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**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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**If you are in any doubt** as to any aspect of the Offer and this circular or as to the action you should take, you should consult your stockbroker or other licensed securities dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

**If you have sold or transferred** all your shares in **MAN YUE INTERNATIONAL HOLDINGS LIMITED**, you should at once hand this circular and the enclosed form of proxy and the enclosed Form of Acceptance (as defined herein) to the purchaser, the transferee or to the bank, stockbroker or other agent through whom the sale was effected for transmission to the purchaser or the transferee.

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this circular, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.

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**CONDITIONAL VOLUNTARY CASH OFFER BY  
ASIAN CAPITAL (CORPORATE FINANCE) LIMITED  
ON BEHALF OF  
MAN YUE INTERNATIONAL HOLDINGS LIMITED  
TO REPURCHASE UP TO 66,000,000 SHARES  
AT AN OFFER PRICE OF HK\$0.38 PER SHARE  
AND  
WHITEWASH WAIVER**

**Financial Adviser to Man Yue International Holdings Limited**



**Independent financial adviser to the Independent Director of  
Man Yue International Holdings Limited**



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A letter from the Independent Director is set out on pages 25 to 26 of this circular.

A letter from AMS Corporate Finance Limited containing its advice to the Independent Director is set out on pages 27 to 43 of this circular.

A notice convening the SGM of Man Yue International Holdings Limited to be held at Gloucester Room II, 3/F, The Excelsior Hong Kong, 281 Gloucester Road, Causeway Bay, Hong Kong, on Thursday, 24 June 2004 at 10:00 a.m. is set out on page 105 of this circular. Whether or not you are able to attend the meeting, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon as soon as possible and in any event not less than 48 hours before the time appointed for holding the meeting. Completion and return of the form of proxy shall not preclude you from attending and voting in person at the meeting should you so wish.

The procedure for tendering shares for acceptance of the Offer is set out in Appendix I to this circular and in the enclosed Form of Acceptance. Completed and signed Forms of Acceptance must be received by the Registrar not later than 4:00 p.m. on Thursday, 8 July 2004.

\* for identification purpose only

31 May 2004

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## DEFINITIONS

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*In this circular, the following expressions have the meanings set out opposite them unless the context otherwise requires:*

“Accepting Shareholders”	Qualifying Shareholders who accept the Offer
“acting in concert”	has the meaning ascribed to such terms in the Codes
“AMS”	AMS Corporate Finance Limited, a corporation deemed licensed under transitional arrangement to carry on type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO and acting as the independent financial adviser to the Independent Director in respect of the Offer and the Whitewash Waiver
“Announcement”	the announcement issued by the Company dated 26 April 2004 in relation to the Offer
“Announcement Date”	26 April 2004, being the date on which the Offer was announced and commenced
“Asian Capital”	Asian Capital (Corporate Finance) Limited, a corporation licensed under the SFO to perform types 1, 4, 6 and 9 regulated activities (dealing in securities, advising on securities and corporate finance and asset management, respectively) under the SFO and the financial adviser to the Company
“Associates”	has the meaning ascribed thereto under the Listing Rules
“Assured Entitlement(s)”	is a rounded figure derived from the ratio of the total number of 66,000,000 Shares to be repurchased under the Offer to the total number of Shares held by Qualifying Shareholders (taking into account the undertaking not to accept the Offer by Man Yue Holdings Inc. and Mr. Ko Pak On, their associates and parties acting in concert with them), and represents entitlement(s) (rounded down to the nearest whole number of Shares) to be repurchased at approximately 341 Shares for every 1,000 Shares held by each Qualifying Shareholder at the Latest Acceptance Time
“Board”	the board of Directors
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“Codes”	the Hong Kong Codes on Takeovers and Mergers and Share Repurchases
“Companies Act”	the Companies Act 1981 of Bermuda (as amended)

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## DEFINITIONS

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“Conditions”	the conditions to which the Offer will be subject, as set out in the section headed “Conditions and other major terms of the Offer”
“Company”	Man Yue International Holdings Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on the Main Board of the Stock Exchange
“Director(s)”	the director(s) of the Company
“Excess Tenders”	Shares tendered for acceptance of the Offer by the relevant Qualifying Shareholders in excess of his or her Assured Entitlement
“Excluded Country(ies)”	any jurisdiction(s) the laws of which prohibit the making of the Offer to the relevant Shareholder in that jurisdiction or otherwise require the Company to comply with additional requirements which are (in the opinion of the Directors, but subject to the prior consent of the Executive) unduly onerous or burdensome, having regard to the number of Shareholders involved in that jurisdiction and their shareholdings in the Company. As at the Latest Practicable Date, the addresses of the Overseas Shareholders as shown on the Register did not include any Excluded Country
“Excluded Shareholder(s)”	any Overseas Shareholder whose address, as shown on the register of members of the Company as at the time of submission of his or her acceptance in respect of the Offer or at the latest time for submission of acceptances in respect of the Offer, is located in an Excluded Country. As at the Latest Practicable Date, no Overseas Shareholder whose address was located in an Excluded Country
“Executive”	the Executive Director of the Corporate Finance Division of the Securities and Futures Commission or any delegates of the Executive Director
“Form(s) of Acceptance”	the form(s) of acceptance being issued together with this circular to Qualifying Shareholders for the use of accepting the Offer
“Group”	the Company and its subsidiaries
“HKSCC”	Hong Kong Securities Clearing Company Limited
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong

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## DEFINITIONS

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“Independent Director”	Mr. Li Sau Hung, Eddy, who was appointed by the Board to advise the Independent Shareholders in respect of the Offer and the Whitewash Waiver
“Independent Shareholders”	Shareholders who are not involved in or interested in the Offer and the application of the Whitewash Waiver, being all Shareholders other than Man Yue Holdings Inc., its Associates and any parties acting in concert with it
“Last Trading Date”	20 April 2004, being the last trading day immediately prior to the issue of the Announcement
“Latest Acceptance Time”	4:00 p.m. (Hong Kong Time) on Thursday, 8 July 2004, being the latest time for lodging of Forms of Acceptance (unless the period for acceptance of the Offer is extended in accordance with the Repurchase Code and with the consent of the Executive which will only be granted in very exceptional circumstances)
“Latest Practicable Date”	28 May 2004, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Macau”	the Macao Special Administrative Region of the People’s Republic of China
“Man Yue Holdings Inc.”	a company incorporated in the Bahamas and as at the Latest Practicable Date held approximately 48.1% of the issued share capital of the Company, the entire issued share capital of which is ultimately beneficially owned by the family trust of Mr. Chan Ho Sing, the chairman and an executive Director of the Company. Mr. Chan Ho Sing and Mr. Chan Yu Ching Eugene, an assistant executive director of the Company and the son of Mr. Chan Ho Sing, are the directors of Man Yue Holdings Inc.
“Mr. Ko Pak On”	an executive Director of the Company and a party not acting in concert with Man Yue Holdings Inc.
“Offer”	the conditional voluntary cash offer by Asian Capital, on behalf of the Company, to repurchase up to 66,000,000 Shares from all Qualifying Shareholders at the Offer Price, subject to the terms and conditions to be set out in this circular and the Form of Acceptance
“Offer Price”	HK\$0.38 per Share

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## DEFINITIONS

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“Overseas Shareholders”	Shareholders whose addresses, as shown on the register of members of the Company, are outside Hong Kong
“Qualifying Shareholders”	Shareholders, other than Excluded Shareholders, whose names appear on the register of members of the Company as at the latest time for submission of acceptances in respect of the Offer
“Register”	the register of members of the Company
“Registrar”	the branch share registrar of the Company in Hong Kong, being Tengis Limited, G/F, BEA Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong
“Relevant Period”	the period between 27 October 2003, being the date falling six months prior to the Announcement Date, and the Latest Practicable Date
“Repurchase Code”	the Hong Kong Code on Share Repurchases
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“SGM”	the special general meeting of the Shareholders to be convened at Gloucester Room II, 3/F, The Excelsior Hong Kong, 281 Gloucester Road, Causeway Bay, Hong Kong on Thursday, 24 June 2004 at 10:00 a.m. for the Independent Shareholders to consider and, if thought fit, approve the Offer and the Whitewash Waiver
“Share(s)”	ordinary share(s) of HK\$0.10 each in the share capital of the Company
“Share Option(s)”	the share option(s) to subscribe for Share(s) under the share option scheme of the Company adopted on 13 February 1997
“Shareholder(s)”	registered holder(s) of the Share(s)
“Stock Exchange”	the Stock Exchange of Hong Kong Limited
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers
“Tenders”	Tenders of Shares by Qualifying Shareholders for repurchase by the Company under the Offer
“Whitewash Waiver”	a waiver granted by the Executive pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code from the obligation of Man Yue Holdings Inc., and parties acting in concert with it, to make a mandatory unconditional cash offer for all the Shares not already owned or agreed to be acquired by any of them

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## EXPECTED TIMETABLE

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*All references to time and date are to Hong Kong time and date.*

2004

Offer period begins .....	Monday, 26 April
Despatch of this circular .....	Monday, 31 May
Latest time for lodging form of proxy for the SGM .....	10:00 a.m. on Tuesday, 22 June
SGM ( <i>Note 1</i> ) .....	10:00 a.m. on Thursday, 24 June
Publication on the Stock Exchange's website of the SGM results and whether the Offer has become unconditional .....	7:00 p.m. on Thursday, 24 June
Announcement in newspapers of the results of the SGM and whether the Offer has become unconditional .....	Friday, 25 June
Latest Acceptance Time .....	4:00 p.m. on Thursday, 8 July
Closing date of the Offer .....	Thursday, 8 July
Publication of the results of the Offer on the Stock Exchange's website ..	7:00 p.m. on Thursday, 8 July
Announcement in newspapers of the results of the Offer (indicating the aggregate number of Shares tendered under the Offer) (subject to verification) ( <i>Note 2</i> ) .....	Friday, 9 July
Announcement in newspapers of the results of the Offer (indicating the aggregate number of valid acceptances received for the Offer segregating into the Assured Entitlements and the pro rata entitlements in respect of Excess Tenders received for the Offer) ( <i>Note 2</i> ) .....	Monday, 12 July
Latest time for despatch of cheques to Accepting Shareholders for amounts due in respect of successful Tenders and return of share certificates for wholly or partly unsuccessful Excess Tenders ( <i>Note 2</i> ) .....	Saturday, 17 July

*Notes:*

1. There will be no record date for ascertaining entitlements to attend and vote at the SGM. The Company will consider all acceptance by the Qualifying Shareholders to be received before the latest time for lodging acceptances of the Offer, which is expected to be on or before 4:00 p.m. on Thursday, 8 July 2004.
2. Assuming that the Offer is approved by the Shareholders and becomes unconditional on Thursday, 24 June 2004.



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LETTER FROM THE BOARD

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MAN YUE INTERNATIONAL HOLDINGS LIMITED

*(Incorporated in Bermuda with limited liability)*

*Directors:*

CHAN Ho Sing (*Chairman*)

KO Pak On

LI Sau Hung, Eddy\*

LO Kwok Kwei, David\*

*Registered Office:*

Clarendon House

2 Church Street

Hamilton HM11

Bermuda

\* *Independent non-executive directors*

*Head Office and principal place  
of business in Hong Kong:*

16th Floor

Yiko Industrial Building

10 Ka Yip Street

Chai Wan

Hong Kong

31 May 2004

*To the Independent Shareholders*

*(and, for information only, to the Excluded Shareholders)*

**CONDITIONAL VOLUNTARY CASH OFFER BY  
ASIAN CAPITAL (CORPORATE FINANCE) LIMITED  
ON BEHALF OF  
MAN YUE INTERNATIONAL HOLDINGS LIMITED  
TO REPURCHASE UP TO 66,000,000 SHARES  
AT AN OFFER PRICE OF HK\$0.38 PER SHARE  
AND  
WHITEWASH WAIVER**

Dear Sir or Madam,

**1. INTRODUCTION**

It was announced on 26 April 2004 that a proposed conditional voluntary cash offer would be made by Asian Capital on behalf of the Company to repurchase up to 66,000,000 Shares (representing approximately 17.67% of the total issued share capital of the Company as at the Latest Practicable Date) at the Offer Price of HK\$0.38 per Share payable in cash.

The Offer will be made in compliance with the Codes.

\* *for identification purpose only*

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## LETTER FROM THE BOARD

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The purpose of this circular is to provide you with further information on the Company together with details of the Offer, the advice of the Independent Director and AMS in respect of the Offer and the Whitewash Waiver together with a notice of SGM.

### 2. THE OFFER

Asian Capital is making the Offer on behalf of the Company to repurchase up to 66,000,000 Shares, representing approximately 17.67% of the total issued share capital of the Company as at the Latest Practicable Date, at the Offer Price of HK\$0.38 per Share, subject to the Conditions. As at the Latest Practicable Date, the Company has no intention to revise the Offer Price.

Man Yue Holdings Inc., the controlling shareholder of the Company, and Mr. Ko Pak On have undertaken to the Company that they will not, and will procure their respective Associates and parties acting in concert with them not to, accept the Offer in respect of the Shares owned by them.

The Offer is conditional upon its being approved by ordinary resolution on a poll of the Independent Shareholders, voting either in person or by proxy, at the SGM. Man Yue Holdings Inc., its Associates and any parties acting in concert with it will abstain from voting at the SGM. Details of the Offer, including the terms and conditions thereof, as well as details in relation to Assured Entitlements, are contained in the letter from Asian Capital which follows this letter, Appendix I to this circular and in the accompanying Form of Acceptance.

### 3. INFORMATION ON THE GROUP

The Company is incorporated in Bermuda with limited liability and its Shares are listed on the Stock Exchange. The Company is an investment holding company and its subsidiaries are principally engaged in the manufacture and trading of electronic components, the trading of electrical products, raw materials and production machinery.

The following table sets out a summary of the audited consolidated results of the Group for each of the two years ended 31 December 2003:

	<b>For the twelve months ended 31 December</b>	
	<b>2002</b>	<b>2003</b>
	<i>HK\$'million</i>	<i>HK\$'million</i>
Turnover	477.73	626.45
Profit before taxation	26.74	42.42
Profit attributable to shareholders	20.35	37.05

As at 31 December 2003, the audited consolidated net asset value of the Group was approximately HK\$259.62 million or approximately HK\$0.70 per Share; the consolidated borrowings in respect of bank loans and finance leases of the Group were approximately HK\$202.51 million. The gearing ratio of the Group, being the consolidated borrowings in respect of bank loans and finance leases divided by the consolidated net asset value was approximately 78.00%. The net gearing ratio of the Group, being the

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## LETTER FROM THE BOARD

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consolidated borrowings in respect of bank loans and finance leases less cash equivalents divided by the consolidated net asset value was approximately 60.20%. The nature of the business required a degree of operating leverage and the Company considers this level comfortable with interest coverage of approximately 13.77 times, being the profit excluding finance costs, tax, depreciation, amortisation of intangible assets and goodwill and recognition of negative goodwill, divided by finance costs.

#### **4. FUTURE PROSPECTS OF THE GROUP**

In recent years, the Group has placed emphasis on the manufacture and selling of aluminium electrolytic capacitors. It has shifted its strategic focus from producing basic aluminium e-caps to high end items to sustain profitability. Despite the continuing weakness in the global economy and the outbreak of Severe Acute Respiratory Syndrome (“SARS”) in 2003, the Group was able to achieve a 82.10% increase in consolidated net profit for the year ended 31 December 2003, which has been attributable to the concentration on the sales of higher valued Aluminium e-cap. During 2003, the Group has expanded its markets in the overseas especially Taiwan. Sales to Taiwan showed substantial growth as a result of the Company’s expansion into the local computer motherboard and power supply segments. The Group’s consolidated turnover for the Taiwan segment increased by 172.01% in 2003.

To further expand customer base, the Group will participate in trade fairs to be held in Hong Kong and Germany in the fourth quarter of 2004. To expand the sales network, the Group has appointed several manufacturer representatives and distributors in the United States and South Korea, and will continue to appoint suitable representatives and distributors for different overseas territories.

In view of the uncertain global economy, the Group will maintain a prudent management approach with focus on further exploring new geographical markets and clientele, as well as producing high value added products.

#### **5. FINANCIAL EFFECTS OF THE OFFER**

The tables below summarise the financial effects of the Offer assuming full acceptance of the Offer by the Shareholders (except Man Yue Holdings Inc. and Mr. Ko Pak On, their associates and parties acting in concert with them), based on the audited results of the Group for the year ended 31 December 2003 and assuming that the Offer had taken place on 31 December 2003. The tables below are

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## LETTER FROM THE BOARD

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prepared for illustrative purposes only and by their nature, may not be able to give a true and complete picture of the Group's financial position or results. The auditors of the Company have reviewed the following tables, and in their opinion, they comply with Rule 4.29(7) of the Listing Rules. For details of their report, please refer to Appendix II 5. Comfort letter on pro forma financial information.

### A. Net asset value

		Adjustments		
Audited figures per audited accounts as at 31 December 2003	Estimated cost of the Offer	Estimated expenses of the Offer <i>(Note 1)</i>	Unaudited adjusted figures assuming full acceptance of the Offer	
Consolidated net asset value of the Group as at 31 December 2003 <i>(HK\$ million)</i>	259.62	(25.08)	(2.00)	232.54
Number of Shares in issue	373,440,000			307,440,000
Consolidated net asset value per Share	HK\$0.70			HK\$0.76
An increase of:				<b>8.57%</b>

*Note 1:* Comprises professional, legal and miscellaneous expenses of the Offer.

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## LETTER FROM THE BOARD

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### B. Basic earnings per Share

	Audited figures per audited accounts for the year ended 31 December 2003	<u>Adjustment</u>  Adjusted for: Expenses of the Offer <i>(Note 1)</i>	Unaudited adjusted figures assuming full acceptance of the Offer
Consolidated net profit of the Group for the year ended 31 December 2003 <i>(HK\$ million)</i>	37.05	(2.00)	35.05
Number of Shares in issue	373,440,000		307,440,000
Consolidated basic earnings per Share	9.92 cents <i>(Note 2)</i>		11.40 cents <i>(Note 3)</i>
An increase of:			<b>14.92%</b>

*Notes:*

- 1: Comprises professional, legal and miscellaneous expenses of the Offer.
- 2: Basic earnings per Share is calculated by dividing net profit of the Group by the total number of Shares in issue during the year of 373,440,000.
- 3: For pro forma purpose, the calculation of the unaudited adjusted consolidated basic earnings per Share is based on the assumed weighted average number of Shares in issue during the year ended 31 December 2003 of 307,440,000. Had the weighted average number of Shares in issue during the year been based on the assumption that the Offer had taken place on 31 December 2003, the weighted average number of Shares in issue during the year ended 31 December 2003 would have been 373,259,178 and the unaudited adjusted consolidated basic earnings per Share would be HK9.39 cents, representing a decrease of 5.34%.

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## LETTER FROM THE BOARD

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### C. Return on shareholders' funds

	<b>Prior to the Offer (audited figures per audited accounts for the year ended and as at 31 December 2003) <i>HK\$'million</i></b>	<b>Unaudited adjusted figures assuming full acceptance of the Offer <i>HK\$'million</i></b>
Consolidated net profit of the Group (as calculated under (B) above)	37.05	35.05
Consolidated net asset value of the Group (shareholders' funds) (as calculated under (A) above)	259.62	232.54
Return on shareholders' funds	14.27%	15.07%
An increase of:		<b>5.61%</b>

### D. Working Capital

Assuming full acceptance of the Offer, the total estimated cost of the Offer and total estimated expenses in relation to the Offer will be approximately HK\$25.08 million and HK\$2 million, respectively. The consideration of the Offer will be funded by internal resources of the Company.

As at 31 December 2003, the Group's working capital (being current assets less current liabilities) was approximately HK\$133.57 million and the Group had cash and unutilized banking facilities (net of pledged deposit) of approximately HK\$325.57 million. Taking into account the existing operations and expected capital expenditure of the Group, the Directors are of the opinion that immediately after the close of the Offer (assuming full acceptance of the Offer), the Group will have sufficient working capital for a period of 12 months after closing of the Offer and there will be no material adverse financial effects on the Group as a result of the Offer.

### E. Liabilities

As at 31 December 2003, the Group's total liabilities were HK\$372.36 million (being current liabilities of approximately HK\$245.97 million and non-current liabilities of approximately HK\$126.39 million), which are equivalent to approximately HK\$1.00 per Share (based on the total number of issued Shares as at the Latest Practicable Date). As the Offer is funded by internal resources and the total liabilities would not change as a result of the Offer, immediately after the close of the Offer (assuming full acceptance of the Offer), total liabilities would be equivalent to approximately HK\$1.21 per Share (based on the reduced number of issued Shares as a result of full acceptance of the Offer). The Directors are of the opinion that there will be no material adverse financial effects on the Group as a result of the Offer.

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## LETTER FROM THE BOARD

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### **F. Dividends**

In respect of the two financial years ended 31 December 2002 and 2003, the Company did not pay any dividends to the Shareholders.

After the Offer has become unconditional, successfully tendered Shares will be cancelled and will not rank for any dividends to be paid by reference to a record date which falls after the date of their cancellation.

The Directors are confident that the Offer will not inhibit the Company's ability to pay dividends in the future. Depending on the future results and financial position of the Group, the Company will declare dividends as and when appropriate.

### **6. REASONS FOR THE OFFER**

The Directors have decided to make the Offer for the reasons set out below.

During the six month period ended 20 April 2004 (the last trading day prior to the suspension of trading in the Shares on 21 April 2004), the Share price has been trading within the range of HK\$0.25 and HK\$0.33 with an average price of HK\$0.30. The Offer Price represents a premium of approximately 26.67% over such average price. The Offer provides an opportunity for Shareholders to tender their Shares at a price above the recent market price for the past six months.

During this period, liquidity in the Shares has been low with an average daily turnover of approximately 68,312 Shares. In light of the low liquidity in the Shares, the Offer also provides Shareholders with an opportunity to realise their investments in the Company other than through the stock market.

The Shares have been trading at prices substantially below the net asset value per Share over the past three years with the discount ranging from 46.11% to 84.84%. Based on the audited consolidated net asset value per Share as at 31 December 2003 and the closing price per Share on 20 April 2004 (the last trading day prior to the suspension of trading in the Shares on 21 April 2004), the discount was approximately 57.14%. Upon Completion of the Offer, the Company's adjusted net asset value per Share would be increased by approximately 8.57% as a result of the Offer. In addition, as set out in Table B of the section headed "5. Financial Effects of the Offer", the unaudited adjusted consolidated basic earnings per Share would also be increased by approximately 14.92%.

