and in the Forms of Acceptance.

### RECOMMENDATIONS

Your attention is drawn to the letters from the Independent Board Committee and Somerley on pages 10 and 11 and pages 12 to 38 of this Offeree Document respectively which contain the respective recommendations of the Independent Board Committee and the advice of Somerley to the Independent Board Committee, the Independent Shareholders and the Option Holder.

### INTENTION AS REGARDS THE ACCEPTANCE OF THE OFFER

As at the Latest Practicable Date, certain of the Directors and their associates are interested in the Shares and Options of the Company. Particulars of such Directors' interests in the Shares and Options are set out in the section titled "Disclosure of Interests" in Appendix 3 to this Offeree Document. Such Directors and their associates with interests in Shares and Options are currently undecided as to whether to accept the Offers and/or otherwise dispose of their interests in the Shares and Options.

### FURTHER INFORMATION

You are recommended to read the Offer Document and the Forms of Acceptance regarding particulars of the terms and conditions of the Offers, acceptance procedures and/or settlement. Your attention is also drawn to the additional information contained in the Appendices to this Offeree Document.

Yours faithfully,  
By order of the Board  
**Thomas Tang Koon Yiu**  
*Chairman*



**Elec & Eltek 依利安達**

**Elec & Eltek International Holdings Limited**

*(Incorporated in Bermuda with Limited Liability)*

**(Stock Code: 33)**

15 November 2004

*To the Shareholders and the Option Holder*

Dear Sirs/Madam,

We refer to the Offeree Document dated 15 November 2004 issued to the Shareholders and the Option Holder, of which this letter forms part. Terms defined in the Offeree Document shall have the same meanings when used herein unless the context otherwise requires.

The Independent Board Committee has been established to give a recommendation to the Independent Shareholders and the Option Holder in respect of the Offers. All the members of the Independent Board Committee have declared that we do not have any conflict of interest in respect of the Offers and are therefore able to consider the terms of the Offers and to make recommendations to the Independent Shareholders and the Option Holder thereon.

Somerley has been appointed as the independent financial adviser to advise us in connection with the Offers. Details of Somerley's advice, including the principal factors and reasons taken into consideration in arriving at such advice, are set out in their letter on pages 12 to 38 of the Offeree Document.

We refer you to Somerley's opinion that the Offer Price of HK\$1.90 per Share lies within a range which Somerley considers fair and reasonable to the Independent Shareholders in the context of an offer for their Shares, although it is at the lower end of such a range bearing in mind that the opportunity to acquire control of a well established and substantially profitable Hong Kong listed group is rare.

Independent Shareholders should keep in mind that the Share Offer is conditional (among other things) on Kingboard obtaining over 50% of the Shares. This is not possible unless the Controlling Shareholders accept, or at least partially accept, the Share Offer. We therefore concur with Somerley's recommendation that Independent Shareholders should not accept the Share Offer before the decision of the Controlling Shareholders is made known.

Independent Shareholders should note that if the Controlling Shareholders do not accept the Offers, the Offers will not become unconditional and will lapse. In this circumstance, a fall in the Share price and in liquidity is possible. In addition, a placing of Shares may be needed to increase the public float of Shares irrespective of the results of the Share Offer. If this is a concern, Independent Shareholders may wish to lock in a profit at the higher Share price levels which have prevailed since the announcement of the Offers and might consider selling in the market while the Share Offer is open and trading volumes of the Shares remain relatively high.

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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If the Share Offer becomes unconditional, which will only happen if the Controlling Shareholders accept it, Independent Shareholders should accept the Share Offer before it closes or sell in the market if the market price of the Shares (net of dealing costs) exceeds the Offer Price. Alternatively, Independent Shareholders who are attracted by the Company's prospects under the control of Kingboard may wish to consider retaining some or all of their Shares.

If the Controlling Shareholders do accept the Share Offer so that it becomes unconditional as to acceptances, we will write to you again if appropriate with any updated advice.

Similarly, we recommend the Option Holders not to accept the Option Offer in the present circumstances.

Yours faithfully  
**Independent Board Committee**

**Eugene Lee**  
*Independent Non-Executive Director*

**Kenneth Shim Hing Choi**  
*Independent Non-Executive Director*

**Keith Tay Ah Kee**  
*Independent Non-Executive Director*

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## LETTER FROM SOMERLEY

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*The following is the text of a letter of advice from Somerley to the Independent Board Committee, the Independent Shareholders and the Option Holder in connection with the Offers, which has been prepared for the purpose of incorporation into this Offeree Document.*



**SOMERLEY LIMITED**  
Suite 2201, 22nd Floor  
Two International Finance Centre  
8 Finance Street  
Central  
Hong Kong

15 November 2004

*To: the Independent Board Committee,  
the Independent Shareholders and the Option Holder*

Dear Sirs,

**VOLUNTARY CONDITIONAL CASH OFFERS  
ON BEHALF OF  
EASE EVER INVESTMENTS LIMITED  
FOR SHARES AND OPTIONS OF  
ELEC & ELTEK INTERNATIONAL HOLDINGS LIMITED**

### INTRODUCTION

We refer to our appointment to advise the Independent Board Committee, the Independent Shareholders and the Option Holder in connection with the Offers being made by the Offeror, an indirect wholly owned subsidiary of Kingboard, for all the issued Shares (other than those already held by the Offeror and parties acting in concert with it) at a price of HK\$1.90 per Share (the “Offer Price”) and for the cancellation of Options. Details of the Offers are contained in the Offer Document issued by the Offeror to the Shareholders and the Option Holder dated 1 November 2004. In accordance with Rule 8.4 of the Takeovers Code, the Company is sending to the Shareholders and the Option Holder the Offeree Document to provide relevant information to enable the Shareholders and the Option Holder to reach a properly informed decision on the Offers. This letter forms part of the Offeree Document and, unless the context otherwise requires, terms used in this letter shall have the same meanings as defined in the Offeree Document.

Kingboard made an announcement of the Offers on 12 October 2004 (the “Announcement”) and issued the Offer Document on 1 November 2004. As at 12 October 2004, Kingboard was, directly and through its subsidiaries, interested in an aggregate of 336,799,000 Shares (representing approximately 27.5% of the entire issued share capital of the Company).

The Board consists of two executive Directors (Messrs. Thomas Tang Koon Yiu and Canice Chung Tai Keung), five non-executive Directors (Messrs. David So Cheung Sing, Marcus Tsang Ming Pui, Wilson Tam Kam Ho, Johnny Ng Ho Kin and Peter Lee Yip Wah) and three independent non-executive Directors (Messrs. Eugene Lee, Kenneth Shim Hing Choi and Keith Tay Ah Kee). Mr. Thomas Tang Koon Yiu and Mr. Canice Chung Tai Keung, being employees of the Company, are presumed under Rule 2.8 of the Takeovers Code to have an indirect interest in the Offers and are

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## LETTER FROM SOMERLEY

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therefore not considered independent. Messrs. David So Cheung Sing, Marcus Tsang Ming Pui, Wilson Tam Kam Ho and Johnny Ng Ho Kin were employees of the Company and served as executive Directors up to less than two years ago and they are considered not independent for this purpose. Mr. Peter Lee Yip Wah is a consultant to the law firm acting as the legal adviser of the Company. Consequently, the three independent non-executive Directors have been appointed to act as the Independent Board Committee in respect of the Offers. Somerley has been appointed as the independent financial adviser to advise the Independent Board Committee, Independent Shareholders and the Option Holder on whether the Offers are, or are not, fair and reasonable.

Somerley is not associated with the Offeror or the Company or their respective substantial shareholders or any party acting, or presumed to be acting, in concert with any of them and, accordingly, is considered eligible to give independent advice on the Offers. Apart from normal professional fees payable to us in connection with this appointment, no arrangement exists whereby we will receive any fees or benefits from the Offeror or the Company or their respective substantial shareholders or any party acting, or presumed to be acting, in concert with any of them.

In formulating our opinion and advice, we have reviewed, among other materials, the audited consolidated financial statements of the Group for the three years ended 30 June 2004; the unaudited management accounts of the Group for the three months period ended 30 September 2004; and the valuation report of the property interests of the Group contained in Appendix 2 to the Offeree Document. We have discussed with the Board the past performance and future prospects of the Group and with B.I. Appraisals the basis, assumptions and the methodology used in preparing the valuation report. We have relied on the information and facts supplied, and the opinions expressed, by the Board, which we have assumed to be true, accurate and complete. We have sought and received confirmation from the Board that no material facts have been omitted from the information supplied and opinions expressed by them to us in connection with the Group and the Offers. We consider that the information which we have received is sufficient for us to reach our opinion and give the advice set out in this letter. We have no reason to doubt the truth and accuracy of the information provided to us or to believe that any material facts have been omitted or withheld. We have also assumed that all representations contained or referred to in the Offeree Document were true at the date of the Offeree Document and will continue to be true during the period the Offers remain open for acceptance. However, we have not conducted any independent investigation into the businesses and affairs of the Group.

### TERMS OF THE OFFERS

The terms set out below are summarised from the Offer Document dated 1 November 2004, with some additional comments from ourselves. Independent Shareholders are encouraged to read the Offer Document in full.

#### 1. The Offers

The Offers are being made for all the Shares and Options not held by the Offeror and parties acting in concert with it on the following basis:

**For each Share ..... HK\$1.90 in cash**

**For each Option ..... HK\$1.90 less the Option Exercise Price in cash**

As at the Latest Practicable Date, there were 22,000,000 outstanding Options and they were all held by Mr. Thomas Tang Koon Yiu, the Chairman and managing director of the Company.

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## LETTER FROM SOMERLEY

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Under Rule 13 of the Takeovers Code, where an offer is made for shares and options are also outstanding, the Offeror must make an appropriate offer or proposal to the holders of the options to ensure that their interests are safeguarded. Equality of treatment is required. The formula set out above, which is the “see through” price, i.e. the Offer Price less the exercise price in respect of the Options, is the normal basis adopted.

### 2. Other terms/final dividend and stamp duty

Ad valorem stamp duty arising from acceptance of the Share Offer at a rate of HK\$1.00 for every HK\$1,000 or part thereof of the consideration for acceptance of the Share Offer will be deducted from the amount payable to the Shareholders who accept the Share Offer in the event the Share Offer becomes unconditional. The Offeror will use the amount so deducted to pay the relevant stamp duty on behalf of the accepting Shareholders. On this basis, a holder of a board lot of 5,000 Shares would receive HK\$9,490 net from the Offeror.

The Shares acquired under the Share Offer will be acquired free from all liens, charges, encumbrances, rights of pre-emption and other third party rights of any nature and together with all rights attaching to them, including the right to receive future dividends. Shareholders will have recently received the final dividend for the year ended 30 June 2004 and can of course retain this. Under the terms of the Share Offer, the Shares will be acquired with all rights attached thereto as at the date on which the Share Offer is made, i.e. the day of posting of the Offer Document, namely 1 November 2004 (or subsequently becoming attached thereto).

### 3. Conditions

The Offers are conditional upon the following:

- (a) the Offers and the Singapore Offer having been approved by the shareholders of Kingboard in a general meeting;
- (b) each and every member of the Group remaining solvent and not subject to any insolvency or bankruptcy proceedings or likewise and no liquidator, provisional liquidator, receiver or other person carrying out any similar function has been appointed anywhere in the world in respect of the whole or any part of the assets or undertaking or any member of the Group from 12 October 2004 up to the date when the conditions set out in (a) and in (c) and (d) below are all satisfied, or in the case of the condition set out in (d) below only, waived by the Offeror;
- (c) valid acceptances having been received (and not, where permitted, withdrawn) at or before 4:00 p.m. on the Closing Date in respect of Shares which, together with the Shares then held by the Offeror and parties acting in concert with it, will result in the Offeror and parties acting in concert with it holding more than 50% of the voting rights of the Company;
- (d) (i) no additional directors, save for the persons nominated by the Offeror as mentioned in this condition, having been appointed to the respective boards of directors of the Company and EEIC after 12 October 2004 up to and including the third day after the day when the conditions set out in (a) and (c) above are both satisfied; (ii) five persons nominated by the Offeror having been appointed to the Board with effect no later than the third day after the day when the conditions set out in (a) and (c) above are both satisfied; and (iii) receipt by the Singapore Offeror of an irrevocable undertaking from the majority of the board of



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## LETTER FROM SOMERLEY

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directors of EEIC regarding appointment of directors nominated by the Singapore Offeror. Under such irrevocable undertaking, the directors of EEIC (who have given the irrevocable undertaking) shall cause the appointment of five persons nominated by the Singapore Offeror to the board of directors of EEIC with effect no later than the third day after the document to be issued by the Singapore Offeror in accordance with the Singapore Takeovers Code in connection with the Singapore Offer has been despatched to the shareholders of EEIC.

We regard conditions d(ii) and d(iii) as unusual. Even if the Offeror and its concert parties hold over 50% of the voting rights of the Company, they have no automatic right to Board representation and might have to convene a shareholders' meeting for this purpose. However, the Board has stated in its letter that it intends to appoint the persons nominated by Kingboard to the Board in the event that the Offeror and its concert parties acquire more than 50% of the issued share capital of the Company.

The Option Offer will be subject to and conditional upon the Share Offer becoming unconditional in all respects.

Further details on the terms and conditions of the Offers are set out in the Offer Document and the Forms of Acceptance. Your attention is also drawn to the Announcement.

#### **4. Maintaining the listing of the Company**

Shareholders should be aware that, if the number of Shares held by the public, as defined in the Listing Rules, falls below 25% of the issued shares of the Company, trading in the Shares may be suspended. Kingboard presently holds about 28% of the issued share capital of the Company and the Controlling Shareholders hold about 50%, i.e. an aggregate of 78% is held by Shareholders not qualifying as public and only 22% are held by the public. A placing of Shares may be needed to increase the public float of Shares irrespective of the results of the Share Offer. In light of the Share Offer being made by the Offeror, the Company and the Controlling Shareholders do not consider it appropriate to take any immediate steps to restore the public float of the Shares pending the results of the Share Offer. It is stated in the Offer Document that assuming the Offers become unconditional in all respects but the Offeror does not effect the compulsory acquisition (whether by reason of not acquiring the requisite percentage as required under the Companies Act or otherwise), Kingboard and the Offeror will use their reasonable endeavours to maintain the listing of the Company on the Stock Exchange and will undertake to the Stock Exchange to use their reasonable endeavours following the closing of the Offers to ensure that not less than 25% of the Shares will be held by the public by various means, including but not limited to placement of existing Shares or issue of new Shares as soon as possible in compliance with the Listing Rules.

#### **5. Compulsory acquisition**

If the Offeror acquires the prescribed percentage of Shares as required by the relevant provisions of the Companies Act, Kingboard and the Offeror may consider exercising the compulsory acquisition powers under the relevant provisions of the Companies Act.

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## LETTER FROM SOMERLEY

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Rule 2.11 of the Takeovers Code states that, except with the consent of the Executive, where any person seeks to acquire or privatise a company by means of an offer and the use of compulsory acquisition rights, such rights may only be exercised if, in addition to satisfying any requirements imposed by law, acceptances of the offer and purchases in each case of the disinterested shares made by the Offeror and persons acting in concert with it during the period of four months after posting the document total 90% of the disinterested shares.

Kingboard has not decided, in the event that the Offeror is permitted to do so under the Companies Act, whether to effect the compulsory acquisition of the Company.

If the level of acceptances reaches the prescribed level under the Companies Act and Rule 2.11 of the Takeovers Code permits a compulsory acquisition and the Offeror proceeds with the privatisation of the Company, dealings in the Shares would be suspended from the eventual closing date of the Offer and the listing of the Shares would in due course be withdrawn from the Stock Exchange pursuant to Rule 6.15 of the Listing Rules.

### **6. Kingboard and its intentions for the Group**

The Offeror is an indirect wholly owned subsidiary of Kingboard, the shares of which are listed on the Hong Kong Stock Exchange.

Kingboard is principally engaged in the manufacture and sale of laminates, copper foil, glass fabric, glass yarn, bleached kraft paper, PCBs and chemicals. Most of the copper foil, glass fabric, glass yarn and bleached kraft paper produced is used by Kingboard in its manufacturing of laminates. The Company and Kingboard participate in related segments of the electronics industry. The Company is engaged primarily in the manufacture and sale of electronic components, including double-sided and multi-layer PCBs, liquid crystal displays and magnetic products. Kingboard is engaged primarily in the production of laminates, which are the key raw material for PCBs. Kingboard is also engaged in the production of PCBs and chemicals. Kingboard believes that the Offers will enable the enlarged group to increase the level of vertical integration of its operations and achieve economies in scale of its PCB business. With increased size of the PCB operations, the enlarged group will enhance its ability to attract orders from large customers as well as improve its bargaining position with suppliers. In addition, the Company and Kingboard have a complementary customer base for their respective PCB businesses, which will enlarge the market coverage of the enlarged group.

As stated in the Offer Document, if the Offer becomes unconditional, it is the intention of Kingboard that the Company will continue its principal business activities. It was also mentioned that if the Offeror acquires a majority ownership of the Company, Kingboard intends to nominate Messrs. Cheung Kwok Wing, Chan Wing Kwan, Chang Wing Yiu, Cheung Kwok Wa and Mok Cham Hung, Chadwick, all of whom are also executive directors of Kingboard, the Offeror and the Singapore Offeror, to the Board.

In order to maintain continuity and minimise transaction-related business disruption, Kingboard does not have any intention to make any major changes to the management structure in the near term save for the proposed appointments to the Board as set out above. Independent Shareholders are reminded that under the new management proposed by Kingboard, the Group's strategy, including its dividend policy, could be changed. However, we regard the Group's dividend policy and pay-out ratio over the last three financial years to be within normal parameters. We would not expect any substantial change in this regard.

### **7. Timetable and procedures under the Offers**

The first closing date of the Offers is Monday, 29 November 2004 (the “First Closing Date”). This date may be extended at the option of the Offeror, but not beyond 60 days after the posting of the Offer Document, unless the Offers have previously become unconditional, except with the consent of the Executive. If the Offers become unconditional, they should remain open for acceptance for not less than 14 days after the date they become unconditional.

Procedures for acceptance of the Offers are set out in the Offer Document, particularly Appendix I, and in the accompanying Forms of Acceptance. Most Shareholders hold their Shares through the Central Clearing and Settlement System (“CCASS”) established and operated by Hong Kong Securities Clearing Company Limited (“HKSCC”), in which case some prior action needs to be taken to ensure acceptance on time. If Shares are lodged with a broker/custodian bank through CCASS, subject to the terms of the agreement between Shareholders and their broker/custodian bank, instructions should be given to them to authorise HKSCC to take the necessary action by 4:00 p.m. on Friday, 26 November 2004, which is one business day before the close of the Offers. If Shares are lodged with an Investor Participant Account with CCASS, Shareholders should issue their instructions to CCASS no later than 4:00 p.m. on Friday, 26 November 2004.

To accept the Option Offer, the Option Holder should forward the White Form of Acceptance, together with the relevant Option certificate(s) (if any) for the whole of his holding of Options, or for the number of Options in respect of which he accepts the Option Offer, by post or by hand to the head office and principal place of business of the Company in Hong Kong as soon as practicable but in any event so as to reach the company secretary of the Company by not later than 4:00 p.m. on Monday, 29 November 2004 or such later time and/or date as the Offeror shall determine and announce with the consent of the Executive.

An acceptance, once submitted, cannot be withdrawn at least until Monday, 20 December 2004, except in the circumstances set out in Appendix I to the Offer Document, after which time an acceptor would have the right to withdraw but only until such time as the Offers have become or been declared unconditional.

### **PRINCIPAL FACTORS AND REASONS CONSIDERED**

In arriving at our recommendation to the Independent Board Committee with regard to the Offers, we have taken into account the following principal factors and reasons:

#### **1. Business and prospects of the Group**

The business of the Group was founded in 1972 by Messrs. David So Cheung Sing, Marcus Tsang Ming Pui and Wilson Tam Kam Ho. These executives, together with Mr. Johnny Ng Ho Kin, at the Latest Practicable Date control, together with their family interests, over 50% of the issued share capital of the Company. The Group has grown to become a leading manufacturer of electronic components, including PCB, liquid crystal displays (“LCD”) and magnetic products (“Magnetic”).

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## LETTER FROM SOMERLEY

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The Group is one of the pioneers of the Hong Kong PCB industry and the PCB business is by far the largest division of the Group. It provides a “one-stop shop” for customers with wide array of PCB requirements. The Group also makes some PCB materials which gives it a competitive edge in quality, cost and on-time delivery through vertical integration. The PCB business has been developed into a multinational company with its holding company, EEIC, listed on the Singapore Exchange Securities Trading Limited (“SGX”) since 1994. EEIC is the flagship of the Group’s PCB business, which is now the second largest PCB maker in China.

In December 1998, the Company placed out 9.94% of the then issued share capital of EEIC, reducing its holding from 52.27% to 42.33% and resulting in EEIC becoming an associated company. In April 2001, the Company made a voluntary conditional partial offer for EEIC, after which the Company’s interest increased to 52.15% and EEIC became a subsidiary again. EEIC has remained a subsidiary of the Group since then, but Independent Shareholders should note that as the Group’s major business is held through a separately listed public company, the Group does not have direct access to the assets or cash flow of that business.

The Group set up its LCD business in 1995. With two ISO certificated plants in China, its LCD business provides a variety of display modules and integrated circuit packages. Its Magnetic business, started in 1994, provides a wide variety of magnetic components for data communications, telecommunications and other applications.

The outbreak of SARS in the first quarter of calendar year 2003 and the US-Iraq conflict had a significant effect on results for the year ended 30 June 2003. From the beginning of the financial year 2004, a substantial recovery has been evident, particularly in the computer and communication sectors which are important customers of the Group. All the Group’s three major businesses recorded growth when compared to financial year 2003. Turnover totalled HK\$3,214.1 million, an increase of 42.4%, and net profit attributable to shareholders grew by 286.9% to HK\$145 million. In addition, based on the most recent unaudited figures, the profits of EEIC doubled for the three months ended 30th September, 2004 compared with the corresponding period in 2003.

In the current financial year ending 30 June 2005, the PCB business expects to enjoy continued growth in global PCB demand. The trend of outsourcing electronic components and relocating electronics assembly plants to China by multinational corporations are also positive factors for the Group. However, the Group also has to face and manage regional challenges, such as power shortages, increases in personnel and overhead costs and adjusting to economic policies for regulating the over-heated economy in China.

# LETTER FROM SOMERLEY

## 2. Past results of the Group

### (i) Audited results

The following table summarises the audited consolidated results of the Group for each of the three years ended 30 June 2004 extracted from the 2003 and 2004 annual reports of the Group and restated as appropriate. Further details of the results and other financial information on the Group are set out in Appendix 1 to the Offeree Document.

	Year ended 30 June		
	2002 <i>HK\$ million</i> <i>(Restated)</i>	2003 <i>HK\$ million</i> <i>(Restated)</i>	2004 <i>HK\$ million</i>
Turnover			
PCB	1,904.2	1,911.0	2,750.3
LCD	216.4	239.5	331.8
Magnetic	102.6	106.9	131.9
Corporate and others	<u>0.5</u>	<u>0.3</u>	<u>0.1</u>
<b>Total</b>	<b>2,223.7</b>	<b>2,257.7</b>	<b>3,214.1</b>
Gross profit	504.7	451.8	739.4
(%)	(22.7)	(20.0)	(23.0)
Profit from operating activities			
PCB	220.8	142.7	367.2
LCD	12.3	25.5	21.0
Magnetic	6.2	11.2	10.8
Corporate and others	(29.8)	(39.5)	(35.7)
Interest income and unallocated gains/(expenses)	<u>(1.6)</u>	<u>0.3</u>	<u>2.0</u>
<b>Total</b>	<b><u>207.9</u></b>	<b><u>140.2</u></b>	<b><u>365.3</u></b>

# LETTER FROM SOMERLEY

Year ended 30 June

	2002	2003	2004
	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
	<i>(Restated)</i>	<i>(Restated)</i>	
Operating margin (%)			
PCB	11.6	7.5	13.4
LCD	5.7	10.6	6.3
Magnetic	6.0	10.5	8.2
Corporate and others	NA	NA	NA
Finance cost	(23.3)	(23.1)	(21.7)
Tax	(23.0)	(10.6)	(26.3)
Share of losses of jointly-controlled entities	(0.9)	(0.8)	(1.2)
Minority interests	<u>(109.4)</u>	<u>(68.2)</u>	<u>(171.1)</u>
<b>Net profit from ordinary activities attributable to Shareholders</b>	<b><u>51.3</u></b>	<b><u>37.5</u></b>	<b><u>145.0</u></b>
Basic earnings per Share	4.37 cents	3.19 cents	12.1 cents
Dividends per Share	2.5 cents	3.0 cents	4.0 cents

*Note:* Tax charge and minority interests have been restated as a result of the adoption of the revised Hong Kong Statement of Standard Accounting Practice 12 "Income Tax".

(ii) *Analysis of turnover and profitability*

The Group has three principal business segments:

- (i) the PCB segment is engaged in the manufacture and sale of double-sided and multi-layer PCBs mainly for use in the communication/networking sector including mobile products, computers and peripheral sectors, the automotive sector and other electronic products;
- (ii) the LCD segment is engaged in the manufacture and sale of various LCDs and LCD modules and accessories, mainly for use in telecommunication, automotive, multi-media and electrical appliances; and
- (iii) the Magnetic segment is engaged in the manufacture and sale of magnetic products, including transformers, converters, power products and noise filters used in telecommunication, broadband access and local area networks.

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## LETTER FROM SOMERLEY

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(a) Financial year 2003

(i) PCB

The turnover of the PCB business for the year 2003 remained at about the same level as that of 2002 and amounted to approximately HK\$1,911.0 million. Its operating profit dropped by 35.4% falling to approximately HK\$142.7 million. The deteriorating performance of the PCB business was attributable to declining market demand resulting from the war in Iraq and the outbreak of SARS. The average selling prices of the Group's PCB products went down by approximately 20% as compared to the prior year. Under the threat of SARS, some of the Group's customers diversified their supply-chain risk by migrating part of their PCB sourcing temporarily away from China and Hong Kong, which were particularly hard-hit regions during April and May 2003.

(ii) LCD

Turnover of the LCD business rose by 10.7% and reached HK\$239.5 million in year 2003. Its operating profit also achieved a growth of 107.3% to HK\$25.5 million compared to that of the prior year. The average selling price for LCD products declined by between 9% to 18% compared to the prior year, due to sluggish market demands and excess production capacity. With the increase in production and sales of the higher end and higher profit STN LCDs, together with the doubling of modules and coupled with effective cost controls in areas of material, logistics, distribution and administration, the LCD business had an encouraging performance.

(iii) Magnetic

The Magnetic business grew by 4.2% and recorded a turnover of approximately HK\$106.9 million. The growth was mainly attributable to shipments of the new line of magnetic integrated connectors which was developed and introduced to the market during 2003. Despite the sluggish market conditions during the year, the operating profit rose by 80.6% and reached HK\$11.2 million. Such growth was primarily due to the Group's efforts in increasing its market share and stringent cost controls.

(b) Financial year 2004

(i) PCB

For the year 2004, the PCB business recorded a turnover of approximately HK\$2,750.3 million, representing an increase of approximately 43.9% from year 2003. It also generated an operating profit of approximately HK\$367.2 million, which was 157.3% higher than that of the year 2003. Such improvement was assisted by the recovery of the global economy from mid 2003 onwards. The average selling price of PCBs for the financial year 2004 was about 3% higher than the prior year as a result of the improvement in layer count mix following the revival in the computer, computer peripherals, consumer and automotive sectors. In addition, higher shipments of the Group's PCB products during the year allowed for greater economies of scale, which brought down the overhead cost per unit of good sold. Furthermore, with effect from 1 July 2003, there was a change in depreciation method and useful lives for the Group's manufacturing plant and equipment, and such change lowered the Group's depreciation charge by approximately HK\$57.7 million.

(ii) LCD

Turnover of the LCD business for financial year 2004 increased by approximately 38.5% over 2003 and reached HK\$331.8 million. It made an operating profit of HK\$21.0 million, which was about 17.6% lower than that of 2003. In spite of the recovery in the electronics industry, competition remained keen and there was continuous price erosion on both flat panel and LCD monochrome modules. Besides, the prices of integrated circuits, a key material of LCD modules, went further upward as a result of tight supply following the global economic recovery.

(iii) Magnetic

The Magnetic business grew by 23.4% and recorded a turnover of approximately HK\$131.9 million. As the selling price of the Groups' products continued to erode while labour and operating costs kept rising, the operating profits dropped by 3.6% to HK\$10.8 million.

(c) Results of EEIC for the first quarter of financial year 2005

Over 85% of the Group's turnover during financial year 2004 was contributed by its PCB business. Based on the unaudited results, the financial year 2005 first quarter profits of EEIC approximately doubled as compared to the three months ended 30 September 2003. The operating margin also improved from 8.9% to 12.7% on a quarter-to-quarter basis, mainly due to strong demand in computer and computer peripherals products. However, the increase in the quarterly results ended 30 September 2004 of EEIC cannot be taken as representative of the year as a whole as the results of the comparative period were still affected by SARS.

The unaudited results of EEIC for the three months period ended 30 September 2004 have already been released in Singapore on 3 November 2004 under the listing rules requirements of the SGX. The Company has reproduced the quarterly results of EEIC in its own announcement dated 3 November 2004 pursuant to the Listing Rules. A copy of the results announcement was set out in Appendix 1 to the Offeree Document.

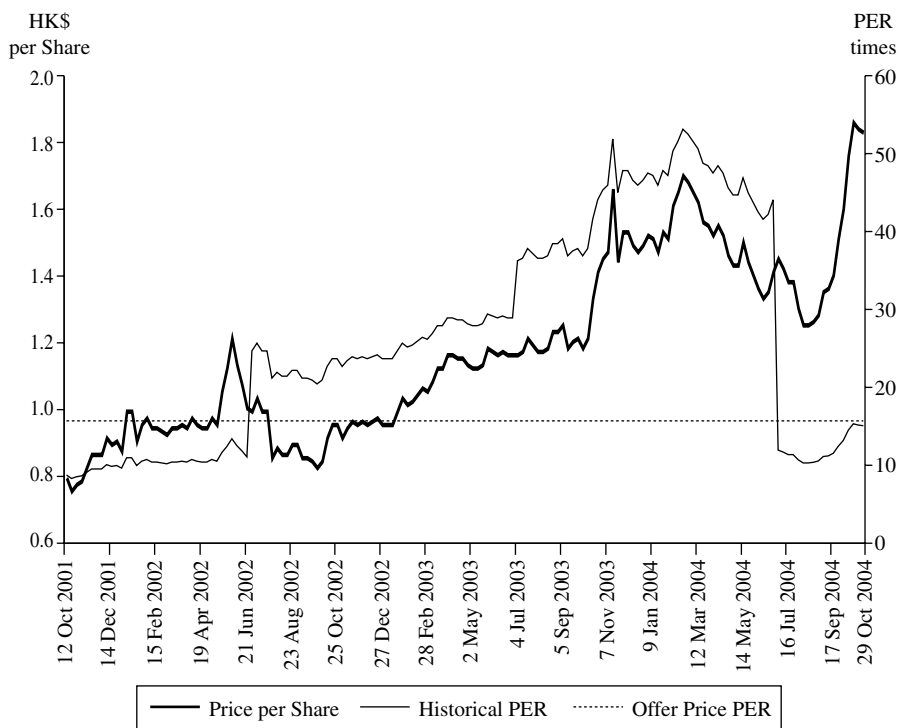
### **3. Offer Price compared to earnings**

Based on the net profit from ordinary activities attributable to Shareholders for the year ended 30 June 2004 of HK\$145.0 million and the weighted average of 1,198.2 million Shares in issue during the year, basic earnings per Share were HK12.10 cents. On this basis, the Offer Price of HK\$1.90 per Share represents a price-earnings ratio ("PER") of 15.70 times.



## LETTER FROM SOMERLEY

The chart below shows how the PER of the Company has varied over the last three years. The PER dropped sharply on the basis of the improved earnings per Share for the year ended 30 June 2004. Equally, the high PER (averaging about 34) shown for the previous year reflects, in our view, the market's expectation that the profit for the year ended 30 June 2003 was temporarily depressed. Based on earnings for the year ended 30 June 2002, perhaps a more typical year, the PER ranged between 10 to 26, with an average of 17.



