

Report of the Directors

The directors present their report and the audited financial statements of the Company and the Group for the year ended 30 June 2004.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding.

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.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 30 June 2004 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 37 to 84.

An interim dividend of 1.6 Hong Kong cents per ordinary share was paid on 9 March 2004.

The directors recommend the payment of a final dividend of 2.4 Hong Kong cents per ordinary share in respect of the year to shareholders whose names appear on the registers of members on 12 October 2004. This recommendation has been incorporated in the financial statements as an allocation of retained profits within the capital and reserves section of the balance sheet.

SUMMARY OF FINANCIAL INFORMATION

A summary of the results and of the assets and liabilities of the Group for the last five financial years, as extracted from the audited financial statements and restated as appropriate, is set out on page 5. This summary does not form part of the audited financial statements.

FIXED ASSETS

Details of movements in the fixed assets of the Group are set out in note 13 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the year, together with the reasons therefor, are set out in notes 23 and 24 to the financial statements, respectively.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's bye-laws or the laws of Bermuda which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries, purchased, sold or redeemed any of the Company's listed securities during the year.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 25 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

At 30 June 2004, the Company's reserves available for distribution, calculated in accordance with the Companies Act 1981 of Bermuda (as amended), amounted to HK\$501,643,000, of which HK\$29,219,000 has been proposed as final dividend for the year. In addition, the Company's share premium account, in the amount of HK\$70,755,000, may be distributed in the form of fully paid bonus shares.

CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions totalling HK\$252,000.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 37% of the total sales for the year and sales to the largest customer included therein amounted to 11%. Purchases from the Group's five largest suppliers accounted for less than 30% of the total purchases for the year.

None of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers.

Report of the Directors

DIRECTORS

The directors of the Company during the year and up to the date of this report were:

Executive directors:

Thomas TANG Koon Yiu
Canice CHUNG Tai Keung

Non-executive directors:

David SO Cheung Sing
Marcus TSANG Ming Pui
Wilson TAM Kam Ho
Johnny NG Ho Kin

Independent non-executive directors:

Peter LEE Yip Wah
Eugene LEE
Kenneth SHIM Hing Choi

In accordance with the Company's bye-law 107(A), Mr. Wilson TAM Kam Ho, Mr. Johnny NG Ho Kin and Mr. Canice CHUNG Tai Keung will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting. Their details are set out in the section "Brief Biographical Information on Directors".

For the year ended 30 June 2004, Mr. TAM, Mr. NG and Mr. CHUNG received director's emolument of HK\$2,541,000, HK\$4,234,000 and HK\$3,538,000 respectively, which were determined by reference to job responsibility, prevailing market conditions and the Company's operating performance and profitability.

The directors' interests in the securities of the Company are disclosed in the section "Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures of the Company and its Associated Corporations".

No director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment, other than statutory compensation.

BRIEF BIOGRAPHICAL INFORMATION ON DIRECTORS

Thomas TANG Koon Yiu

Thomas TANG Koon Yiu, aged 56, joined the Elec & Eltek Group as Chairman and Managing Director of the Company as well as Elec & Eltek International Company Limited ("EEICL"), a subsidiary of the Company, the shares of which are listed on the Singapore Exchange Securities Trading Limited (the "Singapore Exchange") on 26 March 2003. Together with other board members, he is responsible for setting the Group's mission and objectives, and developing business and management strategies. Mr. TANG is an industrialist with profound experience in diverse industries such as computers and computer peripherals, critical components, office automation, consumer electronics, metals and plastics and was Managing Director and President of various local and multinational corporations. Before joining the Elec & Eltek Group, he was the Executive Director of Hong Kong Productivity Council since 1997.

Mr. TANG also serves as chairman, other leadership and advisory positions in various professional and industry associations and universities. He holds a Master of Science Degree in Industrial Engineering & Administration. He was awarded the Young Industrialist Award in 1990 and the Outstanding PolyU Alumni Award in 2001.

Canice CHUNG Tai Keung

Canice CHUNG Tai Keung, aged 49, joined the Elec & Eltek Group in 1991. In his capacity as the Executive Director of the Company and the Chief Executive Officer of the printed circuit board business, he is responsible for the financial and administrative functions of the Group as well as the overall operations of the printed circuit board business. Together with other board members, he is also responsible for setting the Group's mission and objectives, and developing business and management strategies.

Mr. CHUNG has served the Group for more than ten years and is the director of various subsidiaries of the Group, including the executive director of EEICL. He is also the director of Elec & Eltek Investments Limited ("EEIL"), which is a substantial shareholder of the Company. He is the Vice Chairman of Hong Kong Printed Circuit Association Limited which aims at promoting and protecting the rights and interests of the printed circuit industry. Save as disclosed herein, Mr. CHUNG had not held any directorship in any other listed companies during the last three years ended 30 June 2004.