The Company considers in contrast to paying a dividend, the Offer provides flexibility to Shareholders who can decide for themselves whether to cash in under the Offer or to enhance their shareholding in the Company for long term growth.

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## LETTER FROM THE BOARD

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### 7. INTENTIONS OF THE GROUP AND MAN YUE HOLDINGS INC.

It is the intention of the Company to maintain the listing of its Shares on the Stock Exchange and to continue to meet the public float requirements of Rule 8.08 and Rule 13.32 of the Listing Rules. The Group has no intention to rely upon section 168B of the Companies Ordinance (Cap. 32) or comparable provision of applicable company law to buy out minority Shareholders. Upon the closing of the Offer, the Directors and Man Yue Holdings Inc. intend to continue with the existing businesses and retain the existing employees of the Group. The Directors and Man Yue Holdings Inc. do not intend to introduce any major changes to the existing operations (including any redeployment of fixed assets) and management structure of the Group.

### 8. WHITEWASH WAIVER

Man Yue Holding Inc., its Associates and any parties acting in concert with it have undertaken that they will not accept the Offer in respect of any of the Shares owned by them as they are confident of the long term prospect of the Company and intend to continue to remain their holdings as long-term investment. Assuming full acceptance of the Offer, the aggregate percentage shareholding held by Man Yue Holdings Inc., its Associates and any parties acting in concert with it in the Company will be increased from approximately 48.13% to approximately 58.46% of the reduced issued share capital of the Company immediately after closing of the Offer.

Assuming full acceptance of the Offer and the exercise in full of the Share Options, the aggregate percentage shareholding held by Man Yue Holdings Inc., its Associates and any parties acting in concert with it in the Company will be further increased from approximately 58.46% to approximately 59.71% of the reduced issued share capital of the Company immediately after closing of the Offer.

Under Rule 6 of the Repurchase Code, such an increase in the shareholding of Man Yue Holdings Inc. in the Company would be treated as an acquisition for the purposes of the Takeovers Code. As this increase in the shareholding of Man Yue Holdings Inc. arising from the Offer would exceed the 2% creeper over the preceding 12-month period, Man Yue Holdings Inc. would be required by Rule 26.1(c) of the Takeovers Code to make a mandatory unconditional cash offer for all the issued Shares not already owned by it and/or parties acting in concert with it.

Accordingly, an application has been made to the Executive for the Whitewash Waiver and the Executive has indicated that it will grant the Whitewash Waiver, subject to Independent Shareholders approving it by way of a poll at the SGM.

Assuming sufficient acceptances of the Offer are received resulting in Man Yue Holdings Inc. holding 50% or more of the voting rights of the Company upon completion of the Offer, Man Yue Holdings Inc. will be free to acquire additional Shares thereafter without incurring any further obligations under the Codes to make a mandatory offer.

The Offer and the Whitewash Waiver will be subject to the approval of the Independent Shareholders to be obtained by way of a poll. If the Whitewash Waiver is not granted, the Offer will not proceed.



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## LETTER FROM THE BOARD

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The Company has not and will not engage in any on-market Share repurchase during the period from the Announcement Date until the date the Offer closes, lapses or is withdrawn, as the case may be (both dates inclusive).

### 9. SGM

Set out on page 105 of this circular is a notice convening the SGM to be held at 10:00 a.m. (Hong Kong time) on Thursday, 24 June 2004 at, Gloucester Room II, 3/F, The Excelsior Hong Kong, 281 Gloucester Road, Causeway Bay, Hong Kong at which ordinary resolutions will be proposed for the Independent Shareholders to consider and, if thought fit, to approve by way of a poll (i) the Offer and (ii) the Whitewash Waiver. As at the Latest Practicable Date, to the best knowledge of the Directors, no Shareholder has indicated his/her voting intention at the SGM.

A form of proxy for use at the SGM is enclosed. Whether or not you are able to attend the SGM, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon to the Registrar at G/F, BEA Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding the meeting. Completion and return of the form of proxy shall not preclude you from attending and voting in person at the meeting should you so wish.

### 10. RECOMMENDATIONS

Mr. Chan Ho Sing, an executive Director, is a director and the beneficial owner of Man Yue Holdings Inc.. Mr. Ko Pak On, an executive Director, is a salaried employee of the Group and Mr. Lo Kwok Kwei, David, an independent non-executive Director, has been retained by the Company as its legal advisers in the Offer. Accordingly, they are considered not sufficiently independent for the purpose of advising the Independent Shareholders in relation to the Offer and the Whitewash Waiver. Mr. Li Sau Hung, Eddy, an independent non-executive Director, has been appointed as the Independent Director to advise the Independent Shareholders in respect of the approval of the Offer and the Whitewash Waiver. The Company has appointed AMS as independent financial adviser to advise the Independent Director in connection with the Offer and the Whitewash Waiver.

Your attention is drawn to the letter from the Independent Director, and the letter from AMS set out in this circular which contains its advice to the Independent Director in relation to the approval of the Offer and the principal factors and reasons considered by AMS in arriving at its advice.

### 11. ADDITIONAL INFORMATION

Asian Capital has been appointed as the financial adviser to the Company in relation to the Offer and the Whitewash Waiver and the financial adviser to Man Yue Holdings Inc. in relation to the Whitewash Waiver.

Your attention is drawn to the letter from Asian Capital set out in this circular which contains the terms of the Offer.

Your attention is also drawn to the detailed terms of the Offer set out in Appendix I to this circular, the financial information regarding the Group set out in Appendix II to this circular and the general information set out in Appendix III to this circular.

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## LETTER FROM THE BOARD

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Shareholders and potential investors should be aware that the Offer is subject to the Conditions being fulfilled and therefore it may or may not become unconditional. Shareholders and potential investors are advised to exercise caution when dealing in the Shares.

Yours faithfully,  
On behalf of the Board of  
**Man Yue International Holdings Limited**  
**CHAN Ho Sing**  
*Chairman*

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# LETTER FROM ASIAN CAPITAL

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**ASIAN CAPITAL**  
(CORPORATE FINANCE) LIMITED

31 May 2004

*To the Qualifying Shareholders,  
and for information only, to the Excluded Shareholders*

**CONDITIONAL VOLUNTARY CASH OFFER BY  
ASIAN CAPITAL (CORPORATE FINANCE) LIMITED  
ON BEHALF OF  
MAN YUE INTERNATIONAL HOLDINGS LIMITED  
TO REPURCHASE UP TO 66,000,000 SHARES  
AT AN OFFER PRICE OF HK\$0.38 PER SHARE  
AND  
WHITEWASH WAIVER**

Dear Sir or Madam,

## 1. INTRODUCTION

It was announced on 26 April 2004 that a proposed conditional voluntary cash offer would be made by Asian Capital on behalf of the Company to repurchase up to 66,000,000 Shares (representing approximately 17.67% of the total issued share capital of the Company as at the Latest Practicable Date) at the Offer Price payable in cash.

## 2. THE OFFER

### Terms of the Offer

On behalf of the Company, Asian Capital makes the conditional voluntary cash offer to repurchase up to 66,000,000 Shares, subject to the Conditions, on the following basis:

**For every Share to be repurchased under the Offer ..... HK\$0.38 in cash**

Man Yue Holdings Inc., the controlling shareholder of the Company, and Mr. Ko Pak On have undertaken to the Company that they will not, and will procure their respective Associates and parties acting in concert with them not to, accept the Offer in respect of the Shares owned by them. Accordingly, Qualifying Shareholders are assured of being able, if they so wish, to sell to the Company approximately 341 Shares out of every 1,000 Shares they own as at the close of the Offer. Qualifying Shareholders will be able to submit acceptances in respect of some or all of their holdings of Shares, but allocation of the number of Shares to be repurchased from each Qualifying Shareholder will be subject to scaling down in the manner described below under "5. Assured Entitlements and Scaling Down".

Suite 1006, Bank of America Tower  
12 Harcourt Road, Central, Hong Kong  
Tel: (852) 2869-8861  
Fax: (852) 2869-9660  
Website: www.asiancapital.com.hk

Shanghai Representative Office  
Suite 1504, Tomson Commercial Building,  
No. 710 Dongfang Road, Pudong, Shanghai 200122, PRC  
Tel: (8621) 6876-3248  
Fax: (8621) 6876-3249

香港中環夏慤道十二號美國銀行中心1006室  
電話：(852) 2869-8861  
傳真：(852) 2869-9660

上海代表處  
中國上海市浦東新區東方路710號湯臣金融大廈1504室 郵編200122  
電話：(8621) 6876-3248  
傳真：(8621) 6876-3249

卓亞(企業融資)有限公司

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## LETTER FROM ASIAN CAPITAL

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The amount to be paid by the Company under the Offer, if fully tendered, will be approximately HK\$25.08 million. The consideration for the Offer will be paid in cash and will be funded by internal resources of the Company.

The maximum number of Shares which will be repurchased under the Offer is 66,000,000 Shares, representing approximately 17.67% of the total issued share capital of the Company of 373,440,000 Shares as at the Latest Practicable Date.

All Shares repurchased under the Offer will be cancelled and will not rank for any dividends or other distribution to be paid by reference to a record date which falls after the date of their cancellation. Assuming full acceptance of the Offer, the Company's issued share capital will be reduced to 307,440,000 Shares.

The Company has not repurchased any Shares in the six month period prior to the Announcement Date, and, save for the Offer, will not conduct any repurchase from the Announcement Date until the date on which the Offer closes, lapses or is withdrawn, as the case may be (both dates inclusive). Man Yue Holdings Inc., its Associates and any parties acting in concert with it have not dealt in any Shares in the six month period prior to the Announcement Date and has undertaken not to deal in any Shares before the Offer has become unconditional.

### 3. CONDITIONS AND OTHER MAJOR TERMS OF THE OFFER

Completion of the Offer will be conditional upon the following:

- (1) the passing of an ordinary resolution by way of poll to approve the Offer by the Independent Shareholders, either voting in person or by proxy, at the SGM; and
- (2) the granting of a Whitewash Waiver by the Executive so that Man Yue Holdings Inc. is not obliged to make mandatory unconditional cash offer for all the issued Shares not already owned by it and its Associates and/or parties acting in concert with it. If the Whitewash Waiver is granted, it will be subject to the Independent Shareholders' approval by way of a poll at the SGM.

**If the Whitewash Waiver is not granted, the Company will not proceed with the Offer.**

If the Offer becomes unconditional, the Offer will remain open for acceptance for a period of 14 days after the date of the SGM. However, the Company reserves the right to extend the time for acceptance of the Offer in accordance with the provisions of the Repurchase Code.

**Acceptances by Qualifying Shareholders under the Offer will be irrevocable and cannot be withdrawn after the Offer is declared unconditional.**

Acceptance of the Offer by any person will be deemed to constitute a warranty by such person to Asian Capital and to the Company that the Shares are sold by such person free from all liens, charges, encumbrances, equitable interests, rights of pre-emption or other third party rights of any nature and together with all rights attaching thereto on or after the date of this announcement (including the right to all dividends and distributions (if any) declared, made or paid on or after the Announcement Date).

The Offer will not be conditional as to any minimum number of Shares tendered for acceptance.

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## LETTER FROM ASIAN CAPITAL

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### 4. VALUATION OF THE OFFER

The Offer Price per Share values the entire issued share capital of the Company at approximately HK\$141.91 million. The Offer Price represents:

- (i) a premium of approximately 26.67% over the closing price per Share of HK\$0.30 on the Last Trading Date;
- (ii) a premium of approximately 26.67% over the five-day average (ending on 20 April 2004) closing price per Share of approximately HK\$0.30;
- (iii) a premium of approximately 26.67% over the one-month average (ending on 20 April 2004) closing price per Share of approximately HK\$0.30;
- (iv) a premium of approximately 26.67% over the three-month average (ending on 20 April 2004) closing price per Share of approximately HK\$0.30;
- (v) a premium of approximately 26.67% over the six-month average (ending on 20 April 2004) closing price per Share of approximately HK\$0.30;
- (vi) a discount of approximately 20% to the closing price per Share of HK\$0.475 on the Latest Practicable Date;
- (vii) a discount of approximately 45.71% to the audited consolidated net asset value per Share of approximately HK\$0.70 as at 31 December 2003; and
- (viii) a discount of approximately 50.00% to the unaudited adjusted consolidated net asset value per Share of approximately HK\$0.76 as at 31 December 2003 (please refer to the section headed “Financial effects of the Offer” for the calculation of the unaudited adjusted consolidated net asset value per Share as at 31 December 2003).

### 5. ASSURED ENTITLEMENTS AND SCALING DOWN

The number of Shares which may be acquired from a particular Qualifying Shareholder who accepts the Offer may exceed his or her Assured Entitlement if any Qualifying Shareholder either tenders no acceptance in respect of the Offer or accepts the Offer in respect of fewer Shares than are represented by his or her Assured Entitlement.

In the event that the total number of Shares tendered to the Company under the Offer exceeds 66,000,000 Shares, the Company will take up Shares in excess of the Assured Entitlement from each relevant Qualifying Shareholder on a pro rata basis, based on the total number of Shares in respect of which the Offer is validly accepted by Qualifying Shareholders in excess of their respective Assured Entitlements. In such circumstances, any valid acceptance of the Offer in excess of a Qualifying Shareholder’s Assured Entitlement will be scaled down and calculated in accordance with the following

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## LETTER FROM ASIAN CAPITAL

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formula (save that the Company may in its absolute discretion round such figure up or down with the intention of avoiding (as far as practicable) Shares being held by Shareholders in odd lots or fractions):

$$\frac{(66,000,000 - A)}{B} \times C$$

- A = Total number of Shares in respect of which the Offer is validly accepted by all accepting Qualifying Shareholders and which form either all or part of their respective Assured Entitlements (as the case may be)
- B = Total number of Shares in respect of which the Offer is validly accepted by all accepting Qualifying Shareholders in excess of their respective Assured Entitlements
- C = Total number of Shares in respect of which the Offer is validly accepted by the relevant Qualifying Shareholder in excess of his or her Assured Entitlement.

The decision of the Company as to any scaling down of acceptances of the Offer in excess of the Assured Entitlements and as to the treatment of fractions will be conclusive and binding on all Shareholders.

In the event that the total number of Shares tendered to the Company under the Offer is less than or equal to 66,000,000 Shares, acceptances of the Offer in excess of Assured Entitlement will be taken up in full.

**Shareholders should note that, in the event of the Offer becoming unconditional, the Company will repurchase Shares from them equal to at least their respective Assured Entitlements. Any repurchase by the Company of Shares in excess of Shareholders' Assured Entitlements would depend upon the acceptance level under the Offer and cannot be guaranteed by the Company.**

If the Offer becomes unconditional and a Qualifying Shareholder validly accepts the Offer for a number of Shares not exceeding his or her Assured Entitlement, all such Shares will be repurchased by the Company.

### 6. ODD LOTS

Qualifying Shareholders should note that acceptance of the Offer may result in their holding of odd lots of Shares. Accordingly, Kingsway Financial Services Group Limited of 5th Floor, Hutchison House, 10 Harcourt Road, Central, Hong Kong has been appointed by the Company as a designated broker to match sales and purchases of odd lot holdings of Shares in the market. Kingsway Financial Services Group Limited will commence providing such matching services on a best efforts basis on Friday, 9 July 2004 and will continue to provide these services up to and including Thursday, 19 August 2004 (or such other date as Kingsway Financial Services Group Limited may agree with the Company). Holders of odd lots of Shares who wish to take advantage of this facility should, through their respective brokers, contact Mr. Arthur Leung or Mr. Aman Cheung of Kingsway Financial Services Group Limited at telephone number (852) 2877 1830 during normal business hours. Further announcement in this regard will be made after the Offer has become unconditional.

### 7. STAMP DUTY

Shares will be repurchased free of commissions and dealing charges, but the seller's stamp duty at the rate of HK\$1.00 for every HK\$1,000 or part thereof due on the repurchase of Shares will be deducted from the amount payable to the relevant Qualifying Shareholders. According to the Stamp Duty Ordinance, the calculation of stamp duty is based on either the market value of the Share or the Offer Price,

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## LETTER FROM ASIAN CAPITAL

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whichever is higher. The Company will hold the amount so deducted and will pay the same to the Stamp Duty Office in accordance with the Stamp Duty Ordinance.

### **8. OVERSEAS SHAREHOLDERS**

In order to address concerns regarding the implications under securities laws under overseas jurisdictions in relation to the making of the Offer to Overseas Shareholders (which implications may include illegality, filing and registration requirements or the need for compliance with other requirements), the Offer will not be made to any Overseas Shareholder who is located in any jurisdiction the laws of which prohibit the making of the Offer to such Shareholder or otherwise require the Company to comply with additional requirements which are (in the opinion of the Directors) unduly onerous or burdensome, having regard to the number of Shareholders involved in that jurisdiction and their shareholdings in the Company, nor will the Offer be capable of being accepted by such Excluded Shareholders. If necessary, an application will be made to the Executive for such exclusion under Note 3 to Rule 8 of the Takeovers Code and Rule 5.2 of the Repurchase Code and, if appropriate, a further announcement will be made in this respect. However, as at the Latest Practicable Date there was no such Excluded Country or Excluded Shareholder and accordingly, as at the Latest Practicable Date, the Offer would be extended to all Shareholders.

As the Offer to persons not resident in Hong Kong may be affected by the laws of the relevant jurisdictions, Overseas Shareholders should inform themselves about, and observe, any applicable legal or regulatory requirements and, where considered necessary, seek legal advice.

It is the responsibility of each Overseas Shareholder who wishes to accept the Offer to satisfy himself or herself as to the full observance of the laws of the relevant jurisdiction in that connection, including the obtaining of any governmental or other consents which may be required or complying with other necessary formalities or legal requirements.

The Company will not notify any matter in relation to the Offer by announcement or by advertisement in any newspaper circulating outside Hong Kong. All notices and documents relating to the Offer will be posted on the website of the Stock Exchange (<http://www.hkex.com.hk>).

### **9. NOMINEE REGISTRATION OF SHARES**

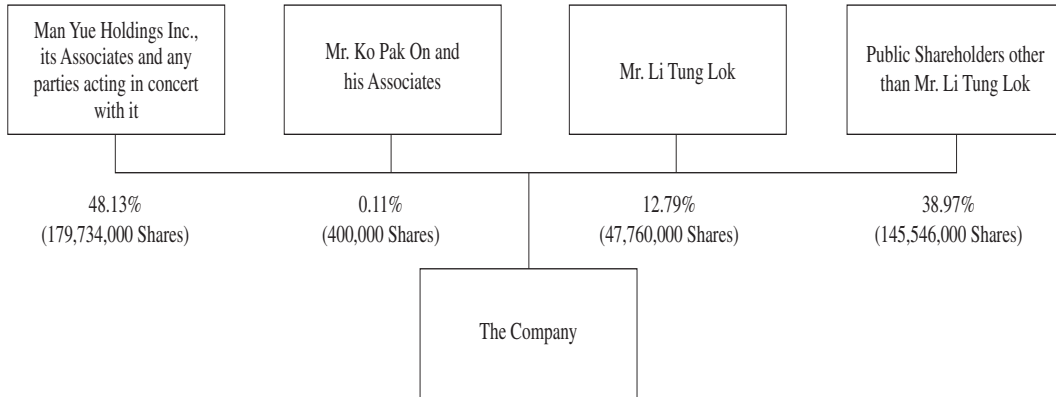
To ensure equality of treatment of Shareholders, those Qualifying Shareholders who hold Shares as nominees for more than one beneficial owner should, as far as practicable, treat the holding of each beneficial owner separately. In order for beneficial owners of Shares, whose investments are registered in nominee names (including those whose interests in Shares are held through The Central Clearing and Settlement System established and operated by Hong Kong Securities Clearing Company Limited), to accept the Offer, it is essential that they provide instructions to their nominee agents of their intentions with regard to the Offer. For further details, please also refer to paragraph 3.2 entitled “Nominee holdings” in Appendix I to this circular.

# LETTER FROM ASIAN CAPITAL

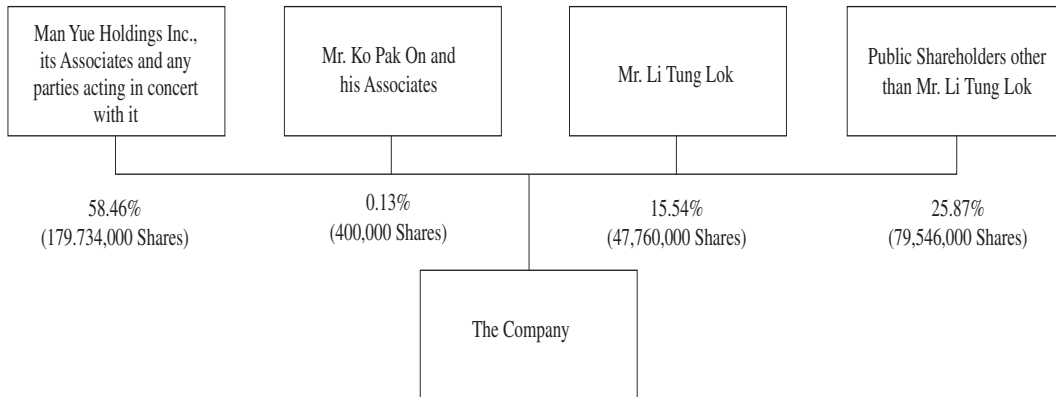
## 10. SHAREHOLDING STRUCTURE

Assuming full acceptance of the Offer by the Shareholders (except for Man Yue Holdings Inc., Mr. Ko Pak On and Mr. Li Tung Lok (who is a substantial shareholder of the Company and has indicated to the company that he will not accept the Offer)), the shareholding structure of the Company prior to and immediately after closing of the Offer would be as follows:

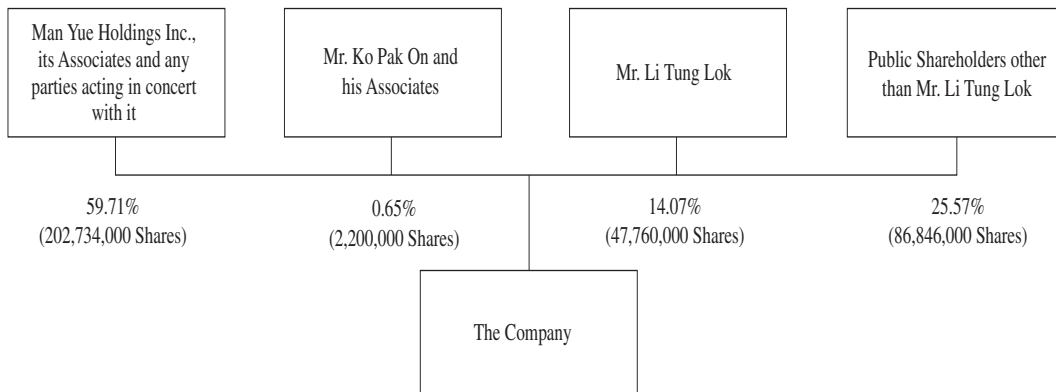
### Existing



### Immediately after closing of the Offer, assuming no Share Options would be exercised



### Immediately after closing of the Offer, assuming full exercise of the Share Options





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## LETTER FROM ASIAN CAPITAL

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### 11. WHITEWASH WAIVER

Man Yue Holding Inc., its Associates and any parties acting in concert with it have undertaken that they will not accept the Offer in respect of any of the Shares owned by them as they are confident of the long term prospect of the Company and intend to continue to remain their holdings as long-term investment. Assuming full acceptance of the Offer, the aggregate percentage shareholding held by Man Yue Holdings Inc., its Associates and any parties acting in concert with it in the Company will be increased from approximately 48.13% to approximately 58.46% of the reduced issued share capital of the Company immediately after closing of the Offer.