Source: Bloomberg

#### 4. Dividend yield

For each of the three years ended 30 June 2004, the Group declared dividends in the total amounts of HK\$29.4 million, HK\$35.5 million and HK\$48.4 million respectively. Total dividends per Share for financial year 2004 (interim HK1.6 cents and final HK2.4 cents) are HK4.0 cents, representing a dividend yield of about 2.1% on the Offer Price.

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## LETTER FROM SOMERLEY

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### 5. Net asset value of the Group

The following table summarises the balance sheet of the Group as at 30 June 2004, which is set out in full in Appendix 1 to the Offeree Document:

	<i>HK\$ million</i>
Fixed assets	2,244.4
Intangible assets	2.8
Interests in jointly-controlled entities	9.3
Deferred tax assets	16.5
Inventories	408.8
Trade receivables	915.3
Prepayments, deposits and other receivables	128.6
Cash and cash equivalents	291.6
Tax payable	(11.2)
Trade and other payables	(1,085.9)
Trust receipt and export loans	(16.2)
Bank borrowings	
— current portion	(593.8)
— non-current portion	(476.8)
Deferred tax liabilities	(41.1)
Minority interests	<u>(975.5)</u>
Net assets as at 30 June 2004	<u><u>816.8</u></u>

Fixed assets accounted for the biggest portion of the Group's assets as at 30 June 2004, which comprised principally properties, plant and machinery employed in the Group's production facilities. Your attention is drawn to the valuation reports, prepared by B.I. Appraisals, of the properties of the Group as at 30 September 2004 which are set out in Appendix 2 to the Offeree Document.

As at 30 June 2004, the Group had a gearing ratio of approximately 44.4%, calculated as the net bank borrowings (total bank borrowings net of cash) over shareholders' equity and minority interests. Based on the indebtedness statement of the Group as at 30 September 2004 set out in Appendix 1 to the Offeree Document and the audited shareholders' equity and minority interests of the Group as at 30 June 2004, the gearing ratio of the Group rose slightly to approximately 54.1% with total net bank borrowings of approximately HK\$970.3 million.

Based on the audited consolidated net assets of the Group as at 30 June 2004 of HK\$816.8 million and the 1,217.5 million Shares then in issue, the book value per Share as at 30 June 2004 amounted to HK\$0.67. On this basis, the Offer Price represents a price-to-book multiple (the "PBR") of approximately 2.84 times.

## LETTER FROM SOMERLEY

In assessing the terms of the Offer, we consider it relevant to review the latest valuation of the assets of the Group. We have reassessed the net assets of the Group taking into account the excess of the fair value of the Group's share of property interests as at 30 September 2004 over their net book value as at 30 June 2004 of HK\$6.4 million arising as a result of the independent valuation conducted by B.I. Appraisals.

	<i>HK\$ million</i>
Audited net assets of the Group as at 30th June, 2004 as disclosed in the 2004 annual report	816.8
Surplus arising on the revaluation of the Group's property interests as at 30 September 2004 (Note)	<u>6.4</u>
Reassessed net assets of the Group (the "Reassessed NAV")	823.2
The Group's share of intangible assets	<u>(2.5)</u>
Reassessed net tangible assets of the Group (the "Reassessed NTAV")	<u><u>820.7</u></u>

*Note:* The surplus arising on valuation is calculated as the difference between the net book value of the Group's share of property interests as at 30th June, 2004 and the valuation of such interests by B.I. Appraisals as at 30th September, 2004 (details of which are set out in the valuation report contained in Appendix 2 to the Offeree Document). Such surplus will not be included in the Group's financial statements in accordance with the accounting policy of the Group.

The table below sets out the comparison of the Reassessed NAV and Reassessed NTAV with the Offer Price of HK\$1.90 per Share:

	<i>HK\$ million</i>	<b>Per Share</b> <i>HK\$</i> <i>(Note)</i>
Reassessed NAV	823.2	0.672
Reassessed NTAV	820.7	0.670
Value of the issued Shares at the Offer Price of HK\$1.90	2,326.9	1.90
Premium of Offer Price over		
— Reassessed NAV	1,503.7	1.228
— Reassessed NTAV	1,506.2	1.230
Percentage premium over		
— Reassessed NAV	182.7%	182.7%
— Reassessed NTAV	183.5%	183.5%

*Note:* Based on 1,224,672,408 Shares in issue at the Latest Practicable Date.

## LETTER FROM SOMERLEY

As shown in the above table, the Offer Price of HK\$1.90 per Share values the Company at a premium of approximately HK\$1.5 billion (183%) over the Reassessed NAV and the Reassessed NTAV respectively. The premium over net assets which the Offer represents is a substantial one. However, for a manufacturing group with strong profitability and cash flow, we consider net asset value of subsidiary importance in assessing the Offer, as compared to earnings, market price of the Shares and comparable transactions.

### 6. Comparison with comparable companies

We have reviewed other listed companies in the PCB industry and made a comparison on this basis with the Offer Price. For this purpose, we have reviewed all the companies listed on the Stock Exchange which have, according to their latest published annual report, over 50% of their turnover derived from the manufacture and sale of PCBs. As the Group's principal subsidiary and operating unit, EEIC, is a listed company in Singapore, we consider it relevant to review the companies engaged in PCB business which are listed in Singapore. In addition, as Taiwanese manufacturers have traditionally been key players in the PCB industry in Asia, we also consider it appropriate to make reference to PCB manufacturers in Taiwan in our assessment of the Offers. For this purpose, we have identified and reviewed all such Singapore and Taiwan listed companies with market capitalisations in the range of HK\$1 billion to HK\$5 billion, which we consider to be of a similar size range to the Company.

The following table sets out the comparison of the Offer Price in terms of PER, dividend yield and PBR to those of the comparable companies identified by us based on the above criteria (the "Comparable Companies"):

Company	Listing	Closing share price HK\$ (Note 1)	Market capitalisation HK\$ billion (Note 2)	PER (Note 3)	Dividend yield % (Note 3)	PBR (Note 3)
Topsearch Int'l Holdings Ltd.	Hong Kong	0.78	0.50	15.29	1.31	0.71
Sinotronics Holdings Ltd.	Hong Kong	0.98	0.46	5.47	3.57	0.96
Daisho Microline Holdings Ltd.	Hong Kong	0.23	0.11	NA	NA	0.77
Same Time Holdings Ltd.	Hong Kong	1.40	0.07	4.36	NA	0.31
Fu Cheong Int'l Holdings Ltd.	Hong Kong	0.038	0.05	NA	NA	13.0
<b>Average for Hong Kong listed companies</b>				<b>8.37</b>	<b>2.44</b>	<b>3.15</b>
Chuan Hup Holdings Ltd.	Singapore	3.08	3.3	11.14	4.58	1.73
MFS Technology Ltd.	Singapore	3.92	2.5	15.75	0.66	3.79
Jurong Technologies Industries	Singapore	6.20	2.5	19.02	1.33	5.95
EEIC	Singapore	22.54	3.3	10.40	6.29	1.77
Kingboard Copper Foil Holdings	Singapore	2.16	1.6	22.42	1.31	1.25
Huan Hsin Holdings Ltd.	Singapore	4.06	1.4	9.57	2.31	1.40
<b>Average for Singapore listed companies</b>				<b>14.72</b>	<b>2.75</b>	<b>2.65</b>
Unimicron Technology Corp,	Taiwan	5.24	4.5	14.87	1.30	1.18
Ichia Technologies Inc.	Taiwan	10.86	2.7	14.68	1.16	2.61

## LETTER FROM SOMERLEY

Company	Listing	Closing share price <i>HK\$</i> <i>(Note 1)</i>	Market capitalisation <i>HK\$ billion</i> <i>(Note 2)</i>	PER <i>(Note 3)</i>	Dividend yield % <i>(Note 3)</i>	PBR <i>(Note 3)</i>
Compeq Manufacturing Co. Ltd.	Taiwan	2.74	2.6	NA	NA	0.79
Tripod Technology Corp.	Taiwan	9.57	2.4	12.64	2.46	2.20
Career Technology Co. Ltd.	Taiwan	10.77	2.2	19.04	1.22	3.12
Silitech Technology Corp.	Taiwan	17.75	1.6	14.72	1.72	4.05
Wah Lee Industrial Corp.	Taiwan	9.57	1.7	8.97	4.76	1.88
Gold Circuit Electronics Ltd.	Taiwan	3.51	1.6	149.50	NA	1.26
WUS Printed Circuit Co. Ltd.	Taiwan	3.36	1.5	14.16	3.43	0.88
Chin-Poon Industrial Co. Ltd.	Taiwan	4.49	1.5	9.23	5.24	0.93
Global Brands Manufacture	Taiwan	10.81	1.3	13.94	NA	2.12
Unitech Printed Circuit	Taiwan	3.37	1.2	65.23	NA	0.89
<b>Average for Taiwan listed companies</b>				<b>30.63</b>	<b>2.66</b>	<b>1.83</b>
Average for all companies				22.52	2.66	2.33
Median for all companies				14.42	2.02	1.40
The Company	Hong Kong	1.90	2.3	15.70	2.10	2.84
Kingboard	Hong Kong	17.30	11.3	21.38	1.16	3.16

*Notes:*

- Being the closing share prices for the respective companies as at the Latest Practicable Date. Amounts in New Taiwan dollars (“NTD”) Singapore dollars (“SGD”) and United States dollars (“USD”) have been translated into Hong Kong dollars at exchange rates of NTD1:HK\$0.2351; SGD1:HK\$4.6972 and USD1:HK\$7.8 respectively.
- Based on the closing share price and, in the case of the Company, the Offer Price and the number of shares outstanding for the respective companies as at the Latest Practicable Date as quoted in Bloomberg.
- Calculated based on the closing share price and the published financial information contained in the annual reports of the respective companies.

*PER*

As shown in the above table, the PER of 15.70 times represented by the Offer Price is higher than those of the Comparable Companies in Hong Kong, which are considerably smaller than the Company. The PER represented by the Offer Price lies within the range of 9.57 to 22.42 times and is close to the average of 14.72 times for the Comparable Companies in Singapore. As for the Comparable Companies in Taiwan, except for Gold Circuit Electronics Ltd. and Unitech Printed Circuit which have an exceptionally high PERs of 149.50 and 65.23 times respectively, the other Taiwanese Comparable Companies were trading at PER in the range of 8.97 to 19.04 times. The average PER for the Taiwanese Comparable Companies (excluding Gold Circuit Electronics Ltd. and Unitech Printed Circuit) of 13.58 times is also comparable to that represented by the Offer Price.

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## LETTER FROM SOMERLEY

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### *Dividend yield*

Of the Comparable Companies, 7 have not declared/paid a dividend in respect of the last financial year. The remaining Comparable Companies have dividend yield in the range of 0.66% to 6.29%. The dividend yield of the Shares represented by the Offer Price of 2.10% lies in the lower end of such range and is lower than the average of 2.66% for those Comparable Companies which have declared/paid a dividend in the last financial year.

### *PBR*

As shown in the above table, typical PCB manufacturers listed in Hong Kong are trading at PBR of around or less than 1 times, except for Fu Cheong International Holdings Limited which is currently trading at an exceptionally high PBR of 13 times. PCB manufacturers listed in Taiwan are trading at PBR in the range of 0.79 to 4.05 times, which is similar to that of 1.25 to 5.95 times for Singapore companies. The PBR represented by the Offer Price of 2.84 times lies about mid-way within these ranges although it is considerably higher than most of the Hong Kong Comparable Companies.

### *Comparison with Kingboard*

Although Kingboard is significantly larger than the Company, their activities overlap. As stated in the Offer Document, Kingboard is engaged primarily in the production of laminates which are the key raw materials for PCBs. It is also engaged in the production of PCBs and chemicals. The board of Kingboard has stated that the Offer will enable Kingboard to enhance its level of vertical integration and achieve economies in scale of PCB business as well as enlarge market coverage by having a complementary customer base. Shares of Kingboard are currently trading at a PER of about 21.38 times, a dividend yield of around 1.16% and PBR of about 3.16 times.

## LETTER FROM SOMERLEY

### 7. Comparable recent deals

We have identified from publicly available sources (*note 1*) completed transactions in the last 24 months which involved acquisitions/investments in electronic companies in South-East Asia (other than interests in the Company) and reviewed the available information from the sources for all these transactions. We have also identified the transactions in the last 5 years which involve the disposal by listed companies in Hong Kong of their core businesses. Details of these transactions are summarised below:

Subject company	Principal business	Announcement date	% of interest acquired	Acquisition price per share HK\$	PER (Note 2)	PBR (Note 2)
<i>Disposal of core business</i>						
Termbray Industries International (Holdings) Ltd. (“Termbray”)	Manufacture and sale of PCB	August 1999	100%	NA	12.4	2.8
Wong’s International (Holdings) Ltd.	Manufacture and sale of PCB	June 2000	100%	NA	9.9	2.1
Boto International Holdings Ltd. (“Boto”)	Manufacture and sale of Christmas festive products and leisure furniture	April 2002	100%	NA	8.3	1.4
<i>Acquisition of electronics companies</i>						
Pentex Schweizer Circuits Ltd. (“PSC”)	Manufacture and sale of PCB	28 June 2004	45.7%	1.56	23.9	1.71
The Company		12 October 2004	the Offer	1.90	15.70	2.84

*Notes:*

- Source of data: Bloomberg/Dealogic Limited.
- Calculated based on the respective acquisition price per share (in the case of the Company, the Offer Price) and the audited earnings/book value per share obtained from the latest audited financial statements of the respective companies published prior to the date of the transactions or as disclosed in the relevant public announcements.

The PER implied by the Offer Price is higher than those represented by the consideration for disposals of core business by listed companies, which range from 12.4 times for Termbray to 8.3 times for Boto. It is close to that represented by the offer made by an independent private equity investor for the PCB business of EEIC in late 1999 of around 16 times.

## LETTER FROM SOMERLEY

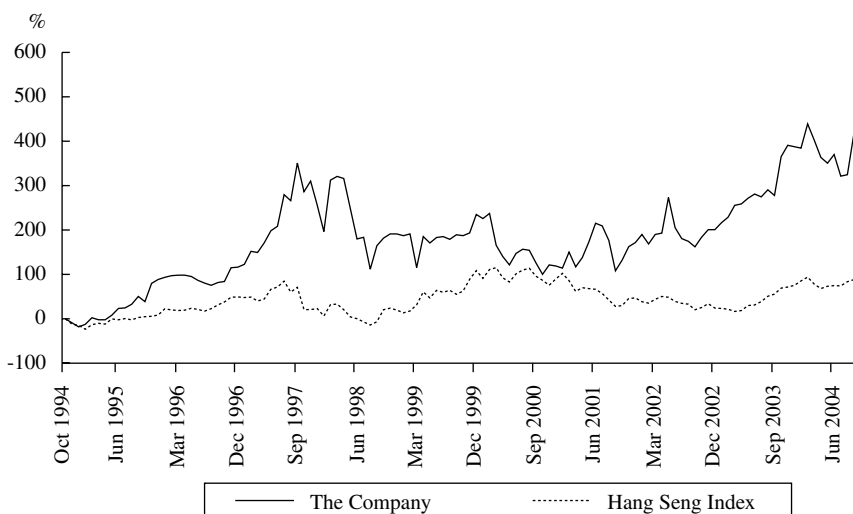
PSC is a company listed on the main board of the SGX. The acquisition of PSC was an offer by way of a scheme of arrangement after an independent party acquired a 54.31% interest from PSC's controlling shareholder. As a result of the scheme, PSC will be delisted from SGX. The higher PER being offered for PSC as compared to the Offer may represent the premium paid to the PSC minority shareholders for the cancellation of the listing status for their investments.

### 8. Historical market price and liquidity of the Shares

#### (i) Share price over ten years

The following charts show the performance of the Share against the Hang Seng Index ("HSI") and the movements of Share price during the ten year period from October 1994 to October 2004:

**Relative Share price performance**



Source: Bloomberg

**Share price over ten years**



Source: Bloomberg



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## LETTER FROM SOMERLEY

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As shown in the first chart above, the Share price has significantly outperformed the HSI during most of the past ten years. The Share price closed at HK\$1.83 on 29 October 2004, representing a rise of 83% from HK\$1.0 at the commencement of the period currently under review. Despite this, the market price over the period has only exceeded the Offer Price during the boom conditions of 1997 and in the first half of 1998. The HSI during the same period increased by approximately 35.3% from 9,646.25 to 13,054.7 on 29 October 2004.

During the Asian financial crisis in the second half year of 1997, the HSI dropped over 7,600 points (approximately 46%) in a three-month period, from its peak at 16,673 on 7 August 1997 to 9,059 on 28 October 1997, and there was a corresponding drop in the Shares towards the end of the year. The Shares rebounded sharply in early 1998, while there was only a moderate improvement in the HSI. During the first quarter of 1998, the Share price rose by 83% from its low of HK\$1.28 on 16 January 1998 to its high of HK\$2.35 on 2 March 1998. The Directors consider that the outstanding performance of the Shares was supported by the strong financial results of the Group for the financial year 1997, when the net profit attributable to Shareholders increased by 224.2% over 1996. The Board declared final dividends of HK70.5 cents per Share, comprising a final cash dividend of HK5.5 cents and a special final cash dividend of HK65.0 cents per Share, for the year ended 30 June 1997 which was paid in December 1997.

### (ii) Share price over two years

The closing price of the Shares during the last two years has featured a number of short periods of rising levels combined with increased volume, typically followed by a period of decline on lower volumes. It has not exceeded the Offer Price during this period. The chart below shows the closing prices of the Shares traded on the Stock Exchange during the 24 months preceding the Announcement (the "Comparison Period"), and up to and including the Latest Practicable Date:



Source: Bloomberg

As illustrated in the above share price chart, the closing price of the Shares was below the Offer Price at all times during the period under review. The Shares closed at an average price of HK\$1.281 throughout the Comparison Period, with its high of HK\$1.77 on 11 October 2004 and its low of HK\$0.90 on 15 October 2002. The Offer Price of HK\$1.90 per Share represents a premium of approximately 7.3% over such highest closing price and a premium of approximately 111.1% over such lowest closing price during the Comparison Period.

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## LETTER FROM SOMERLEY

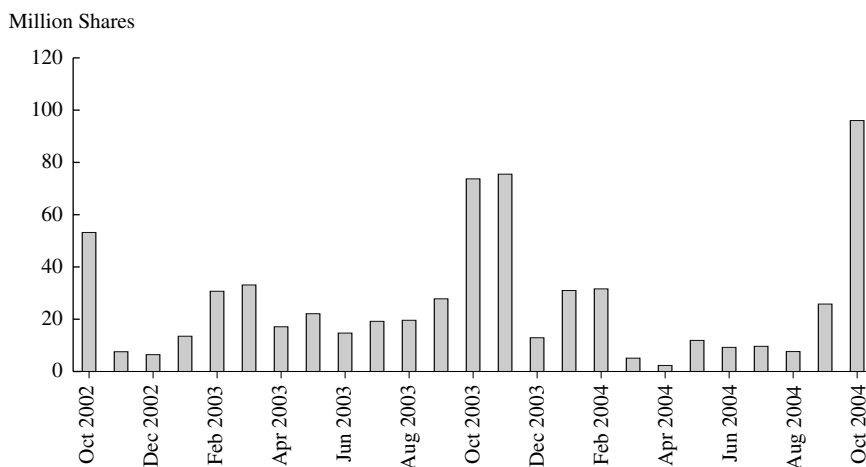
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The Offer Price of HK\$1.90 per Share represents premia of approximately 13.1%, 27.5% and 36.7% respectively over the average closing price of the Shares of HK\$1.68, HK\$1.49 and HK\$1.39 over (i) the 10 trading days; (ii) the 30 trading days; and (iii) the 90 trading days immediately preceding the release of the Announcement.

The average closing price of the Shares between the announcement of results for the year ended 30 June 2004 on 23 August 2004 and the announcement of Offer on 12 October 2004 was HK\$1.46. We consider this period a good basis of comparison as the market was aware of the improved results of financial year 2004 but was not yet aware of the Offer. The Offer Price of HK\$1.90 represents a premium of approximately 30.1% over such average price. The highest and lowest closing prices of the Shares during this period were HK\$1.77 and HK\$1.27 respectively. We note that the market price during this period was mostly on an upward trend. The Offer Price represents premia of approximately 7.3% and 49.6% over such prices.

### (iii) *Trading volume of the Shares over the last two years*

The chart and the table below show the monthly trading volume of the Shares during the two-year period from October 2002 to October 2004:



Source: Bloomberg

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## LETTER FROM SOMERLEY

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<b>Date</b>	<b>Monthly trading volume</b> <i>(Shares)</i>	<b>Monthly trading volume to public float</b> <i>(%)</i> <i>(Note)</i>
2004		
October	96,000,000	36.4%
September	25,800,000	9.7%
August	7,610,000	2.9%
July	9,630,000	3.6%
June	9,230,000	3.5%
May	11,900,000	4.5%
April	2,310,000	0.9%
March	5,100,000	1.9%
February	31,600,000	12.0%
January	31,000,000	11.4%
2003		
December	12,900,000	4.4%
November	75,500,000	25.5%
October	73,700,000	24.5%
September	27,800,000	9.3%
August	19,600,000	6.5%
July	19,200,000	6.4%
June	14,700,000	4.9%
May	22,100,000	7.2%
April	17,100,000	5.4%
March	33,100,000	10.2%
February	30,700,000	8.9%
January	13,500,000	3.6%
2002		
December	6,430,000	1.7%
November	7,550,000	2.0%
October	53,200,000	13.9%

*Note:* Based on the number of issued Shares held in the public hands at the end of each month. Public float of the Company is currently approximately 22% of the issued share capital, which is below the minimum of 25% required by the Listing Rules.

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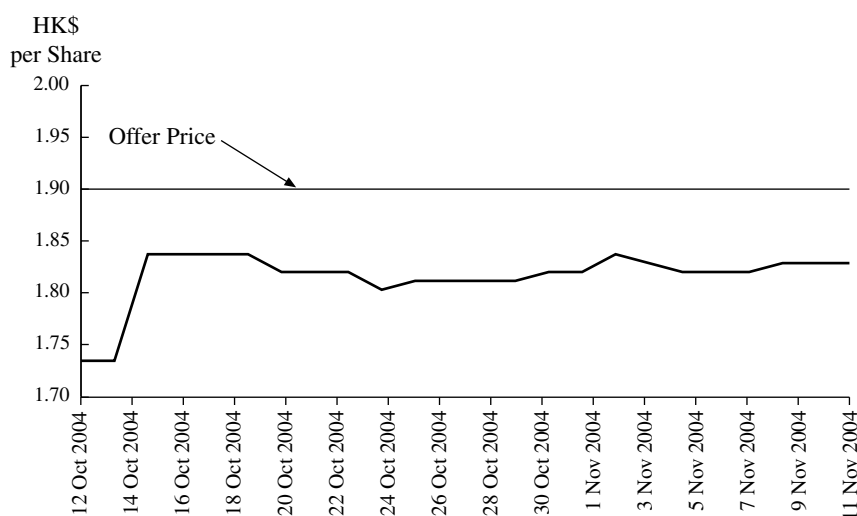
## LETTER FROM SOMERLEY

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Based on the above table, the Shares were in general thinly traded on the Stock Exchange during the period from October 2002 up to September 2004. The monthly trading volume during the aforesaid period was below 15% of the Shares held by the public except in October and November 2003 (about 25%). The increase in monthly trading volume during October and November 2003 may be attributable to the market rumours that Kingboard was contemplating disposal of its stake. In September 2004, there was a monthly trading volume of 25.8 million, representing 9.7% of the number of Shares held in the public hands. Such relatively high trading volume was partially contributed by the dealings of Shares of Kingboard's subsidiary and two of its directors, involving an aggregate transaction volume of 5.085 million shares (details of which are set out in Appendix II to the Offer Document). In October 2004, the monthly trading volume was stimulated by the Announcement and hit a record high in the last two years of 96 million, representing 36.4% of the public float. On 14th October 2004, being the first trading day after the Announcement appeared in press, the daily trading volume reached its record high during the period of 31.6 million Shares.

(iv) *Share price after the Announcement up to the Latest Practicable Date*

The following chart and table show the movement of the closing price and the daily trading volume of the Shares after the release of the Announcement up to and including the Latest Practicable Date:



Source: Bloomberg

## LETTER FROM SOMERLEY

Date	Share Price (HK\$)	Daily trading volume (Shares)	Daily trading volume to public float (%) (Note)
12 October 2004	1.74	1,962,400	0.74
13 October 2004	—	suspended	—
14 October 2004	1.86	31,631,320	12.01
15 October 2004	1.86	10,997,800	4.17
18 October 2004	1.86	3,839,000	1.46
19 October 2004	1.86	1,459,400	0.55
20 October 2004	1.84	5,357,800	2.03
21 October 2004	1.84	1,581,000	0.60
25 October 2004	1.82	2,749,000	1.04
26 October 2004	1.83	1,700,000	0.65
27 October 2004	1.83	785,000	0.30
28 October 2004	1.83	4,630,000	1.76
29 October 2004	1.83	4,563,000	1.73
1 November 2004	1.84	100,000	0.04
2 November 2004	1.84	775,000	0.29
3 November 2004	1.86	1,265,000	0.48
4 November 2004	1.85	2,516,800	0.96
5 November 2004	1.84	600,820	0.23
8 November 2004	1.84	2,536,000	0.96
9 November 2004	1.85	5,263,000	2.00
10 November 2004	1.85	700,000	0.27
11 November 2004	1.85	5,444,000	2.07

*Note:* Based on the number of issued Shares held in the public hands at the corresponding month end.

The Announcement appeared in the press on 13 October 2004. On the following day, the Share price rose by approximately 6.9% from the closing price of HK\$1.74 to HK\$1.86. Since then, the Shares have closed within the range of HK\$1.82 to HK\$1.86 up to the Latest Practicable Date. It appears from this pattern that the market price has increased somewhat under the influence of the Offer Price and has settled at a small discount to it.

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## LETTER FROM SOMERLEY

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### DISCUSSION

The business of the Company was founded in 1972 and the Company itself was listed on the Stock Exchange some twenty years ago in 1984. The Company was a pioneer in the Hong Kong PCB business and the holding company for the PCB business, EEIC, was separately listed in Singapore in 1994. The Group has grown to become the second largest PCB manufacturer in China and also has significant businesses in LCD and magnetic products. It has continued to expand its production capacity, with capital expenditure of approximately HK\$731.1 million in the financial year 2004.

After suffering a poor financial year ended 30 June 2003, the Group's profits recovered strongly from HK\$37.5 million (HK3.2 cents per Share) to HK\$145 million (HK12.1 cents per Share) for the year ended 30 June 2004. The first quarter results (unaudited) of its PCB business for the current financial year show a further improvement of approximately 100% over the same period of financial year 2003, which was affected by SARS.

The founding shareholders of the Company still hold, through EEIL, a 42.62% stake in the Company. In their personal and family names, they hold a further 7.76%, bringing their aggregate stake to over 50%. It is unusual for a minority shareholder such as Kingboard to launch a bid without the agreement of the Controlling Shareholders but this is what Kingboard has apparently done, making the Share Offer at HK\$1.90 per Share.

In assessing the Offers, we have looked principally at three factors - the premium over market price, the implied PER and the terms of comparable transactions.

- The Offer Price of HK\$1.90 per Share is higher than the levels at which the Shares have traded for the past six years. Not since the first half of 1998 has the closing market price of the Shares exceeded HK\$1.90. This is an attractive feature of the Offers. The Offer Price represents premia of approximately 13.1% and 36.7% respectively over the average ten-day closing market price (which may have been affected by rumours of the Offer) and the average ninety-day closing market price immediately preceding the release of the Announcement. We consider the average closing market price in the period between the announcement of the results of the Group for the financial year 2004 on 23 August 2004 and the Announcement on 12th October 2004 as perhaps the most relevant period for comparison (although the market price was in general rising during this period and the Kingboard Group was a seller of Shares). The Offer Price of HK\$1.90 represents a 30.1% premium over the average price for this period of HK\$1.46, which seems to us to include a reasonable premium for control. There may yet be other developments in this transaction, but the market price of the Shares, at a small discount to the Offer Price, does not at the moment suggest a competing offer from a third party or a revised bid from Kingboard is imminent.
- Based on the EPS for the financial year 2004 of HK12.1 cents, the Share Offer of HK\$1.90 per Share represents a PER of 15.7 times. This is higher than the PER at which other Hong Kong listed PCB manufacturers stand (although they are smaller than the Company) and approximately equal to or slightly higher than the average PER for comparable Singapore companies and Taiwanese companies. It is somewhat below the range of PER at which the Company has traded in the past three years, but on the basis of significantly lower profits. Kingboard, the holding company of the Offeror, is currently rated at a higher PER of approximately 21 times.

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## LETTER FROM SOMERLEY

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- It is difficult to find comparable recent transactions. The PER of 15.7 times represented by the Share Offer is greater than certain transactions in Hong Kong where groups have sold their core business at PERs in the range of 12.4 to 8.3 times. It is less than the PER of 23.9 times for a recent privatisation of a PCB manufacturer in Singapore.

The Offer Price of HK\$1.90 represents an approximately 183% premium over the reassessed net asset backing of approximately HK\$0.672 per Share. However, provided that the net asset base of the Group is sufficient for its operations, we consider that the Group should be valued primarily by reference to earnings rather than net assets.

Based on the above analysis, in our opinion, the Offer Price of HK\$1.90 per Share lies within a price range which we consider fair and reasonable to the Independent Shareholders in the context of an offer for their Shares. In our view, it is at the lower end of such a range bearing in mind that the opportunity to acquire control of a well established and substantially profitable listed Hong Kong group is a rare one.

Despite this opinion, Independent Shareholders should keep in mind that the Share Offer is conditional (among other things) on Kingboard obtaining over 50% control. This is not possible without the support, or at least the partial support, of the Controlling Shareholders who together already hold over 50%. Since Independent Shareholders do not hold sufficient Shares in aggregate to affect the outcome of the Share Offer decisively, there is no purpose, in our opinion, in their accepting the Share Offer before the attitude of the Controlling Shareholders is known.

If the Controlling Shareholders accept, the Share Offer will become unconditional as to acceptances. In that case, the fact must be announced and the Offers extended for at least a further two weeks. Consequently, there will be time for Independent Shareholders to accept the Share Offer if that stage is reached, if they wish to do so.

If the Controlling Shareholders do not accept the Share Offer, acceptances by Independent Shareholders will achieve little or nothing; on the other hand, Independent Shareholders who do accept the Share Offer will not be able to withdraw such acceptance or, perhaps more importantly, sell their Shares in the market until 20 December 2004 (unless the Offers previously lapse), except in the rather technical circumstances set out in Appendix I of the Offer Document. Losing this flexibility does not seem to us a sensible step, particularly as it is difficult to foretell at this stage what further developments there may be as regards the Offers, or any possible revised or competitive offer.

### ADVICE

For the reasons discussed above, we recommend Independent Shareholders not to accept the Share Offer before the decision of the Controlling Shareholders is made known. In the meantime, Independent Shareholders who wish to lock in a profit at the higher Share price levels which have prevailed since the announcement of the Offers should consider selling in the market while the Share Offer is open and trading volumes of the Shares remain relatively high. A fall in the Share price and in liquidity is possible if the Offer lapses because the Controlling Shareholders do not accept. In addition, a placing of Shares may be needed to increase the public float of Shares, now approximately 22%.

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## LETTER FROM SOMERLEY

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Independent Shareholders who are prepared to take a longer view are recommended to monitor the acceptance levels of the Share Offer. If the Share Offer becomes unconditional, which will only happen if the Controlling Shareholders accept it, this would reinforce our view that the terms of the Share Offer are fair and reasonable. In such circumstances, Independent Shareholders should accept the Share Offer before it closes or sell in the market if the market price of the Shares (net of dealing costs) exceeds the Offer Price. Alternatively, Independent Shareholders who are attracted by the Company's prospects under the new management proposed by Kingboard may wish to consider retaining some or all of their Shares. If the Controlling Shareholders do accept the Share Offer so that it becomes unconditional as to acceptances, we will write to you again if appropriate with any updated advice.

Similarly, we recommend the Option Holder not to accept the Option Offer in the present circumstances.