Report of the Directors

BRIEF BIOGRAPHICAL INFORMATION ON DIRECTORS (continued)

David SO Cheung Sing

David SO Cheung Sing, aged 62, is one of the founders of the Elec & Eltek Group and the former Chairman, Chief Managing Director and Executive Director of the Company. Mr. SO is now the Non-Executive Director and Senior Consultant of the Company responsible for giving advice and guidance on the strategic thinking and direction of the Company.

Mr. SO has served the Group for more than thirty years and is the director of various subsidiaries of the Group, including the non-executive director of EEICL. He is also the director of EEIL.

Mr. SO is now the Honorary Chairman of Hong Kong Critical Components Manufacturers Association, the Permanent Honorary President of Friends of Hong Kong Association Limited and a director of The Chinese Manufacturer's Association of Hong Kong.

Marcus TSANG Ming Pui

Marcus TSANG Ming Pui, aged 64, is one of the founders of the Elec & Eltek Group and the former Deputy Chairman, Managing Director and Executive Director of the Company. Mr. TSANG is now the Non-Executive Director and Senior Consultant of the Company responsible for giving advice and guidance on the strategic thinking and direction of the Company.

Mr. TSANG has served the Group for more than thirty years and is the director of various subsidiaries of the Group, including the non-executive director of EEICL. He is also the director of EEIL.

Wilson TAM Kam Ho

Wilson TAM Kam Ho, aged 62, is one of the founders of the Elec & Eltek Group and the former Deputy Chairman, Managing Director and Executive Director of the Company. Mr. TAM is now the Non-Executive Director and Senior Consultant of the Company responsible for giving advice and guidance on the strategic thinking and direction of the Company.

Mr. TAM has served the Group for more than thirty years and is the director of various subsidiaries of the Group, including the non-executive director of EEICL. He is also the director of EEIL. Save as disclosed herein, Mr. TAM had not held any directorship in any other listed companies during the last three years ended 30 June 2004.

BRIEF BIOGRAPHICAL INFORMATION ON DIRECTORS (continued)

Johnny NG Ho Kin

Johnny NG Ho Kin, aged 57, joined the Elec & Eltek Group in 1972 and is the former Executive Director of the Company and Senior Vice President – Corporate Control and Audit of the printed circuit board business. Mr. Ng is now the Non-Executive Director and Senior Consultant of the Company responsible for giving advice and guidance on the strategic thinking and direction of the Company.

Mr. NG has served the Group for more than thirty years and is the director of various subsidiaries of the Group, including the non-executive director of EEICL. He is also the director of EEIL. Save as disclosed herein, Mr. NG had not held any directorship in any other listed companies during the last three years ended 30 June 2004.

Peter LEE Yip Wah

Peter LEE Yip Wah, aged 62, has been the Independent Non-executive Director of the Company since 1 April 1997. He is responsible for giving advice and guidance on the strategic thinking and direction of the Company. Mr. LEE is a practising solicitor, a China-appointed attesting officer and a consultant of Messrs Woo, Kwan, Lee & Lo. He is also the non-executive director of a number of listed companies in Hong Kong including China Merchants Holdings (International) Company Limited and Cosco Pacific Limited.

Eugene LEE

Eugene LEE, aged 55, has been the Independent Non-executive Director of the Company since 13 May 1997. He is responsible for giving advice and guidance on the strategic thinking and direction of the Company. Mr. LEE has been engaged in merchant banking, finance and securities in Asia, the Europe and the United States of America for over 20 years.

Kenneth SHIM Hing Choi

Kenneth SHIM Hing Choi, aged 53, has been the Independent Non-Executive Director of the Company since 1 March 2003. He is responsible for giving advice and guidance on the strategic thinking and direction of the Company. Mr. SHIM is a veteran banker with over 33 years of experience in commercial banking. He is the General Manager in DBS Bank Ltd (Guangzhou Branch).

The biographical information of the Group's senior management is not shown because the directors consider that this would result in particulars of excessive length.

Report of the Directors

DIRECTORS' SERVICE CONTRACTS

The Company had entered into an employment agreement with Mr. Thomas TANG Koon Yiu to appoint him as (i) the Chairman of the Board and Managing Director of the Company and (ii) the Chairman of the Board and Managing Director of EEICL for a term of three years commencing on 26 March 2003. The employment agreement will be extended automatically to a date to be agreed between the Company and Mr. Thomas TANG Koon Yiu if the two parties do not raise any objection six months prior to the expiry of the initial term of three years.

Each of Mr. David SO Cheung Sing, Mr. Marcus TSANG Ming Pui, Mr. Wilson TAM Kam Ho, Mr. Johnny NG Ho Kin and Mr. Canice CHUNG Tai Keung has a service contract with Elec & Eltek Corporate Services Limited, a wholly-owned subsidiary of the Company. Each of such service contracts will continue in force until terminated by not less than six months' written notice by either party.