Assuming full acceptance of the Offer and the exercise in full of the Share Options, the aggregate percentage shareholding held by Man Yue Holdings Inc., its Associates and any parties acting in concert with it in the Company will be further increased from approximately 58.46% to approximately 59.71% of the reduced issued share capital of the Company immediately after closing of the Offer.

Under Rule 6 of the Repurchase Code, such an increase in the shareholding of Man Yue Holdings Inc. in the Company would be treated as an acquisition for the purposes of the Takeovers Code. As this increase in the shareholding of Man Yue Holdings Inc. arising from the Offer would exceed the 2% creeper over the preceding 12-month period, Man Yue Holdings Inc. would be required by Rule 26.1(c) of the Takeovers Code to make a mandatory unconditional cash offer for all the issued Shares not already owned by it and/or parties acting in concert with it.

Accordingly, an application has been made to the Executive for the Whitewash Waiver and the Executive has indicated that it will grant the Whitewash Waiver, subject to Independent Shareholders approving it by way of a poll at the SGM.

Assuming sufficient acceptances of the Offer are received resulting in Man Yue Holdings Inc. holding 50% or more of the voting rights of the Company upon completion of the Offer, Man Yue Holdings Inc. will be free to acquire additional Shares thereafter without incurring any further obligations under the Codes to make a mandatory offer.

**The Offer and the Whitewash Waiver will be subject to the approval of the Independent Shareholders to be obtained by way of a poll. If the Whitewash Waiver is not granted, the Offer will not proceed.**

The Company has not and will not engage in any on-market Share repurchase during the period from the Announcement Date until the date the Offer closes, lapses or is withdrawn, as the case may be (both dates inclusive).

### 12. ACCEPTANCE AND SETTLEMENT

#### **Procedure for acceptance**

To accept the Offer, you should complete the accompanying Form of Acceptance in accordance with the instructions printed thereon. The instructions form part of the terms and Conditions of the Offer.

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## LETTER FROM ASIAN CAPITAL

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The completed Form(s) of Acceptance should then be forwarded, together with the relevant Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) for not less than the number of Shares in respect of which you intend to accept the Offer, by post or by hand to the Registrar, **Tengis Limited, G/F, BEA Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, in an envelope marked “Man Yue International Holdings Limited Repurchase Offer”**, as soon as practicable after receipt of the **Forms of Acceptance but in any event to reach the Registrar by not later than 4:00 p.m. on Thursday, 8 July 2004, being the fourteenth day after the Offer has become unconditional (unless extended in accordance with the Repurchase Code and with the consent of the Executive)**. No acknowledgement of receipt of any Form(s) of Acceptance, Share certificate(s), transfer receipt(s) or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) will be given. Your attention is also drawn to the section headed “Detailed terms of the Offer” set out in Appendix I to this circular.

### **Settlement**

Provided that (i) the relevant Form(s) of Acceptance and Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title, (and/or any satisfactory indemnity or indemnities required in respect thereof) are in complete and good order and have been received by the Registrar on or before the closing date of the Offer and; (ii) the Offer becomes unconditional on Thursday, 24 June 2004, a cheque for the amount due to the Shareholders in respect of the Shares tendered by them under the Offer will be despatched to the Shareholders within 10 days of the closing date of the Offer, subject to all the relevant documents having been received by the Registrar rendering such acceptance being complete and valid.

If the Offer does not become unconditional, your share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) will be returned and/or sent to you (by ordinary post, at your risk) within seven days of the lapse of the Offer. Where you have sent one or more transfer receipt(s) and in the meantime one or more share certificates have been collected on your behalf in respect thereof, you will be sent (by ordinary post, at your risk) such share certificate(s) in lieu of the transfer receipt(s).

### **13. RESPONSIBILITY FOR DOCUMENTS**

All remittances in settlement of Shares acquired under the Offer, communications, notices, Forms of Acceptance, Share certificates, transfer receipts and other documents of title (and/or any indemnity or indemnities in respect thereof) to be delivered by or sent to or from Shareholders will be delivered by or sent to or from them, or their designated agents, at their own risk and none of the Company, Asian Capital, the Registrar or any of their respective directors or any other person involved in the Offer accepts any liability for any loss or any other liabilities whatsoever which may arise as a result.

### **14. TAXATION**

Qualifying Shareholders are recommended to consult their own professional advisers if they are in any doubt as to the taxation implications of accepting or rejecting the Offer. It is emphasised that none of the Company, Asian Capital or any of their respective directors or any other person involved in the Offer accepts responsibility for any tax effects on, or liabilities of, any person or persons as a result of their acceptance or rejection of the Offer.

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## LETTER FROM ASIAN CAPITAL

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### 15. FINANCIAL RESOURCES

The maximum amount to be paid by the Company under the Offer, assuming full acceptance of the offer, is approximately HK\$25.08 million. The Consideration for the Offer will be paid in cash and will be funded by internal resources of the Company.

Asian Capital is satisfied that sufficient financial resources are available to the Company from internal resources to enable it to satisfy full acceptance of the Offer.

### 16. FURTHER INFORMATION

Your attention is also drawn to the detailed terms of the Offer as set out in Appendix I to this circular and the additional information set out in other appendices to this circular.

Shareholders are strongly invited to refer to the recommendations set out in the letter from AMS before deciding whether or not to accept the Offer.

Yours faithfully,  
For and on behalf of  
**Asian Capital (Corporate Finance) Limited**  
**Patrick K.C. Yeung**  
*Managing Director*

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**LETTER FROM THE INDEPENDENT DIRECTOR**

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*(Incorporated in Bermuda with limited liability)*

*Registered Office:*

Clarendon House  
2 Church Street  
Hamilton HM11  
Bermuda

*Head Office and principal place  
of business in Hong Kong:*

16th Floor  
Yiko Industrial Building  
10 Ka Yip Street  
Chai Wan  
Hong Kong

31 May 2004

*To the Independent Shareholders*

**CONDITIONAL VOLUNTARY CASH OFFER BY  
ASIAN CAPITAL (CORPORATE FINANCE) LIMITED  
ON BEHALF OF  
MAN YUE INTERNATIONAL HOLDINGS LIMITED  
TO REPURCHASE UP TO 66,000,000 SHARES  
AT AN OFFER PRICE OF HK\$0.38 PER SHARE  
AND  
WHITEWASH WAIVER**

Dear Sir/Madam,

As the Independent Director, I have been appointed to advise you in relation to the Offer and the Whitewash Waiver, details of which are set out in the “Letter from the Board” contained in the circular to the Shareholders of Man Yue International Holdings Limited dated 31 May 2004 (the “Circular”) of which this letter forms part. Terms defined in the Circular shall have the same meanings when used in this letter, unless the context requires otherwise.

I wish to draw your attention to the letter of advice from AMS as set out on pages 27 to 43 of the Circular, the “Letter from the Board” as set out on pages 6 to 15 of the Circular, the “Letter from Asian Capital” on pages 16 to 24 of the Circular and other information as set out in the Appendixes to the Circular.

\* *for identification purpose only*

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## LETTER FROM THE INDEPENDENT DIRECTOR

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I have considered the reasons for the Offer as set out in the “Letter form the Board”, and basis upon which the terms of the Offer are determined.

I have further considered the factors and reasons set out by, and the opinion of, AMS in its letter of advice in respect of the Offer and the Whitewash Waiver as set out on pages 27 to 43 of the Circular. I am of the opinion that the terms of the Offer are fair and reasonable so far as the Independent Shareholders are concerned and that the Offer is, on balance, in the interests of the Independent Shareholders for the reasons set out in the letter of advice from AMS. In addition, considering that the Whitewash Waiver is a condition to which the Offer is subject, I consider that the granting of the Whitewash Waiver is fair and reasonable as set out in the said letter. I therefore recommend that you vote in favour of the ordinary resolutions to be proposed at the SGM to approve the Offer and the Whitewash Waiver and consider accepting the offer by reference to your particular circumstances.

Yours faithfully,  
**Li Sau Hung, Eddy**  
*Independent Director*

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## LETTER FROM AMS

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博資財務顧問有限公司  
AMS Corporate Finance Limited

20th Floor  
Hong Kong Diamond Exchange Building  
8-10 Duddell Street  
Central, Hong Kong

31 May, 2004

*To the Independent Director of  
Man Yue International Holdings Limited*

Dear Sir,

**PROPOSED CONDITIONAL VOLUNTARY CASH OFFER  
BY  
ASIAN CAPITAL (CORPORATE FINANCE) LIMITED  
ON BEHALF OF  
MAN YUE INTERNATIONAL HOLDINGS LIMITED  
TO REPURCHASE UP TO 66,000,000 SHARES  
AT AN OFFER PRICE OF HK\$0.38 PER SHARE  
AND  
WHITEWASH WAIVER**

### INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Director in respect of the Offer, details of which are set out in the letter from the Board (the “Letter from the Board”) contained in the document dated 31 May 2004 (the “Document”), of which this letter forms part. Unless the context otherwise requires, terms used in this letter shall have the same meanings as those defined in the Document.

It was stated in the Letter from the Board that i) Mr. Chan Ho Sing (an executive Director) is a director and the beneficial owner of Man Yue Holdings Inc.; ii) Mr. Ko Pak On (an executive Director) is a salaried employee of the Group; and (iii) Mr. Lo Kwok Kwei, David (an independent non-executive Director) has been retained by the Company as its legal adviser in the Offer, all of them are therefore considered not sufficiently independent for the purpose of advising the Independent Shareholders in respect of the Offer and the Whitewash Waiver. Based on the representation of these Directors, we are of the view that they are not sufficiently independent for the purpose of advising the Independent Shareholders in respect of the Offer and the Whitewash Waiver.

As stated in the Letter from the Board, Mr. Li Sau Hung, Eddy has been appointed as the Independent Director to advise the Independent Shareholders in respect of the Offer and the Whitewash Waiver. Mr. Li Sau Hung, Eddy is an independent non-executive Director and has confirmed that he is not aware of any conflict of interest in the Offer and the Whitewash Waiver. Based on such representation, we consider that he is eligible to be the Independent Director to advise the Independent Shareholders in respect of the Offer and the Whitewash Waiver.

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## LETTER FROM AMS

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This letter contains our advice to the Independent Director as to whether the terms of the Offer and the Whitewash Waiver are fair and reasonable as far as the Independent Shareholders are concerned.

### **BASIS OF OUR OPINION**

In formulating our opinion, we have relied on the information and representations contained or referred to in the Document and the information and representations provided to us by the Company and the Directors. We have assumed that all information and representations contained or referred to in the Document were true and accurate at the time when they were made and continue to be so at the date hereof. We have also assumed that all statements of belief, opinion and intention made by the Company or the Directors in the Document have been arrived at after due and careful consideration.

We consider that we have reviewed sufficient information to enable us to reach an informed view. The Directors have confirmed that there are no other facts not contained in the Document, the omission of which would make any statement in the Document, including this letter, misleading. We have no reason to doubt the truth, accuracy or completeness of the information provided to us by the Company and the Directors. We have not, however, conducted any independent verification of the information provided, nor have we carried out any in-depth investigation into the business and affairs of the Group or the prospects of the markets in which the Group operates.

We have not considered the tax consequences on the Qualifying Shareholders of acceptance or non-acceptance of the Offer since these are particular to their individual circumstances. In particular, Qualifying Shareholders who are resident overseas or subject to overseas taxes or Hong Kong taxation on securities dealings should consider their own tax positions and, if in any doubt, should consult their own professional advisers.

### **PRINCIPAL FACTORS CONSIDERED**

In formulating our opinion regarding the terms of the Offer and the Whitewash Waiver, we have taken into consideration the following principal factors:

#### **1. Terms of the Offer**

The detailed terms of the Offer are set out in Appendix I to the Document. Subject to the Independent Shareholders' approval of the Offer and the Whitewash Waiver, Asian Capital is offering on behalf of the Company to repurchase up to 66,000,000 Shares held by the Qualifying Shareholders, upon the terms and subject to the conditions as set out in the Document and the accompanying Form of Acceptance, on the following basis:

**For every Share to be repurchased under the Offer ..... HK\$0.38 in cash**

**Assured Entitlement for every 1,000 Shares held ..... 341 Shares**

The details of the acceptance mechanism are outlined in the letter from Asian Capital (the "Letter from Asia Capital") contained in the Document. Qualifying Shareholders may submit acceptances in respect of some or all of their Shares. They may also submit acceptances in excess of their Assured

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## LETTER FROM AMS

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Entitlements which, subject to availability of any Shares not being accepted in full under the Offer by other Qualifying Shareholders, will be accepted on a pro rata basis and scaled down in the manner as described under the paragraph headed “Assured Entitlements and scaling down” on pages 18 and 19 of the Document. The Shares repurchased under the Offer will be cancelled and will not rank for any dividends to be paid by reference to a record date which falls after the date of their cancellation. The Offer will not be conditional as to any minimum number of Shares tendered for acceptance.

Based on 66,000,000 Shares to be repurchased under the Offer and the Offer Price of HK\$0.38 per Share, the amount to be paid by the Company under the Offer, if fully tendered, will be approximately HK\$25.08 million.

The Offer Price of HK\$0.38 per Share represents:

- (i) a premium of approximately 26.7% over the closing price of HK\$0.30 per Share as quoted on the Stock Exchange on 20 April 2004, being the last full trading day prior to the suspension of trading in the Shares on the Stock Exchange on 21 April 2004 (the “Suspension Date”) pending release of the Announcement;
- (ii) a premium of approximately 26.7% over the average closing price of HK\$0.30 per Share for the ten consecutive full trading days before the Suspension Date;
- (iii) a premium of approximately 26.7% over the average closing price of approximately HK\$0.30 per Share for the month before the Suspension Date;
- (iv) a premium of approximately 26.7% over the average closing price of approximately HK\$0.30 per Share for the three months before the Suspension Date;
- (v) a premium of approximately 26.7% over the average closing price of approximately HK\$0.30 per Share for the six months before the Suspension Date;
- (vi) a discount of 20% to the closing price of HK\$0.475 per Share as quoted on the Stock Exchange on the Latest Practicable Date; and
- (vii) a discount of approximately 5.7% to the average closing price of approximately HK\$0.403 per Share for the period from 27 April 2004 (being the first trading day immediately following the Announcement) to the Latest Practicable Date.



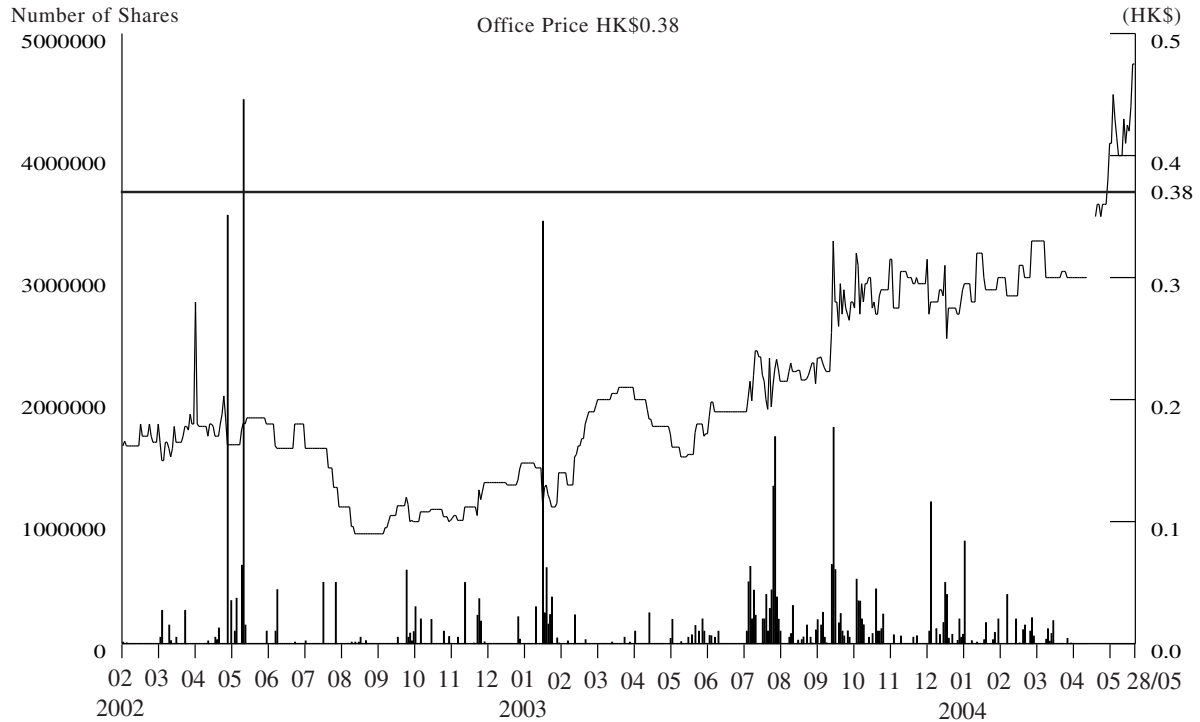
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## LETTER FROM AMS

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### 2. Price performance of the Shares

The following chart sets out the daily turnover and the closing price of the Shares on the Stock Exchange for the period from 19 April 2002 (being the first trading day of the two years prior to the Suspension Date) to the Latest Practicable Date:



Source: TSCI Research (H.K.) Limited

- (i) During the two-year period from 19 April 2002 to 20 April 2004 (being the last full trading day before the Suspension Date), the highest closing price per Share was HK\$0.33 which was recorded on 18 September 2003 and from 2 March 2004 and up to 11 March 2004. The lowest closing price per Share was HK\$0.09 which was recorded from 16 August 2002 and up to 9 September 2002. The Offer Price of HK\$0.38 per Share represents a premium of approximately 15.2% and 322.2% over the highest and the lowest closing prices per Share, respectively, during the two-year period under review. It should be noted that the Shares had been traded below the Offer Price throughout such period.
- (ii) During the period from 27 April 2004 (being the first trading day immediately following the Announcement) to the Latest Practicable Date, the highest and the lowest closing prices per Share were HK\$0.475 (recorded on 27 and 28 May 2004) and HK\$0.35 (recorded on 27 April 2004) respectively. The average closing price during this period was HK\$0.403 per Share. The Offer Price represents a discount of approximately 5.7% to such average.
- (iii) The Offer Price represents a discount of 20% to the closing price of HK\$0.475 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

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## LETTER FROM AMS

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Immediately following the Announcement, the market prices of the Shares rose significantly by over 16% from HK\$0.30 per Share prior to the Suspension Date to HK\$0.35 on 27 April 2004. While there may be no conclusive reason for the fluctuation in the Share price, we consider that the rise in market prices of the Shares after the Announcement would have probably been stimulated by market responses to the premium represented by the Offer Price over the market prices of the Shares prior to the Suspension Date.

### 3. Liquidity

The following table sets out the average daily trading volume and the relative value as a percentage of the total Shares in issue and the Free Float Shares (as defined below) for the period commencing from 17 April 2003 (being the first trading day of the twelve months prior to the Suspension Date) to the Latest Practicable Date:

Month	Average daily trading volume <i>(in Shares)</i>	Percentage to the total Shares in issue as at the Latest Practicable Date <i>(%)</i>	Percentage to Free Float Shares* <i>(%)</i>
<b>2003</b>			
April (from 17 April 2003)	31,250	0.008	0.016
May	25,800	0.007	0.013
June	33,800	0.009	0.017
July	344,818	0.092	0.178
August	148,571	0.040	0.077
September	212,286	0.057	0.110
October	125,364	0.034	0.065
November	12,100	0.003	0.006
December	136,286	0.036	0.070
<b>2004</b>			
January	64,421	0.017	0.033
February	59,100	0.016	0.031
March	36,870	0.010	0.019
April (up to the Suspension Date)	182	negligible	negligible
April (from 27 April 2004, being the first trading Day immediately following the Announcement)	1,679,000	0.450	0.867
May (up to and including the Latest Practicable Date)	384,737	0.103	0.199

Source: TSCI Research (H.K.) Limited

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## LETTER FROM AMS

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- \* Based on 193,706,000 Shares (the "Free Float Shares"), being the total number of Shares in issue as at the Latest Practicable Date after deducting 179,734,000 Shares held by Man Yue Holdings Inc., the controlling shareholder (as defined in the Listing Rules) of the Company. We consider the use of the Free Float Shares to be more relevant than the total outstanding Shares in issue in the above analysis of the Shares' liquidity since Man Yue Holdings Inc. owned approximately 48.13% of the total number of Shares in issue as at the Latest Practicable Date as the controlling and single largest shareholder of the Company.