Yours faithfully,  
for and on behalf of  
**SOMERLEY LIMITED**  
**M. N. Sabine**  
*Chairman*



## THREE YEARS SUMMARY

The following is a summary of the results and of the assets, liabilities and minority interests of the Group for the last three financial years as extracted from the annual reports and restated as appropriate:

	<b>Year ended 30 June</b>		
	<b>2004</b>	<b>2003</b>	<b>2002</b>
	<i>HK\$'000</i>	<i>HK\$'000</i> (Restated)	<i>HK\$'000</i> (Restated)
Turnover	<u>3,214,067</u>	<u>2,257,713</u>	<u>2,223,654</u>
Profit before tax	342,418	116,348	183,620
Tax	<u>(26,291)</u>	<u>(10,623)*</u>	<u>(22,908)*</u>
Profit before minority interests	316,127	105,725	160,712
Minority interests	<u>(171,111)</u>	<u>(68,240)*</u>	<u>(109,396)*</u>
Net profits from ordinary activities attributable to shareholders	<u>145,016</u>	<u>37,485</u>	<u>51,316</u>
Dividends	<u>48,440</u>	<u>35,531</u>	<u>29,377</u>
	<b>As at 30 June</b>		
	<b>2004</b>	<b>2003</b>	<b>2002</b>
	<i>HK\$'000</i>	<i>HK\$'000</i> (Restated)	<i>HK\$'000</i> (Restated)
Total assets	<u>4,017,348</u>	<u>3,023,773</u>	<u>2,811,055</u>
Total liabilities	2,224,996	1,413,935	1,178,941
Shareholders' equity	816,836	684,263	670,566
Minority interests	<u>975,516</u>	<u>925,575</u>	<u>961,548</u>
	<u>4,017,348</u>	<u>3,023,773</u>	<u>2,811,055</u>
Working Capital	<u>37,147</u>	<u>236,386</u>	<u>345,028</u>

\* Tax charge and minority interests have been restated as a result of the adoption of the revised Hong Kong Statement of Standard Accounting Practice 12 "Income Taxes".

	2004	2003 (Restated)	2002 (Restated)
Current ratio	1.02	1.22	1.49
Return on average shareholders' equity (%)	19.3	5.5	7.8
Per share:			
— shareholders' funds (HK dollars)	0.7	0.6	0.6
— basic earnings (HK cents)	12.10	3.19	4.37
— dividends (HK cents)	<u>4.0</u>	<u>3.0</u>	<u>2.5</u>

### AUDITED CONSOLIDATED FINANCIAL STATEMENTS

Set out below is the audited consolidated financial statements of the Group for the year ended 30 June 2004 together with the relevant notes thereon as extracted from the Company's latest audited financial statements set out in the Company's latest published annual report. Reference to page number in this section is to the page numbers in the 2004 annual report of the Company.



To the members

**Elec & Eltek International Holdings Limited**

*(Incorporated in Bermuda with limited liability)*

We have audited the financial statements on pages 37 to 84 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

### **RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS**

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

### **BASIS OF OPINION**

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes an examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

### **OPINION**

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 30 June 2004 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**Ernst & Young**

*Certified Public Accountants*

Hong Kong

23 August 2004

**Consolidated Profit and Loss Account**

Year ended 30 June 2004

	<i>Notes</i>	<b>2004</b> <i>HK\$'000</i>	<b>2003</b> <i>HK\$'000</i> <i>(Restated)</i>
TURNOVER	5	3,214,067	2,257,713
Cost of sales		<u>(2,474,629)</u>	<u>(1,805,892)</u>
Gross profit		739,438	451,821
Other revenue	5	1,287	635
Selling and distribution costs		(146,436)	(128,087)
Administrative expenses		(212,103)	(161,095)
Other operating expenses		<u>(16,898)</u>	<u>(23,114)</u>
PROFIT FROM OPERATING ACTIVITIES	6	365,288	140,160
Finance costs	7	(21,716)	(23,024)
Share of losses of jointly-controlled entities		<u>(1,154)</u>	<u>(788)</u>
PROFIT BEFORE TAX		342,418	116,348
Tax	9	<u>(26,291)</u>	<u>(10,623)</u>
PROFIT BEFORE MINORITY INTERESTS		316,127	105,725
Minority interests		<u>(171,111)</u>	<u>(68,240)</u>
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	10	<u>145,016</u>	<u>37,485</u>
DIVIDENDS	11		
Interim		19,181	17,627
Adjustments to dividends payable in prior years as a result of options exercised during the year		40	—
Proposed final		<u>29,219</u>	<u>17,904</u>
		<u>48,440</u>	<u>35,531</u>
EARNINGS PER SHARE	12		
Basic		<u>12.10 cents</u>	<u>3.19 cents</u>
Diluted		<u>12.01 cents</u>	<u>3.18 cents</u>

## Consolidated Balance Sheet

30 June 2004

	<i>Notes</i>	<b>2004</b> <i>HK\$'000</i>	<b>2003</b> <i>HK\$'000</i> <i>(Restated)</i>
<b>NON-CURRENT ASSETS</b>			
Fixed assets	13	2,244,428	1,703,223
Intangible assets	14	2,842	4,040
Interests in jointly-controlled entities	16	9,326	9,420
Deferred tax assets	22	16,464	13,750
		<u>2,273,060</u>	<u>1,730,433</u>
<b>CURRENT ASSETS</b>			
Inventories	17	408,841	262,443
Trade receivables	18	915,311	691,270
Prepayments, deposits and other receivables		128,567	135,575
Cash and cash equivalents	19	291,569	204,052
		<u>1,744,288</u>	<u>1,293,340</u>
<b>CURRENT LIABILITIES</b>			
Trade and bills payables	20	826,311	460,953
Tax payable		11,250	4,243
Other payables and accruals		259,579	121,813
Trust receipt and export loans	21	16,240	7,879
Interest-bearing bank loans and other borrowings	21	593,761	462,066
		<u>1,707,141</u>	<u>1,056,954</u>
<b>NET CURRENT ASSETS</b>		<u>37,147</u>	<u>236,386</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>2,310,207</u>	<u>1,966,819</u>
<b>NON-CURRENT LIABILITIES</b>			
Interest-bearing bank loans	21	476,785	318,704
Deferred tax liabilities	22	41,070	38,277
		<u>517,855</u>	<u>356,981</u>
<b>MINORITY INTERESTS</b>		<u>975,516</u>	<u>925,575</u>
		<u>816,836</u>	<u>684,263</u>
<b>CAPITAL AND RESERVES</b>			
Issued capital	23	121,746	119,361
Reserves	25(a)	585,381	466,508
Contributed surplus	26(a)	80,490	80,490
Proposed final dividend	11	29,219	17,904
		<u>816,836</u>	<u>684,263</u>

## Consolidated Statement of Changes in Equity

Year ended 30 June 2004

	Notes	Issued share capital HK\$'000	Share premium account HK\$'000	Capital redemption reserve HK\$'000	Contributed surplus HK\$'000	Exchange reserve HK\$'000	Statutory and other reserves HK\$'000	Retained profits HK\$'000	Proposed final dividend HK\$'000	Total HK\$'000
At 1 July 2002										
As previously reported		117,506	36,444	26,178	80,490	(58,394)	8,562	447,977	17,626	676,389
Prior year adjustment:										
SSAP 12 — restatement of deferred tax	22	—	—	—	—	793	—	(6,616)	—	(5,823)
As restated		117,506	36,444	26,178	80,490	(57,601)	8,562	441,361	17,626	670,566
Final 2002 dividend declared		—	—	—	—	—	—	—	(17,626)	(17,626)
Issue of shares on exercise of share options	23	1,855	15,026	—	—	—	—	—	—	16,881
Currency translation differences and net gains and losses not recognised in the profit and loss account		—	—	—	—	(5,615)	—	—	—	(5,615)
Exchange reserve released upon deemed disposal of interests in subsidiaries		—	—	—	—	42	—	—	—	42
Goodwill released upon deemed disposal of interests in subsidiaries		—	—	—	—	—	—	157	—	157
Net profit for the year		—	—	—	—	—	—	37,485	—	37,485
Interim 2003 dividend	11	—	—	—	—	—	—	(17,627)	—	(17,627)
Proposed final 2003 dividend	11	—	—	—	—	—	—	(17,904)	17,904	—
Transfer from retained profits		—	—	—	—	—	283	(283)	—	—
At 30 June 2003		<u>119,361</u>	<u>51,470</u>	<u>26,178</u>	<u>80,490</u>	<u>(63,174)</u>	<u>8,845</u>	<u>443,189</u>	<u>17,904</u>	<u>684,263</u>
At 1 July 2003										
As previously reported		119,361	51,470	26,178	80,490	(63,739)	8,845	451,088	17,904	691,597
Prior year adjustment:										
SSAP 12 — restatement of deferred tax	22	—	—	—	—	565	—	(7,899)	—	(7,334)
As restated		119,361	51,470	26,178	80,490	(63,174)	8,845	443,189	17,904	684,263
Final 2003 dividend declared		—	—	—	—	—	—	—	(17,944)	(17,944)
Issue of shares on exercise of share options	23	2,385	19,319	—	—	—	—	—	—	21,704
Share issue expenses		—	(34)	—	—	—	—	—	—	(34)
Currency translation differences and net gains and losses not recognised in the profit and loss account		—	—	—	—	2,654	—	—	—	2,654
Exchange reserve released upon deemed disposal of interests in subsidiaries		—	—	—	—	44	—	—	—	44
Goodwill released upon deemed disposal of interests in subsidiaries	25(a)	—	—	—	—	—	—	314	—	314
Net profit for the year		—	—	—	—	—	—	145,016	—	145,016
Adjustment to dividends payable in prior years as a result of options exercised during the year	11	—	—	—	—	—	—	(40)	40	—
Interim 2004 dividend	11	—	—	—	—	—	—	(19,181)	—	(19,181)
Proposed final 2004 dividend	11	—	—	—	—	—	—	(29,219)	29,219	—
Transfer from retained profits		—	—	—	—	45	1,962	(2,007)	—	—
At 30 June 2004		<u>121,746</u>	<u>70,755*</u>	<u>26,178*</u>	<u>80,490</u>	<u>(60,431)*</u>	<u>10,807*</u>	<u>538,072*</u>	<u>29,219</u>	<u>816,836</u>
Reserves retained by:										
Company and subsidiaries		121,746	70,755	26,178	80,490	(60,431)	10,807	543,062	29,219	821,826
Jointly-controlled entities		—	—	—	—	—	—	(4,990)	—	(4,990)
At 30 June 2004		<u>121,746</u>	<u>70,755</u>	<u>26,178</u>	<u>80,490</u>	<u>(60,431)</u>	<u>10,807</u>	<u>538,072</u>	<u>29,219</u>	<u>816,836</u>
Company and subsidiaries		119,361	51,470	26,178	80,490	(63,175)	8,845	447,025	17,904	688,098
Jointly-controlled entities		—	—	—	—	1	—	(3,836)	—	(3,835)
At 30 June 2003		<u>119,361</u>	<u>51,470</u>	<u>26,178</u>	<u>80,490</u>	<u>(63,174)</u>	<u>8,845</u>	<u>443,189</u>	<u>17,904</u>	<u>684,263</u>

\* These reserve accounts comprise the consolidated reserves of HK\$585,381,000 (2003-restated: HK\$466,508,000) in the consolidated balance sheet.

**Consolidated Cash Flow Statement**

Year ended 30 June 2004

	<i>Notes</i>	<b>2004</b> <i>HK\$'000</i>	<b>2003</b> <i>HK\$'000</i>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit before tax		342,418	116,348
Adjustments for:			
Finance costs	7	21,716	23,024
Share of losses of jointly-controlled entities		1,154	788
Interest income	5	(1,287)	(635)
Depreciation	6	199,510	213,265
Amortisation of intangible assets	6	1,199	899
Loss on disposal of fixed assets	6	1,480	990
Loss/(gain) on deemed disposal of interests in subsidiaries	6	<u>(818)</u>	<u>364</u>
Operating profit before working capital changes		565,372	355,043
Increase in inventories		(148,017)	(20,796)
Increase in trade receivables		(228,622)	(110,356)
Decrease/(increase) in prepayments, deposits and other receivables		6,096	(40,404)
Increase in trade and bills payables		376,751	145,620
Increase/(decrease) in other payables and accruals		<u>138,156</u>	<u>(3,519)</u>
Cash generated from operations		709,736	325,588
Interest received	5	1,287	635
Hong Kong profits tax paid		(1,200)	(11,696)
Mainland China taxes paid		(17,395)	(7,226)
Overseas taxes paid		<u>(474)</u>	<u>(558)</u>
Net cash inflow from operating activities		<u>691,954</u>	<u>306,743</u>

**Consolidated Cash Flow Statement**

Year ended 30 June 2004

	<i>Notes</i>	<b>2004</b> <i>HK\$'000</i>	<b>2003</b> <i>HK\$'000</i>
Net Cash inflow from operating activities		691,954	306,743
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchases of fixed assets	13	(731,116)	(195,456)
Purchases of intangible assets		—	(2,973)
Proceeds from disposal of fixed assets		693	344
Capital injection in a jointly-controlled entity		(980)	(515)
Advance to a jointly-controlled entity		(60)	(102)
Net cash outflow from investing activities		<u>(731,463)</u>	<u>(198,702)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Issue of shares on exercise of share options	23	21,704	16,881
Share issue expenses	23	(34)	—
Dividends paid		(37,125)	(35,253)
Dividends paid to minority shareholders		(101,893)	(102,067)
New bank loans		559,099	234,230
Repayment of bank loans		(346,720)	(178,754)
Repayment to minority shareholders		(31,002)	(297)
Capital contributions from minority shareholders of subsidiaries		8,978	898
Interest paid		(21,432)	(22,927)
Net cash inflow/(outflow) from financing activities		<u>51,575</u>	<u>(87,289)</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>		12,066	20,752
Cash and cash equivalents at beginning of year		125,120	104,968
Effect of foreign exchange rate changes, net		(1,326)	(600)
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>		<u>135,860</u>	<u>125,120</u>
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>			
Cash and bank balances	19	250,853	164,147
Time deposits	19	40,716	39,905
Bank overdrafts	21	(155,709)	(78,932)
		<u>135,860</u>	<u>125,120</u>



## Balance Sheet

30 June 2004

	<i>Notes</i>	<b>2004</b> <i>HK\$'000</i>	<b>2003</b> <i>HK\$'000</i>
<b>NON-CURRENT ASSETS</b>			
Interests in subsidiaries	15	708,137	635,720
<b>CURRENT ASSETS</b>			
Prepayments, deposits and other receivables		1,674	1,599
Cash and cash equivalents	19	<u>12,402</u>	<u>1,562</u>
		14,076	3,161
<b>CURRENT LIABILITIES</b>			
Other payables and accruals		<u>1,891</u>	<u>1,815</u>
<b>NET CURRENT ASSETS</b>			
		<u>12,185</u>	<u>1,346</u>
		<u>720,322</u>	<u>637,066</u>
<b>CAPITAL AND RESERVES</b>			
Issued capital	23	121,746	119,361
Reserves	25(b)	330,349	260,793
Contributed surplus	26(b)	239,008	239,008
Proposed final dividend	11	<u>29,219</u>	<u>17,904</u>
		<u>720,322</u>	<u>637,066</u>

**Notes to Financial Statements**

30 June 2004

**1. CORPORATE INFORMATION**

The Company was incorporated in Bermuda on 21 April 1989 as Elec & Eltek (Bermuda) Company Limited as an exempt company with limited liability. Its registered office is located at Canon's Court, 22 Victoria Street, Hamilton HM12, Bermuda. On 22 December 1992, the name of the Company was changed to Elec & Eltek International Holdings Limited.

The principal activities of the subsidiaries are the manufacture and sale of electronic components, including double-sided and multi-layer printed circuit boards, liquid crystal displays and magnetic products. The provision of information technology consultancy and software development services was scaled down to a minimal level during the year. Except for the foregoing, there were no significant changes in the nature of the Group's principal activities during the year.

**2. IMPACT OF A REVISED STATEMENT OF STANDARD ACCOUNTING PRACTICE ("SSAP")**

SSAP 12 (Revised) "Income taxes" is effective for the first time for the current year's financial statements. It prescribes the accounting for income taxes payable or recoverable, arising from the taxable profit or loss for the current period (current tax); and income taxes payable or recoverable in future periods, principally arising from taxable and deductible temporary differences and the carryforward of unused tax losses (deferred tax).

The principal impact of the revision of this SSAP on these financial statements is described below:

Measurement and recognition:

- deferred tax assets and liabilities relating to the differences between capital allowances for tax purposes and depreciation for financial reporting purposes and other taxable and deductible temporary differences are generally fully provided for, whereas previously the deferred tax was recognised for timing differences only to the extent that it was probable that the deferred tax asset or liability would crystallise in the foreseeable future;
- a deferred tax liability has been recognised relating to the fair value adjustments arising from the acquisition of subsidiaries; and
- a deferred tax asset has been recognised for tax losses arising in the current/prior years to the extent that it is probable that there will be sufficient future taxable profits against which such losses can be utilised.

Disclosures:

- the related note disclosures are now more extensive than previously required. These disclosures are presented in notes 9 and 22 to the financial statements and include a reconciliation between the accounting profit and the tax expense for the year.

Further details of these changes and the prior year adjustments arising from them are included in the accounting policy for deferred tax in notes 3 and 22 to the financial statements.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES****(a) Basis of preparation**

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****(b) Basis of consolidation**

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 30 June 2004. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the results and net assets of the Company's subsidiaries.

**(c) Subsidiaries**

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

**(d) Joint venture companies**

A joint venture company is a company set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture company operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture company's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture company is treated as:

- (i) a subsidiary, if the Company has unilateral control, directly or indirectly, over the joint venture company;
- (ii) a jointly-controlled entity, if the Company does not have unilateral control, but has joint control, directly or indirectly, over the joint venture company;
- (iii) an associate, if the Company does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture company's registered capital and is in a position to exercise significant influence over the joint venture company; or
- (iv) a long term investment, if the Company holds, directly or indirectly, less than 20% of the joint venture company's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture company.

**(e) Jointly-controlled entities**

A jointly-controlled entity is a joint venture company which is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's share of the post-acquisition results and reserves of jointly-controlled entities is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in jointly-controlled entities are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****(f) Goodwill**

Goodwill arising on the acquisition of subsidiaries represents the excess of the cost of the acquisition over the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life.

Prior to the adoption of SSAP 30 "Business combinations" as at 1 July 2001, goodwill arising on acquisitions was eliminated against consolidated reserves in the year of acquisition. On the adoption of SSAP 30, the Group applied the transitional provision of the SSAP that permitted such goodwill to remain eliminated against consolidated reserves. Goodwill on acquisitions subsequent to the adoption of the SSAP is treated according to the SSAP 30 goodwill accounting policy above.

On disposal of subsidiaries, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant reserves, as appropriate. Any attributable goodwill previously eliminated against consolidated reserves at the time of acquisition is written back and included in the calculation of the gain or loss on disposal.

The carrying amount of goodwill, including goodwill remaining eliminated against consolidated reserves, is reviewed annually and written down for impairment when it is considered necessary. A previously recognised impairment loss for goodwill is not reversed unless the impairment loss was caused by a specific external event of an exceptional nature that was not expected to recur, and subsequent external events have occurred which have reversed the effect of that event.

**(g) Impairment of assets**

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises.

**(h) Fixed assets and depreciation**

Fixed assets, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can clearly be demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the asset, the expenditure is capitalised as an additional cost of that asset.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

## (h) Fixed assets and depreciation (continued)

Depreciation is calculated on the straight-line basis to write off the cost of each asset over its estimated useful economic life. The principal annual rates used for this purpose are as follows:

Freehold buildings	5.0%
Furniture and office equipment	20.0%
Motor vehicles	14.3%-20.0%

No depreciation is provided on freehold land.

Leasehold land and buildings situated in Hong Kong are amortised and depreciated, respectively, at the rate of 2% per annum or on the straight-line basis over the unexpired lease terms, whichever is the shorter. Leasehold land and buildings situated in Mainland China are depreciated over the lease terms.

Improvements to leasehold properties are depreciated on the straight-line basis over ten years or the unexpired lease term, whichever is the shorter.

From 1 July 2002 to 30 June 2003, the Group's plant and machinery was depreciated using the unit-of-production method. The unit-of-production method determines the depreciation of items of plant and machinery based on their actual utilisation. Utilisation is measured by comparing actual output against the expected total output as determined by the assets' optimum capacity over their estimated useful lives of either 5 or 7 years. Full utilisation is assumed unless an asset's utilisation falls below its optimal production capacity.

With effect from 1 July 2003, the Group reverted to the time-based straight-line method to depreciate its plant and machinery. In addition, the economic useful lives of the plant and machinery of the Group's printed circuit board business were reviewed and extended from 5 or 7 years to 10 years. The extended useful lives have been confirmed by a recently concluded technical study, conducted by professional independent appraisers, and is in line with industry practices. The adoption of the straight-line method of depreciation over 10 years will free the Group from the complex methodology inherent in the unit-of-production method mentioned above. The changes in depreciation method and useful lives have been applied prospectively, commencing with the current year. The change in depreciation method and the useful lives resulted in a lower depreciation charge by approximately HK\$57,748,000 for the current financial year, which is attributable solely to the printed circuit board manufacturing subsidiaries. The change in depreciation method for plant and machinery has had no significant impact on the depreciation charge for other Group companies.

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of fixed assets when completed and ready for use.

## (i) Intangible assets

Intangible assets comprise technical know-how acquired from third parties and are stated at their purchase cost less accumulated amortisation and any impairment losses.

Amortisation is calculated on the straight-line basis to write off the cost of each intangible asset over its estimated useful life of five or seven years.

## (j) Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rentals payable under operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****(k) Inventories**

Inventories comprise raw materials, work in progress and finished goods relating to the manufacture of printed circuit boards, liquid crystal displays, magnetic and other electronic products and are stated at the lower of cost and net realisable value after making due allowance for any obsolete or slow-moving items. Cost in respect of printed circuit boards is determined on the first-in, first-out basis and for all inventories other than printed circuit boards is determined on the weighted average basis. In the case of finished goods and work in progress, cost comprises direct materials, direct labour and an appropriate portion of manufacturing overheads. Net realisable value is based on estimated selling prices less any further costs expected to be incurred to completion and disposal.

**(l) Income tax**

Income tax comprises current and deferred tax. Income tax is recognised in the profit and loss account or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences:

- except where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profits will be available against which the deductible temporary differences, and the carryforward of unused tax assets and unused tax losses can be utilised:

- except where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profits will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are recognised to the extent that it is probable that sufficient taxable profits will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

**(m) Foreign currencies**

Foreign currency transactions are recorded at the applicable exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable exchange rates ruling at that date. Exchange differences are dealt with in the profit and loss account.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****(m) Foreign currencies (continued)**

On consolidation, the financial statements of overseas subsidiaries and jointly-controlled entities are translated into Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiaries and jointly-controlled entities are translated into Hong Kong dollars at the weighted average exchange rates for the year, and their balance sheets are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. The resulting translation differences are included in the exchange reserve.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

**(n) Employee benefits***Paid leave carried forward*

The Group provides paid annual leave to its employees under their employment contracts on a yearly basis. Under certain circumstances, such leave which remains untaken as at the balance sheet date is permitted to be carried forward and utilised by the respective employees in the following year. An accrual is made at the balance sheet date for the expected future cost of such paid leave earned during the year by the employees and carried forward.

*Employment Ordinance long service payments*

Certain of the Group's employees have completed the required number of years of service to the Group in order to be eligible for long service payments under the Hong Kong Employment Ordinance in the event of the termination of their employment. The Group is liable to make such payments in the event that such a termination of employment meets the circumstances specified in the Employment Ordinance.

A provision is recognised in respect of the probable future long service payments expected to be made. The provision is based on the best estimate of the probable future payments which have been earned by the employees from their service to the Group to the balance sheet date. In the prior year, a contingent liability was disclosed in respect of possible future long service payment to employees under the Employment Ordinance. A provision was not recognised in respect of such possible payments and it was not then considered probable that the situation would result in a material future outflow of resources from the Group.

*Pension schemes*

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the Scheme. Contributions are made based on a percentage of the employees' basic salaries or of the relevant income, subject to the statutory maximum amount, and are charged to the profit and loss account as they become payable in accordance with the rules of the Scheme. The assets of the Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the Scheme, except for the Group's employer voluntary contributions, which are refunded to the Group when an employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the Scheme.

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute 8% to 20% of their payroll costs to the central pension scheme. Subsidiaries in Singapore and Thailand are required to contribute 16% and 5% of their payroll costs to their defined contribution retirement benefits schemes, respectively.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****(n) Employee benefits (continued)***Share option scheme*

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The financial impact of share options granted under the share option scheme is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

**(o) Revenue recognition**

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (i) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (ii) information technology consultancy and software development services fee income, in the period in which the services are rendered;
- (iii) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable; and
- (iv) dividend income, when the shareholders' right to receive payment has been established.

**(p) Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. Where funds have been borrowed generally, and used for the purpose of obtaining qualifying assets, a capitalisation rate ranging between 2% and 3% has been applied during the current year to the expenditure on the individual assets.

**(q) Dividends**

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the capital and reserves section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

**(r) Related parties**

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.



**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****(s) Cash and cash equivalents**

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheet, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

**4. SEGMENT INFORMATION**

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments. Summary details of the business segments are as follows:

- (a) the printed circuit board ("PCB") segment engages in the manufacture and sale of double-sided and multi-layer PCBs mainly for use in the communication/networking sector including mobile products, computers and peripheral sectors, the automotive sector and other electronic products;
- (b) the liquid crystal displays ("LCD") segment engages in the manufacture and sale of various LCDs and LCD modules and accessories, mainly for use in telecommunication, automotive, multi-media and electrical appliances;
- (c) the magnetic products ("Magnetic") segment engages in the manufacture and sale of magnetic products, including transformers, converters, power products and noise filters used in telecommunication, broadband access and local area networks; and
- (d) the corporate and other segment includes principally unallocated general corporate income and expense items.

The information technology ("IT") segment has been scaled down to a minimal level during the year but contributed insignificant revenue, profit, assets, liabilities and expenditures to the Group in both the current year and prior year. The financial information related to the IT segment has been combined with "Corporate and Other" segment for both the current year and prior year for the purposes of providing segment information, in view of its size.

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

Inter-segment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

## 4. SEGMENT INFORMATION (continued)

## (a) Business segments

The following tables present revenue, profit and certain assets, liability and expenditure information for the Group's business segments.

Year ended 30 June 2004

Group	PCB HK\$'000	LCD HK\$'000	Magnetic HK\$'000	Corporate and Other HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
Segment revenue:						
Sales to external customers	2,750,278	331,846	131,913	30	—	3,214,067
Other revenue	—	—	—	3,911	(3,911)	—
Total	<u>2,750,278</u>	<u>331,846</u>	<u>131,913</u>	<u>3,941</u>	<u>(3,911)</u>	<u>3,214,067</u>
Segment results	<u>367,180</u>	<u>21,026</u>	<u>10,813</u>	<u>(35,696)</u>	<u>—</u>	363,323
Interest income and unallocated gains						1,965
Unallocated expenses						—
Profit from operating activities						365,288
Finance costs						(21,716)
Share of losses of jointly-controlled entities				(1,154)		(1,154)
Profit before tax						342,418
Tax						(26,291)
Profit before minority interests						316,127
Minority interests						(171,111)
Net profit from ordinary activities attributable to shareholders						<u>145,016</u>

## 4. SEGMENT INFORMATION (continued)

## (a) Business segments (continued)

Year ended 30 June 2004

Group	PCB HK\$'000	LCD HK\$'000	Magnetic HK\$'000	Corporate and Other HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
Segment assets/(liabilities)	3,604,101	241,479	72,642	(84,048)	—	3,834,174
Interests in jointly-controlled entities	—	—	—	9,326	—	9,326
Bank overdrafts included in segment assets	—	20,318	—	135,391	—	155,709
Unallocated assets	—	—	—	—	—	18,139
Total assets						<u>4,017,348</u>
Segment liabilities	972,103	66,229	28,971	16,631	—	1,083,934
Bank overdrafts included in segment assets	—	20,318	—	135,391	—	155,709
Unallocated liabilities	—	—	—	—	—	985,353
Total liabilities						<u>2,224,996</u>
Other segment information:						
Capital expenditure	714,839	10,006	5,108	1,163	—	731,116
Depreciation and amortisation	176,464	19,989	3,288	968	—	200,709
Provision for obsolete inventories	631	1,310	699	—	—	2,640
Provision for doubtful debts	5,289	3,983	—	—	—	9,272
Loss/(gain) on disposal of fixed assets	1,676	(258)	62	—	—	1,480
Gain on deemed disposal of interests in subsidiaries	(818)	—	—	—	—	(818)

## 4. SEGMENT INFORMATION (continued)

## (a) Business segments (continued)

Year ended 30 June 2003

Group	PCB HK\$'000	LCD HK\$'000	Magnetic HK\$'000	Corporate and Other HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000 (Restated)
Segment revenue:						
Sales to external customers	1,910,990	239,508	106,861	354	—	2,257,713
Other revenue	—	—	—	3,833	(3,833)	—
Total	<u>1,910,990</u>	<u>239,508</u>	<u>106,861</u>	<u>4,187</u>	<u>(3,833)</u>	<u>2,257,713</u>
Segment results	<u>142,743</u>	<u>25,497</u>	<u>11,181</u>	<u>(39,532)</u>	<u>—</u>	139,889
Interest income						635
Unallocated expenses						<u>(364)</u>
Profit from operating activities						140,160
Finance costs						(23,024)
Share of losses of jointly-controlled entities				(788)		<u>(788)</u>
Profit before tax						116,348
Tax						<u>(10,623)</u>
Profit before minority interests						105,725
Minority interests						<u>(68,240)</u>
Net profit from ordinary activities attributable to shareholders						<u>37,485</u>

## 4. SEGMENT INFORMATION (continued)

## (a) Business segments (continued)

Year ended 30 June 2003

Group	PCB HK\$'000	LCD HK\$'000	Magnetic HK\$'000	Corporate and Other HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000 (Restated)
Segment assets/(liabilities)	2,684,579	223,757	53,471	(41,736)	—	2,920,071
Interests in jointly-controlled entities	—	—	—	9,420	—	9,420
Bank overdrafts included in segment assets	259	7,433	—	71,240	—	78,932
Unallocated assets						15,350
Total assets						<u>3,023,773</u>
Segment liabilities	486,993	60,667	17,759	15,349	—	580,768
Bank overdrafts included in segment assets	259	7,433	—	71,240	—	78,932
Unallocated liabilities						754,235
Total liabilities						<u>1,413,935</u>
Other segment information:						
Capital expenditure	166,101	23,375	4,312	1,668	—	195,456
Depreciation and amortisation	192,324	17,269	3,887	684	—	214,164
Provision/(write-back of provision) for obsolete inventories	(560)	801	1,437	—	—	1,678
Provision/(write-back of provision) for doubtful debts	11,918	(178)	(617)	—	—	11,123
Loss on disposal of fixed assets	988	—	1	1	—	990
Loss on deemed disposal of interests in subsidiaries	364	—	—	—	—	364

## 4. SEGMENT INFORMATION (continued)

## (b) Geographical segments

The following table presents revenue and certain assets and expenditure information for the Group's geographical segments.