DIRECTORS' INTERESTS IN CONTRACTS

During the year, Elec & Eltek Corporate Services Limited received management fees of HK\$150,000 from each of Elec & Eltek Holding Company Limited and EEIL, 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 at the balance sheet date.

Except as disclosed above, none of the directors had beneficial interests in any material contract to which the Company or any of its subsidiaries was a party during the year.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 30 June 2004, the interests and short positions of the directors and their respective associates in the shares and underlying shares and debentures of the Company or any of its associated corporations within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO") as recorded in the register required to be kept by the Company under Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") were as follows:

1. Interests in shares

Name of director	Number of ordinary shares of HK\$0.10 each in the Company ("Shares")			Percentage of the Company's issued share capital
	Personal	Family	Total	
Thomas TANG Koon Yiu	—	975,000	975,000	0.08
David SO Cheung Sing	5,000,000	24,136,800	29,136,800	2.39
Marcus TSANG Ming Pui	27,632,775	—	27,632,775	2.27
Wilson TAM Kam Ho	12,200,000	—	12,200,000	1.00
Johnny NG Ho Kin	18,878,104	415,800	19,293,904	1.58
Peter LEE Yip Wah	1,000,000	—	1,000,000	0.08
Eugene LEE	5,000,000	—	5,000,000	0.41
Kenneth SHIM Hing Choi	240,000	—	240,000	0.02

As at 30 June 2004, certain of the directors also held shares in EEICL as follows:

Name of director	Number of ordinary shares of S\$0.80 each in EEICL			Percentage of EEICL's issued share capital
	Personal	Family	Total	
Thomas TANG Koon Yiu	—	40,000	40,000	0.03
Canice CHUNG Tai Keung	1,720,800	—	1,720,800	1.18
Marcus TSANG Ming Pui	—	540,000	540,000	0.37
Wilson TAM Kam Ho	—	300,000	300,000	0.21
Johnny NG Ho Kin	386,400	—	386,400	0.26

Report of the Directors

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS (continued)

2. Interests in underlying shares

(a) Directors' interests in share options of the Company

As at 30 June 2004, certain of the Company's directors held share options of the Company and particulars of those outstanding share options granted under the Scheme as defined in note 24(a) to the financial statements were as follows:

Name of director	Date of grant	Exercise period	Subscription price HK\$	Number of outstanding share options			Weighted average closing price* HK\$
				At beginning of the year	Exercised during the year	At end of the year	
Thomas TANG Koon Yiu	7 May 2003	7 May 2005 to 6 May 2006	1.13	5,500,000	—	5,500,000	—
		7 May 2006 to 6 May 2007	1.13	5,500,000	—	5,500,000	—
Canice CHUNG Tai Keung	30 July 2002	30 January 2003 to 29 July 2004	0.91	5,000,000	—	5,000,000	—
David SO Cheung Sing	30 July 2002	30 January 2003 to 29 July 2004	0.91	5,000,000	(5,000,000)	—	1.52
Johnny NG Ho Kin	30 July 2002	30 January 2003 to 29 July 2004	0.91	5,000,000	(5,000,000)	—	1.43
Peter LEE Yip Wah	30 July 2002	30 January 2003 to 29 July 2004	0.91	5,000,000	(3,000,000)	2,000,000	1.45
Eugene LEE	30 July 2002	30 January 2003 to 29 July 2004	0.91	5,000,000	(5,000,000)	—	1.43
				36,000,000	(18,000,000)	18,000,000	

* 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.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS (continued)

2. Interests in underlying shares (continued)

(b) Directors' interests in share options of EEICL

As at 30 June 2004, certain of the Company's directors held share options of EEICL and particulars of those outstanding share options granted under the EEICL Scheme as defined in note 24(b) to the financial statements were as follows:

Name of director	Date of grant	Exercise period	Subscription price US\$	Number of outstanding share options			At end of the year	Weighted average closing price* US\$
				At beginning of the year	Exercised during the year	Lapsed during the year		
Thomas TANG Koon Yiu	7 May 2003	8 May 2005 to 6 May 2006	1.45	700,000	—	—	700,000	—
		8 May 2006 to 6 May 2007	1.45	700,000	—	—	700,000	—
				1,400,000	—	—	1,400,000	
Canice CHUNG Tai Keung	19 April 1999	20 April 2000 to 18 April 2004	3.10	156,000	(156,000)	—	—	3.14
Johnny NG Ho Kin	19 April 1999	20 April 2000 to 18 April 2004	3.10	120,000	—	(120,000)	—	—
				1,676,000	(156,000)	(120,000)	1,400,000	

* The price is the Singapore Exchange weighted average closing price of EEICL's shares on the trading days immediately prior to the date of exercise over all of the exercises of share options within the disclosure category.