As noted from the above table, the trading volume of the Shares was thin with the highest average daily turnover amounted to approximately 344,818 Shares, equivalent to approximately 0.178% of the Free Float Shares. Independent Shareholders should note that out of a total of 248 trading days during the twelve-month period prior to the Suspension Date, there was trading in the Shares in only 107 days with the daily turnover ranging from a low of 2,000 Shares to a high of 2,860,000 Shares. Independent Shareholders should also note that the average daily turnover of the Shares during such period was constantly far below 1% of the Free Float Shares.

In view of the low liquidity of the Shares prior to the Suspension Date, we are of the opinion that it may be difficult for the Independent Shareholders to dispose of their Shares in the open market, if possible, without adversely affecting the market price of the Shares. We therefore consider that the Offer provides an opportunity to the Qualifying Shareholders to realise, through the Assured Entitlements, part of their investments in the Company at a price above the historical market prices of the Shares in the two years prior to the Suspension Date.

After the trading of Shares was resumed on 27 April 2004, the trading volume of the Shares increased substantially and recorded a daily turnover as high as 2,396,000 Shares on 27 April 2004, representing approximately 1.2% of the Free Float Shares. Such increase would have been triggered by the rise in the market price of the Shares following the release of the Announcement.

#### 4. Financial performance of the Group

The principal business of the Group is the manufacture and trading of electronic components, and the trading of electrical products, raw materials and production machinery. Set out below is a summary of the Group's audited results of operations for each of the five years ended 31 December 2003 extracted from the Company's annual report for the year ended 31 December 2003:

	For the year ended 31 December				
	2003	2002	2001	2000	1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	626,453	477,727	330,511	338,738	286,033
Net profit/(loss) from ordinary activities attributable to Shareholders	37,053	20,348	5,215	(21,175)	1,729

The Group recorded a turnover of approximately HK\$286.0 million with net profit of approximately HK\$1.7 million for the year ended 31 December 1999. For the year ended 31 December 2000, the Group reported a net loss attributable to Shareholders of approximately HK\$21.2 million over a turnover of

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## LETTER FROM AMS

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approximately HK\$338.7 million. However, as shown in the table above, the financial results of the Group substantially improved and returned to profitability since the financial year 2001.

For the year ended 31 December 2001, despite the slight decrease in turnover by approximately 2.4% to approximately HK\$330.5 million, the Group returned to profitability and recorded a net profit attributable to Shareholders of approximately HK\$5.2 million. As disclosed in the annual report for the year ended 31 December 2001, the successful turnaround of the Group's results for that year was mainly attributable to the management's focus on its core business in the manufacture of aluminum electrolytic capacitors, the termination of its non-core e-commerce business and its cost control measures. The operating results of the Group would even have been better had there not been a write-off of approximately HK\$10.4 million for the termination of the e-commerce business.

For the year ended 31 December 2002, the Group's turnover was approximately HK\$477.7 million, representing a significant increase of approximately 44.5% from the preceding financial year, whereas the net profit attributable to Shareholders increased by almost three folds to approximately HK\$20.3 million. As disclosed in the annual report for the year ended 31 December 2002, the significant growth in turnover for the year was mainly attributable to the Group's continuous focus on the manufacture of aluminum electrolytic capacitors and diversification into the PRC market and overseas market such as Taiwan. The substantial improvement in the Group's net profit of approximately HK\$20.3 million for the financial year 2002 was mainly due to the Group's aluminum electrolytic capacitors which could be used in many electronic products, such as computer motherboards, CRT monitors, and DVDs, and yield a higher profit margin.

For the year ended 31 December 2003, the Group further increased its turnover by approximately 31.1% to approximately HK\$626.5 million. The net profit attributable to Shareholders for the same period also increased further to approximately HK\$37.1 million, representing a favourable growth of approximately 82.8% from the previous year. As disclosed in the annual report for the year ended 31 December 2003, the increase in the Group's turnover was mainly attributable to the significant growth in the sales of capacitors as a result of the global trend of production outsourcing to manufacturers in low-cost regions such as Mainland China. Particularly, growth in the Group's sales to the Taiwanese market was substantial.

In view of the Group's substantial growth of turnover in the recent years as discussed above, it appears that the Group has been able to capture the growth opportunities in the outsourcing trend in the electronics industry. The Group has also been able to develop new markets to sustain its growth in turnover and, in particular, we have noted the significant growth in the Group's sales to the Taiwanese market for the financial year 2003. The Directors have advised that capacitor is a basic component for most electronic products. As electronic products, such as computers and digital cameras, continue to become more affordable, electronic products are increasingly becoming everyday personal essential appliances. In addition, as noted in the Company's annual report for the year ended 31 December 2003, the Company expected that demand for electronic components distributed by the Group in the forthcoming year would be strong and the Group will continue to focus on its capacitor business in those strong growing electronic product segments, such as computers, power supply and photoflash products.

Based on the Group's favourable financial performance since the financial year 2001, its ability to sustain strong growth in both the turnover and profitability and the Directors' favourable expectation on the capacitor business in the forthcoming year, we are optimistic about the business prospects of the Group in the near future. However, Shareholders should be reminded there is no assurance that the Group would be able to maintain its business performance in the future at levels comparable to those in the recent years.

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## LETTER FROM AMS

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### 5. Valuation of the Offer Price

#### a. Price earnings multiples

Given the nature of the Group's business, we consider that reference to price/earnings multiples, which is a common valuation method for companies with profitable track record, is relevant and appropriate in assessing the fairness and reasonableness of the Offer Price because it reflects the earnings potential of the underlying business as a going concern. This contrasts with other valuation methods based on underlying asset values which may be more appropriate when valuing, for instance, businesses under liquidation or asset-based businesses such as property investment companies.

Based on the Company's audited earnings per Share for the year ended 31 December 2003 of approximately HK\$0.099, the price/earnings multiple for the Offer Price of HK\$0.38 per Share is approximately 3.8 times. In assessing the fairness and reasonableness of such price/earnings multiples, we have attempted to compare it with the price/earnings multiples of companies listed on the Stock Exchange which businesses are similar to that of the Group. Given the fact that the Group's primary business is the manufacture and trading of electronic components, we have identified, to the best of our knowledge, a total of five companies listed on the main board of the Stock Exchange of which the latest annual reports showed that a significant portion (i.e. over 20% of the total turnover) of their principal activities was the manufacture and trading of electronic components. However, two of these companies would not be able to provide a basis for our assessment in terms of price/earnings multiple as one had reported losses in recent years and the other one had its shares being suspended from trading for over six months. Set out below is a summary of the particulars of the remaining three companies (the "Comparable Companies") based on their respective market capitalisation and financial information reported in the latest published annual reports available as at 27 April 2004 (being the date of the Announcement):

Company	Approximate market capitalisation as at 27 April 2004 <i>HK\$'000</i>	Profit as reported in the latest published annual report <i>HK\$'000</i>	Net asset value based on the latest published annual report <i>HK\$'000</i>	Price/earnings multiple as at 27 April 2004 <i>Times</i>	Discount of market capitalisation to the net asset value <i>%</i>
Daiwa Associate Holdings Limited ( <i>y.e.31/3/2003</i> )	95,286	12,334	274,373	7.7	65.3
K & P International Holdings Limited ( <i>y.e.31/12/2003</i> )	58,751	3,540	104,672	16.5	43.9
Sunway International Holdings Limited ( <i>y.e.30/9/2003</i> )	335,280	16,781	866,949	19.4	61.3
<b>Company</b>	<b>141,907</b> <i>(Note)</i>	<b>37,053</b>	<b>259,620</b>	<b>3.8</b>	<b>45.3</b>

*Note:* Based on the Offer Price of HK\$0.38 per Share and 373,440,000 Shares in issue as at the Latest Practicable Date.

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## LETTER FROM AMS

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As shown in the above table, the price/earnings multiples of the Comparable Companies range from approximately 7.7 times to 19.4 times. Since the price/earnings multiple of approximately 3.8 times as represented by the Offer Price of HK\$0.38 per Share is substantially lower than the price/earnings multiples of all three Comparable Companies, the Offer Price does not appear to be attractive. Nevertheless, it should be noted that although the principal business activities of the Comparable Companies include the manufacture and trading of electronic components, each of the Comparable Companies is distinct and the price/earnings multiple of each Comparable Company may be affected by particular factors which are not applicable to the Group. We consider that the Comparable Companies only provide a reference as to the market's valuation of companies of which the principal activities include the manufacture and trading of electronic components and that none of the Comparable Companies can be taken as a benchmark in assessing the valuation of the Company. In forming our opinion, we have considered the results of the above comparisons together with all other factors stated herein this letter as a whole.

As discussed in the section headed "Financial performance of the Group" above, the Group has been profitable since financial year 2001 and showed a significant growth in both the turnover and net profit. As such, the Offer Price of HK\$0.38, representing a price/earnings multiple of approximately 3.8 times, might not be acceptable to those Qualifying Shareholders who are confident of the Group's business performance in the near future and intend to hold their Shares as long-term investment. It should, however, be noted that despite the favourable operating results reported by the Group since 2001, the price performance of the Shares over the last two years have not improved in a like manner. This may be due to the low liquidity of the Shares and, accordingly, the Shares have been traded at a relatively low price/earnings multiple as compared to the Comparable Companies.

*b. Net asset value*

As compared to the Group's audited net asset value of approximately HK\$0.70 per Share (based on the Group's audited net asset value of approximately HK\$259.6 million and 373,440,000 Shares in issue as at 31 December 2003), the Offer Price of HK\$0.38 represents a discount of approximately 45.7% to such net asset value. As shown in the above table, the market capitalisation of all three Comparable Companies represents a discount ranging from 43.9% to 65.3% to their respective net asset value. Since all Comparable Companies were traded at a discount of at least 43.9% to their respective net asset value, the discount of approximately 45.7% as in our case suggests that the Offer Price is fair and reasonable compared to the recent market prices for companies having similar business operations. However, we consider that it may be more relevant and appropriate to evaluate the Offer Price using price/earnings multiple instead of net asset value, since the value of the Group should be based on the earnings potential of the underlying business rather than the book value of the Group's assets, which comprise mainly machinery and equipment.

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## LETTER FROM AMS

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*c. Comparison with other recent cash offers relating to share repurchase*

We consider it relevant to review the recent cash offers for share repurchase in assessing the fairness and reasonableness of the Offer Price. To the best of our knowledge, there were a total of five conditional voluntary cash offers for share repurchase made by companies listed on the main board of the Stock Exchange (the “Comparable Offers”) during the two-year period preceding the date of the Announcement. Set out below is a summary of the Comparable Offers for the purposes of comparison in terms of the premium/(discount) of the offer price over/to the average closing prices during the six-month period and the audited consolidated net asset value immediately before the date of announcement of the respective Comparable Offers:

Company	Date of announcement of the offer for share repurchase	Premium/(discount) of the offer price over/to the closing price as at the last trading day before the date of announcement of the offer				audited consolidated net asset value per share
		one-month average closing price (%)	three-month average closing price (%)	six-month average closing price (%)	(%)	
SCMP Group Limited	3 September 2002	5.1	4.6	(11.3)	(18.0)	195.1
Chinese Estates Holdings Limited	9 September 2002	9.8	30.4	37.2	33.5	(86.3)
Shell Electric Mfg. (Holdings) Company Limited	1 October 2002	46.2	45.7	35.5	24.2	(76.4)
Van Shung Chong Holdings Limited	5 November 2002	58.1	108.5	157.9	56.7	(31.8)
Deson Development International Holdings Limited	10 September 2003	37.9	66.7	73.9	90.5	(27.3)
<b>The Company</b>	<b>26 April 2004</b>	<b>26.7</b>	<b>26.7</b>	<b>26.7</b>	<b>26.7</b>	<b>(45.7)</b>

As indicated in the above table, the Offer Price of HK\$0.38 in our case, which represents a premium of approximately 26.7% over the average closing prices for all of the one-month, three-month and six-month periods, provides a significantly higher market premium to the Qualifying Shareholders when compared to the cash offer by SCMP Group Limited. As regards the other four Comparable Offers, their offer prices represent a premium over the respective average closing prices ranging from approximately 30.4% to 108.5% for the one-month period and approximately

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## LETTER FROM AMS

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35.5% to 157.9% for the three-month period. However, when taking into account the average closing prices for the six-month period, such premiums drop significantly and range from approximately 24.2% to 90.5%. Although the premium of 26.7% in our case is less than those offered by the Comparable Offers (except for the offer by SCMP Group Limited) for the one-month and three-month periods, it would fall within such range of premiums if a longer time horizon (i.e. six months) is taken into consideration. Accordingly, we consider the Offer Price of HK\$0.38 per Share, representing a premium of approximately 26.7% over the market prices of the Shares during the period under review, fair and reasonable so far as the Independent Shareholders are concerned.

As regards the audited consolidated net asset value per share, except for the cash offer by SCMP Group Limited, the offer prices of all the Comparable Offers represent a discount to the respective net asset value ranging from approximately 27.3% to 86.3%. We are therefore of the view that the discount of approximately 45.7% as represented by the Offer Price of HK\$0.38 to the audited consolidated net asset value of approximately HK\$0.70 per Share in our case is fair and reasonable in view of the range of discounts to the net asset value in the Comparable Offers. In general, one of the common reasons for share repurchase by listed companies is that the shares of such companies have been traded at prices substantially below their net asset value per share. As to be discussed in more details under the section headed “Financial effects of the Offer” below, an offer for share repurchase would sometimes be expected to enhance the net asset value on a per-share basis and is therefore in the interests of the shareholders.

In view of the favourable financial performance of the Group in the recent years and the price/earnings multiples of the Comparable Companies which are all significantly higher than the 3.8 times represented by the Offer Price, the Offer Price of HK\$0.38 per Share does not appear to be attractive to the Qualifying Shareholders who are confident of the business prospects of the Group. However, when compared to the price performance of the Shares over the last two years, the Offer Price of HK\$0.38 per Share would represent a significant premium. Such premium is also comparable to the market premium of those cash offers relating to share repurchase in the recent two years. Coupled with the fact that the liquidity of the Shares has been low, we consider, on balance, the Offer Price of HK\$0.38 fair and reasonable so far as the Independent Shareholders are concerned.



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## LETTER FROM AMS

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### 6. Financial effects of the Offer

Based on the Group's financial results for the year ended 31 December 2003 and the assumption that the Offer had been fully accepted by the Qualifying Shareholders and completed on 31 December 2003, the financial effects of the Offer on the Group upon the completion of the Offer are shown as follows:

	Before the Offer	Upon completion of the Offer	Increase/ (decrease) %
Number of Shares in issue	373,440,000 <i>(Note 1)</i>	307,440,000	(17.7)
Basic earnings per Share (HK\$)	0.0992	0.1140 <i>(Note 2)</i>	14.9
Return on Shareholders' funds (%)	14.3	15.1	5.6
Consolidated net asset value per Share (HK\$) <i>(Note 3)</i>	0.70	0.76	8.6
Current ratio	1.54	1.43	(7.1)
Gearing ratio <i>(Note 4)</i>	78.0	87.1	11.7

*Notes:*

1. Based on the number of Shares in issue as at the Latest Practicable Date.
2. Taking into account the total estimated expenses of the Offer of approximately HK\$2.0 million.
3. Based on the consolidated net asset value per Share prior to and after the completion of the Offer as set out in the Letter from the Board.
4. Based on the Group's consolidated borrowings in respect of bank loans and finance leases of approximately HK\$202,510,000 as at 31 December 2003.

*a. Basic earnings per Share*

Assuming that the Offer was implemented and the total maximum number of 66,000,000 Shares subject to the Offer had been repurchased and cancelled in full by the Company, the number of Shares in issue would have decreased to 307,440,000 and the basic earnings per Share would increase by approximately 14.9% from approximately HK\$0.0992 to HK\$0.1140 for the financial year of 2003. In general, without taking into account any financial expenses in connection with the share repurchase, the reduction in the number of shares in issue would have a magnifying effect on earnings/loss per share as the number of shares is the denominator in the computation of such financial ratio. In our case, since the total estimated expenses in connection with the Offer is approximately HK\$2.0 million, representing a decrease of approximately 5.4% of the Group's net

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## LETTER FROM AMS

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profit for the year which is substantially less than the decrease of approximately 17.7% in the number of Shares in issue as a result of the cancellation of 66,000,000 Shares, the implementation of the Offer would therefore be expected to magnify the earnings per Share. As the basic earnings per Share will be enhanced as a result of the Offer, we consider that the making of the Offer is in the interests of the Company and the Shareholders as a whole.

*b. Return on Shareholders' funds*

Similar to the financial effect on the basic earnings per Share as discussed above, the ratio of return on Shareholders' funds will be magnified due to the reduction of Shareholders' funds. Assuming the full acceptance of the Offer, the Shareholders' funds of the Group, equivalent to the consolidated net asset value of the Group, would be reduced by approximately HK\$27.1 million (being the total consideration for the full acceptance of the Offer of approximately HK\$25.1 million plus the estimated expenses of the Offer of approximately HK\$2.0 million) from approximately HK\$259.6 million to HK\$232.5, representing a decrease of approximately 10.4%. When taking into account the estimated expenses of the Offer of approximately HK\$2.0 million, the resulted decrease of approximately 5.4% of the Group's net profit is less than the 10.4% decrease of the Shareholders' funds and the return on Shareholders' funds would therefore increase by approximately 5.6% from 14.3% to 15.1%. Accordingly, the implementation of the Offer would also magnify the ratio of return on Shareholders' funds and we are therefore of the view that such positive effect of the Offer on the return on Shareholders' funds is in the interests of the Company and the Shareholders as a whole.

*c. Net asset value per Share*

Consistent with the financial effects of the Offer on earnings per Share and return on Shareholders' funds as set out above, the net asset value per Share will also be enhanced by the implementation of the Offer. As shown in the above table, the consolidated net asset value per Share would increase by approximately 8.6% from approximately HK\$0.70 to HK\$0.76. Such enhancement of the net asset value on a per-share basis is due to the fact that the decrease of the Group's consolidated net asset value of approximately 10.4% as a result of making the Offer is less than the decrease of approximately 17.7% in the number of Shares in issue due to the cancellation of 66,000,000 Shares repurchased by the Company. Given the enhancement of the net asset value per Share as a result of the implementation of the Offer, we consider the making of the Offer to be in the interests of the Company and the Shareholders as a whole.

*d. Current ratio and gearing ratio*

As shown in the above table, the current ratio of the Group would decrease by approximately 7.1% from approximately 1.54 to 1.43. Such decrease of the current ratio is based on the assumptions that the total consideration for and the estimated expenses of the Offer in an aggregate maximum amount of approximately HK\$27.1 million would reduce the Group's current assets by the same amount and that the total current assets and liabilities of the Group immediately prior to the completion of the Offer would not be materially different from those of the Group as at 31 December 2003. As stated in the Letter from Asian Capital, the total consideration for the Offer will be financed by the internal resources of the Company and Asian Capital is satisfied that the

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## LETTER FROM AMS

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Company has sufficient internal financial resources to meet the full acceptance of the Offer. In addition, we have also noted from the Company's annual report for the financial year 2003 that the Group had cash and cash equivalents of approximately HK\$46.2 million as at 31 December 2003. Assuming no substantial change in the Group's cash position as at 31 December 2003 immediately prior to the completion of the Offer, the Group should be able to satisfy the financial requirements under the Offer without incurring additional borrowings.

As regards the gearing ratio, it would increase by approximately 11.7% from 78.0% to 87.1% assuming full acceptance of the Offer. Since the full acceptance of the Offer will be satisfied by the internal resources of the Group and is not expected to increase the Group's borrowings, the increase in the gearing ratio is solely due to the consolidated net asset value of the Group being reduced by the total consideration for the full acceptance of the Offer and related expenses in an aggregate amount of approximately HK\$27.1 million.

In summary, the Group is expected to have sufficient working capital to meet in full its payment obligations under the Offer and is not expected to incur any additional borrowings for the purposes of the Offer. Accordingly, we, having taken into account the positive financial effects of the Offer on the basic earnings per Share, return on Shareholders' funds and the net asset value per Share as discussed above, are of the view that the changes in the current ratio and gearing ratio, by reason only of the Group's payment under the Offer, are acceptable so far as the Independent Shareholders are concerned.

### **7. Dividend yield**

We noted that although the Group has been profitable since the financial year 2001, the Company had not declared any dividend since 2000. Therefore, we do not consider the Shares to be an attractive investment in terms of dividend yield.

### **8. Effect of the Offer on the Shareholding and management of the Group**

#### *a. The Whitewash Waiver*

The shareholding structure of the Company prior to and immediately following the completion of the Offer (assuming full acceptance) has been set out in the Letter from Asian Capital.

As stated in the Letter from Asian Capital, Man Yue Holdings Inc., its Associates and any parties acting in concert with it have undertaken to the Company that they will not accept the Offer. Accordingly, assuming full acceptance of the Offer, the aggregate shareholding interests held by Man Yue Holdings Inc., its Associates and any parties acting in concert with it in the Company will increase by approximately 10.33% from approximately 48.13% to 58.46% of the issued share capital of the Company as reduced immediately following the completion of the Offer. Such increase in shareholding represents a magnitude of approximately 21.46%. Under Rule 6 of the Repurchase Code, the increase in the shareholding of Man Yue Holdings Inc. in the Company arising from the Offer would be treated as an acquisition for the purposes of the Takeovers Code. Since such increase would exceed the 2% creeper over the preceding 12-month period, Man Yue Holdings Inc. would be required under Rule 26.1(c) of the Takeovers Code to make a mandatory

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## LETTER FROM AMS

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unconditional cash offer for all the issued Shares not already owned by it and/or parties acting in concert with it.

Man Yue Holdings Inc. has made an application to the Executive for the Whitewash Waiver and the Executive has indicated that it will grant the Whitewash Waiver subject to the approval by the Independent Shareholders by way of a poll at the SGM. The making of the Offer is conditional, among other things, upon the grant of the Whitewash Waivers. As stated in the Letter from Asian Capital, if the Whitewash Waiver is not granted, the Company will not proceed with the Offer.

Assuming the Whitewash Waiver having been approved by the Independent Shareholders and subject to the acceptance level under the Offer, Man Yue Holdings Inc. may hold more than 50% of the reduced issued share capital of the Company following completion of the Offer. Accordingly, Man Yue Holdings Inc., its Associates and any parties acting in concert with it may increase their shareholdings without incurring any future obligation under Rule 26 of the Takeovers Code to make a general offer.