Year ended 30 June 2004

Group	Hong Kong	Singapore	Mainland China	Malaysia	Thailand	North & Central America	Europe	Other countries	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:									
Sales to external customers	589,302	132,852	864,420	412,042	90,537	627,037	244,854	253,023	3,214,067
Other geographical information:									
Segment assets	938,486	8,765	2,450,498	18	443,508	2,225	—	—	3,843,500
Bank overdrafts included in segment assets	155,709	—	—	—	—	—	—	—	155,709
Unallocated assets	—	—	—	—	—	—	—	—	18,139
									4,017,348
Capital expenditure	41,221	153	597,826	136	91,527	253	—	—	731,116

Year ended 30 June 2003

Group	Hong Kong	Singapore	Mainland China	Malaysia	Thailand	North & Central America	Europe	Other countries	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:									
Sales to external customers	310,364	156,059	511,607	381,777	70,267	162,624	483,680	181,335	2,257,713
Other geographical information:									
Segment assets	777,971	3,433	1,805,587	506	338,075	3,919	—	—	2,929,491
Bank overdrafts included in segment assets	78,673	—	—	—	259	—	—	—	78,932
Unallocated assets	—	—	—	—	—	—	—	—	15,350
									3,023,773
Capital expenditure	4,560	104	126,266	—	64,483	43	—	—	195,456

## 5. TURNOVER AND REVENUE

Turnover represents the net invoiced value of sales during the year, after allowances for returns and trade discounts, and services fee income, but excludes intra-group transactions. An analysis of the Group's revenue is as follows:

	<b>Group</b>	
	<b>2004</b>	<b>2003</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover:		
Sale of goods	3,214,037	2,257,359
Service fee income	<u>30</u>	<u>354</u>
	<u>3,214,067</u>	<u>2,257,713</u>
Other revenue:		
Interest income	<u>1,287</u>	<u>635</u>
	<u><u>3,215,354</u></u>	<u><u>2,258,348</u></u>

## 6. PROFIT FROM OPERATING ACTIVITIES

The Group's profit from operating activities is arrived at after charging/(crediting):

		<b>Group</b>	
		<b>2004</b>	<b>2003</b>
	Notes	<i>HK\$'000</i>	<i>HK\$'000</i>
Depreciation	13	199,510	213,265
Amortisation of intangible assets*	14	1,199	899
Minimum lease payments under operating leases in respect of land and buildings		9,634	10,463
Auditors' remuneration		3,289	3,004
Staff costs (including directors' remuneration, note 8):			
Wages and salaries		462,203	354,875
Pension scheme contributions		18,849	16,937
Less: Forfeited contributions		<u>(220)</u>	<u>(328)</u>
Net pension contributions		<u>18,629</u>	<u>16,609</u>
Total staff costs		<u>480,832</u>	<u>371,484</u>
Provision for obsolete inventories		2,640	1,678
Provision for doubtful debts		9,272	11,123
Loss on disposal of fixed assets		1,480	990
Loss/(gain) on deemed disposal of interests in subsidiaries		(818)	364
Exchange gains, net		<u>(342)</u>	<u>(1,117)</u>

\* The amortisation of intangible assets for the year is included in "Cost of sales" on the face of the consolidated profit and loss account.

## 7. FINANCE COSTS

	<b>Group</b>	
	<b>2004</b>	<b>2003</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest on bank loans, overdrafts and other borrowings wholly repayable within five years	24,800	23,024
Less: Interest capitalised	<u>(3,084)</u>	<u>—</u>
	<u>21,716</u>	<u>23,024</u>

## 8. DIRECTORS' REMUNERATION AND REMUNERATION OF THE FIVE HIGHEST PAID EMPLOYEES

Directors' remuneration for the year disclosed pursuant to the Listing Rules and Section 161 of the Companies Ordinance is as follows:

	<b>Group</b>	
	<b>2004</b>	<b>2003</b>
	<i>HK\$'000</i>	<i>HK\$'000</i> <i>(Restated)</i>
Fees:		
Executive and non-executive directors	3,123	760
Independent non-executive directors	<u>1,932</u>	<u>895</u>
	<u>5,055</u>	<u>1,655</u>
Other emoluments:		
Salaries, allowances and benefits in kind	26,167	14,176
Performance related bonuses	206	305
Pension scheme contributions	<u>467</u>	<u>564</u>
	<u>26,840</u>	<u>15,045</u>
Total directors' remuneration	<u>31,895</u>	<u>16,700</u>

Included in benefits in kind are gains of HK\$10,050,000 (2003: HK\$2,450,000) arising from the exercise of share options by certain directors during the year. The amount comprises gains of HK\$4,200,000 (2003: Nil) earned by the independent non-executive directors and is not required to be reflected in the consolidated profit and loss account. Directors' remuneration for the year ended 30 June 2003 has been restated to conform with the current year's presentation.

Save as disclosed above, there was no other remuneration payable to the independent non-executive directors during the year (2003: Nil).



**8. DIRECTORS' REMUNERATION AND REMUNERATION OF THE FIVE HIGHEST PAID EMPLOYEES**  
(continued)

The number of directors whose remuneration fell within the following bands is as follows:

	Number of directors	
	2004	2003
Nil — HK\$1,000,000	1	3
HK\$1,500,001 — HK\$2,000,000	1	3
HK\$2,500,001 — HK\$3,000,000	1	3
HK\$3,000,001 — HK\$3,500,000	2	—
HK\$3,500,001 — HK\$4,000,000	1	—
HK\$4,000,001 — HK\$4,500,000	1	—
HK\$5,500,001 — HK\$6,000,000	1	—
HK\$6,500,001 — HK\$7,000,000	1	—
	9	9
	9	9

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

The five highest paid employees during the year included five (2003: five) directors, details of whose remuneration are set out above.

**9. TAX**

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 17.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable in other jurisdictions have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	Group	
	2004	2003
	HK\$'000	HK\$'000 (Restated)
Current year's provision for tax:		
The People's Republic of China:		
Hong Kong	1,660	3,307
Mainland China	23,628	5,465
Overseas	522	430
Deferred tax — (note 22)	481	1,421
Total tax charge for the year	26,291	10,623

## 9. TAX (continued)

A reconciliation of the tax expense applicable to profit before tax using the statutory rates for the countries in which the Company and its subsidiaries are domiciled to the tax expense at the effective tax rates are as follows:

	2004		2003	
	HK\$'000	%	HK\$'000	%
Profit before tax	<u>342,418</u>		<u>116,348</u>	
Tax at statutory rate	59,923	17.5	20,361	17.5
Adjustment in respect of current tax of previous periods	—	—	2,040	1.8
Lower tax rate for other jurisdictions and as a result of tax holidays	(11,257)	(3.3)	(8,866)	(7.6)
Income not subject to tax	(2,915)	(0.8)	(3,649)	(3.1)
Expenses not deductible for tax	13,333	3.9	15,510	13.3
Tax losses utilised from previous periods	(41,120)	(12.0)	(30,645)	(26.4)
Tax loss carried forward to next year	<u>8,327</u>	<u>2.4</u>	<u>15,872</u>	<u>13.6</u>
Tax charge at the Group's effective rate	<u>26,291</u>	<u>7.7</u>	<u>10,623</u>	<u>9.1</u>

Certain subsidiaries of the Group are entitled to tax holidays in Guangdong Province, Mainland China.

## 10. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net profit from ordinary activities attributable to shareholders for the year ended 30 June 2004 dealt with in the financial statements of the Company was HK\$98,711,000 (2003: HK\$50,216,000).

## 11. DIVIDENDS

	Group	
	2004 HK\$'000	2003 HK\$'000
Interim dividend of 1.6 cents (2003: 1.5 cents) per ordinary share	19,181	17,627
Adjustments to dividends payable in prior years as a result of options exercised during the year	40	—
Proposed final dividend of 2.4 cents (2003: 1.5 cents) per ordinary share	<u>29,219</u>	<u>17,904</u>
	<u>48,440</u>	<u>35,531</u>

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

## 12. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit attributable to shareholders for the year of HK\$145,016,000 (2003-restated: HK\$37,485,000) and the weighted average of 1,198,155,714 (2003: 1,175,939,970) ordinary shares in issue during the year.

The calculation of diluted earnings per share is based on the adjusted net profit attributable to shareholders for the year of HK\$145,016,000 (2003-restated: HK\$37,479,000) and the weighted average of 1,207,457,948 (2003: 1,177,849,014) ordinary shares outstanding during the year, adjusted for the effects of all dilutive potential shares.

In the prior year, the adjusted net profit attributable to shareholders was calculated based on the restated net profit attributable to shareholders for the prior year of HK\$37,485,000 less the dilution in the results of a subsidiary attributable to the Group by HK\$6,000 arising from the deemed exercise of all of the outstanding share options of that subsidiary.

The weighted average number of ordinary shares used in the calculation of diluted earnings per share is calculated based on the weighted average of 1,198,155,714 (2003: 1,175,939,970) ordinary shares in issue during the year plus the weighted average of 9,302,234 (2003: 1,909,044) ordinary shares deemed to be issued at no consideration as if all of the Company's outstanding share options have been exercised.

## 13. FIXED ASSETS

	Group					30 June 2004 HK\$'000
	1 July 2003 HK\$'000	Currency realignment HK\$'000	Additions HK\$'000	Disposals HK\$'000	Reclassifications HK\$'000	
Cost:						
Land and buildings	637,233	4,742	41,627	—	64,456	748,058
Improvements to leasehold properties	160,464	2,041	15,074	—	7,766	185,345
Construction in progress	84,753	2,452	100,041	(363)	(123,330)	63,553
Plant and machinery	2,000,142	8,268	555,903	(26,161)	45,665	2,583,817
Furniture and office equipment	226,390	352	14,600	(1,696)	5,443	245,089
Motor vehicles	20,100	44	3,871	(1,465)	—	22,550
	<u>3,129,082</u>	<u>17,899</u>	<u>731,116</u>	<u>(29,685)</u>	<u>—</u>	<u>3,848,412</u>
Accumulated depreciation and impairment:						
Land and buildings	129,316	2,546	17,849	—	—	149,711
Improvements to leasehold properties	94,568	371	13,196	—	—	108,135
Plant and machinery	1,048,708	2,771	150,351	(24,935)	—	1,176,895
Furniture and office equipment	138,614	424	16,076	(1,202)	—	153,912
Motor vehicles	14,653	15	2,038	(1,375)	—	15,331
	<u>1,425,859</u>	<u>6,127</u>	<u>199,510</u>	<u>(27,512)</u>	<u>—</u>	<u>1,603,984</u>
Net book value	<u>1,703,223</u>					<u>2,244,428</u>

## 13. FIXED ASSETS (continued)

The land and buildings included above are stated at cost and are held as follows:

	People's Republic of China			Total HK\$'000
	Hong Kong HK\$'000	Mainland HK\$'000	Overseas HK\$'000	
Freehold	—	—	193,212	193,212
Medium term leasehold	<u>103,556</u>	<u>451,290</u>	<u>—</u>	<u>554,846</u>
	<u>103,556</u>	<u>451,290</u>	<u>193,212</u>	<u>748,058</u>

## 14. INTANGIBLE ASSETS

	Group HK\$'000
Cost:	
At beginning of year	6,791
Currency realignment	<u>1</u>
Balance at end of year	<u>6,792</u>
Accumulated amortisation:	
At beginning of year	2,751
Provided during the year	<u>1,199</u>
Balance at end of year	<u>3,950</u>
Net book value:	
At 30 June 2004	<u>2,842</u>
At 30 June 2003	<u>4,040</u>

## 15. INTERESTS IN SUBSIDIARIES

	Company	
	2004 HK\$'000	2003 HK\$'000
Shares at cost:		
Listed in Singapore	646,393	646,393
Unlisted	<u>287,232</u>	<u>287,232</u>
	933,625	933,625
Due from subsidiaries	422,511	428,645
Due to subsidiaries	<u>(165,011)</u>	<u>(241,127)</u>
	1,191,125	1,121,143
Provision for impairment	<u>(482,988)</u>	<u>(485,423)</u>
	<u>708,137</u>	<u>635,720</u>
Market value of listed shares at balance sheet date	<u>1,651,348</u>	<u>1,120,371</u>

All balances with subsidiaries are unsecured, interest-free and repayable on demand.

Particulars of the principal subsidiaries are as follows:

Name of company	Place of incorporation/ registration and operations	Nominal value of issued share capital/ paid-up capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Elec & Eltek Display Technology Limited	British Virgin Islands/ Hong Kong	US\$100,000	—	100	Sale of liquid crystal displays ("LCDs")
Elec & Eltek Display Technology (Guangzhou) Company Limited	Mainland China#	US\$14,700,000	—	98	Manufacture and sale of LCDs
E & E Magnetic Products Limited	British Virgin Islands/ Hong Kong	US\$100,000	—	100	Manufacture and sale of magnetic products
Avatex (Guangzhou) Communication Company Limited	Mainland China@	US\$5,400,000	—	98	Manufacture of magnetic products
Elec & Eltek Corporate Services Limited	Hong Kong	HK\$2	100	—	Provision of corporate services

## 15. INTERESTS IN SUBSIDIARIES (continued)

Name of company	Place of incorporation/ registration and operations	Nominal value of issued share capital/ paid-up capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Elec & Eltek Computers Limited	Hong Kong	HK\$15,000,000	100	—	Property holding and provision of treasury services
Elec & Eltek Treasury Company Limited	British Virgin Islands/ Hong Kong	HK\$10,000	—	100	Provision of treasury services
Elec & Eltek International Company Limited (“EEICL”)	Singapore	S\$116,989,918	52	—	Investment holding
Elec & Eltek Company Limited	Hong Kong	HK\$98,123,732	—	52	Trading of printed circuit boards (“PCBs”)
Elec & Eltek Multilayer PCB Limited	Hong Kong	HK\$5,000,000	—	52	Manufacture and distribution of PCBs
Kai Ping Elec & Eltek Company Limited	Mainland China#	US\$16,650,000	—	47*	Manufacture and distribution of PCBs
Kaiping Elec & Eltek No.2 Company Limited	Mainland China#	US\$15,250,000	—	47*	Manufacture and distribution of PCBs
Kaiping Elec & Eltek No.3 Company Limited	Mainland China#	US\$30,550,000	—	47*	Manufacture and distribution of PCBs
Kaiping Elec & Eltek No.5 Company Limited	Mainland China#	US\$5,800,010	—	47*	Manufacture and distribution of PCBs
Elec & Eltek (Guangzhou) Electronic Company Limited	Mainland China@	US\$51,200,000	—	51	Manufacture and distribution of PCBs
Elec & Eltek (Guangzhou) Technology Company Limited	Mainland China@	US\$6,000,000	—	51	Research and development, manufacture and distribution of PCBs
Guangzhou Elec & Eltek Microvia Technology Limited	Mainland China#	US\$16,800,000	—	51	Manufacture and distribution of PCBs

## 15. INTERESTS IN SUBSIDIARIES (continued)

Name of company	Place of incorporation/ registration and operations	Nominal value of issued share capital/ paid-up capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Guangzhou Elec & Eltek High Density Interconnect Technology No. 1 Company Limited	Mainland China@	US\$17,149,960	—	51	Manufacture and distribution of PCBs
Nanjing Elec & Eltek Electronic Co., Ltd.	Mainland China#	US\$8,752,000	—	38*	Manufacture and distribution of PCBs
Elec & Eltek (Thailand) Limited	Thailand	Baht780,000,000	—	52	Manufacture and distribution of PCBs
Pacific Insulating Material (Thailand) Limited	Thailand	Baht650,000,000	—	52	Manufacture and distribution of PCB raw materials
Shenzhen Pacific Insulating Material Co., Ltd.	Mainland China#	RMB67,491,458	—	48*	Manufacture and distribution of PCB raw materials
PIC Corporate Services Limited	Hong Kong	HK\$10,000	—	52	Trading of copper clad laminate
Elec & Eltek International Limited	Hong Kong	HK\$150,000	—	52	Provision of marketing and corporate services
Elec & Eltek Technology Research & Marketing Pte. Ltd.	Singapore	S\$2	—	52	Technology research and marketing

\* These companies are subsidiaries of EEICL and, accordingly, are accounted for as subsidiaries of the Group by virtue of control over those entities.

# Registered as an equity joint venture under the laws of the People's Republic of China.

@ Registered as a co-operative joint venture under the laws of the People's Republic of China.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

## 16. INTERESTS IN JOINTLY-CONTROLLED ENTITIES

	Group	
	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Share of net assets	9,164	9,318
Due from a jointly-controlled entity	<u>162</u>	<u>102</u>
	<u>9,326</u>	<u>9,420</u>

The amount due from a jointly-controlled entity is unsecured, interest-free and has no fixed terms of repayment.

Details of the indirectly held jointly-controlled entities are as follows:

Name of company	Business structure	Place of registration and operations	Percentage of			Principal activities
			ownership interest	voting power	profit sharing	
Beijing Yilaida Information Technology Company Limited ("Yilaida")*	Equity joint venture	Mainland China	57	57#	57	Promotion of information technology
Guangzhou Express Logistics Limited*	Equity joint venture	Mainland China	49	49	49	Provision for logistics services

\* Not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.

# Under the joint venture agreement of Yilaida, the joint venture partners have joint control over the entity's daily operating and financial decisions.

## 17. INVENTORIES

	Group	
	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Raw materials	218,100	146,624
Work in progress	131,786	78,596
Finished goods	<u>58,955</u>	<u>37,223</u>
	<u>408,841</u>	<u>262,443</u>

The amount of inventories carried at net realisable value included in the above was HK\$15,639,000 (2003: HK\$14,833,000) as at the balance sheet date.



## 18. TRADE RECEIVABLES

An aged analysis of trade receivables at the balance sheet date, based on the invoice due date, and net of provisions, is as follows:

	<b>Group</b>	
	<b>2004</b>	<b>2003</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within credit period	658,886	526,140
Overdue 1 — 30 days	152,854	91,866
Overdue 31 — 60 days	47,400	40,323
Overdue 61 — 90 days	22,640	16,704
Overdue more than 90 days	<u>33,531</u>	<u>16,237</u>
	<u><u>915,311</u></u>	<u><u>691,270</u></u>

The Group operates a credit control policy and allows an average credit period of 30 to 90 days to its trade customers who satisfy credit evaluation. Each customer has a maximum credit limit. To maintain control over its outstanding receivables, the Group has set up credit control departments to minimise credit risk. Overdue balances are regularly reviewed by senior management.

## 19. CASH AND CASH EQUIVALENTS

	<b>Group</b>		<b>Company</b>	
	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Cash and bank balances	250,853	164,147	12,402	1,562
Time deposits	<u>40,716</u>	<u>39,905</u>	<u>—</u>	<u>—</u>
	<u><u>291,569</u></u>	<u><u>204,052</u></u>	<u><u>12,402</u></u>	<u><u>1,562</u></u>

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi (“RMB”) and Baht (“THB”) amounted to HK\$83,372,000 (2003: HK\$49,408,000) and HK\$4,412,000 (2003: HK\$5,516,000), respectively. The RMB and THB are not freely convertible into other currencies. However, under Mainland China’s Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, and Thailand’s foreign exchange regulation, respectively, the Group is permitted to exchange RMB and THB for other currencies through banks authorised to conduct foreign exchange business.

## 20. TRADE AND BILLS PAYABLES

An aged analysis of trade and bills payables at the balance sheet date, based on the invoice date, is as follows:

	<b>Group</b>	
	<b>2004</b>	<b>2003</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Less than 30 days	313,743	191,865
31 — 60 days	176,854	90,653
61 — 90 days	128,922	77,018
Over 90 days	<u>206,792</u>	<u>101,417</u>
	<u>826,311</u>	<u>460,953</u>

## 21. BANKING FACILITIES

	<b>Group</b>	
	<b>2004</b>	<b>2003</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trust receipt and export loans	16,240	7,879
Bank overdrafts	155,709	78,932
Bank loans	<u>914,837</u>	<u>701,838</u>
	<u>1,086,786</u>	<u>788,649</u>

The bank loans, overdrafts and other borrowings are all unsecured and are repayable as follows:

	<b>Group</b>	
	<b>2004</b>	<b>2003</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year:		
Trust receipt loans and export loans	<u>16,240</u>	<u>7,879</u>
Bank overdrafts	155,709	78,932
Bank loans	<u>438,052</u>	<u>383,134</u>
	<u>593,761</u>	<u>462,066</u>
In the second year:		
Bank loans	<u>230,548</u>	<u>213,399</u>
In the third to fifth years, inclusive:		
Bank loans	<u>246,237</u>	<u>105,305</u>
	1,086,786	788,649
Less: Portion classified as current liabilities	<u>(610,001)</u>	<u>(469,945)</u>
Long term portion	<u>476,785</u>	<u>318,704</u>

## 22. DEFERRED TAX

## Group — 2004

## Deferred tax liabilities

	<b>Accelerated tax depreciation</b>
	<i>HK\$'000</i>
At 1 July 2003	
As previously reported	11,442
Prior year adjustment:	
SSAP 12 — restatement of deferred tax	<u>26,835</u>
As restated	<u>38,277</u>
Deferred tax charged to the profit and loss account during the year ( <i>note 9</i> )	3,296
Exchange adjustments	<u>(503)</u>
Deferred tax liabilities at 30 June 2004	<u><u>41,070</u></u>

## Deferred tax assets

	<b>Decelerated tax depreciation</b>	<b>Losses available for offset against future taxable profit</b>	<b>Total</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 July 2003			
As previously reported	—	—	—
Prior year adjustment:			
SSAP 12 — restatement of deferred tax	<u>13,750</u>	<u>—</u>	<u>13,750</u>
As restated	<u>13,750</u>	<u>—</u>	<u>13,750</u>
Deferred tax credited/(charged) to the profit and loss account during the year ( <i>note 9</i> )	(7,575)	10,390	2,815
Exchange adjustments	<u>(195)</u>	<u>94</u>	<u>(101)</u>
Deferred tax assets at 30 June 2004	<u><u>5,980</u></u>	<u><u>10,484</u></u>	<u><u>16,464</u></u>

## 22. DEFERRED TAX (continued)

## Group — 2003

Deferred tax liabilities

	<b>Accelerated tax depreciation</b>
	<i>HK\$'000</i>
At 1 July 2002	
As previously reported	12,498
Prior year adjustment:	
SSAP 12 — restatement of deferred tax	<u>25,652</u>
As restated	<u>38,150</u>
Deferred tax charged to the profit and loss account during the year ( <i>note 9</i> )	125
Exchange adjustments	<u>2</u>
Deferred tax liabilities at 30 June 2003	<u><u>38,277</u></u>

Deferred tax assets

	<b>Decelerated tax depreciation</b>	<b>Losses available for offset against future taxable profit</b>	<b>Total</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 July 2002			
As previously reported	—	—	—
Prior year adjustment:			
SSAP 12 — restatement of deferred tax	<u>15,274</u>	<u>—</u>	<u>15,274</u>
As restated	<u>15,274</u>	<u>—</u>	<u>15,274</u>
Deferred tax charged to the profit and loss account during the year ( <i>note 9</i> )	(1,296)	—	(1,296)
Exchange adjustments	<u>(228)</u>	<u>—</u>	<u>(228)</u>
Deferred tax assets at 30 June 2003	<u><u>13,750</u></u>	<u><u>—</u></u>	<u><u>13,750</u></u>

The Group has tax losses arising in Hong Kong, Mainland China and Thailand of HK\$487,470,000 (2003: HK\$695,559,000) that are available for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time.

At 30 June 2004, there was no significant unrecognised deferred tax liability (2003: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries and jointly-controlled entities as the Group has no liability to additional tax should such amounts be remitted.

**22. DEFERRED TAX (continued)**

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

SSAP 12 (Revised) was adopted during the year, as further explained in note 2 to the financial statements. This change in accounting policy has resulted in an increase in the Group's deferred tax liability as at 30 June 2004 and 2003 by HK\$27,448,000 and HK\$26,835,000, respectively, and the recognition of deferred tax asset as at 30 June 2004 and 2003 of HK\$16,464,000 and HK\$13,750,000, respectively. As a consequence, the consolidated net profits attributable to shareholders for the years ended 30 June 2004 and 2003 have been increased and decreased by HK\$1,088,000 and HK\$1,283,000, respectively, and the consolidated retained profits at 1 July 2003 and 2002 have been reduced by HK\$7,899,000 and HK\$6,616,000, respectively, as further detailed in the consolidated statement of changes in equity.

**23. SHARE CAPITAL****Shares**

	<b>2004</b>	<b>2003</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Authorised:		
2,500,000,000 (2003: 2,500,000,000) ordinary shares of HK\$0.10 each	<u>250,000</u>	<u>250,000</u>
Issued and fully paid:		
1,217,462,408 (2003: 1,193,612,408) ordinary shares of HK\$0.10 each	<u>121,746</u>	<u>119,361</u>

During the year, the subscription rights attaching to 23,850,000 (2003: 18,550,000) share options were exercised at the subscription price of HK\$0.91 per share (note 24(a)), resulting in the issue of 23,850,000 shares of HK\$0.10 each for a total cash consideration, before expenses, of HK\$21,704,000 (2003: HK\$16,881,000).

Movements in the Company's issued ordinary share capital are summarised as follows:

	<b>Number of</b>	<b>Issued share</b>	<b>Share</b>	<b>Total</b>
	<b>shares in issue</b>	<b>capital</b>	<b>premium</b>	<b>account</b>
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 July 2002	1,175,062,408	117,506	36,444	153,950
Share options exercised	<u>18,550,000</u>	<u>1,855</u>	<u>15,026</u>	<u>16,881</u>
At 30 June 2003 and 1 July 2003	1,193,612,408	119,361	51,470	170,831
Share options exercised	<u>23,850,000</u>	<u>2,385</u>	<u>19,319</u>	<u>21,704</u>
	<u>1,217,462,408</u>	<u>121,746</u>	<u>70,789</u>	<u>192,535</u>
Share issue expenses	<u>—</u>	<u>—</u>	<u>(34)</u>	<u>(34)</u>
At 30 June 2004	<u>1,217,462,408</u>	<u>121,746</u>	<u>70,755</u>	<u>192,501</u>

**Share options**

Details of the Company's share option scheme are included in note 24 to the financial statements.

## 24. EMPLOYEES' SHARE OPTION SCHEMES

## (a) Employees' share option scheme of the Company

On 29 October 2001, the Company adopted the existing employees' share option scheme (the "Scheme") under which the directors may, at their discretion, at any time during a period of five years from the date of adoption, offer options to full-time employees, executive directors and non-executive directors of the Company or any of its subsidiaries or associated companies to subscribe for the shares of the Company according to the terms of the Scheme. The Scheme is implemented for the purpose of attracting, retaining and motivating talented employees to strive towards long-term performance targets set by the Company and the Group. The Scheme became effective on 29 October 2001 and, unless otherwise cancelled or amended, will remain in force for five years from that date.

Pursuant to the Scheme, the maximum number of shares upon which options may be granted when aggregated with those granted under any other share option scheme of the Company in issue may not exceed 117,506,240 shares, representing 9.65% of the issued share capital of the Company as at 30 June 2004. The maximum entitlement for any one participant is that the shares issued and issuable upon exercise of options granted in any 12 month period may not exceed 1% of the Company's share capital in issue.

The subscription price for a share in respect of an option is determined by the directors at their absolute discretion and is the highest of (i) the closing price of the shares as stated in the daily quotation sheets of The Stock Exchange of Hong Kong Limited ("Stock Exchange") on the date of offer; (ii) the average of the closing prices of the shares as stated in the above daily quotation sheets for the five business days immediately preceding the date of offer; and (iii) the nominal value of a share.

The exercise period of an option is determined and notified by the directors to each participant and commences not earlier than six months and expires not later than ten years from the date of grant of that option. The option may be accepted within 28 days from the date of offer upon payment of HK\$1.00 as nominal consideration by the participant.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

The following share options were outstanding under the Scheme during the year:

Category of participant (In aggregate)	Number of outstanding share options				Date of grant*	Exercise period	Exercise price** HK\$	Weighted average closing price*** HK\$
	At 1 July 2003	Exercised during the year	Lapsed during the year	At 30 June 2004				
Directors	25,000,000	(18,000,000)	—	7,000,000	30 July 2002	30 Jan 2003 to 29 July 2004	0.910	1.460
	5,500,000	—	—	5,500,000	7 May 2003	7 May 2005 to 6 May 2006	1.130	—
	5,500,000	—	—	5,500,000	7 May 2003	7 May 2006 to 6 May 2007	1.130	—
Sub-total	<u>36,000,000</u>	<u>(18,000,000)</u>	<u>—</u>	<u>18,000,000</u>				
Other employees	6,160,000	(5,850,000)	(100,000)	210,000	30 July 2002	30 Jan 2003 to 29 July 2004	0.910	1.470
Total	<u>42,160,000</u>	<u>(23,850,000)</u>	<u>(100,000)</u>	<u>18,210,000</u>				

**24. EMPLOYEES' SHARE OPTION SCHEMES (continued)****(a) Employees' share option scheme of the Company (continued)**

- \* The vesting period of the share options is from the date of grant until the commencement of the exercise period.
- \*\* The exercise price of the share options is subject to adjustment in the case of rights issue or bonus issue, or other similar changes in the Company's share capital.
- \*\*\* The price is the Stock Exchange weighted average closing price of the shares on the trading days immediately prior to the date of exercise over all of the exercises of share options within the disclosure category.

The exercise of 23,850,000 share options during the year resulted in the issue of 23,850,000 ordinary shares of the Company and new share capital of HK\$2,385,000 and share premium of HK\$19,319,000 (before issue expenses), as detailed in note 23 to the financial statements.

At the balance sheet date, the Company had 18,210,000 share options outstanding under the Scheme, which represented approximately 1.50% of the Company's shares in issue as at that date. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 18,210,000 additional ordinary shares of the Company and additional share capital of HK\$1,821,000 and share premium of HK\$17,170,000 (before issue expenses).

**(b) Employees' share option scheme of EEICL**

On 12 November 2002, EEICL adopted its existing employees' share option scheme (the "EEICL Scheme") under which the committee authorised by EEICL's directors (the "Committee") may, at its discretion, at any time during a period of five years from the date of adoption offer options to full-time employees and directors of EEICL and its subsidiaries, the Company and its subsidiaries, or an associated company of EEICL to subscribe for the shares of EEICL ("EEICL Shares") according to the terms of the EEICL Scheme. The EEICL Scheme has been implemented for the purpose of attracting, retaining and motivating talented directors and employees to strive towards long-term performance targets and allowing the participants to enjoy the results of the Company. The EEICL Scheme became effective on 12 November 2002 and, unless otherwise cancelled or amended, will remain in force for five years from that date.

Pursuant to the EEICL Scheme, the maximum number of EEICL Shares upon which options may be issued upon exercise of all options to be granted under the EEICL Scheme and any other option schemes of EEICL shall not in aggregate exceed 14,602,539 shares, representing 9.99% of the total number of EEICL Shares in issue as at 30 June 2004. The total number of EEICL Shares issued and to be issued upon exercise of the options granted to each participant (including both exercised and outstanding options) in any 12 month period must not exceed 1% of the total number of EEICL Shares in issue from time to time.

The exercise period of an option is determined and notified by the Committee to each participant. Options in respect of which the subscription price for an EEICL Share is fixed at the higher of (i) the average of the closing prices of EEICL Shares for the last five market days immediately preceding the relevant date of grant or (ii) the nominal value of EEICL Shares (the "Subscription Price"), will have an option period commencing on a date not earlier than the first anniversary date and ending on a date not later than five years after the date of grant. The Committee has the discretion to grant options with up to a 20% discount to the Subscription Price subject to a more remote exercise period commencing on a date not earlier than the second anniversary date and ending on a date not later than five years after the date of grant. Options may be accepted within 30 days from the date of offer upon payment of S\$1.00 as nominal consideration by the participant.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

## 24. EMPLOYEES' SHARE OPTION SCHEMES (continued)

## (b) Employees' share option scheme of EEICL (continued)

The following share options were outstanding under the EEICL Scheme during the year:

Category of participant <i>(In aggregate)</i>	Number of outstanding share options				Date of grant#	Exercise period	Exercise price## US\$	Weighted average closing price### US\$
	At 1 July 2003	Exercised during the year	Lapsed during the year	At 30 June 2004				
Directors	276,000	(156,000)	(120,000)	—	19 Apr 1999	20 Apr 2000 to 18 Apr 2004	3.100	3.140
	700,000	—	—	700,000	7 May 2003	8 May 2005 to 6 May 2006	1.450	—
	700,000	—	—	700,000	7 May 2003	8 May 2006 to 6 May 2007	1.450	—
Sub-total	<u>1,676,000</u>	<u>(156,000)</u>	<u>(120,000)</u>	<u>1,400,000</u>				
Employees	556,800	(18,000)	(538,800)	—	19 Apr 1999	20 Apr 2000 to 18 Apr 2004	3.100	3.140
	400	—	—	400	25 May 2000	26 May 2002 to 24 May 2005	1.308	—
Sub-total	<u>557,200</u>	<u>(18,000)</u>	<u>(538,800)</u>	<u>400</u>				
Total	<u>2,233,200</u>	<u>(174,000)</u>	<u>(658,800)</u>	<u>1,400,400</u>				

# The vesting period of the share options is from the date of grant until the commencement of the exercise period.

## The exercise price of the share options is subject to adjustment in the case of rights issue or bonus issue, or other similar changes in EEICL's share capital.

### The price is the Singapore Exchange Securities Trading Limited weighted average closing price of EEICL Shares on the trading days immediately prior to the date of exercise over all of the exercises of share options within the disclosure category.



