

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.

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

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.

(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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.

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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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Impairment of assets (continued)

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.

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.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**(h) Fixed assets and depreciation (continued)**

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.

(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.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**(l) Income tax (continued)**

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.

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

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.

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

(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;

4. SEGMENT INFORMATION (continued)

- (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.

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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	2,750,278	331,846	131,913	3,941	(3,911)	3,214,067
Segment results	367,180	21,026	10,813	(35,696)	—	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						145,016
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						4,017,348
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						2,224,996
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	1,910,990	239,508	106,861	4,187	(3,833)	2,257,713
Segment results	142,743	25,497	11,181	(39,532)	—	139,889
Interest income						635
Unallocated expenses						(364)
Profit from operating activities						140,160
Finance costs						(23,024)
Share of losses of jointly-controlled entities				(788)		(788)
Profit before tax						116,348
Tax						(10,623)
Profit before minority interests						105,725
Minority interests						(68,240)
Net profit from ordinary activities attributable to shareholders						37,485
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						3,023,773
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						1,413,935
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

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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		Mainland			North & Central		Other	Consolidated
	Kong	Singapore	China	Malaysia	Thailand	America	Europe	countries	
	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

4. SEGMENT INFORMATION (continued)

(b) Geographical segments (continued)

Year ended 30 June 2003

Group	Hong Kong		Mainland			North & Central		Other	Consolidated HK\$'000 (Restated)
	HK\$'000	Singapore HK\$'000	China HK\$'000	Malaysia HK\$'000	Thailand HK\$'000	America HK\$'000	Europe HK\$'000	countries 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

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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:

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

6. PROFIT FROM OPERATING ACTIVITIES

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

	Notes	Group	
		2004 HK\$'000	2003 HK\$'000
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		(220)	(328)
Net pension contributions		18,629	16,609
Total staff costs		480,832	371,484
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		(342)	(1,117)

* 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

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

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:

	Group	
	2004 HK\$'000	2003 HK\$'000
Fees:		
Executive and non-executive directors	3,123	760
Independent non-executive directors	1,932	895
	5,055	1,655
Other emoluments:		
Salaries, allowances and benefits in kind	26,167	11,726
Performance related bonuses	206	305
Pension scheme contributions	467	564
	26,840	12,595
Total directors' remuneration	31,895	14,250

There were no other emoluments payable to the independent non-executive directors during the year (2003: Nil).

Notes to Financial Statements

30 June 2004

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

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 HK\$'000	2003 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

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	342,418		116,348	
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	8,327	2.4	15,872	13.6
Tax charge at the Group's effective rate	26,291	7.7	10,623	9.1

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

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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	29,219	17,904
	48,440	35,531

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.

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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
	3,129,082	17,899	731,116	(29,685)	—	3,848,412
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
	1,425,859	6,127	199,510	(27,512)	—	1,603,984
Net book value	1,703,223					2,244,428

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	103,556	451,290	—	554,846
	103,556	451,290	193,212	748,058

14. INTANGIBLE ASSETS

		Group
		HK\$'000
Cost:		
At beginning of year		6,791
Currency realignment		1
Balance at end of year		<u>6,792</u>
Accumulated amortisation:		
At beginning of year		2,751
Provided during the year		1,199
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	2003
		HK\$'000	HK\$'000
Shares at cost:			
Listed in Singapore		646,393	646,393
Unlisted		287,232	287,232
		933,625	933,625
Due from subsidiaries		422,511	428,645
Due to subsidiaries		(165,011)	(241,127)
		1,191,125	1,121,143
Provision for impairment		(482,988)	(485,423)
		708,137	635,720
Market value of listed shares at balance sheet date		1,651,348	1,120,371

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

Notes to Financial Statements

30 June 2004

15. INTERESTS IN SUBSIDIARIES (continued)

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
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

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 (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
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 laminates
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.

Notes to Financial Statements

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16. INTERESTS IN JOINTLY-CONTROLLED ENTITIES

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

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	Ownership interest	Percentage of voting power	profit sharing	Principal activities
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	2003
	HK\$'000	HK\$'000
Raw materials	218,100	146,624
Work in progress	131,786	78,596
Finished goods	58,955	37,223
	408,841	262,443

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:

	Group	
	2004	2003
	HK\$'000	HK\$'000
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	33,531	16,237
	915,311	691,270

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.

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19. CASH AND CASH EQUIVALENTS

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

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:

	Group	
	2004 HK\$'000	2003 HK\$'000
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	206,792	101,417
	826,311	460,953

21. BANKING FACILITIES

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

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

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

Notes to Financial Statements

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22. DEFERRED TAX

Group — 2004

Deferred tax liabilities

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

Deferred tax assets

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

22. DEFERRED TAX (continued)

Group — 2003

Deferred tax liabilities

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

Deferred tax assets

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

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22. DEFERRED TAX (continued)

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.

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

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

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).

23. SHARE CAPITAL (continued)

Shares (continued)

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

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

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.

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24. EMPLOYEES' SHARE OPTION SCHEMES (continued)

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

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>	18,000,000				
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>	18,210,000				

* 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.

24. EMPLOYEES' SHARE OPTION SCHEMES (continued)

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

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.

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24. EMPLOYEES' SHARE OPTION SCHEMES (continued)

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

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.

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

Category of participant (In aggregate)	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:

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

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25. RESERVES (continued)**(b) Company**

	Notes	Share premium account HK\$'000	Capital redemption reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
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		70,755	26,178	233,416	330,349

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

	Group	
	2004 HK\$'000	2003 HK\$'000
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	284,646	421,741
	358,936	466,745

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

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:

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

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

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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:

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

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.