On the other hand, if the Offer is implemented and the Assured Entitlements are fully taken up by the Qualifying Shareholders except Man Yue Holdings Inc., the shareholding of the Independent Shareholders would, in aggregate, decrease by approximately 10.33% from approximately 51.87% to 41.54%. However, for those Qualifying Shareholders who do not accept the Offer, their shareholding in the Company would be increased by the same magnitude of approximately 21.46% as that of Man Yue Holdings Inc. in the Company if the Offer has been accepted in full.

On the basis that the Offer will provide an opportunity to those Qualifying Shareholders who wish to realise part of their investments through the Assured Entitlements, and those Shareholders who do not accept the Offer will enjoy an increase in their shareholdings in the Company by the same magnitude as that of Man Yue Holdings Inc., we consider that the Offer will not prejudice the interest of the Independent Shareholders. Accordingly, for the purposes of proceeding with the Offer, we do not consider that the approval of the Whitewash Waiver will prejudice the shareholding interests of the Independent Shareholders, given the fact that they will have a choice to accept or not to accept the Offer after the Offer becomes unconditional. We therefore consider the approval of the Whitewash Waiver for the purposes of proceeding with the Offer is in the interest of the Independent Shareholders.

*b. Continuity of existing business and management*

As stated in the Letter from the Board, the Directors intend to continue with the existing businesses of the Group. Also, the Directors do not intend to introduce any major changes to the existing operations and management structure of the Group. Man Yue Holdings Inc., holding approximately 48.13% shareholding interests in the Company as at the Latest Practicable Date, has already been the largest Shareholder and effectively directing the Group's business development since the listing of the Company in 1997. As such, we do not consider that the implementation of the Offer which may result in Man Yue Holdings Inc. holding more than 50% of the reduced issued share capital of the Company following completion of the Offer would materially affect any aspects of the business operations and management of the Group.

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## LETTER FROM AMS

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### 9. Reasons for the Offer

As stated in the Letter from the Board, the Directors, having taken into account the Offer Price of HK\$0.38, which represents a substantial premium over the historical market price of the Shares over the last two years and the low liquidity in the Shares, consider that the Offer would provide the Shareholders an opportunity to tender their Shares at a price which is substantially above such historical market prices. In addition, the market prices of the Shares have been substantially below their net asset value over the past three years with the discount ranging from approximately 46.1% to 84.8%. It is therefore expected that the adjusted net asset value per Share would be enhanced as a result of the implementation of the Offer.

In view of the market prices of the Shares over the last two years as well as its low liquidity, we concur with the Directors' view that the Offer would provide the Shareholders an opportunity to tender their Shares at a premium over the prices that would be available in the open market. Furthermore, as discussed in the section headed "Financial effects of the Offer" above, the financial effects of the Offer would be expected to be positive and would be in the interest of the Shareholders. Given the fact that the Offer will not adversely affect the shareholding interests of the Shareholders who intend not to tender their Shares for acceptance under the Offer, we are of the view that the making of the Offer, which will provide an opportunity to those Qualifying Shareholders who wish to realise part of their investments through the Assured Entitlements, is in the interest of the Shareholders.

### RECOMMENDATION

Having considered the above principal factors and, in particular, the following:

- (i) the Shares had been traded at levels below the Offer Price throughout the whole two-year period before release of the Announcement;
- (ii) the liquidity of the Shares was extremely low before release of the Announcement, so the Offer will provide an opportunity to the Qualifying Shareholders to realise part of their Shares through the Assured Entitlements;
- (iii) Qualifying Shareholders who do not accept the Offer may, subject to the level of acceptance under the Offer, increase their shareholding interests in the issued share capital of the Company as reduced by the Offer;
- (iv) the Offer Price appears to be acceptable and in line with the market when compared to the other cash offers relating to share repurchase in the market in terms of premium over the historical closing prices;
- (v) the implementation of the Offer is expected to have positive financial effects on the Group;
- (vi) although the Group has been profitable since the financial year 2001, the Company has not declared any dividend since the financial year 2000;

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## LETTER FROM AMS

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- (vii) although the shareholding of the Independent Shareholders in the Company would, in aggregate, decrease from approximately 51.87% to 41.54% if the maximum of 66,000,000 Shares subject to the Offer are fully repurchased and cancelled, the Offer would not dilute the shareholding interests of those Qualifying Shareholders who do not tender any of their Shares for acceptance under the Offer. In fact, if the Assured Entitlements are fully taken up, their shareholdings in the Company will be increased by a magnitude of approximately 21.46%, which is the same as that of Man Yue Holdings Inc., the controlling shareholder of the Company, following completion of the Offer; and
- (viii) the Whitewash Waiver is a condition precedent to the Offer and if it is not approved by the Independent Shareholders, the Offer will not proceed, and

despite the fact that (i) the Group had recorded significant growth in both the turnover and net profit since the financial year 2001; (ii) the Group's business prospects appear favourable; and (iii) the price/earnings multiple of 3.8 times as represented by the Offer Price might not be attractive to those Qualifying Shareholders who are confident of the Group's business prospects;

we consider that the Offer is, on balance, in the interest of the Independent Shareholders and that the terms of the Offer and, for the purposes of proceeding with the Offer, the Whitewash Waiver are fair and reasonable so far as the Independent Shareholders are concerned. We are also of the view that it will still be in the interest of the Independent Shareholders to approve the Offer even if they intend not to accept the Offer. Therefore, we recommend the Independent Director to recommend the Independent Shareholders to vote in favour of the resolutions to approve the Offer and the Whitewash Waiver to be proposed at the SGM. We also recommend the Independent Director to advise the Independent Shareholders who are Qualifying Shareholders that they should consider accepting the Offer.

For Qualifying Shareholders who wish to accept the Offer, they should also closely monitor the market price of the Shares during the open period of the Offer and consider selling their Shares in the open market rather than accepting the Offer if the net proceeds from such sale (net of transaction costs) are likely to exceed the amount to be receivable under the Offer. They should also be reminded that the tender of any Shares in excess of their Assured Entitlements for acceptance under the Offer may or may not be accepted depending upon the acceptance level under the Offer and acceptance thereof cannot be guaranteed by the Company.

Those Qualifying Shareholders who wish to continue to hold their Shares by not accepting the Offer would enjoy an increase in their shareholding interests in the reduced issued capital of the Company that may result from the acceptances of the Offer by the other Qualifying Shareholders.

Yours faithfully,  
For and on behalf of  
**AMS Corporate Finance Limited**  
**Jinny Mok**  
*Director*

Qualifying Shareholders are hereby invited to tender Shares for repurchase by the Company, on the terms and subject to the conditions set out in this circular and in the accompanying Form of Acceptance.

## **1. TERMS AND CONDITIONS OF THE OFFER**

### **1.1 The Offer**

The Company will repurchase up to 66,000,000 Shares at the Offer Price.

### **1.2 Conditions**

1.2.1 Completion of the Offer will be conditional upon the following:

- (1) the passing of an ordinary resolution by way of poll to approve the Offer by the Independent Shareholders, either voting in person or by proxy, at the SGM; and
- (2) the granting of a Whitewash Waiver by the Executive so that Man Yue Holdings Inc. is not obliged to make mandatory unconditional cash offer for all the issued Shares not already owned by it and its Associates and/or parties acting in concert with it. If the Whitewash Waiver is granted, it will be subject to the Independent Shareholders' approval by way of a poll at the SGM.

1.2.2 If the Offer and the Whitewash Waiver are not so approved by the Independent Shareholders, the Offer will not proceed and will lapse. The Conditions cannot be waived.

1.2.3 The Offer is not conditional as to any minimum number of Shares tendered for acceptances.

### **1.3 Qualifying Shareholders**

The Offer is available to Shareholders, other than Excluded Shareholders, whose names appear on the Register as at the Latest Acceptance Time.

### **1.4 Tendering**

1.4.1 Qualifying Shareholders can tender Shares for repurchase at the Offer Price. Any Qualifying Shareholder can tender any number of Shares up to his entire holding by no later than the Latest Acceptance Time.

1.4.2 All successfully tendered Shares will be repurchased by the Company at the Offer Price.

1.4.3 The Tenders will be accepted in the following order:

- (i) first, Tenders will be accepted in full to the extent of the Accepting Shareholders' Assured Entitlements; and

- (ii) second, Excess Tenders will be accepted, but may be scaled back and pro rated to ensure that the number of Shares repurchased by the Company pursuant to the Offer does not exceed 66,000,000 Shares.

The decision of the Company as to any scaling back and as to the treatment of fractions will be conclusive and binding on all Shareholders.

### 1.5 Assured Entitlements and Excess Tenders

- 1.5.1 Shares tendered for acceptance of the Offer by each Accepting Shareholder to the extent of his Assured Entitlement will be accepted in full.
- 1.5.2 In the event that the total number of Shares tendered for acceptance of the Offer exceed 66,000,000 Shares, acceptances of Excess Tenders will be scaled down on a pro rata basis to ensure that the total number of Shares repurchased by the Company pursuant to the Offer does not exceed 66,000,000 Shares.

In such circumstances, any valid acceptance of the Offer in excess of a Qualifying Shareholder's Assured Entitlement will be scaled down and calculated in accordance with the following formula (save that the Company may in its absolute discretion round such figure up or down with the intention of avoiding (as far as practicable) Shares being held by Shareholders in odd lots or fractions):

$$\frac{(66,000,000 - A)}{B} \times C$$

- A = Total number of Shares in respect of which the Offer is validly accepted by all accepting Qualifying Shareholders and which form either all or part of their respective Assured Entitlements (as the case may be)
- B = Total number of Shares in respect of which the Offer is validly accepted by Qualifying Shareholders in excess of their respective Assured Entitlements
- C = Total number of Shares in respect of which the Offer is validly accepted by the relevant Qualifying Shareholder in excess of his or her Assured Entitlement

- 1.5.3 In the event that the total number of Shares tendered to the Company under the Offer is less than or equal to 66,000,000 Shares, acceptances of the Offer in excess of Assured Entitlement will be taken up in full.



**1.6 Odd Lots**

Kingsway Financial Services Group Limited of 5th Floor, Hutchison House, 10 Harcourt Road, Central, Hong Kong has been appointed by the Company as the designated broker to match sales and purchases of the odd lot holdings of Shares. Kingsway Financial Services Group Limited will commence providing such matching services on a best efforts basis on Friday, 9 July 2004 and will continue to provide these services up to and including Thursday, 19 August 2004 (or such other date as Kingsway Financial Services Group Limited may agree with the Company). Holders of odd lots of Shares who wish to take advantage of this facility should, through their respective brokers, contact Mr. Arthur Leung or Mr. Aman Cheung of Kingsway Financial Services Group Limited at telephone number (852) 2877 1830 during normal business hours. Further announcement in this regard will be made after the Offer has become unconditional.

**1.7 Acceptance period, revisions and extensions**

- 1.7.1 Although the Company does not presently intend to extend the time for acceptance of the Offer, it reserves the right to do so. Unless the Offer has previously been revised or extended, if the Offer is approved at the SGM, the Offer will continue to remain open at least until 4:00 p.m. (Hong Kong time) on Thursday, 8 July 2004, being the fourteenth day after the Offer has become unconditional (unless extended in accordance with the Repurchase Code and with the consent of the Executive).
- 1.7.2 If the Offer becomes or is declared unconditional, it will remain open for acceptance for not less than 14 days after the date on which the Offer becomes unconditional.
- 1.7.3 If the Offer is extended or revised, the announcement of such extension or revision will state the next closing date. If the Offer is extended or revised, it will remain open for acceptance for a period of not less than 14 days from the posting of the written notification of the extension or revision to the Shareholders and unless previously extended or revised, shall be closed on the subsequent closing date. The benefit of any revision of the Offer will be available to any Independent Shareholder who has previously accepted the Offer. The execution by or on behalf of any Independent Shareholder or who has previously accepted the Offer, as the case may be, of any Form(s) of Acceptance and transfer shall be deemed to constitute acceptance of the revised Offer, unless such holder becomes entitled to withdraw his or her acceptance and duly does so.

**1.8 Right of withdrawal**

An Accepting Shareholder will be entitled to withdraw his Tender by notice in writing (signed by the Accepting Shareholder or his agent duly appointed in writing and evidence of whose appointment is produced with the notice) to the Registrar, but such entitlement to withdraw will be exercisable only if such notice is actually received by the Registrar prior to the date the Offer has become unconditional. In the event of the requirements of Rule 19 of the Takeovers Code not being met, an Accepting Shareholder may also be granted a right of withdrawal by the Executive under Rule 19.2 of the Takeovers Code until such time as those requirements are met. Save as aforesaid, Tenders will be irrevocable.

**1.9 General**

- 1.9.1 Shares successfully tendered will be repurchased by the Company, fully paid and free from all liens, charges, encumbrances, equitable interests, rights of pre-emption or other third party rights of any nature and together with all rights attaching thereto on or after the Announcement Date (including the right to all dividends or distributions (if any) declared, made or paid on or after the Announcement Date).
- 1.9.2 All Tenders by Qualifying Shareholders must be made on the Form of Acceptance duly completed in accordance with the instructions set out in the Form of Acceptance (which constitute part of the terms of the Offer). A Tender may be rejected as invalid if the procedures contained in this circular and in the Form of Acceptance are not complied with.
- 1.9.3 Forms of Acceptance which have been, or are deemed to be, duly completed and are received by or on behalf of the Company will be irrevocable and cannot be withdrawn after the Offer has become unconditional.
- 1.9.4 The Offer and all Tenders will be governed by and construed in accordance with Hong Kong law. Delivery of a Form of Acceptance will constitute submission to the jurisdiction of the Hong Kong courts.
- 1.9.5 All communications, notices, Form(s) of Acceptance, share certificate(s), transfer receipt(s), other document(s) of title and remittances delivered or sent by or to the Qualifying Shareholders will be delivered or sent by or to them, or their designated agents, at their risk.
- 1.9.6 Subject to paragraph 4.3 below, all questions as to the number of Shares tendered, and the validity, form, eligibility (including the time of receipt) and acceptance for payment of any Tender will be determined by the Company, in its sole discretion and in accordance with the Repurchase Code, which determination will be final and binding on all of the parties (except as otherwise required under applicable law). The Company reserves the absolute right to reject any or all Tenders it determines not to be in proper form or the acceptance of payment for which, may in the opinion of the Company, be unlawful. The Company also reserves the absolute right to waive any of the terms or conditions of the Offer, except the Conditions, either generally or in a particular case and any defect or irregularity in the Tender of any particular Shares or any particular holder thereof. A Tender may be rejected as invalid unless all defects or irregularities have been cured or waived. In the event of a waiver, the consideration under the Offer will not be despatched until after the Form of Acceptance is completed in all respects and the share certificate(s), and/or transfer receipt(s) and/or other document(s) of title satisfactory to the Company have been received. None of the Company or the Registrar or any other person is or will be obliged to give notice of any defects or irregularities in Tenders, and none of them will incur any liability for failure to give any such notice.

- 1.9.7 Shares will be repurchased free of commissions and dealing charges, but the seller's stamp duty at the rate of HK\$1.00 for every HK\$1,000 or part thereof due on the repurchase of Shares will be deducted from the amount payable to the relevant Qualifying Shareholders. According to the Stamp Duty Ordinance, the calculation of stamp duty is based on either the market value of the Share or the Offer Price, whichever is higher. The Company will hold the amount so deducted and will pay the same to the Stamp Duty Office in accordance with the Stamp Duty Ordinance.
- 1.9.8 After the Offer has become unconditional, at completion of the Offer, successfully tendered Shares will be cancelled and will not rank for any dividends to be paid by reference to a record date which falls after the date of their cancellation.
- 1.9.9 The failure of any person to receive a copy of this circular or the Tender will not invalidate any aspect of the Offer.
- 1.9.10 The Company reserves the right, subject to applicable law and regulatory requirements, to raise the Offer Price, depending upon market conditions and/or other factors. In the event of such amendment, a supplementary circular and new Form of Acceptance will be despatched to Qualifying Shareholders.
- 1.9.11 References to the Offer in this circular and in the Form of Acceptance include any extension thereof and references to the Offer becoming unconditional shall include a reference to the Offer being declared unconditional.

### **1.10 Enquiries hotline**

Should any Shareholder require any assistance in completing the Form of Acceptance or have any queries regarding the procedures for tendering and settlement or any other similar aspect of the Offer, the Shareholder may contact Asian Capital at its hotline at (852) 2230 2726 during the period from Monday, 31 May 2004 to Thursday, 8 July 2004 (both dates inclusive) between 9:00 a.m. and 5:00 p.m. (Hong Kong time) from Monday to Friday.

## **2. OVERSEAS SHAREHOLDERS**

- 2.1 In order to address concerns regarding the implications under securities laws under overseas jurisdictions in relation to the making of the Offer to Overseas Shareholders (which implications may include illegality, filing and registration requirements or the need for compliance with other requirements), the Offer will not be made to any Overseas Shareholder who is located in any jurisdiction the laws of which prohibit the making of the Offer to such Shareholder or otherwise require the Company to comply with additional requirements which are (in the opinion of the Directors) unduly onerous or burdensome, having regard to the number of Shareholders involved in that jurisdiction and their shareholdings in the Company, nor will the Offer be capable of being accepted by such Excluded Shareholders. If necessary, an application will be made to the Executive for such exclusion under Note 3 to Rule 8 of the Takeovers Code and Rule 5.2 of the Repurchase Code and, if appropriate, a further announcement will be made in this respect. However, as at the Latest Practicable Date there was no such Excluded Country or Excluded Shareholder and accordingly, as at the Latest Practicable Date, the Offer would be extended to all Shareholders.

- 2.2 As the Offer to persons not resident in Hong Kong may be affected by the laws of the relevant jurisdictions, Overseas Shareholders should inform themselves about and observe any applicable legal requirements and where considered necessary, seek legal advice.
- 2.3 It is the responsibility of each Overseas Shareholder who wishes to accept the Offer to satisfy himself or herself as to the full observance of the laws of the relevant jurisdiction in that connection, including the obtaining of any governmental or other consents which may be required or compliance with other necessary formalities or legal requirements.
- 2.4 The Company reserves the right to notify any matter in relation to the Offer to Shareholders (including Overseas Shareholders) by announcement or by advertisement in a newspaper which may not be circulated in the jurisdictions in which the Overseas Shareholders are resident. The notice will be deemed to have been sufficiently given, despite any failure by an Overseas Shareholder to receive or see that notice.
- 2.5 All notices and documents will, in any event, be posted on the website of the Stock Exchange (<http://www.hkex.com.hk>)
- 2.6 Should any Shareholder be in doubt of whether his/her address, as shown on the Register as at the time of submission of his or her acceptance in respect of the Offer or at the latest time for submission of acceptances in respect of the Offer, is located in an Excluded Country, the Shareholder may contact Asian Capital at its hotline at (852) 2230 2726 during the period from Monday, 31 May 2004 to Thursday, 8 July 2004 (both dates inclusive) between 9:00 a.m. and 5:00 p.m. (Hong Kong time) from Monday to Friday. The exclusion is subject to the prior consent of the Executive. As at the Latest Practicable Date, the Register contained Shareholders whose addresses were located in Hong Kong and Macau. Macau is not considered as an Excluded Country.

### **3. PROCEDURE FOR TENDERING AND SETTLEMENT**

#### **3.1 General procedure for tendering**

- 3.1.1 For any particular Qualifying Shareholder to tender his Shares, he must complete and return the Form of Acceptance sent to him in accordance with the instructions printed in this circular and the instructions printed on the Form of Acceptance. The instructions in this circular should be read together with the notes on the Form of Acceptance.
- 3.1.2 To accept the Offer, a Qualifying Shareholder must complete Box 1 and Box 4 and sign at Box 7 of the enclosed Form of Acceptance in accordance with the instructions printed on it.
- 3.1.3 The completed Form of Acceptance should then be forwarded, together with share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) for not less than the number of Shares in respect of which you intend to tender for acceptance of the Offer, by post or by hand to the Registrar, Tengis Limited, G/F, BEA Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, in an envelope marked "Man Yue International Holdings Limited Repurchase Offer" as soon as possible

after receipt of the Form of Acceptance but in any event no later than 4:00 p.m. on Thursday, 8 July 2004, being the fourteenth day after the Offer has become unconditional (unless extended in accordance with the Repurchase Code and with the consent of the Executive). However, the Executive has indicated that such consent will only be granted in very exceptional circumstances.

- 3.1.4 No Tender received after the Latest Acceptance Time, unless extended in accordance with the Repurchase Code and with the consent of the Executive, will be accepted. However, the Executive has indicated that such consent will only be granted in very exceptional circumstances.
- 3.1.5 Duly signed Form of Acceptance sent by the means set out above and received before the prescribed time will be treated as valid Tender in accordance with the terms and conditions of the Offer.
- 3.1.6 No acknowledgement of receipt of any Form of Acceptance, share certificate(s), transfer receipt(s) or any other document(s) of title (and/ or any satisfactory indemnity or indemnities required in respect thereof) will be given.
- 3.1.7 More than one Form of Acceptance may be submitted by each Qualifying Shareholder to the Registrar in respect of different lots of Shares. The Forms of Acceptance sent by the means set out above and received before the prescribed time will be treated as valid Tender in accordance with the terms and conditions of the Offer.

### **3.2 Nominee holdings**

If the share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Shares is/are in the name of a nominee company or some name other than your own, and you wish to tender Shares for acceptance of the Offer, you must either:

- (i) lodge your share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) with the nominee company, or other nominee, with instructions authorising it to tender your Shares in acceptance of the Offer on your behalf and requesting it to deliver the duly completed Form of Acceptance together with the relevant share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) to the Registrar; or
- (ii) send the duly completed Form of Acceptance together with the relevant shares certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Shares to the Registrar; or

- (iii) for those who have deposited their Shares at CCASS, instruct your broker to authorise HKSCC Nominees Limited to tender your Shares in acceptance of the Offer on your behalf and request it to deliver the relevant Form of Acceptance duly completed together with the relevant share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) to the Registrar. You should observe the cut off time to be imposed by your broker or HKSCC Nominees Limited (as the case may be) which shall be earlier than Latest Acceptance time.