## 25. RESERVES

## (a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 39 of the financial statements.

Included in the category "Statutory and other reserves" is a reserve which arises pursuant to the relevant laws and regulations in Mainland China whereby a portion of the profits of the Group's subsidiaries registered in Mainland China is transferred to a separate reserve which is restricted as to its use. Pursuant to the approval by the board of directors of subsidiaries registered in Mainland China, a total of HK\$2,007,000 (2003: HK\$283,000) was transferred from retained profits during the year. Also included is a statutory reserve required under the Company Law of Thailand.

As detailed in note 3 to the financial statements, on the adoption of SSAP 30 at 1 July 2001, the Group applied the transitional provisions of SSAP 30 that permitted goodwill in respect of acquisitions which occurred prior to the adoption of the SSAP, to remain eliminated against consolidated reserves.

The amount of the goodwill remaining in consolidated reserves as at 30 June 2004, arising from the acquisition of subsidiaries prior to 1 July 2001, is as follows:

<b>Group</b>	<b>Goodwill eliminated against consolidated retained profits</b>
	<i>HK\$'000</i>
Cost:	
At the beginning of the year	
As previously reported	290,601
Prior year adjustment:	
SSAP 12 — restatement of deferred tax	<u>(12,259)</u>
As restated	278,342
Deemed disposal of interests in subsidiaries	<u>(314)</u>
At 30 June 2004	<u>278,028</u>
Accumulated impairment:	
At the beginning of the year and at 30 June 2004	<u>26,026</u>
Net amount:	
At 30 June 2004	<u><u>252,002</u></u>
At 30 June 2003 — restated	<u><u>252,316</u></u>

## 25. RESERVES (continued)

## (b) Company

	<i>Notes</i>	<b>Share premium account</b> <i>HK\$'000</i>	<b>Capital redemption reserve</b> <i>HK\$'000</i>	<b>Retained profits</b> <i>HK\$'000</i>	<b>Total</b> <i>HK\$'000</i>
At 1 July 2002		36,444	26,178	168,460	231,082
Issue of shares on exercise of share options	23	15,026	—	—	15,026
Net profit from ordinary activities attributable to shareholders		—	—	50,216	50,216
Interim 2003 dividend	11	—	—	(17,627)	(17,627)
Proposed final 2003 dividend	11	—	—	(17,904)	(17,904)
At 30 June 2003 and 1 July 2003		51,470	26,178	183,145	260,793
Issue of shares on exercise of share options	23	19,319	—	—	19,319
Share issue expenses		(34)	—	—	(34)
Net profit from ordinary activities attributable to shareholders		—	—	98,711	98,711
Adjustment to dividends payable in prior years as a result of options exercised		—	—	(40)	(40)
Interim 2004 dividend	11	—	—	(19,181)	(19,181)
Proposed final 2004 dividend	11	—	—	(29,219)	(29,219)
At 30 June 2004		<u>70,755</u>	<u>26,178</u>	<u>233,416</u>	<u>330,349</u>

## 26. CONTRIBUTED SURPLUS

## (a) Group

The contributed surplus of the Group arose from a reorganisation on 21 June 1989 and represents the difference between the nominal value of the shares and the share premium account of Elec & Eltek Company Limited acquired over the nominal value of the Company's shares allotted or transferred.

## (b) Company

The contributed surplus of the Company arose from the reorganisation referred to in note 26(a). The balance represents the difference between the nominal value of the Company's shares allotted or transferred under a scheme of arrangement and the consolidated shareholders' equity of Elec & Eltek Company Limited and its subsidiaries as at 21 June 1989. Under the Companies Act 1981 of Bermuda (as amended), the Company may make distributions to its members out of the contributed surplus in certain circumstances.

## 27. COMMITMENTS

	<b>Group</b>	
	<b>2004</b>	<b>2003</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Amounts contracted but not provided for:		
Capital commitments to purchase plant and machinery	72,354	42,088
Capital contributions payable to:		
A jointly-controlled entity	1,936	2,916
Subsidiaries	<u>284,646</u>	<u>421,741</u>
	<u>358,936</u>	<u>466,745</u>

	<b>Group</b>	
	<b>2004</b>	<b>2003</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Future guaranteed profits payment to minority shareholders pursuant to joint venture agreements	<u>17,805</u>	<u>19,878</u>

Capital commitments at the balance sheet date included contracted for commitments of HK\$72,354,000 (2003: HK\$42,088,000) in relation to the acquisition of property, plant and equipment.

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to four years.

At 30 June 2004, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	<b>Group</b>	
	<b>2004</b>	<b>2003</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	7,156	5,333
In the second to fifth years, inclusive	<u>3,794</u>	<u>3,320</u>
	<u>10,950</u>	<u>8,653</u>

At the balance sheet date, the Company had no commitments (2003: Nil).

## 28. CONTINGENT LIABILITIES

At the balance sheet date, the Company had a contingent liability in respect of an unlimited guarantee given to banks for general banking facilities granted to subsidiaries. At the balance sheet date, these banking facilities were utilised by the subsidiaries to the extent of approximately HK\$396,545,000 (2003: HK\$411,000,000).

**29. RELATED PARTY TRANSACTIONS**

In addition to those transactions and balances disclosed elsewhere in the financial statement, the Group had the following material transactions with related parties during the year:

	<b>Group</b>	
	<b>2004</b>	<b>2003</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Purchases of raw materials from a substantial shareholder	—	14,703
Subcontracting fees paid to a substantial shareholder	—	1,603
	<u>          </u>	<u>          </u>

The consideration for the above transactions was determined with reference to the prevailing market price for the relevant types of transaction.

**30. COMPARATIVE AMOUNTS**

As further explained in note 2 to the financial statements, due to the adoption of a revised SSAP during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain prior year adjustments have been made and certain comparative amounts have been restated to conform with the current year's presentation.

**31. APPROVAL OF THE FINANCIAL STATEMENTS**

The financial statements were approved and authorised for issue by the board of directors on 23 August 2004.

**EEIC'S UNAUDITED RESULTS FOR THE THREE MONTHS ENDED 30 SEPTEMBER 2004**

Hereinbelow is the reproduction of the announcement of the Company dated 3 November 2004 in relation to the unaudited consolidated results of EEIC and its subsidiaries for the three months period ended 30 September 2004:-

**“ANNOUNCEMENT IN RELATION TO THE RESULTS FOR THE FIRST  
QUARTER ENDED 30 SEPTEMBER 2004 OF A SUBSIDIARY**

EEIC, a 51.71% owned subsidiary of Elec & Eltek International Holdings Limited, announced its unaudited consolidated results for the three months period ended 30 September 2004 on the Singapore Exchange Securities Trading Limited on 3 November 2004.

This announcement, reproducing hereinbelow the unaudited consolidated results (the “Results”) of Elec & Eltek International Company Limited (“EEIC” and hereinbelow referred to as the “Company”) and its subsidiaries (collectively hereinbelow referred to as the “Group”) for the three months period ended 30 September 2004, is made pursuant to the disclosure obligation under Rule 13.09(2) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

EEIC is a public company listed on the Singapore Exchange Securities Trading Limited as to 51.71% owned by Elec & Eltek International Holdings Limited.

The Results are prepared in accordance with the provision of the Singapore Financial Reporting Standards and are released in the website of [www.sgx.com](http://www.sgx.com) of the Singapore Exchange Securities Trading Limited on 3 November 2004:

**Elec & Eltek International Company Limited**

(Company Registration Number: 199300005H)

**UNAUDITED FINANCIAL STATEMENT ANNOUNCEMENT FOR THE FIRST QUARTER ENDED 30  
SEPTEMBER 2004****PART I - INFORMATION REQUIRED FOR ANNOUNCEMENTS OF QUARTERLY (Q1, Q2 & Q3), HALF-YEAR  
AND FULL YEAR RESULTS**

- 1(a) **An income statement (for the group) together with a comparative statement for the corresponding period of the immediately preceding financial year.**

Income statement of the Group for the first quarter ended 30 September 2004 (“Q1 FY2005”) together with the comparative figures for the first quarter ended 30 September 2003 (“Q1 FY2004”) and the fourth quarter ended 30 June 2004 (“Q4 FY2004”).

These figures have not been audited.

<i>US\$'000</i>	<b>Q1 FY2005</b>	<b>Q1 FY2004</b>	<b>Q1 FY2005 vs Q1 FY2004 % Change</b>	<b>Q4 FY2004</b>	<b>Q1 FY2005 vs Q4 FY2004 % Change</b>
Sale of goods	106,173	72,491	46.5%	100,350	5.8%
Cost of sales	<u>(82,979)</u>	<u>(58,171)</u>	42.6%	<u>(75,920)</u>	9.3%
<b>Gross profit</b>	23,194	14,320	62.0%	24,430	-5.1%
<i>Gross profit margin</i>	21.8%	19.8%		24.3%	
<b>Other revenue</b>					
Interest income	20	48	-58.3%	51	-60.8%
<b>Costs and expenses</b>					
Distribution & selling costs	(3,861)	(3,806)	1.4%	(3,679)	4.9%
Administrative costs	(5,665)	(4,165)	36.0%	(5,468)	3.6%
Other operating (expenses)/income	<u>(179)</u>	<u>80</u>	n/m	<u>(943)</u>	-81.0%
<b>Profit from operating activities</b>	13,509	6,477	108.6%	14,391	-6.1%
Interest expense	(532)	(298)	78.5%	(227)	134.4%
Exceptional item	<u>0</u>	<u>0</u>	n/m	<u>0</u>	n/m
<b>Profit before taxation</b>	12,977	6,179	110.0%	14,164	-8.4%
Taxation	<u>(1,262)</u>	<u>(201)</u>	527.9%	<u>(1,150)</u>	9.7%
<b>Profit after taxation</b>	11,715	5,978	96.0%	13,014	-10.0%
Minority interests	<u>(540)</u>	<u>(394)</u>	37.1%	<u>(546)</u>	-1.1%
<b>Profit attributable to shareholders</b>	<u>11,175</u>	<u>5,584</u>	100.1%	<u>12,468</u>	-10.4%

*n/m - percentage not meaningful*

**Notes to Income Statement:**

<i>US\$'000</i>	Q1 FY2005	Q1 FY2004	Q1 FY2005 vs Q1 FY2004 % Change	Q4 FY2004	Q1 FY2005 vs Q4 FY2004 % Change
Depreciation and amortisation	7,411	5,362	38.2%	6,402	15.8%
Provision for doubtful debts	66	143	-53.8%	62	6.5%
Provision for inventory obsolescence	405	344	17.7%	46	n/m
(Gain)/Loss on foreign exchange	(60)	(185)	-67.6%	485	-112.4%
Loss on disposal of plant and equipment	58	48	20.8%	53	9.4%

**Notes to Income Statement****1. Gross Profit Margin**

The Group's gross profit margin has dropped from 24.3% in Q4 FY2004 to 21.8% in Q1 FY2005 despite higher turnover. The lower gross profit margin was mainly due to (1) lower weighted average selling prices ("ASP") as a result of shift in product mix; and (2) higher manufacturing overheads in supporting the expanding business.

**2. Depreciation and amortisation**

Higher depreciation and amortisation charges in the current financial quarter as more equipment was put into productive use.

**3. (Gain)/loss on foreign exchange**

Exchange (gain)/loss arose largely from the translation of non-US\$ denominated trade receivables and payables.

1(b)(i) A balance sheet (for the issuer and group), together with a comparative statement as at the end of the immediately preceding financial year.

US\$'000	Group		Company	
	30.9.2004	30.6.2004	30.9.2004	30.6.2004
<b>Non-current assets</b>				
Property, plant and equipment	291,958	278,350	24	26
Intangible assets	46	71	0	0
Subsidiary companies	0	0	20,178	20,178
Deferred tax assets	1,900	2,111	0	0
<b>Current assets</b>				
Inventories	51,715	42,364	0	0
Trade and other receivables	127,948	117,945	15,661	15,505
Due from subsidiary companies	0	0	109,960	111,014
Fixed and call deposits	857	5,221	36	418
Cash at bank and in hand	16,142	24,409	51	180
	<u>196,662</u>	<u>189,939</u>	<u>125,708</u>	<u>127,117</u>
<b>Current liabilities</b>				
Trade and other payables	(125,481)	(124,641)	(319)	(129)
Due to subsidiary companies	0	0	0	(1,346)
Due to bankers	(48,861)	(41,390)	0	0
Provision for taxation	(1,398)	(1,442)	(1)	(1)
	<u>(175,740)</u>	<u>(167,473)</u>	<u>(320)</u>	<u>(1,476)</u>
<b>Net current assets</b>	20,922	22,466	125,388	125,641
<b>Non-current liabilities</b>				
Due to bankers	(49,749)	(48,501)	0	0
Deferred tax liabilities	(2,144)	(2,440)	0	0
	<u>262,933</u>	<u>252,057</u>	<u>145,590</u>	<u>145,845</u>
<b>Equity</b>				
Share capital	74,065	74,065	74,065	74,065
Reserves	<u>175,380</u>	<u>164,229</u>	<u>71,525</u>	<u>71,780</u>
	249,445	238,294	145,590	145,845
Minority interests	<u>13,488</u>	<u>13,763</u>	<u>0</u>	<u>0</u>
	<u>262,933</u>	<u>252,057</u>	<u>145,590</u>	<u>145,845</u>

#### Notes to Balance Sheet:

##### 1. Property, plant & equipment

In gearing up for anticipated business expansion, a total of US\$16.1 million and US\$4.7 million were incurred for new plant & machinery and building extension during the current financial quarter.

##### 2. Inventories, trade & other receivables and trade & other payables

The increase in inventories, trade and other receivables, as well as trade and other payables were due to higher production volume during the current financial quarter.



## 3. Due to bankers

Additional loan facilities were drawn down during the current financial quarter to finance acquisition of fixed assets.

## l(b)(ii) Aggregate amount of group's borrowings and debt securities.

## Amount repayable in one year or less, or on demand

As at 30.9.2004		As at 30.6.2004	
Secured	Unsecured	Secured	Unsecured
Nil	US\$48,861,000	Nil	US\$41,390,000

## Amount repayable after one year

As at 30.9.2004		As at 30.6.2004	
Secured	Unsecured	Secured	Unsecured
Nil	US\$49,749,000	Nil	US\$48,501,000

## Details of any collateral

Not applicable.

## Notes on net borrowing position

	As at 30.9.2004	As at 30.6.2004
<i>US\$'000</i>		
Due to bankers	98,610	89,891
Less: Bank balances, deposits and cash	<u>(16,999)</u>	<u>(29,630)</u>
Net borrowings position	<u>81,611</u>	<u>60,261</u>

The Group's net borrowing amounted to US\$81.6 million compared to US\$60.3 million at the end of last financial year. The increase was for funding the Group's working capital as well as the facility extension for the Guangzhou East plant.

- 1(c) A cash flow statement (for the group), together with a comparative statement for the corresponding period of the immediately preceding financial year.

<i>US\$'000</i>	Q1 FY2005	Q1 FY2004	Q4 FY2004
<b>Cash flow from operating activities:</b>			
Operating profit before interest and taxation	13,489	6,429	14,340
Adjustments for:			
Amortisation of intangible assets	25	24	26
Depreciation of property, plant and equipment	7,386	5,338	6,376
Loss on disposal of plant and equipment	<u>58</u>	<u>48</u>	<u>53</u>
<b>Operating income before reinvestment in working capital</b>	20,958	11,839	20,795
Increase in inventories	(9,351)	(3,011)	(5,213)
Increase in trade and other receivables	(10,003)	(10,972)	(5,496)
Increase in trade and other payables	<u>840</u>	<u>4,814</u>	<u>28,762</u>
<b>Cash generated from operations</b>	2,444	2,670	38,848
Interest income received	20	48	51
Interest paid	(532)	(298)	(227)
Income taxes paid	<u>(1,361)</u>	<u>(131)</u>	<u>(1,889)</u>
<b>Net cash provided by operating activities</b>	<u>571</u>	<u>2,289</u>	<u>36,783</u>
<b>Cash flow from investing activities:</b>			
Proceeds from disposal of plant and equipment	82	20	69
Plant and equipment acquired	<u>(20,774)</u>	<u>(8,124)</u>	<u>(44,885)</u>
<b>Net cash used in investing activities</b>	<u>(20,692)</u>	<u>(8,104)</u>	<u>(44,816)</u>
<b>Cash flow from financing activities:</b>			
Bank borrowings obtained	5,888	3,568	20,579
Repayment of loan to minority shareholders	0	(181)	0
Proceeds from share issue pursuant to the exercise of share options	0	0	540
Capital injection from minority interest	397	0	0
Dividends paid by subsidiaries to minority shareholders	<u>0</u>	<u>(181)</u>	<u>0</u>
<b>Net cash provided in financing activities</b>	6,285	3,206	21,119
Net (decrease)/increase in cash and cash equivalents	(13,836)	(2,609)	13,086
Cash and cash equivalents at beginning of financial period	29,630	22,374	16,050
Effect of foreign exchange rate changes, net	<u>(1,626)</u>	<u>(127)</u>	<u>494</u>
<b>Cash and cash equivalents at end of financial period</b>	<u><u>14,168</u></u>	<u><u>19,638</u></u>	<u><u>29,630</u></u>

1(d)(i) A statement (for the issuer and group) showing either (i) all changes in equity or (ii) changes in equity other than those arising from capitalisation issues and distributions to shareholders, together with a comparative statement for the corresponding period of the immediately preceding financial year.

<i>US\$'000</i>	Share capital	Share premium	Capital reserve	Statutory reserve	Revenue reserve	Foreign currency translation reserve	Total shareholders' equity
<b>Group</b>							
<b>Q1 FY2004</b>							
Balance at 30.6.2003	73,982	17,359	2,597	70	159,024	(31,455)	221,577
Foreign currency translation	0	0	0	0	0	1,715	1,715
Profit for the financial period	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>5,584</u>	<u>0</u>	<u>5,584</u>
Balance at 30.9.2003	<u><u>73,982</u></u>	<u><u>17,359</u></u>	<u><u>2,597</u></u>	<u><u>70</u></u>	<u><u>164,608</u></u>	<u><u>(29,740)</u></u>	<u><u>228,876</u></u>
<b>Q4 FY2004</b>							
Balance at 31.3.2004	73,982	17,359	2,597	567	161,891	(30,231)	226,165
Shares issued pursuant to the exercise of options	83	457	0	0	0	0	540
Foreign currency translation	0	0	0	0	0	(879)	(879)
Profit for the financial period	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>12,468</u>	<u>0</u>	<u>12,468</u>
Balance at 30.6.2004	<u><u>74,065</u></u>	<u><u>17,816</u></u>	<u><u>2,597</u></u>	<u><u>567</u></u>	<u><u>174,359</u></u>	<u><u>(31,110)</u></u>	<u><u>238,294</u></u>
<b>Q1 FY2005</b>							
Balance at 30.6.2004	74,065	17,816	2,597	567	174,359	(31,110)	238,294
Transfer from revenue reserve to statutory reserve	0	0	0	82	(82)	0	0
Foreign currency translation	0	0	0	0	0	(24)	(24)
Profit for the financial period	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>11,175</u>	<u>0</u>	<u>11,175</u>
Balance at 30.9.2004	<u><u>74,065</u></u>	<u><u>17,816</u></u>	<u><u>2,597</u></u>	<u><u>649</u></u>	<u><u>185,452</u></u>	<u><u>(31,134)</u></u>	<u><u>249,445</u></u>

<i>US\$'000</i>	Share capital	Share premium	Revenue reserve	Total shareholders' equity
<b>Company</b>				
Q1 FY2004				
Balance at 30.6.2003	73,982	17,359	32,965	124,306
Profit for the financial period	<u>0</u>	<u>0</u>	<u>178</u>	<u>178</u>
Balance at 30.9.2003	<u><u>73,982</u></u>	<u><u>17,359</u></u>	<u><u>33,143</u></u>	<u><u>124,484</u></u>
Q4 FY2004				
Balance at 31.3.2004	73,982	17,359	28,063	119,404
Shares issued pursuant to the exercise of options	83	457	0	540
Profit for the financial period	<u>0</u>	<u>0</u>	<u>25,901</u>	<u>25,901</u>
Balance as 30.6.2004	<u><u>74,065</u></u>	<u><u>17,816</u></u>	<u><u>53,964</u></u>	<u><u>145,845</u></u>
Q1 FY2005				
Balance at 30.6.2004	74,065	17,816	53,964	145,845
Profit for the financial period	<u>0</u>	<u>0</u>	<u>(255)</u>	<u>(255)</u>
Balance at 30.9.2004	<u><u>74,065</u></u>	<u><u>17,816</u></u>	<u><u>53,709</u></u>	<u><u>145,590</u></u>

1(d)(ii) **Details of any changes in the company's share capital arising from rights issue, bonus issue, share buy-backs, exercise of share options or warrants, conversion of other issues of equity securities, issue of shares for cash or as consideration for acquisition or for any other purpose since the end of the previous period reported on. State also the number of shares that may be issued on conversion of all the outstanding convertibles as at the end of the current financial period reported on and as at the end of the corresponding period of the immediately preceding financial year.**

No shares was issued in Q1 FY2005 and the issued and paid-up capital of the Company at the end of Q1 FY2005 was S\$116,989,918 (equivalent to US\$74.1 million), represented by 146,237,397 ordinary shares of S\$0.80 each.

During Q1 FY2005, the Company granted the second share options of 1,400,000 options to Mr. Thomas Tang Koon Yiu, Chairman and managing director of the Company, pursuant to The 2002 Elec & Eltek Employees' Share Option Scheme (the "2002 Scheme") at a subscription price of US\$2.25 per scheme share. This represents more than 5% of the total number of the options available under the 2002 Scheme.

Save as disclosed above, there were no share options granted to other employees under the 2002 Scheme in Q1 FY2005.

Details of the movement of share options previously granted by the Company to eligible employees in Q1 FY2005 and the number of share options at the end of Q1 FY2004 were as follows:

Date of grant	Subscription price per share (US\$)	Outstanding balance as at		Granted	Outstanding balance as at		Expiry date
		1.7.2004	30.9.2003		30.9.2004	30.9.2003	
19 April 1999	3.100	0	0	0	828,000	0	18 April 2004
25 May 2000	1.308	400	0	400	400	0	24 May 2005
7 May 2003	1.450	700,000	0	700,000	700,000	0	6 May 2006
7 May 2003	1.450	700,000	0	700,000	700,000	0	6 May 2007
19 July 2004	2.250	0	700,000	700,000	0	0	18 July 2007
19 July 2004	2.250	0	700,000	700,000	0	0	18 July 2008
TOTAL		<u>1,400,400</u>	<u>1,400,000</u>	<u>2,800,400</u>	<u>2,228,400</u>	<u>0</u>	

2. **Whether the figures have been audited or reviewed and in accordance with which auditing standard or practice.**

The figures for Q1 FY2005 have neither been audited nor reviewed in accordance with relevant auditing standards.

3. **Where the figures have been audited or reviewed, the auditors' report (including any qualifications or emphasis of a matter).**

Not applicable.

4. **Whether the same accounting policies and methods of computation as in the issuer's most recently audited annual financial statements have been applied.**

The Group and the Company has adopted the same accounting policies and methods of computation in the current financial quarter in preparing the financial statements as those for the audited financial statements for the financial year ended 30 June 2004.

5. **If there are any changes in the accounting policies and methods of computation, including any required by an accounting standard, what has changed, as well as the reasons for, and the effect of, the change.**

Not applicable.

6. **Earnings per ordinary share of the group for the current financial period reported on and the corresponding period of the immediately preceding financial year, after deducting any provision for preference dividends.**

Basic earnings per share is calculated by dividing the Group's profit attributable to shareholders by the weighted average number of ordinary shares in issue during the financial period.

Diluted earnings per share is calculated by dividing the Group's profit attributable to shareholders by the weighted average number of ordinary shares in issue, adjusted for the effect of dilutive options during the financial period.

The following reflects the income and share data used in the basic and diluted earnings per share computations of the Group after deducting any provision for preference dividends:

	Q1 FY2005	Q1 FY2004	Q4 FY2004
Profit attributable to shareholders (US\$'000)	11,175	5,584	12,468
<b>Number of ordinary shares (in thousands)</b>			
Number of ordinary shares in issue at the beginning of financial period	146,237	146,063	146,063
Weighted average number of ordinary shares issued pursuant to the exercise of share options	<u>0</u>	<u>0</u>	<u>127</u>
Weighted average number of ordinary shares applicable to basic earnings per share	146,237	146,063	146,190
Effect of dilutive share options	<u>902</u>	<u>460</u>	<u>695</u>
Weighted average number of ordinary shares applicable to diluted earnings per share	<u><u>147,139</u></u>	<u><u>146,523</u></u>	<u><u>146,885</u></u>
Earnings per share (United States cents)			
— basic	7.64	3.82	8.53
— diluted	<u><u>7.59</u></u>	<u><u>3.81</u></u>	<u><u>8.49</u></u>

7. **Net asset value (for the issuer and group) per ordinary share based on issued share capital of the issuer at the end of the:-**

(a) **current financial period reported on; and**

(b) **immediately preceding financial year.**

	Group US\$	Company US\$
Net asset value (for the issuer and group) per ordinary share based on issued share capital of the issuer at the end of the:-		
(a) current financial period reported on	1.71	1.00
(b) immediately preceding financial year	1.63	1.00

There were 146,237,397 ordinary shares in issue at the end of Q1 FY2005.

8. **A review of the performance of the group, to the extent necessary for a reasonable understanding of the group's business. It must include a discussion of the following:-**
- (a) **any significant factors that affected the turnover, costs, and earnings of the group for the current financial period reported on, including (where applicable) seasonal or cyclical factors; and**
  - (b) **any material factors that affected the cash flow, working capital, assets or liabilities of the group during the current financial period reported on.**

Strong demand in computer and computer peripherals products has offset the seasonal volatility impact due to summer vacation and the inventory excess in the communication sector.

As a result, the layer count mix in Q1 FY2005 has deteriorated slightly over that in 2nd half FY2004. The 2- and 4-layered printed circuit boards ("PCBs") have increased by around 2.0%, and microvias PCBs products have declined by around 2.0% as well.

Year-on-year, the layer count mix has improved significantly with 8.9% less in 2- and 4-layered products, 2.3% gain in 6- and 8-layered products, and 6.6% gain in 10-layered above and microvias PCBs.

Book-to-bill ratio for Q1 FY2005 was maintained above one though Q1 FY2005 PCB shipments were higher than Q4 FY2004 by 7.6%.

Seasonal factors helped stabilize the prices of copper foil, fibre glass and copper clad laminate in Q1 FY2005.

Due to lower layer count mix, the Group's ASP have dropped by around 2.0% sequentially but were 13.9% higher than those of Q1 FY2004.

As a result of a mix of variable factors mentioned above, the Group's revenue in Q1 FY2005 stood at US\$106.2 million or was growing at 5.8% sequentially and 46.5% year-on-year.

The Group's consolidated profit before taxation was at US\$13.0 million, down 8.4% over last quarter and up 110.0% over Q1 FY2004.

The Group's effective tax rate in Q1 FY2005 was at 9.7% as compared with 8.1% in Q4 FY2004 as tax losses brought forward in a subsidiary were fully utilized in the previous quarter.

In the opinion of the Directors, no item, transaction or event of a material or unusual nature has occurred during the period from 1 October 2004 to the date of this report that would materially affect the results of the Company and/or the Group in the financial period in which this announcement is made.

9. **Where a forecast, or a prospect statement, has been previously disclosed to shareholders, any variance between it and the actual results.**

The Group's performance in Q1 FY2005 was slightly slower than Q4 FY2004 due to seasonal volatility and was in line with the prospect statement made by the Company in its previous financial year-end results announcement on 23 August 2004.

10. **A commentary at the date of the announcement of the significant trends and competitive conditions of the industry in which the group operates and any known factors or events that may affect the group in the next reporting period and the next 12 months.**

Starting from October 2004, the Group saw an increased demand due to seasonal factors on computer and computer peripherals and consumer products. The communication sector has also started to rebuild inventory after slowing down for around five months.

Key PCB raw material prices are expected to stabilize as new capacity gradually becomes available. However, certain PCB raw materials may have pricing pressure because of oil price hike.

Although there are dangers due to increased oil prices, global economy is still considered to be healthy. The electronic product market is still growing positively with more products being made in China. The Group is carefully monitoring the impact of oil price volatility, and its effects on the Group's business.

Barring unforeseen circumstances, the Directors expect that the Group should maintain good results in the second quarter on a year-on-year basis.

#### 11. Dividend

(a) *Current Financial Period Reported On*

Any dividend declared for the current financial period reported on? None

(b) *Corresponding Period of the Immediately Preceding Financial Year*

Any dividend declared for the corresponding period of the immediately preceding financial year? None

(c) *Date payable*

Not applicable.

(d) *Books closure date*

Not applicable.

#### 12. If no dividend has been declared/recommended, a statement to that effect.

No dividend will be declared for Q1 FY2005 (Q1 FY2004: NIL).

#### PART II - ADDITIONAL INFORMATION REQUIRED FOR FULL YEAR ANNOUNCEMENT (This part is not applicable to Q1, Q2, Q3 or Half Year Results)

#### 13. Segmented revenue and results for business or geographical segments (of the group) in the form presented in the issuer's most recently audited annual financial statements, with comparative information for the immediately preceding year.

Not applicable.

#### 14. In the review of performance, the factors leading to any material changes in contributions to turnover and earnings by the business or geographical segments.

Not applicable.

#### 15. A breakdown of sales.

Not applicable.

#### 16. A breakdown of the total annual dividend (in dollar value) for the issuer's latest full year and its previous full year.

Total Annual Dividend (Refer to Para 16 of Appendix 7.2 for the required details)

	Latest Full Year	Previous Full Year
Ordinary		
Preference		
Total:		



**17. Interested Persons Transactions**

The amount of interested person transactions to be disclosed pursuant to Rule 920(1)(a)(ii) of the Listing Manual of the Singapore Exchange Securities Trading Limited was not more than S\$100,000 during the current financial period.

*As at the date of this announcement, the Directors of Elec & Eltek International Holdings Limited comprise two Executive Directors, Mr. Thomas Tang Koon Yiu and Mr. Canice Chung Tai Keung; five Non-executive Directors, Mr. David So Cheung Sing, Mr. Marcus Tsang Ming Pui, Mr. Wilson Tam Kam Ho, Mr. Johnny Ng Ho Kin and Mr. Peter Lee Yip Wah, and three Independent Non-executive Directors, Mr. Eugene Lee, Mr. Kenneth Shim Hing Choi and Mr. Keith Tay Ah Kee.*

**BY ORDER OF THE BOARD**

**Thomas Tang Koon Yiu**

*Chairman*

Hong Kong, 3 November 2004”

**STATEMENT OF INDEBTEDNESS**

As at 30 September 2004, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this Offeree Document, the Group had outstanding bank loans and overdrafts of approximately HK\$1,133.8 million comprising unsecured bank loans of approximately HK\$1,008.7 million, unsecured bank overdrafts of approximately HK\$111.6 million and unsecured trust receipt loans of approximately HK\$13.5 million. In addition, the Group had contingent liabilities in respect of bank guarantees given to third parties of approximately HK\$8.9 million.

Save as disclosed in this section and apart from intra-group liabilities, the Group did not have outstanding at the close of business on 30 September 2004 any mortgages, charges, debentures or loan capital issued and outstanding or agreed to be issued, bank loans, and overdrafts or other similar indebtedness, liabilities under acceptances or acceptance credits, hire purchases or finance lease commitments, guarantees or material contingent liabilities.

Save as disclosed in this section, the Directors are not aware of any material adverse change in the Group's indebtedness and contingent liabilities since 30 June 2004.

**MATERIAL CHANGE**

Save as disclosed in the announcement of the Company dated 3 November 2004 regarding the unaudited consolidated results of EEIC for the three months ended 30 September 2004 set out in this Appendix, the Directors are not aware of any material change in the financial or trading position or prospects of the Group since 30 June 2004, the date to which the latest published audited financial statements of the Group were made up.

*The following are the texts of the letter and valuation certificates received from B.I. Appraisals Limited in connection with their valuation as at 30 September 2004 of the property interests of the Group, which has been prepared for the purpose of incorporation into this Offeree Document:*



## **B. I. Appraisals Limited** **保柏國際評估有限公司**

**Registered Professional Surveyors, Valuers & Property Consultants**

Unit B, 38th Floor, Bank of China Tower, 1 Garden Road, Hong Kong

Tel: (852) 2127 7762 Fax: (852) 2137 9876

Email: info@biappraisals.com.hk

Website: www.bisurveyors.com.hk

15th November, 2004

The Directors  
Elec & Eltek International Holdings Limited  
Unit B10, 3rd Floor  
Merit Industrial Centre  
94 To Kwa Wan Road  
Kowloon  
Hong Kong

Dear Sirs,

In accordance with your instructions for us to value the property interests held by Elec & Eltek International Holdings Limited (hereinafter referred to as the “Company”) and its subsidiaries (hereinafter together referred to as the “Group”) located in Hong Kong, in the People’s Republic of China (the “PRC”) and in Thailand, we confirm that we have carried out inspections, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the open market values of the property interests as at 30th September, 2004 (hereinafter referred to as the “date of valuation”).