Save as disclosed above, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any directors or their respective associates, or were any such rights exercised by them; nor was the Company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

Except as disclosed above and set out in the section "Substantial Shareholders" below, at the balance sheet date, none of the directors and their respective associates had any personal, family, corporate or other interests or short positions in the shares, underlying shares and debentures of the Company and its associated corporations as recorded in the register required to be kept by the Company under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Report of the Directors

SHARE OPTION SCHEMES

Details of share option schemes and the share options outstanding at the balance sheet date are included in note 24 to the financial statements.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2004, the following persons had interests of 5% or more in the issued share capital of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO:

Name of shareholder	Number of Shares held	Percentage shareholding in the Company
Elec & Eltek Investments Limited ("EEIL")	521,921,359 (Note 1)	42.87
Hallgain Management Limited ("HML")	335,164,000 (Note 2)	27.53
Kingboard Chemical Holdings Limited ("KCHL")	335,164,000 (Note 3)	27.53
Jamplan (BVI) Limited ("Jamplan")	142,375,000 (Note 3)	11.69
Kingboard Investments Limited ("KIL")	82,645,000 (Note 3)	6.79

Notes:

- As at 30 June 2004, EEIL had beneficial interests in 521,921,359 shares in the Company. The shareholders of EEIL are as follows:

Name of shareholder	Percentage shareholding in EEIL
Plenty Gain Limited	30.97
Champion Oriental Inc.	29.98
Goldful Holdings Limited	29.98
Expert Gold Inc.	9.07
	100.00

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.

SUBSTANTIAL SHAREHOLDERS (continued)

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.

2. HML was deemed to be interested in 335,164,000 shares in the Company, which was directly or indirectly held by KCHL, by virtue of its holding 36.17% interests in the issued share capital of KCHL.
3. KCHL was directly interested in 142,329,000 shares in the Company and was deemed to be interested in 192,835,000 shares in the Company through its subsidiaries, including Jamplan and KIL.

Save as disclosed above, no person, other than the directors of the Company, whose interests are set out in the section "Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures of the Company and its Associated Corporations" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

AUDIT COMMITTEE

Pursuant to the terms of reference of the Company's Audit Committee, which was set up on 30 June 1999, meetings were held on 7 February 2004 to review the interim financial statements of the Group and on 14 August 2004 to review the financial statements of the Group for the financial year ended 30 June 2004. The Committee comprises three independent non-executive directors, namely, Mr. Peter LEE Yip Wah, Mr. Eugene LEE and Mr. Kenneth SHIM Hing Choi.

NOMINATION COMMITTEE

The Nomination Committee is responsible for monitoring the performance of directors and making recommendations to the Board for the appointment or reappointment and/or removal of directors. It comprises two independent non-executive directors, Mr. Kenneth SHIM Hing Choi (who chairs the Committee) and Mr. Peter LEE Yip Wah, and one non-executive director, Mr. Wilson TAM Kam Ho. The Committee met twice during the year.

Report of the Directors

REMUNERATION COMMITTEE

The Remuneration Committee is responsible for reviewing, evaluating and recommending the remuneration packages for directors and key executives. It comprises two independent non-executive directors, Mr. Kenneth SHIM Hing Choi (who chairs the Committee) and Mr. Peter LEE Yip Wah, and one non-executive director, Mr. Johnny NG Ho Kin. The Committee met twice during the year.

STRATEGIC COMMITTEE

The Strategic Committee is responsible for assisting the Board in reviewing and evaluating issues and proposals that concern overall Group business, policies and investment matters. It comprises one independent non-executive director, Mr. Eugene LEE (who chairs the Committee) and three non-executive directors, Mr. David SO Cheung Sing, Mr. Marcus TSANG Ming Pui and Mr. Wilson TAM Kam Ho. The Committee met seven times during the year.

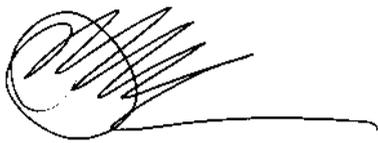
CODE OF BEST PRACTICE

In the opinion of the directors, the Company complied with the Code of Best Practice (the "Code") as set out in Appendix 14 of the Hong Kong Listing Rules throughout the accounting period covered by this annual report, except that the non-executive directors of the Company are not appointed for specific terms as required by paragraph 7 of the Code, but are subject to retirement by rotation in accordance with the Company's bye-laws.

AUDITORS

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the board

A handwritten signature in black ink, consisting of a circular scribble followed by several horizontal strokes and a long horizontal line extending to the right.

Thomas Tang Koon Yiu
Chairman and Managing Director

Hong Kong
23 August 2004