### **3.3 Recent transfers**

If you have lodged transfer(s) of Shares for registration in your name and have not yet received your share certificate(s) and you wish to tender your Shares in acceptance of the Offer, you should nevertheless complete the Form of Acceptance and deliver it to the Registrar together with the transfer receipt(s) duly signed by yourself so that they will reach the Registrar not later than the Latest Acceptance Time. Such action will be deemed to be an authority to the Company or its agent(s) to collect from the Company or the Registrar on your behalf the relevant share certificate(s) when issued and to deliver such certificate(s) to the Registrar and to authorise and instruct the Registrar to hold such certificate(s), subject to the terms of the Offer, as if it was/they were delivered to the Registrar with the Form of Acceptance.

### **3.4 Lost or unavailable share certificates**

- 3.4.1 If the share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) is/are not readily available and/or is/are lost and you wish to tender your Shares in acceptance of the Offer, the Form of Acceptance should nevertheless be completed and delivered to the Registrar not later than the Latest Acceptance Time. The relevant share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) should be forwarded to the Registrar as soon as possible thereafter, but in any event before the Latest Acceptance Time.
- 3.4.2 Acceptances of the Offer may, at the discretion of the Company, be treated as valid even if not accompanied by the relevant share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) but, in such cases, the cash consideration due will not be despatched until the relevant share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or a satisfactory indemnity or indemnities in respect thereof) has/have been received by the Registrar. No acknowledgment of receipt for any Form(s) of Acceptance, share certificate(s), transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) will be given.

3.4.3 If you have lost your share certificate(s) and/or transfer receipt(s) and/ or any other document(s) of title, you should write to the Registrar and request a letter of indemnity in respect of the lost share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (as the case may be) which, when completed in accordance with the instructions given, should be returned, together with the Form of Acceptance and any share certificate(s) and/or transfer receipt(s) and/or other document(s) of title which are available, to the Registrar either by post or by hand, so as to arrive not later than the Latest Acceptance Time. In such cases, you will be informed of the fees payable to the Registrar for which you will be responsible.

### **3.5 Additional Forms of Acceptance**

If you have lost the accompanying original Form of Acceptance or such original has become unusable, and you require a replacement Form of Acceptance, please write to the Registrar or visit the Registrar at its office and request a blank Form of Acceptance for you to complete yourself.

### **3.6 Settlement**

3.6.1 Provided that (i) the relevant Forms of Acceptance and Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title, (and/or any satisfactory indemnity or indemnities required in respect thereof) are in complete and good order and have been received by the Registrar on or before the closing date of the Offer; and (ii) the Offer becomes unconditional on Thursday, 24 June 2004, a cheque for the amount due to the Shareholders in respect of the Shares tendered by them under the Offer (after deducting the seller's stamp duty on the repurchase of the relevant Shares) will be despatched to the Shareholders within 10 days of the closing date of the Offer, subject to all the relevant documents being received by the Registrar to render such acceptance complete and valid (by ordinary post, at their own risk).

3.6.2 In the case of any Accepting Shareholder where the number of Shares represented by the share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) sent in connection with his Form of Acceptance to the Registrar in acceptance of the Offer exceed 50,000 Shares, such Shareholder may contact the Registrar directly to arrange for collection in person at the Registrar's office of the remittance due to him in respect of the Shares accepted under the Offer (after deducting the seller's stamp duty due on the repurchase of the relevant Shares) and/or any share certificate(s) representing Shares which were not successfully tendered and/or not accepted under the Offer. Unless such arrangements are separately made with the Registrar on or before 4:00 p.m. on 13 July 2004, all remittances in respect of the consideration for accepted Shares under the Offer and share certificate(s) representing Shares due to be returned to the Shareholders will be sent to the Shareholders concerned by ordinary post as described under paragraph 3.6.1.

3.6.3 If the Offer does not become unconditional, your share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) will be returned and/or sent to you (by ordinary



post, at your risk) within seven days of the lapse of the Offer. Where you have sent one or more transfer receipt(s) and in the meantime one or more share certificates have been collected on your behalf in respect thereof, you will be sent (by ordinary post, at your risk) such share certificate(s) in lieu of the transfer receipt(s).

3.6.4 If your Excess Tenders have not been accepted in full, the share certificate(s) and/or transfer receipt(s) and/or any document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of Shares tendered but not accepted and/or a certificate for any Shares and/or odd lots representing the balance of a board lot of the Shares (if any) to which you are entitled will also be returned and/or sent to you (by ordinary post, at your risk) within ten days of the closing date of the Offer.

### **3.7 New Shareholders**

Any Shareholder may collect a copy of this circular and (except for an Excluded Shareholder) a blank Form of Acceptance from the Registrar (at G/F, BEA Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong) during business hours between Monday, 31 May 2004 and the Latest Acceptance Time (which is expected to be 4:00 p.m. on Thursday, 8 July 2004), both dates inclusive. Such Shareholder may also contact the Company (through the enquiries hotline referred to in paragraph 1.10) and request a copy of this circular and Form of Acceptance (as appropriate) to be sent to his registered address as recorded in the Register.

## **4. EFFECT OF TENDER BY QUALIFYING SHAREHOLDERS**

### **4.1 General**

Each Qualifying Shareholder by whom, or on whose behalf, a Form of Acceptance is executed irrevocably undertakes, represents, warrants and agrees to and with the Company (so as to bind him, his personal representatives, heirs, successors and assignees) that the terms and condition of the Offer as set out in this circular apply to the Form of Acceptance.

### **4.2 Execution**

The execution of the Form of Acceptance constitutes an acceptance by the relevant Qualifying Shareholder of the Offer made by Asian Capital on behalf of the Company to repurchase such number of Shares as are referred to in Box 1 of the Form of Acceptance or deemed to have been tendered (or such lesser number of Shares as is available to be repurchased pursuant to the Offer), in each case, on and subject to the terms and condition of the Offer as set out or referred to in this circular and the Form of Acceptance and that, once lodged, such acceptance will be irrevocable after the Offer has become unconditional.

### **4.3 Deeming provisions**

The following provisions apply in the case of incorrectly completed, incomplete or illegible Form of Acceptance.



- 4.3.1 If Box 1 of the Form of Acceptance is not completed at all, the Qualifying Shareholder is deemed to have tendered, at the Offer Price, his or her entire registered holding of Shares at the Latest Acceptance Time (the “Tendered Shares”).
- 4.3.2 If the total number of Shares inserted in Box 1 of the Form of Acceptance is greater than the Qualifying Shareholder’s Tendered Shares, the total number of Shares tendered for acceptance of the Offer by such Qualifying Shareholder will be deemed to be the number of his Tendered Shares.
- 4.3.3 The above deeming provisions will be applied by the Company or its agent(s) in such manner as they see fit (subject to the provisions of the Repurchase Code) so as to give effect to the Form of Acceptance in accordance with such instructions as may appear to the Company or its agent(s) to be the relevant Qualifying Shareholder’s intention.
- 4.3.4 If the Form of Acceptance is not completed strictly in accordance with the instructions set out in the Form of Acceptance, the Company reserves the right (subject to the provisions of the Repurchase Code) to treat the Form of Acceptance as valid to the extent that it may deem the Form of Acceptance to have been completed in accordance with such instructions as may appear to the Company or its agent(s) to be the relevant Qualifying Shareholder’s intention.

#### **4.4 Representations and warranties**

In executing the Form of Acceptance, the person who executes the Form of Acceptance represents and warrants that:

- (i) he has the full power and authority to tender, sell, assign or transfer the Shares (together with all rights attaching thereto) in respect of which the Qualifying Shareholder’s Tender is accepted and, when such Shares are repurchased by the Company, the Company will repurchase such Shares fully paid, with full title guarantee and free from all liens, charges, encumbrances, equitable interests, rights of pre-emption or other third party rights of any nature and together with all rights attaching thereto as at the Announcement Date (including the right to any dividends and distribution paid on or after the Announcement Date);
- (ii) the relevant Shareholder, if resident in or is a citizen of a jurisdiction outside Hong Kong, has fully observed any applicable legal requirements required of him as he accepts the Offer under the laws of the relevant jurisdiction; and
- (iii) (a) the relevant Shareholder has not received or sent copies or originals of the Form of Acceptance or any related documents in, into or from any Excluded Countries, (b) the completed Form of Acceptance has not been mailed or otherwise sent to the Company from any Excluded Countries, and (c) such Shareholder is accepting the Offer from outside an Excluded Country.

**4.5 Appointment and authority**

The execution of the Form of Acceptance will, subject to the Offer becoming unconditional, constitute:

- (i) the irrevocable appointment of any Director or officer of the Company or Asian Capital, or such other person as any of them may direct, as such Qualifying Shareholder's agent ("Agent"); and
- (ii) an irrevocable instruction to the Agent to complete and execute all or any instruments of transfer and/or other documents at the Agent's discretion in relation to the Shares tendered (or deemed to have been tendered) for acceptance of the Offer and to do all such other acts and things as may in the opinion of the Agent be necessary, expedient or desirable for the purpose of, or in connection with, the Offer or to cancel and extinguish such Shares (or otherwise vest such Shares in the Company or its nominee(s) or such other person(s) as the Company may direct).

**4.6 Undertakings**

By executing the Form of Acceptance, the relevant Qualifying Shareholder:

- (i) agrees to ratify and confirm each and every act or thing which may be done or effected by the Company or any Agent in the proper exercise of its or his powers and/or authorities under the terms of the Offer;
- (ii) undertakes to deliver to the Registrar the share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title in respect of the Shares tendered (or deemed to have been tendered) for acceptance of the Offer or an indemnity acceptable to the Company in lieu thereof, or to procure the delivery of such document(s) to such person as soon as possible thereafter and, in any event, no later than the Latest Acceptance Time;
- (iii) accepts that the provisions of the Form of Acceptance and the other terms and conditions in this circular are deemed to be incorporated into the terms and conditions of the Offer;
- (iv) agrees to do all such acts and things and execute any additional documents as the Company may consider to be necessary, expedient or desirable, in each case to complete the repurchase of the Shares and/or to perfect any of the authorities expressed to be given under the terms of the Offer;
- (v) authorise the Company or the Agent to take all actions to move the registration of his Shares to the principal Registrar in Bermuda as they see appropriate;

- (vi) authorises the Company or the Agent to procure the despatch by post of the consideration to which he is entitled at his risk to the first-named holder at his registered address in Box 4 of the Form of Acceptance subject to paragraph 3.6.2 above; and
- (vii) submits to the jurisdiction of the courts of Hong Kong in relation to all matters arising out of, or in connection with, the Offer or the Form of Acceptance.

## **5. ANNOUNCEMENTS**

- 5.1 The Company will publish a teletext announcement on the results of the SGM on the Stock Exchange's website by 7:00 p.m. on the date of SGM. Such announcement will be republished in newspaper on the following business day.
- 5.2 The Company will inform the Executive and the Stock Exchange of its decision in relation to the revision, extension (subject to the Executive's consent which will only be granted in very exceptional circumstances) and the expiry of the Offer by 6:00 p.m. on the closing date of the Offer (or such later time subject to the Executive's consent which will only be granted in very exceptional circumstances). The Company will publish a teletext announcement on the Stock Exchange's website stating whether the Offer has been revised or extended or has expired and indicating the aggregate number of Shares tendered under the Offer (subject to final verification) by 7:00 p.m. on the closing date of the Offer. Such announcement will be republished on the next business day thereafter and will (except in the case of lapse) state the total number of Shares and rights over Shares:
- (a) for which acceptances of the Offer have been received;
  - (b) held or controlled by Man Yue Holdings Inc. and parties acting in concert with it before the Announcement Date; and
  - (c) held or controlled by Man Yue Holdings Inc. and parties acting in concert with it as a result of completion of the Offer.

The announcement will include the details of voting rights, rights over Shares, derivatives and arrangements as required by Rule 3.5(c), (d) and (f) of the Takeovers Code. Finally, the Company will republish an announcement stating the aggregate number of valid acceptances, after verification, received for the Offer, segregating into the Assured Entitlements and the pro rata entitlements in respect of Excess Tenders received for the Offer, within two business days of the closing date of the Offer.

- 5.3 In calculating the number of Shares represented by the Tenders, there may be included or excluded for announcement purposes Tenders which are not in all respects in order or are subject to verification. Number of Shares represented by Tenders subject to verification will be separately stated in the announcement.

- 5.4 As required under the Repurchase Code and the Listing Rules, all announcements in relation to the Offer will be published as paid announcements in at least one leading English language newspaper and one leading Chinese language newspaper, being in each case a newspaper which is published daily and circulating generally in Hong Kong.

## **6. INTERPRETATION**

- 6.1 A reference in paragraphs 3 and 4 of this Appendix to a Qualifying Shareholder includes a reference to the person(s) executing the Form of Acceptance and in the event of more than one person executing a Form of Acceptance, the provisions of paragraph 4 above apply to them jointly and severally.
- 6.2 A reference in this circular and the Form of Acceptance to the masculine gender includes the feminine and neuter genders, and a reference to the singular includes the plural and vice versa.

## 1. FINANCIAL INFORMATION SUMMARY

Set out below is a summary of the audited consolidated results of the Group for each of the three years ended 31 December 2001, 2002, 2003, extracted from the Company's annual report for the year ended 31 December 2003.

**Results**

	Years ended 31 December		
	2003 HK\$'000	2002 HK\$'000 (Restated)	2001 HK\$'000
TURNOVER	<u>626,453</u>	<u>477,727</u>	<u>330,511</u>
PROFIT/(LOSS) BEFORE TAX			
Continuing operations	42,417	26,741	16,211
Discontinued operations	<u>–</u>	<u>–</u>	<u>(10,367)</u>
	<u>42,417</u>	<u>26,741</u>	<u>5,844</u>
Tax	<u>(5,293)</u>	<u>(5,755)</u>	<u>(508)</u>
PROFIT/(LOSS) BEFORE MINORITY INTERESTS	37,124	20,986	5,336
Minority interests	(71)	(638)	(121)
Extraordinary items	–	–	–
Dividends	<u>–</u>	<u>–</u>	<u>–</u>
NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	<u>37,053</u>	<u>20,348</u>	<u>5,215</u>
Earnings per Share – Basic ( <i>Note</i> )	<u>HK9.92 cents</u>	<u>HK5.45 cents</u>	<u>HK1.40 cents</u>

*Note:* Basic earnings per Share is calculated by dividing net profit of the Group by the total number of Shares in issue during the year.

## 2. FINANCIAL INFORMATION FOR THE YEAR ENDED 31 DECEMBER 2003

Set out below is extracted from the audited financial statements of the Group as contained in the Group's annual report for the year ended 31 December 2003, the auditors' opinion on which was unqualified.

**Consolidated Profit and Loss Account**

*Year ended 31 December 2003*

	<i>Notes</i>	<b>2003</b> <i>HK\$'000</i>	<b>2002</b> <i>HK\$'000</i> <i>(Restated)</i>
TURNOVER	5	626,453	477,727
Cost of sales		<u>(475,267)</u>	<u>(352,773)</u>
Gross profit		151,186	124,954
Other revenue and gains	5	4,005	2,696
Selling and distribution costs		(28,270)	(25,451)
Administrative expenses		(65,819)	(62,836)
Other operating expenses		<u>(8,908)</u>	<u>(5,779)</u>
PROFIT FROM OPERATING ACTIVITIES	6	52,194	33,584
Finance costs	7	<u>(5,364)</u>	<u>(5,529)</u>
		46,830	28,055
Share of profits and losses of:			
Jointly controlled entities		<u>(4,413)</u>	<u>(1,314)</u>
PROFIT BEFORE TAX		42,417	26,741
Tax	10	<u>(5,293)</u>	<u>(5,755)</u>
PROFIT BEFORE MINORITY INTERESTS		37,124	20,986
Minority interests		<u>(71)</u>	<u>(638)</u>
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	11	<u>37,053</u>	<u>20,348</u>
EARNINGS PER SHARE – Basic	13	<u>HK9.92 cents</u>	<u>HK5.45 cents</u>

**Consolidated Balance Sheet**

31 December 2003

	<i>Notes</i>	<b>2003</b> <i>HK\$'000</i>	<b>2002</b> <i>HK\$'000</i> <i>(Restated)</i>
<b>NON-CURRENT ASSETS</b>			
Fixed assets	14	243,460	180,380
Intangible assets	15	773	1,062
Goodwill	16	424	323
Negative goodwill	16	(842)	(1,118)
Interests in jointly controlled entities	18	2,309	5,288
Long term investments	19	12,880	22,000
Deferred tax assets	28	2,880	2,511
		<u>261,884</u>	<u>210,446</u>
<b>CURRENT ASSETS</b>			
Short term investments	20	190	190
Inventories	21	130,458	90,488
Trade receivables	22	181,743	123,017
Prepayments, deposits and other receivables		17,740	7,573
Tax prepaid		–	20
Non-cash equivalent deposits	23	3,197	–
Cash and cash equivalents	23	46,219	24,000
		<u>379,547</u>	<u>245,288</u>
<b>CURRENT LIABILITIES</b>			
Trade payables	24	125,240	91,876
Other payables and accrued liabilities		37,154	37,839
Tax payable		4,254	4,620
Interest-bearing bank loans and overdrafts	25	68,860	67,985
Current portion of finance lease payables	26	10,462	10,754
Dividend payable		3	3
		<u>245,973</u>	<u>213,077</u>
<b>NET CURRENT ASSETS</b>		<u>133,574</u>	<u>32,211</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		395,458	242,657
<b>NON-CURRENT LIABILITIES</b>			
Long term portion of interest-bearing bank loans	25	114,000	2,004
Long term portion of finance lease payables	26	9,188	7,230
Provision for long service payments	27	2,984	–
Deferred tax liabilities	28	216	298
		<u>126,388</u>	<u>9,532</u>
<b>MINORITY INTERESTS</b>		<u>9,451</u>	<u>9,380</u>
		<u>259,619</u>	<u>223,745</u>
<b>CAPITAL AND RESERVES</b>			
Issued capital	29	37,344	37,344
Reserves	31	222,275	186,401
		<u>259,619</u>	<u>223,745</u>

**Consolidated Summary Statement of Changes in Equity***Year ended 31 December 2003*

	<i>Notes</i>	<b>2003</b> <i>HK\$'000</i>	<b>2002</b> <i>HK\$'000</i> <i>(Restated)</i>
Total equity at 1 January			
As previously reported		221,639	200,947
Prior year adjustment:			
SSAP 12 – restatement of deferred tax	28	<u>2,106</u>	<u>2,586</u>
As restated		<u>223,745</u>	<u>203,533</u>
Surplus/(deficit) on revaluation of land and buildings	31	85	(136)
Exchange differences on translation of the financial statements of foreign entities	31	<u>(1,264)</u>	<u>(104)</u>
Net gains and losses not recognised in the profit and loss account		(1,179)	(240)
Share of movements in reserves of jointly controlled entities	31	–	104
Net profit for the year attributable to shareholders	31	<u>37,053</u>	<u>20,348</u>
Total equity at 31 December		<u><u>259,619</u></u>	<u><u>223,745</u></u>



**Consolidated Cash Flow Statement***Year ended 31 December 2003*

	<i>Notes</i>	<b>2003</b> <i>HK\$'000</i>	<b>2002</b> <i>HK\$'000</i> <i>(Restated)</i>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit before tax		42,417	26,741
Adjustments for:			
Finance costs	7	5,364	5,529
Share of profits and losses of jointly controlled entities		4,413	1,314
Interest income	5	(105)	(130)
Loss on disposal/write off of fixed assets	6	3,115	471
Depreciation	6	25,906	21,142
Amortisation of goodwill	6	102	80
Amortisation of intangible assets	6	323	223
Negative goodwill recognised as income	5	(276)	(277)
Provision against bad and doubtful debts	6	2,787	5,256
Provision against prepayments and other receivables	6	279	–
Provision for slow-moving inventories	6	5,216	2,830
Gain on disposal of long term investment	5	(2,461)	–
Provision for long service payments	6	2,984	–
		<hr/>	<hr/>
Operating profit before working capital changes		90,064	63,179
Increase in inventories		(45,186)	(24,224)
Increase in trade receivables		(61,513)	(24,388)
Decrease/(increase) in prepayments, deposits and other receivables		(10,446)	15,741
Increase in trade payables		44,397	50,812
Increase in other payables and accrued liabilities		12,743	11,193
Increase in amounts due to jointly controlled entities		262	1,152
Decrease in deferred profits		(302)	(302)
		<hr/>	<hr/>
Cash generated from operations		30,019	93,163
Interest received		105	130
Interest paid		(5,364)	(5,529)
Hong Kong profits tax refunded		–	407
Overseas taxes paid		(6,090)	(2,676)
		<hr/>	<hr/>
Net cash flows from operating activities		18,670	85,495

	<i>Notes</i>	<b>2003</b> <i>HK\$'000</i>	<b>2002</b> <i>HK\$'000</i> <i>(Restated)</i>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchases of fixed assets		(79,465)	(35,089)
Proceeds from disposal of fixed assets		3,256	–
Acquisition of further interest in a subsidiary		(203)	(3,555)
Acquisition of further interest in a jointly controlled entity		(1,394)	–
Purchase of technology know-how		(34)	(1,285)
Purchases of long term investments		<u>(12,880)</u>	<u>–</u>
Net cash outflow from investing activities		<u>(90,720)</u>	<u>(39,929)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Repayment of trust receipt and bank factoring loans, net		(31,624)	(19,129)
New bank loans		198,068	–
Repayment of bank loans		(53,573)	–
Capital element of finance lease rental payments		<u>(15,051)</u>	<u>(18,188)</u>
Net cash inflow/(outflow) from financing activities		<u>97,820</u>	<u>(37,317)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS		<u>25,770</u>	<u>8,249</u>
Effect of foreign exchange rates change – net		(354)	(106)
Cash and cash equivalents at beginning of year		<u>24,000</u>	<u>15,857</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR		<u><u>49,416</u></u>	<u><u>24,000</u></u>
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>			
Cash and bank balances	23	33,875	24,000
Time deposits with original maturity of less than 3 months when acquired	23	<u>15,541</u>	<u>–</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR		<u><u>49,416</u></u>	<u><u>24,000</u></u>

**Balance Sheet**

31 December 2003

	<i>Notes</i>	<b>2003</b> <i>HK\$'000</i>	<b>2002</b> <i>HK\$'000</i>
<b>NON-CURRENT ASSETS</b>			
Interests in subsidiaries	17	326,016	183,431
<b>CURRENT ASSETS</b>			
Prepayment and other receivables		72	73
Cash and cash equivalents	23	224	54
		<u>296</u>	<u>127</u>
<b>CURRENT LIABILITIES</b>			
Accrued liabilities		195	135
Dividend payable		3	3
Interest-bearing bank loans	25	28,500	–
		<u>28,698</u>	<u>138</u>
<b>NET CURRENT LIABILITIES</b>		<u>(28,402)</u>	<u>(11)</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		297,614	183,420
<b>NON-CURRENT LIABILITIES</b>			
Long term portion of interest-bearing bank loans	25	(114,000)	–
		<u>183,614</u>	<u>183,420</u>
<b>CAPITAL AND RESERVES</b>			
Issued capital	29	37,344	37,344
Reserves	31	146,270	146,076
		<u>183,614</u>	<u>183,420</u>

**Notes to Financial Statements***31 December 2003***1. CORPORATE INFORMATION**

The registered office of Man Yue International Holdings Limited is located at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda.