This letter, forming part of our valuation report, identifies the properties being valued, explains the basis and methodology of our valuation, and lists out the assumptions and the title investigation we have made in the course of our valuation, as well as the limiting conditions.

### **BASIS OF VALUATION**

Our valuations are our opinion of open market value which we would define as intended to mean “the best price at which the sale of an interest in a property might reasonably be expected to have been completed unconditionally for cash consideration on the date of valuation, assuming:

- (a) a willing seller;
- (b) that, prior to the date of valuation, there had been a reasonable period (having regard to the nature of the property and the state of the market) for the proper marketing of the interest, for the agreement of price and terms and for the completion of the sale;
- (c) that the state of the market, level of values and other circumstances were, on any earlier assumed date of exchange of contracts, the same as on the date of valuation;

- (d) that no account is taken of any additional bid by a prospective purchaser with a special interest; and
- (e) that both parties to the transaction had acted knowledgeably, prudently and without compulsion.”

We have valued the properties on the basis that each of them is considered individually and have not allowed for any discount for the properties to be sold to a single party nor taken into account any effect on the values if the properties are to be offered for sale at the same time as a portfolio.

Our valuations have been prepared in accordance with the Guidance Notes on the Valuation of Property Assets (2nd Edition) published by the Hong Kong Institute of Surveyors in March 2000 and under generally accepted valuation procedures and practices, which are in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and Practice Note 12 issued by The Stock Exchange of Hong Kong Limited.

## VALUATION METHODOLOGY

In valuing Property Nos. 1, 2, 5, 6, 7, 8, 10, 11, 13, 14, 15, 16, 17, 18 and 24 which are either vacant or occupied by the Group, we have valued each of the property interests on an open market basis by the Direct Comparison Approach assuming such property interests are capable of being sold in their existing state on a strata-titled basis and with the benefit of immediate vacant possession. Comparison based on prices realised on actual sales or offerings of comparable properties is made. Comparable properties of similar size, character and location are analysed and carefully weighted against all the respective advantages and disadvantages of the property interests in order to arrive at a fair comparison of value.

In valuing Property Nos. 3, 4, 9, 12, 19, 22 and 23 which are industrial complexes occupied by the Group, due to the nature of buildings and structures constructed, there are no readily identifiable market comparable and the properties cannot be valued by comparison with open market transactions. We have adopted the Depreciated Replacement Cost (DRC) Approach in assessing the value of such property interests. The DRC Approach is based on an estimate of the open market value for the existing use of the land and considers the current cost to reproduce or replace in new condition the property being valued in accordance with current construction costs for similar property in the locality, with allowance for accrued depreciation as evidenced by observed condition or obsolescence present, whether arising from physical, functional or economic causes. The DRC Approach generally furnishes the most reliable indication of value for property in the absence of a known market based on comparable sales, and is normally adopted in valuing this type of property.

Regarding the property interests in Group III (i.e. Property No. 20 and 21) which are industrial complexes under development, we have been advised by the Group that portions of the respective sites are either under construction or have been developed and currently occupied by the Group and that the remaining portions of the sites are vacant and subject to detail planning. We have valued the property interests on the basis that the buildings and structures in the properties have been developed and completed in accordance with the Group's latest development proposals provided to us. We have assumed that all consents, approvals and licences from relevant government for the properties under development have been granted without onerous conditions or undue time delay which might affect

their values. In arriving at the value of these two properties, we have adopted the DRC Approach mentioned above which is normally adopted in valuing this type of property. In addition, we have also taken into consideration the construction costs that will be expended to complete the development to reflect the quality of the completed development. The “capital value when completed” represent our opinion of the value of the property assuming that it would have been completed at the date of valuation. It is a normal practice to provide, apart from “capital value in existing state”, an opinion on “capital value when completed” for reference.

### **VALUATION ASSUMPTIONS**

Our valuations have been based on our experience of valuing property interests in Hong Kong, and, as overseas consultants, in the PRC and Thailand and made on the assumption that the property interests are sold on the open market in their existing state without the effect of a deferred terms contract, leaseback, joint venture, management agreement or any similar arrangement which would serve to affect the values of such property interests. In addition, no account has been taken of any option or right of pre-emption concerning or effecting the sale of the property interests and no forced sale situation is assumed in our valuations.

No allowance has been made in our valuations for any charges, mortgages or amount owing on the properties nor for any expenses or taxation that may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions, and outgoings of an onerous nature that could affect their values.

In the course of our valuations of the property interests, we have neither verified nor taken into account any tax liability in Hong Kong, the PRC and Thailand. As advised by the Company, types of potential tax liability include stamp duty and profits tax (for properties in Hong Kong), business tax, stamp duty, income tax and capital gain tax (for properties in the PRC) and income tax (for properties in Thailand). We have, however, been further advised by the Company that all properties are held for production or staff quarters purposes and that the Company does not have the intention to sell any or all properties. Hence, until the completion of the disposal of such property, the amount of tax liability would not be quantifiable nor crystallized.

### **TITLE INVESTIGATION**

We have caused searches to be made at the Urban Land Registry for the property interests in Hong Kong. We have been provided with extracts of documents in relation to the ownership and the title to the property interests in the PRC and in Thailand. However, we have not scrutinized the original documents to ascertain any amendments, which may not appear on the copies handed to us. All documents and leases have been used for reference only.

For those properties located in the PRC, due to the nature of the land registration system in the PRC, we are not able to investigate the title to or any liabilities against the property interests in the properties. However, we have been provided by the Group with extract copies of title documents relating to the property interests in the properties located in the PRC. We have not examined the original documents to verify the ownership or to ascertain the existence of any amendments which may not appear on the copies handed to us.

We have been provided with copies of the legal opinions on PRC law of the Group's legal advisers, Goldsun Law Firm and Jiangsu FD Yongheng Law Firm (hereinafter collectively referred to as the "PRC Legal Adviser") regarding the ownership and title to the property interests located in Guangdong Province and Nanjing City respectively. In the course of our valuations, we have relied on the advices given by the Group and the PRC Legal Adviser regarding the ownership and title to the interests in the properties in the PRC.

### LIMITING CONDITIONS

We have inspected the exteriors and, where possible, the interiors of the properties. However, we have not carried out a structural survey. Yet, in the course of our inspections, we did not note any serious defects. We are, however, unable to report that the properties are free from rot, infestation or any other structural defects. No tests have been carried out to any of the services provided in the properties. Unless otherwise stated, we have not been able to carry out detailed on-site measurements to verify the site and floor areas of the properties and have assumed that the areas shown on the documents handed to us are correct.

Moreover, we have not carried out investigations on site to determine the suitability of the ground conditions for development. Our valuations are prepared on the assumption that these aspects are satisfactory and that no extraordinary expenses or delays will be incurred during the construction period.

We have relied to a considerable extent on information provided by the Group and have accepted advice given to us on such matters as identification of relevant properties to be valued, planning approvals or statutory notices, easements, tenure, particulars of occupancy, completion date of buildings, joint venture agreements, building costs, site and floor areas and other relevant information. Dimensions, measurements and areas included in the valuation certificates are based on information contained in the documents and leases provided to us and are therefore only approximations.

We have no reason to doubt the truth and accuracy of the information provided to us and we have also been advised that no material facts have been omitted from the information provided. We consider that we have been provided with sufficient information to reach an informed view, and have no reason to suspect that any material information has been withheld.

### REMARKS

Unless otherwise stated, all monetary amounts stated in our valuation certificates are in Hong Kong dollars and no allowances have been made for exchange transfers. Where necessary, the exchange rates adopted in our valuations are approximately HK\$1=RMB1.06 and HK\$1=Baht5.29 which were approximately the prevailing exchange rates at the date of valuation.

Our summary of values and valuation certificates are enclosed herewith.

Yours faithfully,  
For and on behalf of  
**B.I. APPRAISALS LIMITED**  
**William C. K. Sham**  
*MRICS, MHKIS, RPS (G.P.), MCIREA*  
*Executive Director*

*Note: Mr. William C. K. Sham is a Chartered Surveyor and a member of the China Institute of Real Estate Appraisers. He has over 22 years and 10 years' experience in the valuation of properties in Hong Kong and in the PRC respectively. Besides, he has conducted various valuation assignments on properties located in the Southeast Asia region for more than 10 years.*

## SUMMARY OF VALUES

Property	Capital value in existing state as at 30th September, 2004 (HK\$)	Interest attributable to the Group in Percentage	Capital value attributable to the Group as at 30th September, 2004 (HK\$)
<b>Group I — Property interests held and occupied by the Group in Hong Kong</b>			
1. Units A1, B5 and B6 on 1st Floor, whole of 2nd Floor, Units A10 and B9 on 3rd Floor, whole of 4th Floor, Unit A8 with Flat Roof on 5th Floor and Unit B9 on 10th Floor, Merit Industrial Centre, No. 94 To Kwa Wan Road, To Kwa Wan, Kowloon, Hong Kong	99,000,000	51.709%	51,191,910
2. Units A11 and B10 on 3rd Floor, Merit Industrial Centre, No. 94 To Kwa Wan Road, To Kwa Wan, Kowloon, Hong Kong	6,300,000	100.000%	6,300,000
<b>Group II — Property interests held and/or occupied by the Group in the PRC</b>			
3. The industrial complex of Elec & Eltek (Guangzhou) Electronic Company Limited, Nos. 3 and 8 Linjiang Road, and No. 4 Shawan Third Street, Guangzhou Economic & Technological Development District, Guangzhou City, Guangdong Province, the PRC	140,000,000	50.675%	70,945,000

Property	Capital value in existing state as at 30th September, 2004 (HK\$)	Interest attributable to the Group in Percentage	Capital value attributable to the Group as at 30th September, 2004 (HK\$)
4. The industrial complex of Elec & Eltek Display Technology (Guangzhou) Company Limited, No. 4 Hongming Road, Eastern District, Guangzhou Economic & Technological Development District, Guangzhou City, Guangdong Province, the PRC	49,000,000	98.000%	48,020,000
5. Room 703, No. 207 Qingnian Road, Guangzhou Economic & Technological Development District, Guangzhou City, Guangdong Province, the PRC	140,000	50.675%	70,945
6. Rooms 501, 502, 503, 601, 602, 603, 701, 702, 703, 801, 802, 803, 901, 902 and 903 of No. 44 Zhicheng Main Road, and Room 904 of No. 46 Zhicheng Main Road, Guangzhou Economic & Technological Development District, Guangzhou City, Guangdong Province, the PRC	1,940,000	50.675%	983,095
7. Rooms 904 and 905 of No. 4 Jinyou Street, Guangzhou Economic & Technological Development District, Guangzhou City, Guangdong Province, the PRC	280,000	50.675%	141,890

Property	Capital value in existing state as at 30th September, 2004 (HK\$)	Interest attributable to the Group in Percentage	Capital value attributable to the Group as at 30th September, 2004 (HK\$)
8. Rooms 1305, 1306, 13A03, 13A05, 1602 and 1605 of Jinlan Court, Hongyuan Garden, No. 100 Guantai Road (Huangcun Section) Huangcun District, Dongguan City, Guangdong Province, the PRC	970,000	50.675%	491,548
9. The industrial complex of Shenzhen Pacific Insulating Material Co. Ltd. (now known as Elec & Eltek Electronic Park), Majialong Gongye Road, Nanshan District, Shenzhen City, Guangdong Province, the PRC	18,500,000	48.348%	8,944,380
10. Rooms 401 and 501 of Block 22, Nanyuan Xin Cun, Taoyuan East Road, Nanshan District, Shenzhen City, Guangdong Province, the PRC	760,000	48.348%	367,445
11. Room 402, No. 7 Erfang, Chiwei Cun, Shenzhen City, Guangdong Province, the PRC	No commercial value	48.348%	No commercial value



Property	Capital value in existing state as at 30th September, 2004 (HK\$)	Interest attributable to the Group in Percentage	Capital value attributable to the Group as at 30th September, 2004 (HK\$)
12. The industrial complex of Kai Ping Elec & Eltek Company Limited, No. 318 Siqian West Road, Shagang District, Kaiping City, Guangdong Province, the PRC	136,000,000	46.590%	63,362,400
13. Rooms 402, 403, 404, 503, 504, 603, 604 and 703 of No. 1 of Block A together with Storeroom Nos. 10, 11, 12, 13, 26, 27, 28, and 29 on Level 1 of No. 11 of Block A, Yinxi Garden, Guangming Road, Changsha, Sanfu District, Kaiping City, Guangdong Province, the PRC	1,100,000	46.590%	512,490
14. Rooms 602, 603, 604, 605, 703, 705 and 708, No. 103 Guangming Road together with Storeroom Nos. 21, 32, 46 and 52 on Mezzanine Floor and Storeroom Nos. 38, 54 and 57 on Level 2 of Block 2, No. 103 Guangming Road, Changsha, Sanfu District, Kaiping City, Guangzhou Province, the PRC	380,000	46.590%	177,042

Property	Capital value in existing state as at 30th September, 2004 (HK\$)	Interest attributable to the Group in Percentage	Capital value attributable to the Group as at 30th September, 2004 (HK\$)
15. Room 704, No. 11 Dongjiao Nanqu Lane 1, Changsha, Sanfu District, Kaiping City, Guangdong Province, the PRC	67,000	46.590%	31,215
16. Room 204 together with Storeroom Nos. 4 and 25 on Mezzanine Floor of Block 2, No. 6 Dongjiao Road, Sanfu District, Kaiping City, Guangdong Province, the PRC	80,000	46.590%	37,272
17. Room 503 together with Storeroom No. 4 on Level 1, No. 29 Xingguang Road, Changsha, Sanfu District, Kaiping City, Guangdong Province, the PRC	75,000	46.590%	34,943
18. Room 601 together with Storeroom No. 31 on Level 1, Block 3, No. 10 Xinchang East Road, Sanfu District, Kaiping City, Guangdong Province, the PRC	67,000	46.590%	31,215

Property	Capital value in existing state as at 30th September, 2004 (HK\$)	Interest attributable to the Group in Percentage	Capital value attributable to the Group as at 30th September, 2004 (HK\$)
19. The industrial complex of Nanjing Elec & Eltek Electronic Co., Ltd., No. 3 Hengtong Avenue, Xingang Development Area, Qixia District, Nanjing City, Jiangsu Province, the PRC	18,200,000	38.316%	6,973,512

**Group III — Property interests held under Development by the Group in the PRC**

20. Development site for the industrial complex of Guangzhou Elec & Eltek High Density Interconnect Technology No.1 Company Limited, Lianyun Road, Eastern District, Guangzhou Economic & Technological Development District, Guangzhou City, Guangdong Province, the PRC	120,000,000	50.675%	60,810,000
21. Development site for the industrial complex of Kaiping Elec & Eltek No.5 Company Limited, Shagang District, Kaiping City, Guangdong Province, the PRC	30,000,000	46.590%	13,977,000

**Group IV — Property interests held by the Group in Thailand**

22. Rojana Industrial Park at 1/68 Moo 5, Tambon Khanham, Amphur Uthai, Ayutthaya 13210, Thailand	30,000,000	51.709%	15,512,700
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Property	Capital value in existing state as at 30th September, 2004 (HK\$)	Interest attributable to the Group in Percentage	Capital value attributable to the Group as at 30th September, 2004 (HK\$)
23. Industrial Plant at 134 Moo 2, Soi Sriyothin, Pakred-Pathumthani Road, Tambon Bang-Khayang, Amphur Muang, Pathumthani 12000, Thailand	119,000,000	51.709%	61,533,710
24. #99/71, 72, 73, 74, 75, 76, 77, Chuan Chuen Floraville, Pakred-Pathumthani Road, Tambon Bang-Khuwat, Amphur Muang, Pathumthani 12000, Thailand	6,000,000	51.709%	3,102,540
<b>Total</b>	<b><u>777,859,000</u></b>		<b><u>413,552,252</u></b>

## VALUATION CERTIFICATE

## Group I — Property interests held and occupied by the Group in Hong Kong

Property	Description and Tenure	Particulars of occupancy	Capital value in existing state as at 30th September, 2004
1. Units A1, B5 and B6 on 1st Floor, whole of 2nd Floor (see Note 1), Units A10 and B9 on 3rd Floor, whole of 4th Floor, Unit A8 with Flat Roof on 5th Floor and Unit B9 on 10th Floor, Merit Industrial Centre, No. 94 To Kwa Wan Road, To Kwa Wan, Kowloon, Hong Kong	<p>The property comprises fifty-three units on the 1st to 5th and 10th Floor of a 14-storey (including a basement level for car parking) industrial building, which was completed in 1986.</p> <p>The total gross floor area of the property is approximately 13,764.12 sq.m. (148,157 sq.ft.) exclusive of a total flat roof area of approximately 70.94 sq.m. (764 sq.ft.).</p> <p>Kowloon Inland Lot No. 6393 is held under a Government Lease for a term of 75 years commenced from 5th October, 1953, renewable for a further term of 75 years.</p>	The property is currently occupied by the Group as workshop and ancillary office.	<p>HK\$99,000,000</p> <p>(51.709% interest attributable to the Group: HK\$51,191,910)</p>
All those 1166/5600 undivided parts or shares of and in The Remaining Portion of Kowloon Inland Lot No. 6393			

*Notes:*

- (1) The ownership of whole of 2nd Floor includes all units on 2nd Floor together with portions of flat roofs appertaining to Units A7, A9 and B12.
- (2) The registered owner of Units A1, B5 and B6 on 1st Floor, Units A1 to A4, A6, A9 with Flat Roof, A10, B1, B3 to B11 and B12 with Flat Roof on 2nd Floor, whole of 4th Floor, and Unit A8 on 5th Floor of the property is Elec & Eltek Multilayer PCB Limited, a wholly-owned subsidiary of Elec & Eltek International Company Limited (hereinafter referred to as "EEIC") which is a 51.709% owned subsidiary of the Company, by six assignments vide Memorial Nos. 8366398, 8366399, 8366400, 8366402, 8366403 and 8366407 all dated 31st January, 2000.
- (3) The registered owner of Units A7 with Flat Roof, A8, A11 and A12 on 2nd Floor, A10 and B9 on 3rd Floor and Unit B9 on 10th Floor of the property is Elec & Eltek International Limited, a wholly-owned subsidiary of EEIC, by four assignments vide Memorial Nos. 8366401, 8366404, 8366405 and 8366406 all dated 31st January, 2000.

Property	Description and Tenure	Particulars of occupancy	Capital value in existing state as at 30th September, 2004
2. Units A11 and B10 on 3rd Floor, Merit Industrial Centre, No. 94 To Kwa Wan Road, To Kwa Wan, Kowloon, Hong Kong  All those 75/5600 undivided parts or shares of and in The Remaining Portion of Kowloon Inland Lot No. 6393	The property comprises two units on 3rd Floor of a 14-storey (including a basement level for car parking) industrial building, which was completed in 1986.  The total gross floor area of the property is approximately 888.15 sq.m. (9,560 sq.ft.).  Kowloon Inland Lot No. 6393 is held under a Government Lease for a term of 75 years commenced from 5th October, 1953, renewable for a further term of 75 years.	The property is currently occupied by the Group as office.	HK\$6,300,000  (100% interest attributable to the Group: HK\$6,300,000)

*Note:*

The registered owner of the property is Elec & Eltek Computers Limited, a wholly-owned subsidiary of the Company, by an assignment vide Memorial No. 6593245 dated 30th March, 1996.

## Group II — Property interests held and/or occupied by the Group in the PRC

Property	Description and Tenure	Particulars of occupancy	Capital value in existing state as at 30th September, 2004
3. The industrial complex of Elec & Eltek (Guangzhou) Electronic Company Limited, Nos. 3 and 8 Linjiang Road, and No. 4 Shawan Third Street, Guangzhou Economic & Technological Development District, Guangzhou City, Guangdong Province, the PRC	<p>The property comprises an industrial complex occupying three neighbouring site with a total site area of approximately 25,907.19 sq.m. (278,865 sq.ft.).</p> <p>The industrial complex comprises a main production building of 3 storeys, a composite building of 7 storeys and a number of 1-storey structures for guardhouse and sewage treatment purposes. All buildings are built in the period between 1995 and 1997.</p> <p>The total gross floor area of the property is approximately 43,444.20 sq.m. (467,633 sq.ft.).</p> <p>The land use rights of the three parcels of land have been granted for a term of 50 years expiring on 31st December, 2043, 30th December, 2043 and 10th February, 2046 respectively for industrial use.</p>	The property is currently owner-occupied for industrial and ancillary uses.	<p>HK\$140,000,000</p> <p>(50.675% interest attributable to the Group: HK\$70,945,000)</p>

*Notes:*

- (1) Pursuant to the Certificate for Real Estate 穗房地證字第 0588379 號 (Sui Fang Di Zheng Zi No. 0588379) issued by 廣州市國土局房管局 (Building Administration Bureau of Guangzhou Municipal State-owned Land Bureau) on 8th August, 2000, the land use rights of the property, comprising a site area of 16,913.00 sq.m. with a total gross floor area of 27,135.85 sq.m. are held by Elec & Eltek (Guangzhou) Electronic Company Limited, a 98% owned subsidiary of EEIC, for a term of 50 years expiring 31st December, 2043 for industrial use.
- (2) Pursuant to the Certificate for Real Estate 穗房地證字第 0513570 號 (Sui Fang Di Zheng Zi No. 0513570) issued by Building Administration Bureau of Guangzhou Municipal State-owned Land Bureau on 11th November, 1999, the land use rights of the property, comprising a site area of 5,005.19 sq.m. with a total gross floor area of 15,829.17 sq.m. are held by Elec & Eltek (Guangzhou) Electronic Company Limited for a term expiring on 10th February, 2046 for industrial use.
- (3) Pursuant to the Certificate for Real Estate Title 粵房地證字第 C0748084 號 (Yue Fang Di Zheng Zi No. C0748084) issued by 廣州市國土資源和房屋管理局 (Guangzhou Municipal State-owned Land Resources and Building Administration Bureau) on 5th February, 2002, the land use rights of the property, comprising a site area of 3,989.00 sq.m. with a total gross floor area of 479.18 sq.m. are held by Elec & Eltek (Guangzhou) Electronic Company Limited for a term of 50 years expiring on 30th December, 2043 for industrial use.

- (4) The opinion of the Group's legal adviser on PRC law states that:
- a) Elec & Eltek (Guangzhou) Electronic Company Limited is in possession of a proper legal title to the property and is entitled to occupy, use, profit from, transfer, sell, lease and mortgage the property at no extra land premium.
  - b) The land premium for the grant of land use rights of the property has been paid in full.
  - c) The property is free from encumbrances.
- (5) The status of the title and grant of major approvals and licences in accordance with the information provided to us by the Group and the aforesaid legal opinion are as follows:

Certificate for Real Estate	Yes
Certificate for Real Estate Title	Yes
Contract for Transfer of Land Use Rights	Yes
Permit for Construction Land Use	Yes
Permit for Construction Works	Yes



Property	Description and Tenure	Particulars of occupancy	Capital value in existing state as at 30th September, 2004
4. The industrial complex of Elec & Eltek Display Technology (Guangzhou) Company Limited, No. 4 Hongming Road, Eastern District, Guangzhou Economic & Technological Development District, Guangzhou City, Guangdong Province, the PRC	<p>The property comprises an industrial complex erected over a parcel of land with a site area of approximately 30,002.94 sq.m. (322,951 sq.ft.).</p> <p>The industrial complex comprises a main production building of 2 storeys together with 5 blocks of ancillary buildings all built in about 1999.</p> <p>The total gross floor area of the property is approximately 14,290.14 sq.m. (153,819 sq.ft.).</p> <p>The land use rights of the property have been granted for a term of 50 years expiring on 27th November, 2047 for industrial / mine / storage uses.</p>	The property is currently owner-occupied for industrial and ancillary uses.	<p>HK\$49,000,000</p> <p>(98% interest attributable to the Group: HK\$48,020,000)</p>

## Notes:

- (1) Pursuant to the Certificate for Real Estate Title 粵房地證字第 C2160770 號 (Yue Fang Di Zheng Zi No. C2160770) issued by Guangzhou Municipal State-owned Land Resources and Building Administration Bureau on 1st September, 2004, the land use rights of the property, comprising a site area of 30,002.9442 sq.m. with a total gross floor area of 14,290.1420 sq.m. is held by Elec & Eltek Display Technology (Guangzhou) Company Limited, a 98% owned subsidiary of the Company, for a term of 50 years expiring 27th November, 2047 for industrial / mine / storage uses.
- (2) According to the above-mentioned Certificate for Real Estate Title, the land premium has been paid.
- (3) The opinion of the Group's legal adviser on PRC law states that
  - a) Elec & Eltek Display Technology (Guangzhou) Company Limited is in possession of a proper legal title to the property and is entitled to occupy, use, profit from, transfer, sell, lease and mortgage the property at no extra land premium.
  - b) The land premium for the grant of land use rights of the property has been paid in full.
  - c) The property is free from encumbrances.
- (4) The status of the title and grant of major approvals and licences in accordance with the information provided to us by the Group and the aforesaid legal opinion are as follows:

Certificate for Real Estate Title	Yes
Contract for Transfer of Land Use Rights	Yes

Property	Description and Tenure	Particulars of occupancy	Capital value in existing state as at 30th September, 2004
5. Room 703, No. 207 Qingnian Road, Guangzhou Economic & Technological Development District, Guangzhou City, Guangdong Province, the PRC	<p>The property comprises a residential unit in a 9-storey residential building completed in about 1993.</p> <p>The gross floor area of the property is approximately 70.39 sq.m. (758 sq.ft.).</p> <p>The land use rights of the land on which the building is erected have been granted for a term expiring on 12th December, 2043 for residential use.</p>	The property is currently occupied by the Group as staff quarters.	<p>HK\$140,000</p> <p>(50.675% interest attributable to the Group: HK\$70,945)</p>

*Notes:*

- (1) Pursuant to the Certificate for Real Estate 穗房地證字第 0588201號 (Sui Fang Di Zheng Zi No. 0588201) issued by Building Administration Bureau of Guangzhou Municipal State-owned Land Bureau on 14th April, 2000, the title to the property is vested to Elec & Eltek (Guangzhou) Electronic Company Limited, a 98% owned subsidiary of EEIC, for residential use.
- (2) The opinion of the Group's legal adviser on PRC law states that:
  - a) Elec & Eltek (Guangzhou) Electronic Company Limited is in possession of a proper legal title to the property and is entitled to occupy, use, profit from, transfer, sell, lease and mortgage the property at no extra land premium.
  - b) The property is free from encumbrances.
- (3) The status of the title and grant of major approvals and licences in accordance with the information provided to us by the Group and the aforesaid legal opinion are as follows:

Certificate for Real Estate

Yes

Property	Description and Tenure	Particulars of occupancy	Capital value in existing state as at 30th September, 2004
6. Rooms 501, 502, 503, 601, 602, 603, 701, 702, 703, 801, 802, 803, 901, 902 and 903 of No. 44 Zhicheng Main Road, and Room 904 of No. 46 Zhicheng Main Road, Guangzhou Economic & Technological Development District, Guangzhou City, Guangdong Province, the PRC	<p>The property comprises 16 residential units in a 9-storey composite building completed in about 1993.</p> <p>The total gross floor area of the property is approximately 1,228.45 sq.m. (13,223 sq.ft.).</p> <p>The land use rights of the land on which the building is erected have been granted for a term expiring on 29th January, 2063 for residential use.</p>	The property is currently occupied by the Group as staff quarters.	<p>HK\$1,940,000</p> <p>(50.675% interest attributable to the Group: HK\$983,095)</p>

*Notes:*

- (1) Pursuant to sixteen Certificates for Real Estate Title all issued by Building Administration Bureau of Guangzhou Municipal State-owned Land Bureau, the title to the property is vested to Elec & Eltek (Guangzhou) Electronic Company Limited, a 98% owned subsidiary of EEIC, for residential use. Details of the Certificates for Real Estate Title are listed as follows:

Room	Gross Floor Area (sq.m.)	Certificate for Real Estate Title No.	Date of Issue
<i>No. 44 Zhicheng Main Road</i>			
501	96.0893	穗房地證字第 0588200 號 (Sui Fang Di Zheng Zi No. 0588200)	31st March, 2000
502	68.9623	穗房地證字第 0588393 號 (Sui Fang Di Zheng Zi No. 0588393)	30th March, 2000
503	68.0703	穗房地證字第 0588199 號 (Sui Fang Di Zheng Zi No. 0588199)	31st March, 2000
601	96.0893	穗房地證字第 0588197 號 (Sui Fang Di Zheng Zi No. 0588197)	30th March, 2000
602	68.9623	穗房地證字第 0588196 號 (Sui Fang Di Zheng Zi No. 0588196)	30th March, 2000
603	68.0703	穗房地證字第 0588194 號 (Sui Fang Di Zheng Zi No. 0588194)	30th March, 2000
701	96.0893	穗房地證字第 0588395 號 (Sui Fang Di Zheng Zi No. 0588395)	30th March, 2000
702	68.9623	穗房地證字第 0588193 號 (Sui Fang Di Zheng Zi No. 0588193)	30th March, 2000
703	68.0703	穗房地證字第 0588306 號 (Sui Fang Di Zheng Zi No. 0588306)	30th March, 2000
801	96.0893	穗房地證字第 0588308 號 (Sui Fang Di Zheng Zi No. 0588308)	30th March, 2000
802	68.9623	穗房地證字第 0588307 號 (Sui Fang Di Zheng Zi No. 0588307)	30th March, 2000
803	68.0703	穗房地證字第 0588394 號 (Sui Fang Di Zheng Zi No. 0588394)	30th March, 2000
901	96.0893	穗房地證字第 0588304 號 (Sui Fang Di Zheng Zi No. 0588304)	30th March, 2000
902	68.9623	穗房地證字第 0588303 號 (Sui Fang Di Zheng Zi No. 0588303)	24th March, 2000
903	68.0703	穗房地證字第 0588301 號 (Sui Fang Di Zheng Zi No. 0588301)	30th March, 2000
<i>No. 46 Zhicheng Main Road</i>			
904	62.8381	穗房地證字第 0588302 號 (Sui Fang Di Zheng Zi No. 0588302)	30th March, 2000

- (2) The opinion of the Group's legal adviser on PRC law states that:
- a) Elec & Eltek (Guangzhou) Electronic Company Limited is in possession of a proper legal title to the property and is entitled to occupy, use, profit from, transfer, sell, lease and mortgage the property at no extra land premium.
  - b) The property is free from encumbrances.
- (3) The status of the title and grant of major approvals and licences in accordance with the information provided to us by the Group and the aforesaid legal opinion are as follows:

Certificates for Real Estate

Yes

Property	Description and Tenure	Particulars of occupancy	Capital value in existing state as at 30th September, 2004
7. Rooms 904 and 905 of No. 4 Jinyou Street, Guangzhou Economic & Technological Development District, Guangzhou City, Guangdong Province, the PRC	<p>The property comprises 2 residential units in a 9-storey composite building completed in about 1993.</p> <p>The total gross floor area of the property is approximately 164.45 sq.m. (1,770 sq.ft.).</p> <p>The land use rights of the land on which the building is erected have been granted for a term expiring on 5th January, 2063 for residential use.</p>	The property is currently occupied by the Group as staff quarters.	<p>HK\$280,000</p> <p>(50.675% interest attributable to the Group: HK\$141,890)</p>

*Notes:*

- (1) Pursuant to two Certificates for Real Estate 穗房地證字第 0888079 號 and 穗房地證字第 0888080 號 (Sui Fang Di Zheng Zi Nos. 0888079 and 0888080) both issued by Building Administration Bureau of Guangzhou Municipal State-owned Land Bureau on 18th September, 2001, the title to the property is vested to Elec & Eltek (Guangzhou) Electronic Company Limited, a 98% owned subsidiary of EEIC, for residential use.
- (2) The opinion of the Group's legal adviser on PRC law states that:
  - a) Elec & Eltek (Guangzhou) Electronic Company Limited is in possession of a proper legal title to the property and is entitled to occupy, use, profit from, transfer, sell, lease and mortgage the property at no extra land premium.
  - b) The property is free from encumbrances.
- (3) The status of the title and grant of major approvals and licences in accordance with the information provided to us by the Group and the aforesaid legal opinion are as follows:

Certificates for Real Estate

Yes

Property	Description and Tenure	Particulars of occupancy	Capital value in existing state as at 30th September, 2004
8. Rooms 1305, 1306, 13A03, 13A05, 1602 and 1605 of Jinlan Court, Hongyuan Garden, No. 100 Guantai Road (Huangcun Section) Huangcun District, Dongguan City, Guangdong Province, the PRC	<p>The property comprises 6 residential units in a 17-storey (including a basement level for car parking purpose) composite building completed in about 1994.</p> <p>The total gross floor area of the property is approximately 504.00 sq.m. (5,425 sq.ft.).</p> <p>The land use rights of the land on which the building is erected have been granted for a term of 70 years commencing from 30th April, 1992 until 30th April, 2062 for commercial/residential use.</p>	The property is currently vacant.	<p>HK\$970,000</p> <p>(50.675% interest attributable to the Group: HK\$491,548)</p>

*Notes:*

- (1) Pursuant to six Certificates for Real Estate Title all issued by 東莞市人民政府 (Dongguan City People's Government), the title to the property is vested to Elec & Eltek (Guangzhou) Electronic Company Limited, a 98% owned subsidiary of EEIC, for residential use. Details of the Certificates for Real Estate Title are listed as follows:

Room	Gross Floor Area (sq.m.)	Certificate for Real Estate Title No.	Date of Issue
1305	84.00	粵房地證字第 1880054 號 (Yu Fang Di Zheng Zi No. 1880054)	2nd April, 1999
1306	84.00	粵房地證字第 1880050 號 (Yu Fang Di Zheng Zi No. 1880050)	2nd April, 1999
13A03	84.00	粵房地證字第 1880052 號 (Yu Fang Di Zheng Zi No. 1880052)	2nd April, 1999
13A05	84.00	粵房地證字第 1880053 號 (Yu Fang Di Zheng Zi No. 1880053)	2nd April, 1999
1602	84.00	粵房地證字第 1880046 號 (Yu Fang Di Zheng Zi No. 1880046)	2nd April, 1999
1605	84.00	粵房地證字第 1880055 號 (Yu Fang Di Zheng Zi No. 1880055)	2nd April, 1999

- (2) The opinion of the Group's legal adviser on PRC law states that:
- Elec & Eltek (Guangzhou) Electronic Company Limited is in possession of a proper legal title to the property and is entitled to occupy, use, profit from, transfer, sell, lease and mortgage the property at no extra land premium.
  - The property is free from encumbrances.
- (3) The status of the title and grant of major approvals and licences in accordance with the information provided to us by the Group and the aforesaid legal opinion are as follows:

Certificates for Real Estate Title	Yes
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Property	Description and Tenure	Particulars of occupancy	Capital value in existing state as at 30th September, 2004
9. The industrial complex of Shenzhen Pacific Insulating Material Co. Ltd. (now known as Elec & Eltek Electronic Park), Majialong Gongye Road, Nanshan District, Shenzhen City, Guangdong Province, the PRC	<p>The property comprises an industrial complex erected over a parcel of land with a site area of approximately 9,063.30 sq.m. (97,557 sq.ft.).</p> <p>The industrial complex comprises a main production building of 2 storeys, a composite building of 3 storeys and a number of 1-storey structures for warehouses and ancillary facilities purposes. All buildings and structures were built in the period between 1987 and 1988.</p> <p>The total gross floor area of the property (excluding the ancillary structures) is approximately 5,120.77 sq.m. (55,120 sq.ft.).</p> <p>The land use rights of the property have been granted for a term of 50 years commencing from 15th May, 1987 and expiring on 14th May, 2037 for industrial use.</p>	The property is currently owner-occupied for industrial and ancillary uses.	HK\$18,500,000  (48.348% interest attributable to the Group: HK\$8,944,380)

*Notes:*

- (1) Pursuant to the Certificate for Real Estate 深房地字第 4000118835 號 (Shen Fang Di Zi No. 4000118835) issued by 深圳市規劃與國土資源局 (Shenzhen City Planning and State-owned Land Resources Bureau), the land use rights of the land in the property having a site area of 9,063.30 sq.m. together with the main production building and the composite buildings erected thereon with a total gross floor area of 5,120.77 sq.m. are held by Shenzhen Pacific Insulating Material Co. Ltd., an approximately 93.5% owned subsidiary of EEIC, for industrial uses.
- (2) The opinion of the Group's legal adviser on PRC law states that:
  - a) Shenzhen Pacific Insulating Material Co. Ltd. is in possession of a proper legal title to the land use rights together with the main production building and the composite building in the property and is entitled to occupy, use, profit from, transfer, sell, lease and mortgage the property at no extra land premium.
  - b) The land premium for the grant of land use rights of the property has been paid in full.
  - c) The property is free from encumbrances.
- (3) The status of the title and grant of major approvals and licences in accordance with the information provided to us by the Group and the aforesaid legal opinion are as follows:

Certificate for Real Estate	Yes
Contract for Land Use	Yes

Property	Description and Tenure	Particulars of occupancy	Capital value in existing state as at 30th September, 2004
10. Rooms 401 and 501 of Block 22, Nanyuan Xin Cun, Taoyuan East Road, Nanshan District, Shenzhen City, Guangdong Province, the PRC	<p>The property comprises two residential units in a 7-storey residential building completed in 1991.</p> <p>The total gross floor area of the property is approximately 202.06 sq.m. (2,175 sq.ft.).</p> <p>The land use rights of the land on which the building is erected have been granted for a term of 50 years commencing from 9th July, 1985 until 8th July, 2035 for residential use.</p>	The property is currently owner-occupied as staff quarters.	<p>HK\$760,000</p> <p>(48.348% interest attributable to the Group: HK\$367,445)</p>

*Notes:*

- (1) Pursuant to two Certificates for Real Estate 深房地字第 0300740 號 and 深房地字第 0300741 號 (Shen Fang Di Zi Nos. 0300740 and 0300741) both issued by 深圳市人民政府 (Shenzhen City People's Government) on 27th June, 1994, the title to the property is vested to Shenzhen Pacific Insulating Material Co. Ltd., an approximately 93.5% owned subsidiary of EEIC.
- (2) The opinion of the Group's legal adviser on PRC law states that:
  - a) Shenzhen Pacific Insulating Material Co. Ltd. is in possession of a proper legal title to the property is in possession of a proper legal title to the property and is entitled to occupy, use, profit from, transfer, sell, lease and mortgage the property at no extra land premium.
  - b) The property is free from encumbrances.
- (3) The status of the title and grant of major approvals and licences in accordance with the information provided to us by the Group and the aforesaid legal opinion are as follows:

Certificates for Real Estate

Yes



Property	Description and Tenure	Particulars of occupancy	Capital value in existing state as at 30th September, 2004
11. Room 402, No. 7 Erfang, Chiwei Cun, Shenzhen City, Guangdong Province, the PRC	<p>The property comprises one residential unit in a 7-storey residential building appeared to have been completed in the 1980's.</p> <p>The gross floor area of the property is approximately 77.79 sq.m. (837 sq.ft.).</p>	The property is currently vacant.	No commercial value

*Notes:*

- (1) We have not been provided with any document regarding the title to the property.
- (2) The opinion of the Group's legal adviser on PRC law has not commented on the property.
- (3) We have, in the absence of any legal opinion, prepared our valuation on the following bases:
  - a) Shenzhen Pacific Insulating Material Co. Ltd., an approximately 93.5% owned subsidiary of EEIC, is in possession of a proper legal title to the property but is not entitled to transfer the property with the residual term of its land use rights at no extra land premium or other onerous payment to the government.
  - b) All land premium and other costs of ancillary utility services have been settled in full.
  - c) The property, whether as a whole or on a strata-titled basis, may not be disposed of freely to both local and overseas purchasers.
- (4) The status of the title and grant of major approvals and licences in accordance with the information provided to us by the Company are as follows:

Certificate for Real Estate Title

No

Property	Description and Tenure	Particulars of occupancy	Capital value in existing state as at 30th September, 2004
12. The industrial complex of Kai Ping Elec & Eltek Company Limited, No. 318 Siqian West Road, Shagang District, Kaiping City, Guangdong Province, the PRC	<p>The property comprises an industrial complex occupying a site area of approximately 96,989.64 sq.m. (1,043,996 sq.ft.).</p> <p>The industrial complex comprises approximately 18 blocks of buildings and a number of ancillary structures for factory, warehouse, dormitory and other ancillary uses. The buildings and structures were built in the period between 1993 and 2004.</p> <p>The total gross floor area of the property (excluding the ancillary structures) is approximately 49,325.96 sq.m. (530,945 sq.ft.).</p> <p>The land use rights of the property have been granted for a term of 50 years commencing from 30th July, 1997 to 30th July, 2047 for industrial use.</p>	The property is currently occupied by the Group for manufacturing and ancillary office purposes.	<p>HK\$136,000,000</p> <p>(46.590% interest attributable to the Group: HK\$63,362,400)</p>

## Notes:

- (1) Pursuant to the Certificate for State-owned Land Use 開府國用(2001)字第 01454 號 (Kai Fu Guo Yong (2001) Zi No. 01454) issued by 開平市人民政府 (Kaiping City People's Government) on 19th November, 2001, the land use rights of a parcel of land with a site area of 96,989.64 sq.m. have been granted to Kai Ping Elec & Eltek Company Limited, a 90.1% owned subsidiary of EEIC, for a term of 50 years from 30th July, 1997 to 30th July, 2047 for industrial use.
- (2) Pursuant to sixteen Certificates for Real Estate Title all issued by Kaiping City People's Government, the title to 16 blocks of buildings, having a total gross floor area of 46,071.16 sq.m., in the property is vested to Kai Ping Elec & Eltek Company Limited. Details of the Certificates for Real Estate Title are listed as follows:

Block No.	Name of Building	Gross Floor Area (sq.m.)	Certificate for Real Estate Title No.	Date of Issue
01	Workshop	11,745.82	粵房地證字第 C2170160 號 (Yue Fang Di Zheng Zi No. C2170160)	16th October, 2003
02	Workshop	9,462.60	粵房地證字第 C0568320 號 (Yue Fang Di Zheng Zi No.C0568320)	26th December, 2001
03	Workshop	10,407.48	粵房地證字第 C0836945 號 (Yue Fang Di Zheng Zi No. C0836945)	15th May, 2002
21	Transformer Room	202.40	粵房地證字第 C2170159 號 (Yue Fang Di Zheng Zi No. C2170159)	16th October, 2003
22	Water Treatment Plant	180.00	粵房地證字第 C2170158 號 (Yue Fang Di Zheng Zi No. C2170158)	16th October, 2003
23	Sewage Treatment Plant	224.42	粵房地證字第 C2359818 號 (Yue Fang Di Zheng Zi No. C2359818)	13th February, 2004
24	Workshop	73.47	粵房地證字第 C0836943 號 (Yue Fang Di Zheng Zi No. C0836943)	15th May, 2002

Block No.	Name of Building	Gross Floor Area (sq.m.)	Certificate for Real Estate Title No.	Date of Issue
26	Electric Plant Room	126.98	粵房地證字第 C2359819 號 (Yue Fang Di Zheng Zi No. C2359819)	13th February, 2004
52	Composite Building	1,634.57	粵房地證字第 C0836941 號 (Yue Fang Di Zheng Zi No. C0836941)	15th May, 2002
61	Staff Quarters	1,751.64	粵房地證字第 C2170157 號 (Yue Fang Di Zheng Zi No. C2170157)	16th October, 2003
62	Staff Quarters	1,751.64	粵房地證字第 C2357493 號 (Yue Fang Di Zheng Zi No. C2357493)	6th February, 2004
63	Staff Quarters	1,751.64	粵房地證字第 C2359820 號 (Yue Fang Di Zheng Zi No. C2359820)	13th February, 2004
64	Staff Quarters	1,740.82	粵房地證字第 C2359817 號 (Yue Fang Di Zheng Zi No. C2359817)	13th February, 2004
65	Staff Quarters	1,672.56	粵房地證字第 C0836944 號 (Yue Fang Di Zheng Zi No. C0836944)	15th May, 2002
66	Staff Quarters	1,672.56	粵房地證字第 C0836942 號 (Yue Fang Di Zheng Zi No. C0836942)	15th May, 2002
67	Staff Quarters	1,672.56	粵房地證字第 C0836940 號 (Yue Fang Di Zheng Zi No. C0836940)	15th May, 2002
(3)	Pursuant to the Construction Works Completion Report dated 31st July, 2001, the construction works of the Staff Quarters Block No. 8, having a gross floor area of approximately 1,828 sq.m., were completed.			
(4)	We have been advised that the applications for the grant of Certificates for Real Estate Title regarding the Staff Quarters Block No. 8 as well as the Canteen which has a gross floor area of approximately 1,426.80 sq.m. are currently in process.			
(5)	The opinion of the Group's legal adviser on PRC law states that:			
a)	Kai Ping Elec & Eltek Company Limited is in possession of a proper legal title to the land use rights together with the buildings (except for the Canteen and Staff Quarters Block No. 8, the Certificate of Real Estate Title of which are being processed) in the property and is entitled to occupy, use, profit from, transfer, sell, lease and mortgage the property (except for the canteen and staff quarters buildings) at no extra land premium.			
b)	Kai Ping Elec & Eltek Company Limited cannot transfer, sell or mortgage the Canteen and/or the Staff Quarters Block No. 8 until and unless obtaining the respective Certificates of Real Estate Title, the applications of which are in progress.			
c)	The land premium for the grant of land use rights of the property has been paid in full.			
d)	The property is free from encumbrances.			
(6)	We have relied on the aforesaid legal opinion and prepared our valuation on the following bases:			
a)	The Certificates for Real Estate Title for the Canteen and Staff Quarters Block 8 will have been obtained.			
b)	The design and construction of the property are in compliance with local planning regulations and have been approved by the relevant authorities.			
(7)	The status of the title and grant of major approvals and licences in accordance with the information provided to us by the Group are as follows:			
	Certificate for State-owned Land Use			Yes
	Certificates for Real Estate Title (Part)			Yes
	Construction Works Completion Report (Staff Quarters Block No. 8)			Yes

Property	Description and Tenure	Particulars of occupancy	Capital value in existing state as at 30th September, 2004
13. Rooms 402, 403, 404, 503, 504, 603, 604 and 703 of No. 1 of Block A together with Storeroom Nos. 10, 11, 12, 13, 26, 27, 28 and 29 on Level 1 of No. 11 of Block A, Yinxi Garden, Guangming Road, Changsha, Sanfu District, Kaiping City, Guangdong Province, the PRC	<p>The subject property comprises a total of 8 residential units on various levels together with 8 storerooms on Level 1 in a 8-storey composite building appear to be completed in 1990's.</p> <p>The total gross floor area of the units is approximately 841.63 sq.m. (9,059 sq.ft.) and the gross floor area of the storerooms is approximately 50.45 sq.m. (543 sq.ft.).</p>	The property is currently occupied by the Group as staff quarters.	<p>HK\$1,100,000</p> <p>(46.590% interest attributable to the Group: HK\$512,490)</p>

## Notes:

- (1) Pursuant to eight Certificates for Building Ownership all issued by Kaiping City People's Government, the title to the eight residential units in the property, having a total gross floor area of 841.63 sq.m., is vested to Kai Ping Elec & Eltek Company Limited, a 90.1% owned subsidiary of EEIC. Details of the Certificates for Building Ownership are listed as follows:

Rooms No.	Gross Floor Area (sq.m.)	Certificate for Building Ownership No.	Date of Issue
402	103.16	粵房地證字第 4317480 號 (Yue Fang Di Zheng Zi No. 4317480)	17th June, 1994
403	104.90	粵房地證字第 4317481 號 (Yue Fang Di Zheng Zi No. 4317481)	16th May, 1994
404	106.29	粵房地證字第 4317482 號 (Yue Fang Di Zheng Zi No. 4317482)	18th June, 1994
503	104.90	粵房地證字第 4317483 號 (Yue Fang Di Zheng Zi No. 4317483)	16th May, 1994
504	106.29	粵房地證字第 4317484 號 (Yue Fang Di Zheng Zi No. 4317484)	17th June, 1994
603	104.90	粵房地證字第 4317485 號 (Yue Fang Di Zheng Zi No. 4317485)	17th June, 1994
604	106.29	粵房地證字第 4317486 號 (Yue Fang Di Zheng Zi No. 4317486)	17th June, 1994
703	104.90	粵房地證字第 4317487 號 (Yue Fang Di Zheng Zi No. 4317487)	17th June, 1994

- (2) Pursuant to eight Certificates for Building Ownership all issued by Kaiping City People's Government, the title to the storerooms in the property, having a total gross floor area of 50.45 sq.m., is vested to Kai Ping Elec & Eltek Company Limited. Details of the Certificates for Building Ownership are listed as follows:

Storeroom No.	Gross Floor Area (sq.m.)	Certificate for Building Ownership No.	Date of Issue
10	5.90	粵房地證字第 4317488 號 (Yue Fang Di Zheng Zi No. 4317488)	20th June, 1994
11	6.24	粵房地證字第 4317489 號 (Yue Fang Di Zheng Zi No. 4317489)	20th June, 1994
12	6.31	粵房地證字第 4317490 號 (Yue Fang Di Zheng Zi No. 4317490)	20th June, 1994
13	6.31	粵房地證字第 4317491 號 (Yue Fang Di Zheng Zi No. 4317491)	20th June, 1994
26	6.10	粵房地證字第 4317492 號 (Yue Fang Di Zheng Zi No. 4317492)	20th June, 1994
27	6.44	粵房地證字第 4317493 號 (Yue Fang Di Zheng Zi No. 4317493)	20th June, 1994
28	6.52	粵房地證字第 4317494 號 (Yue Fang Di Zheng Zi No. 4317494)	20th June, 1994
29	6.63	粵房地證字第 4317495 號 (Yue Fang Di Zheng Zi No. 4317495)	20th June, 1994

- (3) The opinion of the Group's legal adviser on PRC law states that:
- a) Kai Ping Elec & Eltek Company Limited is in possession of a proper legal title to the property and is entitled to occupy, use, profit from, transfer, sell, lease and mortgage the property at no extra land premium.
  - b) The property is free from encumbrances.
- (4) The status of the title and grant of major approvals and licences in accordance with the information provided to us by the Group and the aforesaid legal opinion are as follows:

Certificates for Building Ownership

Yes

Property	Description and Tenure	Particulars of occupancy	Capital value in existing state as at 30th September, 2004
14. Rooms 602, 603, 604, 605, 703, 705 and 708 of No. 103 Guangming Road together with Storeroom Nos. 21, 32, 46 and 52 on Mezzanine Floor and Nos. 38, 54 and 57 on Level 2 of Block 2, No. 103 Guangming Road, Changsha, Sanfu District, Kaiping City, Guangzhou Province, the PRC	<p>The subject property comprises a total of 7 residential units on various level together with 4 storerooms on Mezzanine Floor and 3 storerooms on Level 2 in a 8-storey composite building appear to be completed in 1998.</p> <p>The total gross floor area of the units is approximately 632.54 sq.m. (6,809 sq.ft.) and the total gross floor area of the storerooms is approximately 54.81 sq.m. (590 sq.ft.).</p>	The property is currently occupied by the Group as staff quarters.	<p>HK\$380,000</p> <p>(46.590% interest attributable to the Group: HK\$177,042)</p>

## Notes:

- (1) Pursuant to seven Certificates for Real Estate Title all issued by Kaiping City People's Government, the title to the seven residential units in the property, having a total gross floor area of 632.54 sq.m., is vested to Kai Ping Elec & Eltek Company Limited, a 90.1% owned subsidiary of EEIC. Details of the Certificates for Building Ownership are listed as follows:

Rooms No.	Gross Floor Area (sq.m.)	Certificate for Real Estate Title No.	Date of Issue
602	85.67	粵房地證字第 C0568615 號 (Yue Fang Di Zheng Zi No. C0568615)	12th October, 2001
603	89.74	粵房地證字第 C0568614 號 (Yue Fang Di Zheng Zi No. C0568614)	12th October, 2001
604	89.74	粵房地證字第 C0568613 號 (Yue Fang Di Zheng Zi No. C0568613)	12th October, 2001
605	89.74	粵房地證字第 C0568616 號 (Yue Fang Di Zheng Zi No. C0568616)	12th October, 2001
703	89.74	粵房地證字第 C0568612 號 (Yue Fang Di Zheng Zi No. C0568612)	12th October, 2001
705	89.74	粵房地證字第 C0568611 號 (Yue Fang Di Zheng Zi No. C0568611)	12th October, 2001
708	98.17	粵房地證字第 C0568610 號 (Yue Fang Di Zheng Zi No. C0568610)	12th October, 2001

- (2) Pursuant to seven Certificates for Building Ownership all issued by Kaiping City People's Government, the title to the storerooms in the property, having a total gross floor area of 54.81 sq.m., is vested to Kai Ping Elec & Eltek Company Limited. Details of the Certificates for Building Ownership are listed as follows:

Storeroom No.	Gross Floor Area (sq.m.)	Certificate for Real Estate Title No.	Date of Issue
21	10.26	粵房地證字第 C0568608 號 (Yue Fang Di Zheng Zi No. C0568608)	12th October, 2001
32	7.21	粵房地證字第 C0568609 號 (Yue Fang Di Zheng Zi No. C0568609)	12th October, 2001
38	11.92	粵房地證字第 C0568602 號 (Yue Fang Di Zheng Zi No. C0568602)	12th October, 2001
46	6.18	粵房地證字第 C0568606 號 (Yue Fang Di Zheng Zi No. C0568606)	12th October, 2001
52	6.88	粵房地證字第 C0568607 號 (Yue Fang Di Zheng Zi No. C0568607)	12th October, 2001
54	6.18	粵房地證字第 C0568604 號 (Yue Fang Di Zheng Zi No. C0568604)	12th October, 2001
57	6.18	粵房地證字第 C0568605 號 (Yue Fang Di Zheng Zi No. C0568605)	12th October, 2001

- (3) The opinion of the Group's legal adviser on PRC law states that:
- a) Kai Ping Elec & Eltek Company Limited is in possession of a proper legal title to the property and is entitled to occupy, use, profit from, transfer, sell, lease and mortgage the property at no extra land premium.
  - b) The property is free from encumbrances.
- (4) The status of the title and grant of major approvals and licences in accordance with the information provided to us by the Group and the aforesaid legal opinion are as follows:

Certificates for Real Estate Title	Yes
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Property	Description and Tenure	Particulars of occupancy	Capital value in existing state as at 30th September, 2004
15. Room 704, No. 11 Dongjiao Nanqu Lane 1, Changsha, Sanfu District, Kaiping City, Guangdong Province, the PRC	The subject property comprises a residential flat in a 8-storey composite building appear to be completed in 1995.  The gross floor area of the property is approximately 110.58 sq.m. (1,190 sq.ft.).	The property is currently occupied by the Group as staff quarter.	HK\$67,000  (46.590% interest attributable to the Group: HK\$31,215)

*Notes:*

- (1) Pursuant to the Certificate for Real Estate Title 粵房地證字第 C1646984 號 (Yue Fang Di Zheng Zi No. C1646984) issued by Kaiping City People's Government on 28th April, 2003, the title to the property, having a gross floor area of 110.58 sq.m., is vested to Kai Ping Elec & Eltek Company Limited, a 90.1% owned subsidiary of EEIC.
- (2) The opinion of the Group's legal adviser on PRC law states that:
  - a) Kai Ping Elec & Eltek Company Limited is in possession of a proper legal title to the property and is entitled to occupy, use, profit from, transfer, sell, lease and mortgage the property at no extra land premium.
  - b) The property is free from encumbrances.
- (3) The status of the title and grant of major approvals and licences in accordance with the information provided to us by the Group and the aforesaid legal opinion are as follows:

Certificate for Real Estate Title

Yes



Property	Description and Tenure	Particulars of occupancy	Capital value in existing state as at 30th September, 2004
16. Room 204 together with Storeroom Nos. 4 and 25 on Mezzanine Floor of Block 2, No. 6 Dongjiao Road, Sanfu District, Kaiping City, Guangdong Province, the PRC	<p>The subject property comprises a residential flat on Level 2 together with two storerooms on Mezzanine Floor in a 7-storey composite building appeared to be completed in 1997.</p> <p>The gross floor area of the flat is approximately 98.71 sq.m. (1,063 sq.ft.) and the total gross floor area of the storerooms is approximately 11.38 sq.m. (122 sq.ft.).</p>	The property is currently occupied by the Group as staff quarter.	<p>HK\$80,000</p> <p>(46.590% interest attributable to the Group: HK\$37,272)</p>

*Notes:*

- (1) Pursuant to three Certificates for Real Estate Title 粵房地證字第 C1646987 號、粵房地證字第 C1649693 號 and 粵房地證字第 C1649694 號 (Yue Fang Di Zheng Zi Nos. C1646987, C1649693 and C1649694) issued by Kaiping City People's Government on 28th April, 2003, the title to the property, having a gross floor area of 110.09 sq.m., is vested to Kai Ping Elec & Eltek Company Limited, a 90.1% owned subsidiary of EEIC.
- (2) The opinion of the Group's legal adviser on PRC law states that:
  - a) Kai Ping Elec & Eltek Company Limited is in possession of a proper legal title to the property and is entitled to occupy, use, profit from, transfer, sell, lease and mortgage the property at no extra land premium.
  - b) The property is free from encumbrances.
- (3) The status of the title and grant of major approvals and licences in accordance with the information provided to us by the Group and the aforesaid legal opinion are as follows:

Certificates for Real Estate Title

Yes

Property	Description and Tenure	Particulars of occupancy	Capital value in existing state as at 30th September, 2004
17. Room 503 together with Storeroom No. 4 on Level 1, No. 29 Xingguang Road, Changsha, Sanfu District, Kaiping City, Guangdong Province, the PRC	<p>The subject property comprises a residential flat with a storeroom in a 8-storey composite building completed in 1995.</p> <p>The gross floor area of the flat is approximately 109.69 sq.m. (1,181 sq.ft.) and the gross floor area of the storeroom is approximately 4.82 sq.m. (52 sq.ft.).</p>	The property is currently occupied by the Group as staff quarter.	<p>HK\$75,000</p> <p>(46.590% interest attributable to the Group: HK\$34,943)</p>

*Notes:*

- (1) Pursuant to the Certificate for Real Estate Title 粵房地證字第 C1646985 號 和 粵房地證字第 C1646986 號 (Yue Fang Di Zheng Zi Nos. C1646985 and C1646986) issued by Kaiping City People's Government on 28th April, 2003, the title to the property, having a total gross floor area of 114.51 sq.m., is vested to Kai Ping Elec & Eltek Company Limited, a 90.1% owned subsidiary of EEIC.
- (2) The opinion of the Group's legal adviser on PRC law states that:
  - a) Kai Ping Elec & Eltek Company Limited is in possession of a proper legal title to the property and is entitled to occupy, use, profit from, transfer, sell, lease and mortgage the property at no extra land premium.
  - b) The property is free from encumbrances.
- (3) The status of the title and grant of major approvals and licences in accordance with the information provided to us by the Group and the aforesaid legal opinion are as follows:

Certificates for Real Estate Title

Yes

Property	Description and Tenure	Particulars of occupancy	Capital value in existing state as at 30th September, 2004
18. Room 601 together with Storeroom No. 31 on Level 1, Block 3, No. 10 Xinchang East Road, Sanfu District, Kaiping City, Guangdong Province, the PRC	<p>The subject property comprises a residential unit on Level 6 together with a storeroom on Level 1 in a 7-storey composite building appear to be completed in 2001.</p> <p>The gross floor area of the unit is approximately 102.19 sq.m. (1,100 sq.ft.) and the gross floor area of the storeroom is approximately 5.10 sq.m. (55 sq.ft.).</p>	The property is currently occupied by the Group as staff quarter.	<p>HK\$67,000</p> <p>(46.590% interest attributable to the Group: HK\$31,215)</p>

*Notes:*

- (1) Pursuant to two Certificates for Real Estate Title 粵房地證字第 C1640720 號 and 粵房地證字第 C1640721 號 (Yue Fang Di Zheng Zi Nos. C1640720 and C1640721) issued by Kaiping City People's Government on 30th May, 2003, the title to the property, having a total gross floor area of 107.29 sq.m., is vested to Kai Ping Elec & Eltek Company Limited, a 90.1% owned subsidiary of EEIC.
- (2) The opinion of the Group's legal adviser on PRC law states that:
  - a) Kai Ping Elec & Eltek Company Limited is in possession of a proper legal title to the property and is entitled to occupy, use, profit from, transfer, sell, lease and mortgage the property at no extra land premium.
  - b) The property is free from encumbrances.
- (3) The status of the title and grant of major approvals and licences in accordance with the information provided to us by the Group and the aforesaid legal opinion are as follows:

Certificates for Real Estate Title

Yes

Property	Description and Tenure	Particulars of occupancy	Capital value in existing state as at 30th September, 2004
19. The industrial complex of Nanjing Elec & Eltek Electronic Co., Ltd., No. 3 Hengtong Avenue, Xingang Development Area, Qixia District, Nanjing City, Jiangsu Province, the PRC	<p>The property comprises an industrial complex occupying a parcel of land with a site area of approximately 13,661.00 sq.m. (147,047 sq.ft.).</p> <p>The industrial complex comprises 5 blocks of 1 to 2-storey buildings and 3 blocks of 1-storey ancillary structures all built in about 2002.</p> <p>The total gross floor area of the buildings is approximately 5,505.12 sq.m. (59,257 sq.ft.) and the total gross floor area of the structures is approximately 1,120 sq.m. (12,056 sq.ft.).</p> <p>The land use rights of the land have been granted for a term of 50 years expiring on 27th November, 2050 for industrial purposes.</p>	The property is currently owner-occupied for industrial and ancillary uses.	<p>HK\$18,200,000</p> <p>(38.316% interest attributable to the Group: HK\$6,973,512)</p>

*Notes:*

- (1) Pursuant to the Certificate for State-owned Land Use 寧柘國用(2002)字第 06917 號 (Ning Qi Guo Yong (2002) No. 06917) issued by 南京市人民政府 (Nanjing Municipal People's Government) on 4th December, 2002, the land use rights of a parcel of land with a site area of 13,661.00 sq.m. have been granted to Nanjing Elec & Eltek Electronic Co., Ltd., an approximately 74.1% owned subsidiary of EEIC, for a term expiring on 27th November, 2050 for industrial use.
- (2) Pursuant to the Certificate for Building Ownership 寧房權證柘初字第 203336 號 (Ning Fang Quan Zheng Qi Chu Zi No. 203336) issued by 南京市房產管理局 (Nanjing Municipal Real Estate Property Administration Bureau) on 11th April, 2003, the title to five blocks of buildings, having a total gross floor area of 5,505.12 sq.m., is vested to Nanjing Elec & Eltek Electronic Co., Ltd.
- (3) Pursuant to two Approval Letters issued by Administration Commission of Nanjing Economic and Technological Development Area on 27th June, 2003 and 10th March, 2004 respectively, approvals have been granted to Nanjing Elec & Eltek Electronic Co., Ltd. for the construction of the canteen and workshop having a respective gross floor area of 190.08 sq.m. and 170.37 sq.m.
- (4) The opinion of the Group's legal adviser on PRC law states that:
  - a) Nanjing Elec & Eltek Electronic Co., Ltd. is in possession of a proper legal title to the land use rights together with the five blocks of buildings in the property and is entitled to occupy, use, profit from, transfer, sell, lease and mortgage such property at no extra land premium.
  - b) Nanjing Elec & Eltek Electronic Co., Ltd. has erected three blocks of simple structures having a total gross floor area of 1,120 sq.m. However, the ownership registration of such structures has not been made. Nanjing Elec & Eltek Electronic Co., Ltd. is entitled to the right to use such structures.
  - c) The land premium for the grant of land use rights of the property has been paid in full.
  - d) The property is free from encumbrances.

- (5) We have relied on the aforesaid legal opinion and prepared our valuation on the assumption that the design and construction of the property are in compliance with local planning regulations and have been approved by the relevant authorities.
- (6) The status of the title and grant of major approvals and licences in accordance with the information provided to us by the Group are as follows:

Certificate for State-owned Land Use	Yes
Certificate for Building Ownership (Part)	Yes
Approval Letters (re: construction of the canteen and workshop)	Yes

## Group III — Property interests held under development by the Group in the PRC

Property	Description and Tenure	Particulars of occupancy	Capital value in existing state as at 30th September, 2004
20. Development site for the industrial complex of Guangzhou Elec & Eltek High Density Interconnect Technology No.1 Company Limited, Lianyun Road, Eastern District, Guangzhou Economic & Technological Development District, Guangzhou, Guangdong Province, the PRC	<p>The property comprises a parcel of land with a site area of approximately 160,554.00 sq.m. (1,728,203 sq.ft.) for the development of an industrial complex by phases.</p> <p>The Phase I development, expected to be fully completed in late 2004, comprises 10 blocks of one to seven-storey buildings, including a main production building of 2 storeys, a composite building of 2 storeys, a staff quarters building of 7 storeys and a number of 1-storey ancillary structures for guardhouse, warehouse, dangerous goods storage, sewage treatment, etc. purposes.</p> <p>The total gross floor area of Phase I development is approximately 46,626.10 sq.m. (501,883 sq.ft.).</p> <p>The land use rights of the property have been granted for a term of 50 years commencing from 16th August, 2000 until 15th August, 2050 for industrial use.</p>	<p>The buildings in Phase I development of the industrial complex, except for the extension of the main production building which is under construction, is currently owner-occupied for industrial and ancillary uses or being vacant, whilst sites for the remaining phases are vacant land pending for detail planning.</p>	<p>HK\$120,000,000</p> <p>(50.675% interest attributable to the Group: HK\$60,810,000)</p>

*Notes:*

- (1) Pursuant to the Contract for Grant of State-owned Land Use Rights 穗開房地合字 [2000]19號 (Sui Kai Fang Di He Zi [2000] No. 19), (hereinafter referred to the “Transfer Contract”) entered into between 廣州經濟技術開發區房地產管理局 (Real Estate Administration Bureau of Guangzhou Economic & Technological Development District) (hereinafter referred to as “Party A”) and Guangzhou Elec & Eltek High Density Interconnect Technology No.1 Company Limited (hereinafter referred to as “Party B”), a 98% owned subsidiary of EEIC, on 16th August, 2000, Party A agreed to transfer the land use rights of a parcel of land (Lot No. BP-B1-1) with a site area of 160,554 sq.m., located at the north of Lianyun Road, Northern Portion, Eastern District, Guangzhou Economic & Technological Development District to Party B. The salient terms and conditions of the Transfer Contract are extracted as follows:

a)	Lot No.	:	BP-B1-1
b)	Site Area	:	160,554 sq.m.
c)	Consideration	:	RMB 28,899,720
d)	Land use	:	Type 2 industrial use (M2)
e)	Site Coverage	:	Not more than 45%
f)	Plot Ratio	:	Not more than 2
g)	Green Land Ratio	:	Not less than 30%
h)	Car Park Requirement	:	Not less than the ratio of one parking space for every 1,000 sq.m. on gross floor area

- i) Building Covenant : Construction should be commenced within half year upon signing the Transfer Contract. The Phase I development shall be completed within two years whereas the last phase (Phase IV) development shall be completed within six years.
- (2) Pursuant to the Permit for Construction Land Use 穗城規(開)地字第(2000)23號 (Sui Cheng Gui (Kai) Di Zi No.(2000)23) issued by 廣州市城市規劃局 (Guangzhou Municipal City Planning Bureau) on 11th August, 2000, the land use planning of the property with a site area of 160,554 sq.m. is in compliance with the city planning requirements and are approved to proceed to the land requisition procedure.
- (3) Pursuant to the Construction Works Commencement Permit 穗開規施[2001]東07號 (Sui Kai Gui Shi [2001] Dong No. 07) issued by 廣州經濟技術開發區規劃建設管理局 (Planning Construction Administration Bureau of Guangzhou Economic & Technological Development District) on 22nd March, 2001, the construction works of the main production workshop building, staff quarters and the ancillary facilities (i.e. the buildings and structures in Phase I development) of the property with a development scale of 27,708 sq.m. has been permitted to be commenced.
- (4) Pursuant to three 報建審核意見書 (Approval Opinion Letters on Proposed Construction) 穗城規開:(東)建字[2000]第22號、第25號、[2001]第04號 (Sui Cheng Gui Kai:(Dong) Jian Zi [2000] Nos. 22 and 25 and [2001] No. 04) issued by the Planning Construction Administration Bureau of Guangzhou Economic & Technological Development District on 7th November, 2000, 4th December, 2000 and 10th January, 2001 respectively, the proposed Phase I development having a total gross floor area of 36,987.45 sq.m. was approved.
- (5) Pursuant to the Approval Opinion Letter on Proposed Construction issued by Planning Construction Administration Bureau of Guangzhou Economic & Technological Development District on 9th June, 2004, the proposed expansion of the Main Production Building having a gross floor area of 18,678 sq.m. was approved.
- (6) Pursuant to the Pursuant to three Certificates both issued by 廣州開發區建設發展集團有限公司 (the contractor for the construction of the development) on 10th November, 2004, it is certified that the construction works of the proposed development, except for the extension of the main production building which is subject to internal decoration and fitting out works, has been completed, and that the total contract sum for the proposed development was RMB70,538,000 and the outstanding construction costs to complete the proposed building is approximately RMB3,187,000. In the course of our valuation, we have taken into account the said construction costs.
- (7) The capital when completed of the property is approximately HK\$123,000,000.
- (8) The opinion of the Group's legal adviser on PRC law states that:
- The land premium for obtaining the land use rights of the property has been paid in full.
  - There is no legal impediment in obtaining the Certificate of State-owned Land Use.
  - Guangzhou Elec & Eltek High Density Interconnect Technology No. 1 Company Limited is in possession of a proper legal title to the land in the property for a land use term of 50 years from 16th August, 2000 to 15th August, 2050 for industrial uses and is entitled to transfer, sell, lease, mortgage or make use of the property in other economic activities at no extra land premium.
  - Guangzhou Elec & Eltek High Density Interconnect Technology No.1 Company Limited cannot transfer, sell or mortgage the buildings erected and being erected in the property until and unless obtaining the respective Certificates for Real Estate / Real Estate Title, the application of which are in progress.
- (9) We have relied on the aforesaid legal opinion and prepared our valuation on the assumption that the construction of the Phase I development are in compliance with the local planning regulations and have been approved by the relevant authorities.
- (10) The status of the title and grant of major approvals and licences in accordance with the information provided to us by the Group and the aforesaid legal opinion are as follows:

Certificate for State-owned Land Use	No
Contract for Grant of State-owned Land Use Rights	Yes
Permit for Construction Land Use	Yes
Construction Works Commencement Permit	Yes
Approval Opinion Letters on Proposed Construction	Yes

Property	Description and Tenure	Particulars of occupancy	Capital value in existing state as at 30th September, 2004
21. Development site for the industrial complex of Kaiping Elec & Eltek No.5 Company Limited, Shagang District, Kaiping City, Guangdong Province, the PRC	<p>The property comprises a parcel of land with a site area of approximately 134,792.00 sq.m. (1,450,901 sq.ft.) for the development of an industrial complex.</p> <p>Currently a block of 7-storey staff quarters building with a gross floor area of approximately 9,600.00 sq.m. (103,334 sq.ft.) is proposed to be built on the subject site. It is scheduled to be completed in December 2004.</p> <p>The land use rights of the property have been granted for a term of 50 years commencing from 15th March, 2004 to 15th March, 2054 for industrial use.</p>	<p>The staff quarters building in the property is currently under construction, whilst the remaining portion of the site is currently vacant pending for detailed land use planning.</p>	<p>HK\$30,000,000</p> <p>(46.590% interest attributable to the Group: HK\$13,977,000)</p>

*Notes:*

- (1) Pursuant to the Certificate for State-owned Land Use 開府國用(2004)第 01429號 (Kai Fu Guo Yong (2004) No. 01429) issued by Kaiping City People's Government on 14th May, 2004, the land use rights of a parcel of land with a site area of 134,792.00 sq.m. have been granted to Kaiping Elec & Eltek No.5 Company Limited, a 90.1% owned subsidiary of EEIC, for a term expiring on 15th March, 2054 for industrial use.
- (2) Pursuant to the Construction Permit No.2001021 issued by 開平市規劃局 (Kaiping City Planning Bureau) on 23rd August, 2004, the proposed construction works for the Staff Quarter Block I, having a gross floor area of 9,600 sq.m., was permitted.
- (3) Pursuant to the Construction Works Commencement Permit No. 440724200408190201 issued by 開平市建設局 (Kaiping City Construction Bureau) on 26th August, 2004, the proposed construction works for the Staff Quarter Block I, having a gross floor area of 9,623 sq.m., was in compliance with the requirements for commencement and was permitted to proceed.
- (4) Pursuant to Certificate issued by 廣東耀南建築工程有限公司 (the contractor for the construction of the Staff Quarter Block I) on 10th November, 2004, it is certified that the construction works for the building frame of the Staff Quarter Block I have been completed, and that the contract sum for the proposed development was RMB5,990,000 and the outstanding construction costs to complete the proposed building is approximately RMB3,600,000. In the course of our valuation, we have taken into account the said construction costs.
- (5) The capital when completed of the property is approximately HK\$33,000,000.
- (6) The opinion of the Group's legal adviser on PRC law states that:
  - a) Kaiping Elec & Eltek No.5 Company Limited is in possession of a proper legal title to the land use rights of the property for a land use term of 50 years from 15th March, 2004 to 15th March, 2054 for industrial use and is entitled to occupy, use, profit from, transfer, sell, lease and mortgage the land at no extra land premium.
  - b) Kaiping Elec & Eltek No.5 Company Limited cannot transfer, sell or mortgage the Staff Quarter Block I in the property until and unless obtaining the Certificate for Real Estate Title, the application of which has yet to be made.
  - c) The land premium for obtaining the land use rights of the property has been paid in full.
  - d) The property is free from encumbrances.



- (7) We have relied on the aforesaid legal opinion and prepared our valuation on the assumption that the construction of the staff quarters building are in compliance with the local planning regulations and have been approved by the relevant authorities.
- (8) The status of the title and grant of major approvals and licences in accordance with the information provided to us by the Group and the aforesaid legal opinion are as follows:

Certificate for State-owned Land Use	Yes
Permit for Construction Land Use	Yes
Construction Works Commencement Permit	Yes

## Group IV — Property interests held by the Group in Thailand

Property	Description and Tenure	Particulars of occupancy	Capital value in existing state as at 30th September, 2004
22. Rojana Industrial Park at 1/68 Moo 5, Tambon Khanham, Amphur Uthai, Ayutthaya 13210, Thailand	<p>The property comprises a site with an area of approximately 17,180 sq.m. (184,926 sq.ft.), together with eight buildings and structures erected thereon. The property is located in Rojana Industrial Park and surrounded by industrial premises.</p> <p>The buildings and structures were completed in 1995.</p> <p>The total gross floor area of the buildings and structures is approximately 10,798 sq.m. (116,230 sq.ft.).</p>	The property is currently occupied by the Group for production purposes.	<p>HK\$30,000,000</p> <p>(51.709% interest attributable to the Group: HK\$15,512,700)</p>

*Notes:*

- (1) The registered owner of the property is Pacific Insulating Material (Thailand) Limited, a wholly-owned subsidiary of EEIC.
- (2) The cost of acquisition of the land is Baht25,225,732 and the land purchase agreement was signed in February 1994.
- (3) The property is a freehold property and is free to dispose of without payment of additional premium.
- (4) The operation of the plant commenced in mid 1995.
- (5) The property is located about 43 km from Thailand International Airport and 70 km from the downtown Bangkok City.

Property	Description and Tenure	Particulars of occupancy	Capital value in existing state as at 30th September, 2004
23. Industrial Plant at 134 Moo 2, Soi Sriyothin, Pakred-Pathumthani Road, Tambon Bang-Khayang, Amphur Muang, Pathumthani 12000, Thailand	<p>The property comprises a site with an area of approximately 82,080 sq.m. (883,509 sq.ft.) together with nine buildings and ancillary structures erected thereon. The property is surrounded by industrial and residential premises.</p> <p>The buildings and structures were completed in 1989.</p> <p>The total gross floor area of the buildings and structures is approximately 33,892 sq.m. (364,813 sq.ft.).</p>	The property is currently occupied by the Group for production purposes.	<p>HK\$119,000,000</p> <p>(51.709% interest attributable to the Group: HK\$61,533,710)</p>

*Notes:*

- (1) The registered owner of the property is Elec & Eltek (Thailand) Limited, a wholly-owned subsidiary of EEIC.
- (2) The cost of acquisition of the land is Baht20,289,351 and the land purchase agreement was signed in June 1987.
- (3) The property is a freehold property and is free to dispose of without payment of additional premium.
- (4) The operation of the plant commenced in mid 1989.
- (5) The plant is located about 10 km from Thailand International Airport and 20 km from the downtown Bangkok City.

Property	Description and Tenure	Particulars of occupancy	Capital value in existing state as at 30th September, 2004										
24. #99/71, 72, 73, 74, 75, 76, 77, Chuan Chuen Floraville, Pakred-Pathumthani Road, Tambon Bang-Khuwat, Amphur Muang, Pathumthani 12000, Thailand	<p>The property comprises seven detached houses with private gardens and carparking spaces completed in 1996 and erected on a site with a site area of 5,640 sq.m. The development is situated beside Chuan Chuen Golf Club.</p> <p>The house area of the property is as follows:</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th colspan="2" style="text-align: center;"><b>House area</b></th> </tr> </thead> <tbody> <tr> <td>S-Rachavade</td> <td style="text-align: right;">380 sq.m. x 1</td> </tr> <tr> <td>T-tiara</td> <td style="text-align: right;">280 sq.m. x 2</td> </tr> <tr> <td>Va-Valencia</td> <td style="text-align: right;"><u>260 sq.m. x 4</u></td> </tr> <tr> <td>Total</td> <td style="text-align: right;">1,980 sq.m. <u>(21,313 sq.ft.)</u></td> </tr> </tbody> </table>	<b>House area</b>		S-Rachavade	380 sq.m. x 1	T-tiara	280 sq.m. x 2	Va-Valencia	<u>260 sq.m. x 4</u>	Total	1,980 sq.m. <u>(21,313 sq.ft.)</u>	The property is currently vacant.	<p>HK\$6,000,000</p> <p>(51.709% interest attributable to the Group: HK\$3,102,540)</p>
<b>House area</b>													
S-Rachavade	380 sq.m. x 1												
T-tiara	280 sq.m. x 2												
Va-Valencia	<u>260 sq.m. x 4</u>												
Total	1,980 sq.m. <u>(21,313 sq.ft.)</u>												

*Notes:*

- (1) The registered owner of the property is Elec & Eltek (Thailand) Limited, a wholly-owned subsidiary of EEIC.
- (2) The cost of acquisition of the land is Baht30,322,800 and the land purchase agreement was signed in March 1994.
- (3) The property is a freehold property and is free to dispose of without payment of additional premium.

**RESPONSIBILITY STATEMENT**

This Offeree Document includes particulars given in compliance with the Listing Rules and the Takeovers Code for the purpose of giving information with regard to the Group. The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this Offeree Document (other than that relating to the Offeror, Kingboard and parties acting in concert with the Offeror) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this Offeree Document have been arrived at after due and careful consideration and there are no other facts not contained herein, the omission of which would make any statement contained herein (other than that relating to the Offeror, Kingboard and parties acting in concert with the Offeror) misleading.

The information contained herein relating to the Offeror, Kingboard, parties acting in concert with the Offeror and their intention with respect to the Group has been extracted from the Offer Document. The Directors accept responsibility for the correctness and fairness of the reproduction or presentation of such information but accept no further responsibility in respect of such information.

**SHARE CAPITAL AND SHARE OPTIONS****(1) Share capital**

The authorised and issued share capital of the Company as at the Latest Practicable Date were as follows:

*Authorised:*

<u>2,500,000,000</u>	Shares	<u>HK\$250,000,000</u>
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*Issued and fully paid up:*

<u>1,224,672,408</u>	Shares	<u>HK\$122,467,240.80</u>
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All of the Shares rank pari passu in all respects, including as to dividends, voting and capital.

The Shares are listed and traded on the Stock Exchange. No Shares are listed on or dealt in, nor is any listing of or permission to deal in the Shares being, or proposed to be, sought on any other stock exchange.

There has been no alteration to the authorised share capital of the Company since the end of its last financial year, being 30 June 2004 and save for the issue of 7,210,000 new Shares pursuant to the exercise of Options, there has been no alteration to the issued share capital of the Company since 30 June 2004.

## (2) Share options

As at the Latest Practicable Date, there were outstanding Options to subscribe for 22,000,000 Shares, the particulars of which are as follows:

Option exercise period	Number of outstanding Options	Exercise price per Option
7 May 2005 to 6 May 2006	5,500,000	HK\$1.13
7 May 2006 to 6 May 2007	5,500,000	HK\$1.13
19 July 2006 to 18 July 2007	5,500,000	HK\$1.39
19 July 2007 to 18 July 2008	5,500,000	HK\$1.39

The Options were issued pursuant to the Scheme. Pursuant to such Scheme, the maximum number of Shares upon which Options may be granted when aggregated with those granted under any other share option scheme of the Company in issue may not exceed 117,506,240 Shares, representing approximately 9.6% of the issued share capital of the Company as at the Latest Practicable Date.

Save as disclosed in this section, there were no options, warrants or conversion rights affecting the Shares outstanding as at the Latest Practicable Date.

## DISCLOSURE OF INTERESTS

## (1) Directors' interests in the Company

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executive in the shares and underlying shares in, and debentures of, the Company which will have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions), or which were required, pursuant to section 352 of the SFO, to be entered in the register required to be kept therein, or which were required pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers to be notified to the Company and the Stock Exchange or which were required to be disclosed in this Offeree Document pursuant to the requirements of the Takeovers Code, were as follows:

(a) *Interests in Shares*

Name of Director	Number of Shares and nature of interest			Approximate shareholding percentage
	Personal	Family (Note)	Total interest	
Thomas Tang Koon Yiu	—	975,000 Shares	975,000 Shares	0.08%
Canice Chung Tai Keung	5,000,000 Shares	—	5,000,000 Shares	0.41%
David So Cheung Sing	8,000,000 Shares	24,061,800 Shares	32,061,800 Shares	2.62%
Marcus Tsang Ming Pui	27,632,775 Shares	—	27,632,775 Shares	2.26%
Wilson Tam Kam Ho	12,200,000 Shares	3,750,000 Shares	15,950,000 Shares	1.30%
Johnny Ng Ho Kin	18,878,104 Shares	415,800 Shares	19,293,904 Shares	1.58%
Eugene Lee	1,250,000 Shares	—	1,250,000 Shares	0.10%
Kenneth Shim Hing Choi	240,000 Shares	—	240,000 Shares	0.02%

*Note:* Family interest in relation to a Director or chief executive of the Company means interest held by the spouse or any children (natural or adopted) under the age of 18 years (in either case, except where he/she is also a Director or chief executive of the Company) of such Director or chief executive.

(b) *Interests in Options*

Name of Director	Option exercise period	Number of outstanding Options	Exercise price
Thomas Tang Koon Yiu	7 May 2005 to 6 May 2006	5,500,000	HK\$1.13
Thomas Tang Koon Yiu	7 May 2006 to 6 May 2007	5,500,000	HK\$1.13
Thomas Tang Koon Yiu	19 July 2006 to 18 July 2007	5,500,000	HK\$1.39
Thomas Tang Koon Yiu	19 July 2007 to 18 July 2008	5,500,000	HK\$1.39

Save as disclosed in paragraph (1) of this section, so far as the Directors are aware, none of the Directors and chief executive of the Company had, as at the Latest Practicable Date, any interest or short position in any Shares and underlying shares in, and debentures of, the Company which will have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions), or which were required, pursuant to section 352 of the SFO, to be entered in the register required to be kept therein, or which were required pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers to be notified to the Company and the Stock Exchange or which were required to be disclosed in this Offeree Document pursuant to the requirements of the Takeovers Code.

(2) **Directors' service agreements**

The Company had entered into an employment agreement with Mr Thomas Tang Koon Yiu to appoint him as (a) the chairman of the Board and managing Director of the Company and (b) the chairman of the board and managing director of EEIC for a term of 3 years commencing on 26 March 2003. The agreement will be extended automatically to a date to be agreed between the Company and Mr Tang if the two parties do not raise any objection 6 months prior to the expiry of the initial term of 3 years. Under such agreement, Mr Tang is entitled to:

- (a) a total annual salary of HK\$6.38 million payable by 12 equal monthly installments;
- (b) an incentive bonus pegged with the budgeted net profit proposed by Mr Tang for the approval of the Board at its absolute discretion, having regard to the operating results of the Group and performance of Mr Tang; and
- (c) options granted pursuant to the share option scheme of each of the Company and EEIC.

Mr Tang may terminate the employment agreement by giving 6 months' notice in writing to the Company. The Company may terminate the employment agreement at any time without a cause by paying Mr Tang in full to the date of the end of the then current term of the employment agreement the then applicable salary. The Company may also terminate the employment agreement without compensation by summary notice in writing under certain circumstances.

Save as disclosed in paragraph (2) of this section, as at the Latest Practicable Date, none of the Directors has entered into any service contract with any member of the Group or associated companies which are in force and which have more than 12 months to run, or which has been entered into or amended within 6 months prior to 12 October 2004.

**(3) Arrangement affecting Directors**

Under the present arrangements, Elec & Eltek Corporate Services Limited, a wholly-owned subsidiary of the Company, provides company secretarial services and receives management fees of HK\$150,000 per annum from each of Elec & Eltek Holding Company Limited and Elec & Eltek Investments Limited, companies in which Mr David So Cheung Sing, Mr Marcus Tsang Ming Pui, Mr Wilson Tam Kam Ho and Mr Johnny Ng Ho Kin had direct or indirect beneficial interests.

Save as disclosed in paragraphs (1), (2) and (3) of this section, as at the Latest Practicable Date,

- (a) there is no benefit (other than statutory compensation) to be given to any Director as compensation for loss of office or otherwise in connection with the Offers and there are no agreements or arrangements between any Director and any other person which is conditional or dependent upon the outcome of the Offers or otherwise connected with the Offers; and
- (b) there are no material contracts entered into by the Offeror in which any Director has a material personal interest.

**(4) Dealing in the Shares and the Options by the Directors**

Set out below are the dealing in the Shares and/or the Options by the Directors during the period commencing from 6 months prior to 12 October 2004 up to and inclusive of the Latest Practicable Date:

Date	Transaction nature	No. of underlying Shares/Shares	Average price per Share/Exercise price per Share (HK\$)
<i>By Thomas Tang Koon Yiu:-</i>			
21 July 2004	Grant of Options	11,000,000	1.39
<i>By Canice Chung Tai Keung:-</i>			
29 July 2004	Exercise of Options	5,000,000	0.91
<i>By David So Cheung Sing:-</i>			
13 April 2004	Exercise of Options	5,000,000	0.91
14 July 2004	Purchase	3,000,000	1.39
<i>By Wilson Tam Kam Ho:-</i>			
12 July 2004	Purchase	3,750,000	1.40



Date	Transaction nature	No. of underlying Shares/Shares	Average price per Share/Exercise price per Share (HK\$)
<b>By Johnny Ng Ho Kin:-</b>			
30 June 2004	Exercise of Options	5,000,000	0.91
<b>By Peter Lee Yip Wah:-</b>			
12 May 2004	Sale	400,000	1.43
13 May 2004	Sale	600,000	1.43
17 May 2004	Exercise of Options	1,000,000	0.91
11 June 2004	Sale	200,000	1.34
14 June 2004	Sale	400,000	1.33
14 June 2004	Exercise of Options	1,000,000	0.91
15 June 2004	Sale	200,000	1.32
16 June 2004	Sale	200,000	1.32
2 July 2004	Exercise of Options	2,000,000	0.91
14 July 2004	Sale	3,000,000	1.39
<b>By Eugene Lee:-</b>			
30 June 2004	Exercise of Options	5,000,000	0.91
12 July 2004	Sale	3,750,000	1.40

(5) **Other disclosure of interests**

## (a) As at the Latest Practicable Date:

- (i) the Company did not own or had any interest in the shares of the Offeror or Kingboard;
- (ii) no Directors owned or had any interest in the shares of the Offeror or Kingboard;
- (iii) no members of the Group or any pension fund of any member of the Group owned or had any interest in any Shares;
- (iv) none of Somerley, B.I. Appraisals, Ernst & Young or any advisers to the Company as specified in the class (2) of the definition of associate under the Takeovers Code (excluding exempt principal traders) owned or had any interest in any Shares; and
- (v) there was no arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Company or any person who was an associate of the Company by virtue of classes (1), (2), (3) and (4) of the definition of associate in the Takeovers Code.

- (b) During the period commencing 6 months prior to 12 October 2004 and ended on the Latest Practicable Date:
- (i) the Company had not dealt for value in the shares of the Offeror or Kingboard;
  - (ii) save as disclosed in paragraph (4) of this section, no Directors had dealt for value in the Shares or Options or the shares of the Offeror or Kingboard;
  - (iii) no members of the Group or any pension fund of any member of the Group had dealt for value in the Shares;
  - (iv) none of Somerley, B.I. Appraisals, Ernst & Young or any advisers to the Company as specified in the class (2) of the definition of associate under the Takeovers Code (excluding exempt principal traders) had dealt for value in the Shares; and
  - (v) no person who had an arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Company or any person who was an associate of the Company by virtue of classes (1), (2), (3) and (4) of the definition of associate in the Takeovers Code had dealt for value in the Shares.

## SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, the persons or companies (not being Directors or the chief executive of the Company) who had interests or short positions in Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO were as follows:

Name of Shareholder	Number of Shares	Approximate shareholding percentage
Elec & Eltek Investments Limited (“EEIL”)	521,921,359 Shares ( <i>Note 1</i> )	42.62%
Kingboard	336,799,000 Shares ( <i>Note 2</i> )	27.50%
Hallgain Management Limited (“HML”)	336,799,000 Shares ( <i>Note 3</i> )	27.50%
Jamplan (BVI) Limited (“Jamplan”)	142,375,000 Shares	11.63%
Kingboard Investments Limited (“KIL”)	82,645,000 Shares	6.75%

*Notes:*

- As at the Latest Practicable Date, EEIL is interested in 521,921,359 Shares. The shareholders of EEIL are as follows:

Name of shareholder	Approximate shareholding percentage in EEIL
Plenty Gain Limited	30.97%
Champion Oriental Inc.	29.98%
Goldful Holdings Limited	29.98%
Expert Gold Inc.	9.07%

Plenty Gain Limited is ultimately 100% owned by a discretionary trust, the eligible beneficiaries of which include the family members of Mr David So Cheung Sing, other than Mr David So Cheung Sing himself.

Champion Oriental Inc. holds the shares of EEIL as trustee for a unit trust, of which 99.9999948% of the units are owned by a discretionary trust, the eligible beneficiaries of which include the family members of Mr Marcus Tsang Ming Pui, other than Mr Marcus Tsang Ming Pui himself, with the remaining units being owned by Mr Marcus Tsang Ming Pui directly.

Goldful Holdings Limited is ultimately 100% owned by a discretionary trust, the eligible beneficiaries of which include the family members of Mr Wilson Tam Kam Ho, other than Mr Wilson Tam Kam Ho himself.

Expert Gold Inc. holds the shares of EEIL as trustee for a unit trust, of which 99.99998% of the units are owned by a discretionary trust, the eligible beneficiaries of which include the family members of Mr Johnny Ng Ho Kin, other than Mr Johnny Ng Ho Kin himself.

- Kingboard was directly interested in 140,269,000 Shares and was deemed to be interested in 196,530,000 Shares through its subsidiaries, including KIL and Jamplan.
- HML was deemed to be interested in the 336,799,000 Shares which Kingboard was interested in by virtue of it holding 35.85% interests in the issued share capital of Kingboard.

As at the Latest Practicable Date, save as disclosed in this section, the Directors are not aware of any person (who are not Directors or the chief executive of the Company) who had interests or short positions in Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO.

## EXPERTS

The following are the qualifications of the experts who have given opinion or recommendation which are contained in this Offeree Document:

Name	Qualification
Somerley	Corporation deemed licensed to conduct types 1, 4, 6 and 9 of the regulated activities under the SFO
Ernst & Young	Certified public accountants
B.I. Appraisals	Professional property valuers
Goldsun Law Firm	PRC lawyers
Jiangsu FD Yongheng Law Firm	PRC lawyers

Somerley, Ernst & Young, B.I. Appraisals, Goldsun Law Firm and Jiangsu FD Yongheng Law Firm have given and have not withdrawn their respective written consents to the issue of this Offeree Document with the inclusion of their respective letters, reports, valuation certificates or recommendations (as the case may be) and the references to their names, in the form and context in which they respectively appear.

## MATERIAL CONTRACTS

The following contracts (not being contracts in the ordinary course of business) have been entered into by members of the Group within the two years preceding 12 October 2004, being the date of commencement of the offer period of the Offers, and are or may be material:

- (a) an agreement dated 30 September 2003 entered into between Elec & Eltek Huangpu (Singapore) No. 3 Pte. Ltd. and 廣州開發區建設發展集團有限公司 (Guangzhou Economic & Technological Development District Construction Development Corporation\*) to amend the terms of the original joint venture contract of 廣州依利安達微通科技有限公司 (Guangzhou Elec & Eltek Microvia Technology Limited\*) with respect to, inter alia, the registered capital and total investment amount;
- (b) a state owned land use rights transfer contract dated 10 February 2004 entered into between 開平市國土資源局 (Kaiping City Land and Resources Bureau\*) (the "Bureau") and 開平依利安達電子第五有限公司 (Kaiping Elec & Eltek No.5 Company Limited\*) ("EEKP5") pursuant to which the Bureau granted the land use rights over a piece of land situated at the South of the Shagang Road administrative office of Kai Ping Elec & Eltek Company Limited (沙岡街道辦事處開平依利安達電子有限公司南) to EEKP5 for a term of 50 years from the date of delivery of the land at a total consideration of RMB9,510,000; and

- (c) an agreement dated 28 April 2004 entered into between Elec & Eltek Kaiping (Singapore) No. 3 Pte. Ltd. and 開平市機電工業實業公司 (Kaiping City Mechanical & Electrical Industrial Co.\*) to amend the terms of the original joint venture contract of 開平依利安達電子第三有限公司 (Kaiping Elec & Eltek No.3 Company Limited\*) with respect to, inter alia, the registered capital, total investment amount and business scope.

\* for identification purposes only

## LITIGATION

Elec & Eltek Display Technology (Guangzhou) Company Limited is currently under investigation by Guangzhou Custom Authority in relation to:

1. the possible under-statement of raw material value imported to the PRC during the period from January 2001 to July 2003 involving an approximate amount of RMB7 million; and
2. the possible improper procedures in sub-contracting materials to outside sub-contractors amounting to approximately RMB9 million during the period from June 2001 to June 2004.

As at the Latest Practicable Date, the Group has not received any charges, fine notice or formal allegation in relation to the above matter.

Save as disclosed in this section, as at the Latest Practicable Date, no member of the Group is engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened of which any member of the Group is a party.

## MISCELLANEOUS

- (a) The registered office of the Company is situated at Canon's Court, 22 Victoria Street, Hamilton HM12, Bermuda.
- (b) The secretary of the Company is Ms Monica Tso Hon Yuk.
- (c) The English text of this Offeree Document shall prevail over the Chinese text.

## DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at the office of Woo, Kwan, Lee & Lo at 27th Floor, Jardine House, 1 Connaught Place, Central, Hong Kong while the Offers remain open for acceptance:

- (a) the Memorandum and Bye-laws of the Company;
- (b) the annual reports of the Company for the two years ended 30 June 2004 and the interim report of the Company for the 6 months ended 31 December 2003;
- (c) the letter of advice from Somerley, the text of which is set out on pages 12 to 38 of this Offeree Document;

- (d) the letter and valuation certificates relation to the property interests of the Group prepared by B.I. Appraisals, the texts of which are set out in Appendix 2 to this Offeree Document;
- (e) the written consents referred to in the section headed “Experts” of this Appendix;
- (f) the material contracts referred to in the section headed “Material Contracts” of this Appendix;  
and
- (g) the employment agreement with Mr Thomas Tang Koon Yiu referred to in paragraph (2) headed “Directors’ service agreements” in the section headed “Disclosure of Interests” of this Appendix.