During the year, the principal activities of the Group consist of the manufacture and trading of electronic components, the trading of electrical products, raw materials and production machinery.

**2. IMPACT OF 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 and has had a significant impact thereon.

SSAP 12 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 on the revaluation of the Group’s land and buildings; and
- a deferred tax asset has been recognised for tax losses arising in the current/prior periods to the extent that it is probable that there will be sufficient future taxable profits against which such losses can be utilised.

Disclosures:

- deferred tax assets and liabilities are presented separately on the balance sheet, whereas previously they were presented on a net basis; and
- the related note disclosures are now more extensive than previously required. These disclosures are presented in notes 10 and 28 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 note 3 and in note 28 to the financial statements.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES****Basis of accounting**

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, except for the periodic remeasurement of certain fixed assets and equity investments, as further explained below.

**Basis of consolidation**

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2003. The results of subsidiaries established, acquired or disposed of during the year are consolidated from or to their effective dates of establishment, 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.

**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 Company's interests in subsidiaries are stated at cost less any impairment losses.

**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:

- (a) a subsidiary, if the Company has unilateral control over the joint venture company;
- (b) a jointly controlled entity, if the Company does not have unilateral control, but has joint control over the joint venture company;
- (c) an associate, if the Company does not have unilateral or joint control, but holds 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
- (d) a long term investment, if the Company holds 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.

**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. Negative goodwill arising from the acquisition of jointly controlled entities, which was not previously recognised in reserves, is included as part of the Group's interests in jointly controlled entities.

**Associates**

An associate is a company, not being a subsidiary or a jointly controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in associates 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.

**Goodwill**

Goodwill arising on the acquisition of subsidiaries, associates and jointly controlled entities represents the excess of 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 of not more than 20 years. In the case of associates and jointly controlled entities, any unamortised goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

On disposal of subsidiaries, associates or jointly controlled entities, 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.

#### **Negative goodwill**

Negative goodwill arising on the acquisition of subsidiaries, associates and jointly controlled entities represents the excess of the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition, over the cost of the acquisition.

To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the acquisition plan and that can be measured reliably, but which do not represent identifiable liabilities as at the date of acquisition, that portion of negative goodwill is recognised as income in the consolidated profit and loss account when the future losses and expenses are recognised.

To the extent that negative goodwill does not relate to identifiable expected future losses and expenses as at the date of acquisition, negative goodwill is recognised in the consolidated profit and loss account on a systematic basis over the remaining average useful life of the acquired depreciable/amortisable assets. The amount of any negative goodwill in excess of the fair values of the acquired non-monetary assets is recognised as income immediately.

In the case of associates and jointly controlled entities, any negative goodwill not yet recognised in the consolidated profit and loss account is included in the carrying amount thereof, rather than as a separately identified item on the consolidated balance sheet.

Prior to the adoption of SSAP 30 "Business combinations" in 2001, negative goodwill arising on acquisitions was credited to the capital reserve in the year of acquisition. On the adoption of SSAP 30, the Group applied the transitional provision of the SSAP that permitted such negative goodwill to remain credited to the capital reserve. Negative goodwill on acquisitions subsequent to the adoption of the SSAP is treated according to the SSAP 30 negative goodwill accounting policy above.

On disposal of subsidiaries, associates or jointly controlled entities, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of negative goodwill which has not been recognised in the consolidated profit and loss account and any relevant reserves as appropriate. Any attributable negative goodwill previously credited to the capital reserve at the time of acquisition is written back and included in the calculation of the gain or loss on disposal.

#### **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.

#### **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, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

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, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

**Fixed assets and depreciation**

Fixed assets are stated at cost or valuation 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 be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

Changes in the values of fixed assets are dealt with as movements in the revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged. On the disposal of a revalued asset, the relevant portion of the revaluation reserve realised in respect of the previous valuations is transferred to the retained earnings as a movement in reserves.

Depreciation is calculated on the straight-line basis to write off the cost or valuation of each asset over its estimated useful life, after taking into account its estimated residual value. The principal annual rates used for this purpose are as follows:

Leasehold land and buildings	2%
Machinery and equipment	9% – 20%
Furniture and fixtures	18% – 20%
Motor vehicles	18% – 20%
Leasehold improvements	9% – 20%

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 assets.

**Intangible assets***Technology know-how*

Technology know-how was acquired for use in the production of certain high technological electronic components. Expenditure incurred on the acquisition of technology know-how is capitalised and stated at cost less accumulated amortisation and any impairment losses. Amortisation is calculated on the straight-line basis over the useful life of the technology know-how of three years.

**Leased assets**

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in fixed assets and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the profit and loss account so as to provide a constant periodic rate of charge over the lease terms.

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets and rentals receivable under the operating leases are credited to the profit and loss account on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

**Long term investments**

Long term investments are non-trading investments in unlisted equity securities intended to be held on a long term basis. They are stated at cost less any provisions for impairments in values deemed necessary by the directors, other than those considered to be temporary in nature, on an individual investment basis.

When such impairments in values have occurred, the carrying amounts of the securities are reduced to their fair values, as estimated by the directors, and the amounts of the impairments are charged to the profit and loss account for the period in which they arise. When the circumstances and events which led to the impairments in values cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future, the amounts of the impairments previously charged is credited to the profit and loss account to the extent of the amounts previously charged.

**Short term investments**

Short term investments are investments in equity securities held for trading purposes and are stated at their fair values on the basis of their quoted market prices at the balance sheet date, on an individual investment basis. The gains or losses arising from changes in the fair value of a security are credited or charged to the profit and loss account for the period in which they arise.

**Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

**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 bank balances comprise cash on hand and at banks, including term deposits which are not restricted as to use.

**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 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 taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit 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, associates 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 profit 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 profit 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 profit 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.

### **Employee benefits**

#### *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.

#### *Pension schemes*

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF 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 and are charged to the profit and loss account as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF 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 MPF Scheme.

The employees of the Group's subsidiary which operates in the PRC are required to participate in a central pension scheme operated by the local municipal government. This PRC subsidiary is required to contribute a certain percentage of its payroll costs to the central pension scheme. The contributions are charged to the profit and loss account as they become payable in accordance with the rules of the central pension scheme.

#### *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.

### **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:

- (a) 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;
- (b) income from the trading of listed investments, on the date when the transaction takes place;

- (c) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable; and
- (d) dividend income, when the shareholders' right to receive payment has been established.

**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.

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

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated to 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 to Hong Kong dollars at the weighted average exchange rates for the year.

**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 other business segments. Summary details of the business segments are as follows:

- (a) the electronic components and electrical products segment engages in manufacture and trading of electronic components, particularly aluminum electrolytic capacitors and resistors and trading of electrical products;
- (b) the trading of raw materials segment engages mainly in trading of aluminum foils; and
- (c) the corporate and others segment comprises the Group's trading of production machinery together with corporate income and expense items.

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.

(a) **Business segments**

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

**Group**

	Electronic components and electrical products		Trading of raw materials		Corporate and others		Eliminations		Consolidated	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
										<i>(Restated)</i>
Segment revenue:										
Sales to external customers	596,576	437,804	23,577	12,846	6,300	27,077	-	-	626,453	477,727
Other revenue	-	-	-	-	4,005	2,696	-	-	4,005	2,696
Total	<u>596,576</u>	<u>437,804</u>	<u>23,577</u>	<u>12,846</u>	<u>10,305</u>	<u>29,773</u>	<u>-</u>	<u>-</u>	<u>630,458</u>	<u>480,423</u>
Segment results	<u>48,658</u>	<u>29,905</u>	<u>1,632</u>	<u>704</u>	<u>1,904</u>	<u>2,975</u>	<u>-</u>	<u>-</u>	52,194	33,584
Finance costs									(5,364)	(5,529)
									46,830	28,055
Share of profits and losses of:										
Jointly controlled entities	(4,413)	(1,314)	-	-	-	-	-	-	(4,413)	(1,314)
Profit before tax									42,417	26,741
Tax									(5,293)	(5,755)
Profit before minority interests									37,124	20,986
Minority interests									(71)	(638)
Net profit from ordinary activities attributable to shareholders									<u>37,053</u>	<u>20,348</u>

**APPENDIX II**
**FINANCIAL INFORMATION OF THE GROUP**
**Group**

	Electronic components and electrical products		Trading of raw materials		Corporate and others		Eliminations		Consolidated	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	<i>(Restated)</i>								<i>(Restated)</i>	
Segment assets	609,054	424,475	4,918	360	25,150	25,611	-	-	639,122	450,446
Interests in jointly controlled entities	2,309	5,288	-	-	-	-	-	-	2,309	5,288
Total assets	<u>611,363</u>	<u>429,763</u>	<u>4,918</u>	<u>360</u>	<u>25,150</u>	<u>25,611</u>	<u>-</u>	<u>-</u>	<u>641,431</u>	<u>455,734</u>
Segment liabilities	<u>184,901</u>	<u>175,279</u>	<u>23,551</u>	<u>22,299</u>	<u>163,909</u>	<u>25,031</u>	<u>-</u>	<u>-</u>	<u>372,361</u>	<u>222,609</u>
Other segment information:										
Depreciation	25,892	21,130	-	-	14	12	-	-	25,906	21,142
Amortisation	323	223	-	-	102	80	-	-	425	303
Other non-cash expenses	3,066	5,256	-	-	-	-	-	-	3,066	5,256
Capital expenditure	<u>96,216</u>	<u>51,264</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>96,216</u>	<u>51,264</u>

**(b) Geographical segments**

The following tables present revenue and certain asset and expenditure information for the Group's geographical segments.

**Group**

	Hong Kong		Elsewhere in the PRC		Southeast Asia		Taiwan		Other countries		Corporate and others		Consolidated	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	<i>(Restated)</i>		<i>(Restated)</i>										<i>(Restated)</i>	
Segment revenue:														
Sales to external customers	<u>127,911</u>	<u>138,156</u>	<u>140,264</u>	<u>147,673</u>	<u>93,800</u>	<u>78,989</u>	<u>223,893</u>	<u>82,310</u>	<u>40,585</u>	<u>30,599</u>	<u>-</u>	<u>-</u>	<u>626,453</u>	<u>477,727</u>
Other segment information:														
Segment assets	<u>112,228</u>	<u>102,384</u>	<u>409,249</u>	<u>297,715</u>	<u>21,773</u>	<u>7,329</u>	<u>66,535</u>	<u>29,005</u>	<u>6,496</u>	<u>3,300</u>	<u>25,150</u>	<u>16,001</u>	<u>641,431</u>	<u>455,734</u>
Capital expenditure	<u>506</u>	<u>673</u>	<u>95,679</u>	<u>50,591</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>31</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>96,216</u>	<u>51,264</u>

## 5. TURNOVER, REVENUE AND GAINS

Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts, as well as the value of services rendered.

An analysis of turnover, other revenue and gains is as follows:

	2003 HK\$'000	2002 HK\$'000
<b>Turnover</b>		
Manufacture and trading of electronic components and trading of electrical products	596,576	437,804
Trading of raw materials	23,577	12,846
Trading of production machineries	6,300	27,077
	<u>626,453</u>	<u>477,727</u>
<b>Other revenue</b>		
Interest income	105	130
Others	592	2,289
	<u>697</u>	<u>2,419</u>
<b>Gains</b>		
Negative goodwill recognised	276	277
Gain on disposal of long term investment	2,461	–
Others	571	–
	<u>3,308</u>	<u>277</u>
	<u>4,005</u>	<u>2,696</u>

## 6. PROFIT FROM OPERATING ACTIVITIES

The Group's profit from operating activities is arrived at after charging:

	2003 HK\$'000	2002 HK\$'000
Auditors' remuneration	700	838
Amortisation of intangible assets*	323	223
Amortisation of goodwill**	102	80
Depreciation	25,906	21,142
Exchange losses, net	4,920	2,250
Loss on disposal/write off of fixed assets	3,115	471
Minimum lease payments under operating leases for land and buildings	9,051	8,608
Provision against bad and doubtful debts	2,787	5,256
Provision against prepayments and other receivables	279	–
Provision for slow-moving inventories	5,216	2,830
Provision for long service payments	2,984	–
Staff costs (including directors' remuneration (note 8)):		
Wages and salaries	60,312	48,115
Retirement benefits scheme contributions	1,758	1,547
	<u>1,758</u>	<u>1,547</u>

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

\*\* The amortisation of goodwill for the year is included in "Other operating expenses" on the face of the profit and loss account.

## 7. FINANCE COSTS

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Interest expenses on bank loans and overdrafts wholly repayable within five years	4,377	4,616
Interest on finance leases	987	913
	<u>5,364</u>	<u>5,529</u>

## 8. DIRECTORS' REMUNERATION

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

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Fees:		
Executive directors	–	–
Independent non-executive directors	392	356
	392	356
Other emoluments:		
Salaries and allowances:		
Executive directors	3,552	3,940
Independent non-executive directors	–	–
Discretionary bonuses paid:		
Executive directors	52	12
Independent non-executive directors	–	–
Total directors' remuneration	<u>3,996</u>	<u>4,308</u>

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

	Number of directors	
	2003	2002
Nil – HK\$1,000,000	3	5
HK\$2,500,001 – HK\$3,000,000	1	1
	<u>4</u>	<u>6</u>

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

**9. FIVE HIGHEST PAID EMPLOYEES**

The five highest paid employees during the year included two (2002: three) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining three (2002: two) non-director, highest paid employees for the year are as follows:

	<b>2003</b> <i>HK\$'000</i>	<b>2002</b> <i>HK\$'000</i>
Salaries and allowances	2,761	2,140
Bonuses	605	662
Retirement benefits scheme contributions	36	39
	<u>3,402</u>	<u>2,841</u>

The number of non-director, highest paid employees whose remuneration fell within the following bands is as follows:

	<b>Number of employees</b>	
	<b>2003</b>	<b>2002</b>
Nil – HK\$1,000,000	1	2
HK\$1,000,001 – HK\$1,500,000	2	–
	<u>3</u>	<u>2</u>

**10. TAX**

Hong Kong profits tax has been provided at the rate of 17.5% (2002: 16%) on the estimated assessable profits arising in Hong Kong during the year. The increased Hong Kong profits tax rate became effective from the year of assessment 2003/2004, and so is applicable to the assessable profits arising in Hong Kong for the whole of the year ended 31 December 2003. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	<b>2003</b> <i>HK\$'000</i>	<b>2002</b> <i>HK\$'000</i> <i>(Restated)</i>
Group:		
Current – Hong Kong		
Overprovision in prior years	–	(108)
Current – Mainland China		
Charge for the year	6,793	4,112
Under/(over)provision in prior years	(1,049)	1,271
Deferred ( <i>note 28</i> )	(451)	480
	<u>5,293</u>	<u>5,755</u>
Total tax charge for the year	<u>5,293</u>	<u>5,755</u>

A reconciliation of the tax expense applicable to profit/(loss) before tax using the statutory rates for the countries in which the Company and its subsidiaries, jointly controlled entities and associates are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

**Group – 2003**

	Hong Kong		Mainland China		Others		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
Profit/(loss) before tax	<u>3,503</u>		<u>39,336</u>		<u>(422)</u>		<u>42,417</u>	
Tax at the statutory tax rate	613	17.5	4,776	12.1	(63)	15.0	5,326	12.6
Effect on opening deferred tax of increase in rates	23	0.6	–	–	–	–	23	0.1
Adjustments in respect of current tax of previous periods	–	–	(1,049)	(2.7)	–	–	(1,049)	(2.5)
Expenses not deductible for tax	146	4.2	649	1.7	–	–	795	1.9
Tax losses utilised from previous period	–	–	(150)	(0.4)	–	–	(150)	(0.4)
Tax losses not recognised	<u>52</u>	<u>1.5</u>	<u>233</u>	<u>0.6</u>	<u>63</u>	<u>(15.0)</u>	<u>348</u>	<u>0.8</u>
Tax charge at the Group's effective rate	<u>834</u>	<u>23.8</u>	<u>4,459</u>	<u>11.3</u>	<u>–</u>	<u>–</u>	<u>5,293</u>	<u>12.5</u>

**Group – 2002**

	Hong Kong		Mainland China		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Profit before tax	<u>3,602</u>		<u>23,139</u>		<u>26,741</u>	
Tax at the statutory tax rate	576	16.0	3,430	14.8	4,006	15.0
Adjustments in respect of current tax of previous periods	(108)	(3.0)	1,271	5.5	1,163	4.4
Income not subject to tax	(38)	(1.1)	(520)	(2.3)	(558)	(2.1)
Expenses not deductible for tax	140	3.9	383	1.7	523	2.0
Tax losses not recognised	<u>142</u>	<u>3.9</u>	<u>479</u>	<u>2.1</u>	<u>621</u>	<u>2.3</u>
Tax charge at the Group's effective rate	<u>712</u>	<u>19.7</u>	<u>5,043</u>	<u>21.8</u>	<u>5,755</u>	<u>21.6</u>

**11. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS**

The net profit from ordinary activities attributable to shareholders for the year ended 31 December 2003 dealt with in the financial statements of the Company was HK\$194,000 (2002: HK\$17,493,000).

**12. DIVIDENDS**

No interim dividend was paid during the year (2002: Nil) and the directors do not recommend the payment of any final dividend for the year (2002: Nil).

**13. EARNINGS PER SHARE**

The calculation of basic earnings per share is based on the net profit attributable to shareholders for the year of HK\$37,053,000 (2002 (restated): HK\$20,348,000), and 373,440,000 (2002: 373,440,000) ordinary shares in issue during the year.

No diluted earnings per share amount for the years ended 31 December 2003 and 2002 have been shown as the Company's share options did not have a dilutive effect during these years.



## 14. FIXED ASSETS

## Group

	Leasehold land and buildings HK\$'000	Machinery and equipment HK\$'000	Furniture and fixtures HK\$'000	Motor vehicles HK\$'000	Leasehold improve- ments HK\$'000	Total HK\$'000
Cost or valuation:						
At beginning of year	12,898	207,598	10,910	3,239	22,669	257,314
Additions	–	92,903	1,340	660	1,279	96,182
Disposals/written off	–	(10,119)	(93)	–	–	(10,212)
Deficit on revaluation	(173)	–	–	–	–	(173)
Exchange realignment	–	(1,120)	(17)	(7)	(97)	(1,241)
At 31 December 2003	<u>12,725</u>	<u>289,262</u>	<u>12,140</u>	<u>3,892</u>	<u>23,851</u>	<u>341,870</u>
Analysis of cost and valuation:						
At cost	–	289,262	12,140	3,892	23,851	329,145
At 2003 valuation	<u>12,725</u>	–	–	–	–	<u>12,725</u>
	<u>12,725</u>	<u>289,262</u>	<u>12,140</u>	<u>3,892</u>	<u>23,851</u>	<u>341,870</u>
Accumulated depreciation and impairment:						
At beginning of year	–	58,494	7,745	1,840	8,855	76,934
Provided during the year	258	20,562	742	173	4,171	25,906
Disposals/written off	–	(3,798)	(43)	–	–	(3,841)
Written back on revaluation	(258)	–	–	–	–	(258)
Exchange realignment	–	(296)	(5)	(3)	(27)	(331)
At 31 December 2003	<u>–</u>	<u>74,962</u>	<u>8,439</u>	<u>2,010</u>	<u>12,999</u>	<u>98,410</u>
Net book value:						
At 31 December 2003	<u>12,725</u>	<u>214,300</u>	<u>3,701</u>	<u>1,882</u>	<u>10,852</u>	<u>243,460</u>
At 31 December 2002	<u>12,898</u>	<u>149,104</u>	<u>3,165</u>	<u>1,399</u>	<u>13,814</u>	<u>180,380</u>

The net book value of the Group's fixed assets held under finance leases included in the total amount of machinery and equipment at 31 December 2003 amounted to HK\$33,948,000 (2002: HK\$42,697,000). The depreciation charge for the year in respect of such assets amounted to HK\$3,143,000 (2002: HK\$3,772,000).

At 31 December 2003, certain of the Group's machinery and equipment in the PRC with an aggregate net book value of approximately HK\$24,472,000 (2002: HK\$22,262,000) were pledged to banks to secure general banking facilities granted to the Group, as set out in note 25 to the financial statements.

The Group's land and buildings were revalued individually at the balance sheet date by Chung, Chan & Associates, independent chartered surveyors, at an aggregate open market value of HK\$12,725,000, based on their existing use. A revaluation surplus of HK\$85,000, resulting from the above valuations, has been credited to the revaluation reserve. Had these land and buildings been carried at historical cost less accumulated depreciation and impairment losses, their carrying values would have been approximately HK\$15,055,000 (2002: HK\$15,416,000).

The Group's land and buildings are situated in Hong Kong and are held under medium term leases.

## 15. INTANGIBLE ASSETS

**Group**

Technology know-how	<i>HK\$'000</i>
Cost:	
At beginning of year	1,285
Additions during the year	34
At 31 December 2003	<u>1,319</u>
Accumulated amortisation:	
At beginning of year	(223)
Provided during the year	(323)
At 31 December 2003	<u>(546)</u>
Net book value:	
At 31 December 2003	<u><u>773</u></u>
At 31 December 2002	<u><u>1,062</u></u>

## 16. GOODWILL AND NEGATIVE GOODWILL

The amounts of the goodwill and negative goodwill capitalised as an asset or recognised in the consolidated balance sheet, arising from the acquisition of subsidiaries and a jointly controlled entity, are as follows:

	<b>Goodwill arising from acquisition of interest in a subsidiary <i>HK\$'000</i></b>	<b>Negative goodwill arising from acquisition of a subsidiary <i>HK\$'000</i></b>	<b>Negative goodwill arising from acquisition of a jointly controlled entity <i>HK\$'000</i> (Note 18)</b>
Cost:			
At the beginning of the year	403	(1,488)	(507)
Additions	203	–	–
At 31 December 2003	<u>606</u>	<u>(1,488)</u>	<u>(507)</u>
Accumulated amortisation/(recognition as income):			
At the beginning of the year	80	(370)	(102)
Amortisation provided/(recognised as income) during the year	102	(276)	(101)
At 31 December 2003	<u>182</u>	<u>(646)</u>	<u>(203)</u>
Net book value:			
At 31 December 2003	<u><u>424</u></u>	<u><u>(842)</u></u>	<u><u>(304)</u></u>
At 31 December 2002	<u><u>323</u></u>	<u><u>(1,118)</u></u>	<u><u>(405)</u></u>

As detailed in note 3 to the financial statements, the Group has adopted the transitional provision of SSAP 30 which permits negative goodwill in respect of acquisitions which occurred prior to the adoption of the SSAP, to remain credited to the capital reserve.

The amount of negative goodwill remaining in consolidated reserves, arising from the acquisition of a subsidiary, was HK\$417,000 at 1 January and 31 December 2003. The amount of negative goodwill is stated at its cost.

## 17. INTERESTS IN SUBSIDIARIES

	Company	
	2003 HK\$'000	2002 HK\$'000
Unlisted shares, at cost	63,823	63,823
Due from subsidiaries	262,193	119,608
	326,016	183,431

The amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

Particulars of the principal subsidiaries at the balance sheet date are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued and paid-up/ registered capital		Percentage of equity attributable to the Company		Principal activities
		2003	2002	2003	2002	
Man Yue Holdings (BVI) Limited	British Virgin Islands	Ordinary US\$10,000	Ordinary US\$10,000	100	100	Investment holding
Johnstone International Limited	British Virgin Islands	Ordinary US\$1	Ordinary US\$1	100*	100*	Investment holding
Man Yue Electronics Company Limited	Hong Kong	Ordinary HK\$2 Non-voting deferred HK\$3,000,000	Ordinary HK\$2 Non-voting deferred HK\$3,000,000	100*	100*	Trading of electrical products and electronic components
Manyue Electronics (Dongguan) Co., Ltd.#	People's Republic of China	Registered HK\$1,510,000	Registered HK\$1,510,000	100*	100*	Dormant
Man Yue Technology Limited	British Virgin Islands	Ordinary US\$10	Ordinary US\$10	100*	100*	Investment holding
Samxon Electronics (Dongguan) Co., Ltd.#	People's Republic of China	Registered US\$18,060,000	Registered US\$18,060,000	100*	100*	Manufacture and sale of electronic components
Searange Investment Limited	Hong Kong	Ordinary HK\$2	Ordinary HK\$2	100*	100*	Investment holding
TradeUNIT Limited	British Virgin Islands/ Hong Kong	Ordinary HK\$9,500,000	Ordinary HK\$9,500,000	100*	100*	Trading of raw materials
Wuxi Heli Electronic Co., Ltd. ("Wuxi Heli")##	People's Republic of China	Registered US\$6,000,000	Registered US\$6,000,000	81.7*	80.3*	Manufacture and sale of electronic components
Man Yue Electronics (Xiamen) Company Limited#	People's Republic of China	Registered US\$1,500,000	Registered US\$1,500,000	100*	100*	Manufacture and sale of electronic components

Name	Place of incorporation/ registration and operations	Nominal value of issued and paid-up/ registered capital		Percentage of equity attributable to the Company		Principal activities
		2003	2002	2003	2002	
Samxon Electronic Components LLC	USA	Contributed US\$1,000	–	100*	–	Provision of marketing-related services
Man Fat International Trading (Shanghai) Co., Ltd.#	People's Republic of China	Registered US\$200,000	–	100*	–	Trading of electrical products and electronic components
Dongguan Ostor-Samxon Electronics Co. Ltd.#	People's Republic of China	Registered US\$2,806,400	–	100*	–	Manufacture and sale of electronic components
MMS Logistics Company Limited	Hong Kong	Ordinary HK\$10,000	Ordinary HK\$10,000	100*	100*	Trading of electrical products and electronic components

\* Held indirectly through subsidiaries.

# The subsidiaries are registered as wholly foreign-owned enterprises under the PRC law.

## The subsidiary is registered as a Sino-foreign equity joint venture under the PRC law.

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 director, result in particulars of excessive length.

#### 18. INTERESTS IN JOINTLY CONTROLLED ENTITIES

	Notes	Group	
		2003 HK\$'000	2002 HK\$'000
Share of net assets		7,821	15,241
Negative goodwill on acquisition – note 16		(304)	(405)
		7,517	14,836
Due from jointly controlled entities	(a)	116	116
Due to jointly controlled entities	(a)	(3,650)	(3,388)
Deferred profits	(b)	(1,674)	(1,976)
		2,309	9,588
Less: Provision for impairment		–	(4,300)
		<u>2,309</u>	<u>5,288</u>

Notes:

- (a) The amounts due from/(to) jointly controlled entities are unsecured, interest-free and have no fixed terms of repayment.
- (b) Deferred profits arising from the sale of production machinery to jointly controlled entities are amortised over 10 years, which approximate the useful life of the machinery.

Particulars of the jointly controlled entities at the balance sheet date, all of which are held indirectly through a subsidiary, are as follows:

Name	Business structure	Place of incorporation/ registration and operations	Ownership interest	Percentage of Voting power	Profit sharing	Principal activities
Guizhou Xin Yu Electronics Co., Ltd.	Corporate	People's Republic of China	49	33	49	Manufacture and sale of electronic components
Chongqing Qingon Electronics Co., Ltd.	Corporate	People's Republic of China	25	40	25	Manufacture and sale of electronic components
Foshan Rifeng Electronic Co., Ltd.	Corporate	People's Republic of China	33	33	33	Manufacture and sale of electronic components

All of the above jointly controlled entities are not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.

#### 19. LONG TERM INVESTMENTS

	Group	
	2003 HK\$'000	2002 HK\$'000
Unlisted equity investments, at cost	13,880	23,000
Less: Provision for impairment	(1,000)	(1,000)
	<u>12,880</u>	<u>22,000</u>

#### 20. SHORT TERM INVESTMENTS

	Group	
	2003 HK\$'000	2002 HK\$'000
Hong Kong listed equity investments, at market value	<u>190</u>	<u>190</u>

#### 21. INVENTORIES

	Group	
	2003 HK\$'000	2002 HK\$'000
Raw materials	47,891	28,107
Work in progress	16,178	10,648
Finished goods	66,389	51,733
	<u>130,458</u>	<u>90,488</u>

## 22. TRADE RECEIVABLES

The Group's trading terms with its customers are largely on credit, except for new customers, where payment in advance is normally required. Invoices are normally payable within 90 days of issuance, except for certain well-established customers, where the credit terms range from 120 to 180 days. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk and hedges its credit risk through Export Credit Insurance Cover. Overdue balances are regularly reviewed by senior management.

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

	2003		2002	
	Balance HK\$'000	Percentage %	Balance HK\$'000	Percentage %
Less than 3 months	150,751	80	101,281	78
4 – 6 months	27,952	15	20,553	16
7 – 12 months	3,016	1	2,142	2
Over 1 year	7,150	4	5,409	4
	<u>188,869</u>	<u>100</u>	<u>129,385</u>	<u>100</u>
Less:				
Provision for bad and doubtful debts	<u>(7,126)</u>		<u>(6,368)</u>	
	<u>181,743</u>		<u>123,017</u>	

## 23. CASH AND CASH EQUIVALENTS

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Cash and bank balances	33,875	24,000	224	54
Time deposits	15,541	–	–	–
	<u>49,416</u>	<u>24,000</u>	<u>224</u>	<u>54</u>
Less: Non-cash equivalent deposits:				
Pledged for bills payable	(3,100)	–	–	–
Pledged for bank loans	<u>(97)</u>	<u>–</u>	<u>–</u>	<u>–</u>
Cash and cash equivalents	<u>46,219</u>	<u>24,000</u>	<u>224</u>	<u>54</u>

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi (“RMB”) amounted to HK\$8,342,000 (2002: HK\$5,971,000). The RMB is 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, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

## 24. TRADE PAYABLES

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

	2003		2002	
	Balance HK\$'000	Percentage %	Balance HK\$'000	Percentage %
Less than 3 months	75,813	75	41,727	57
4 – 6 months	16,822	17	13,801	19
7 – 12 months	1,338	1	12,061	16
Over 1 year	6,582	7	6,001	8
	<u>100,555</u>	<u>100</u>	<u>73,590</u>	<u>100</u>
Accounts payable				
Bills payable	<u>24,685</u>		<u>18,286</u>	
	<u>125,240</u>		<u>91,876</u>	

## 25. INTEREST-BEARING BANK LOANS AND OVERDRAFTS

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Trust receipt loans	24,352	38,411	–	–
Term loans	158,504	14,009	142,500	–
Bank factoring loans	4	17,569	–	–
	<u>182,860</u>	<u>69,989</u>	<u>142,500</u>	<u>–</u>
Portion classified as current liabilities:				
Trust receipt loans	(24,352)	(38,411)	–	–
Term loans (repayable within one year or on demand)	(44,504)	(12,005)	(28,500)	–
Bank factoring loans	(4)	(17,569)	–	–
	<u>(68,860)</u>	<u>(67,985)</u>	<u>(28,500)</u>	<u>–</u>
Long term portion of term loans:				
Repayable in the second year	57,000	996	57,000	–
Repayable in the third to fifth years, inclusive	57,000	1,008	57,000	–
	<u>114,000</u>	<u>2,004</u>	<u>114,000</u>	<u>–</u>
Secured	8,999	11,009	–	–
Unsecured	173,861	58,980	142,500	–
	<u>182,860</u>	<u>69,989</u>	<u>142,500</u>	<u>–</u>

Certain of the Group's bank borrowings are secured by fixed charges over certain of the Group's machinery and equipment in the PRC with an aggregate net book value of approximately HK\$24,472,000 (2002: HK\$22,262,000).

## 26. FINANCE LEASE PAYABLES

The Group leases certain of its machinery and equipment for its manufacturing of electronic components business. These leases are classified as finance leases and have remaining lease terms ranging from one to three years.

At the balance sheet date, the total future minimum lease payments under finance leases and their present values were as follows:

	Minimum lease payments		Present value of minimum lease payments	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Amounts payable:				
Within one year	11,067	11,260	10,463	10,754
In the second year	7,506	5,474	7,292	5,278
In the third to fifth years, inclusive	1,929	1,971	1,895	1,952
	<u>20,502</u>	<u>18,705</u>	<u>19,650</u>	<u>17,984</u>
Total minimum finance lease payments	20,502	18,705	19,650	17,984
Future finance charges	<u>(852)</u>	<u>(721)</u>		
Total net finance lease payables	19,650	17,984		
Portion classified as current liabilities	<u>(10,462)</u>	<u>(10,754)</u>		
Long term portion	<u>9,188</u>	<u>7,230</u>		

## 27. PROVISION FOR LONG SERVICE PAYMENTS

	Group	
	2003 HK\$'000	2002 HK\$'000
Charge for the year and balance at 31 December	<u>2,984</u>	<u>–</u>

The Group provides for the probable future long service payments expected to be made to employees under the Hong Kong Employment Ordinance, as further explained under the heading "Employee benefits" in note 3 to the financial statements. 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.



## 28. DEFERRED TAX

The movement in deferred tax assets and liabilities during the year is as follows:

**Deferred tax assets****Group**

	2003			
	Deductible tax depreciation <i>HK\$'000</i>	Losses available for offset against future taxable profits <i>HK\$'000</i>	Others <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2003				
As previously reported	–	–	–	–
Prior year adjustment:				
SSAP 12 – restatement of deferred tax	<u>200</u>	<u>992</u>	<u>1,319</u>	<u>2,511</u>
As restated	200	992	1,319	2,511
Deferred tax credited/(charged) to the profit and loss account during the year	<u>18</u>	<u>(992)</u>	<u>1,343</u>	<u>369</u>
At 31 December 2003	<u><u>218</u></u>	<u><u>–</u></u>	<u><u>2,662</u></u>	<u><u>2,880</u></u>

**Deferred tax liabilities****Group**

	2003 Accelerated tax depreciation <i>HK\$'000</i>
At 1 January 2003	
As previously reported	–
Prior year adjustment:	
SSAP 12 – restatement of deferred tax	<u>298</u>
As restated	298
Deferred tax credited to the profit and loss account during the year	<u>(82)</u>
At 31 December 2003	<u><u>216</u></u>

**Deferred tax assets****Group**

	<b>2002</b>			
	<b>Deductible tax depreciation</b>	<b>Losses available for offset against future taxable profits</b>	<b>Others</b>	<b>Total</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 January 2002				
As previously reported	–	–	–	–
Prior year adjustment:				
SSAP 12 – restatement of deferred tax	<u>207</u>	<u>1,806</u>	<u>1,138</u>	<u>3,151</u>
As restated	207	1,806	1,138	3,151
Deferred tax credited/(charged) to the profit and loss account during the year	<u>(7)</u>	<u>(814)</u>	<u>181</u>	<u>(640)</u>
At 31 December 2002	<u><u>200</u></u>	<u><u>992</u></u>	<u><u>1,319</u></u>	<u><u>2,511</u></u>

**Deferred tax liabilities****Group**

	<b>2002 Accelerated tax depreciation</b>
	<i>HK\$'000</i>
At 1 January 2002	
As previously reported	–
Prior year adjustment:	
SSAP 12 – restatement of deferred tax	<u>458</u>
As restated	458
Deferred tax credited to the profit and loss account during the year	<u>(160)</u>
At 31 December 2002	<u><u>298</u></u>

The Group has tax losses arising in Hong Kong of HK\$5,169,000 (2002: HK\$5,024,000) that are available indefinitely 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 31 December 2003, there is no significant unrecognised deferred tax liability (2002: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries, associates or joint ventures.

There are no income tax consequences attaching to the payment of distributions 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 net deferred tax asset as at 31 December 2003 and 2002 by HK\$2,664,000 and HK\$2,213,000, respectively. As a consequence, the consolidated net profits attributable to shareholders for the years ended 31 December 2003 and 2002 have been increased and decreased by HK\$451,000 and HK\$480,000, respectively, and the consolidated retained profits at 1 January 2003 and 2002 have been increased by HK\$2,106,000 and HK\$2,586,000, respectively, as detailed in the consolidated statement of changes in equity.

## 29. SHARE CAPITAL

## Shares

	Group and Company	
	2003 HK\$'000	2002 HK\$'000
Authorised: 1,000,000,000 ordinary shares of HK\$0.10 each	<u>100,000</u>	<u>100,000</u>
Issued and fully paid: 373,440,000 ordinary shares of HK\$0.10 each	<u>37,344</u>	<u>37,344</u>

## Share options

Details of the Company's share option scheme and the share options issued under the scheme are included in note 30 to the financial statements below.

## 30. SHARE OPTION SCHEME

On 13 February 1997, the Company adopted a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include any executive director or employee (excluding independent non-executive directors) of the Group. The Scheme is effective from 13 February 1997 to 12 February 2007.

The subscription price is determined by the directors and is the higher of a price not less than 80% of the average closing price of the Company's shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") for the five trading days immediately preceding the date of grant of the option or the nominal value of the shares.

The maximum number of shares on which options may be granted under the Scheme may not exceed 10% of the ordinary share capital of the Company in issue from time to time.

The offer of a grant of share options may be accepted within 40 days from the date of the offer, upon payment of a nominal consideration of HK\$1 in total by the grantee.

Subsequent to the adoption of the Scheme, the Stock Exchange has introduced a number of amendments to the Listing Rules on share option schemes. These new rules came into effect on 1 September 2001. Options granted by the Company under the Scheme after 1 September 2001 are subject to the new rules which include, inter alia, the following:

- (a) the maximum number of shares issuable under the share option to each eligible participant within any 12-month period is limited to 1% of the shares in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in advance in a general meeting;
- (b) share options granted to a director, chief executive or substantial shareholder, or to any of their associates, are subject to approval in advance by the independent non-executive directors; and
- (c) the exercise price of share options is determined by directors, but may not be less than the higher of: (i) the Stock Exchange closing price of the shares on the date of grant of the share options; and (ii) the average Stock Exchange closing price of the shares for the five trading days immediately preceding the date of the grant.

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:

Name or category of participant	Number of share options			At 31 December 2003	Date of grant of share options	Exercise period of share options	Exercise price of share options* HK\$	Price of Company's shares**	
	At 1 January 2003	Granted during the year	Lapsed/cancelled during the year					At grant date of options HK\$	At exercise date of options HK\$
<b>Directors</b>									
Chan Ho Sing	11,000,000	-	-	11,000,000	30.12.1997	30.12.1997 to 12.2.2007	0.7856	1.02	-
	12,000,000	-	-	12,000,000	5.6.2000	5.6.2000 to 12.2.2007	0.432	0.60	-
	<u>23,000,000</u>	<u>-</u>	<u>-</u>	<u>23,000,000</u>					
Ko Pak On	1,500,000	-	-	1,500,000	30.12.1997	30.12.1997 to 12.2.2007	0.7856	1.02	-
	300,000	-	-	300,000	5.6.2000	5.6.2000 to 12.2.2007	0.432	0.60	-
	<u>1,800,000</u>	<u>-</u>	<u>-</u>	<u>1,800,000</u>					
<b>Other employees</b>									
In aggregate	2,500,000	-	-	2,500,000	30.12.1997	30.12.1997 to 12.2.2007	0.7856	1.02	-
In aggregate	880,000	-	-	880,000	21.1.2000	21.1.2000 to 12.2.2007	0.3192	0.39	-
In aggregate	3,220,000	-	-	3,220,000	5.6.2000	5.6.2000 to 12.2.2007	0.432	0.60	-
In aggregate	700,000	-	-	700,000	15.5.2002	15.5.2002 to 12.2.2007	0.163	0.163	-
	<u>7,300,000</u>	<u>-</u>	<u>-</u>	<u>7,300,000</u>					
	<u>32,100,000</u>	<u>-</u>	<u>-</u>	<u>32,100,000</u>					

\* The exercise price of share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

\*\* The price of the Company's shares disclosed as at the date of grant of the share options is the Stock Exchange closing price on the trading day immediately prior to the date of grant of the options. The price of the Company's shares disclosed as at the date of exercise of the share options is the weighted average of the Stock Exchange closing prices over all of the exercises of options within the disclosure line.

The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 32,100,000 additional ordinary shares of HK\$0.10 each at a total consideration of approximately HK\$18,884,000, before related issue expenses.

The financial impact of the share options granted 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 the 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 are deleted from the register of outstanding options.

## 31. RESERVES

## Group

	Share premium account HK\$'000	Contributed surplus HK\$'000	Capital reserve HK\$'000	Revaluation reserve HK\$'000	Exchange fluctuation reserve HK\$'000	PRC reserve funds* HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1 January 2002								
As previously reported	72,641	2,800	417	1,931	1,043	785	83,986	163,603
Prior year adjustment:								
SSAP 12								
– restatement of deferred tax	–	–	–	–	–	–	2,586	2,586
As restated	72,641	2,800	417	1,931	1,043	785	86,572	166,189
Revaluation deficit	–	–	–	(136)	–	–	–	(136)
Exchange realignment	–	–	–	–	(104)	–	–	(104)
Share of movements in reserves of jointly controlled entities	–	–	–	–	104	(18)	18	104
Net profit for the year (as restated)	–	–	–	–	–	–	20,348	20,348
At 31 December 2002	<u>72,641</u>	<u>2,800</u>	<u>417</u>	<u>1,795</u>	<u>1,043</u>	<u>767</u>	<u>106,938</u>	<u>186,401</u>

## Group

	Share premium account HK\$'000	Contributed surplus HK\$'000	Capital reserve HK\$'000	Revaluation reserve HK\$'000	Exchange fluctuation reserve HK\$'000	PRC reserve funds* HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1 January 2003								
As previously reported	72,641	2,800	417	1,795	1,043	767	104,832	184,295
Prior year adjustment:								
SSAP 12								
– restatement of deferred tax	–	–	–	–	–	–	2,106	2,106
As restated	72,641	2,800	417	1,795	1,043	767	106,938	186,401
Revaluation surplus	–	–	–	85	–	–	–	85
Exchange realignment	–	–	–	–	(1,264)	–	–	(1,264)
Net profit for the year	–	–	–	–	–	–	37,053	37,053
Transferred from retained profits	–	–	–	–	–	1,665	(1,665)	–
At 31 December 2003	<u>72,641</u>	<u>2,800</u>	<u>417</u>	<u>1,880</u>	<u>(221)</u>	<u>2,432</u>	<u>142,326</u>	<u>222,275</u>

## Group

	Share premium account HK\$'000	Contributed surplus HK\$'000	Capital reserve HK\$'000	Revaluation reserve HK\$'000	Exchange fluctuation reserve HK\$'000	PRC reserve funds* HK\$'000	Retained profits HK\$'000	Total HK\$'000
Retained by:								
Company and subsidiaries	72,641	2,800	417	1,880	(327)	1,753	142,130	221,294
Jointly controlled entities	—	—	—	—	106	679	196	981
31 December 2003	<u>72,641</u>	<u>2,800</u>	<u>417</u>	<u>1,880</u>	<u>(221)</u>	<u>2,432</u>	<u>142,326</u>	<u>222,275</u>
Company and subsidiaries	72,641	2,800	417	1,795	937	88	102,329	181,007
Jointly controlled entities	—	—	—	—	106	679	4,609	5,394
31 December 2002	<u>72,641</u>	<u>2,800</u>	<u>417</u>	<u>1,795</u>	<u>1,043</u>	<u>767</u>	<u>106,938</u>	<u>186,401</u>

\* PRC reserve funds are reserves made in accordance with the PRC Companies Law or the Law of the PRC on Joint Venture Using Chinese and Foreign Investment, as applicable to the Group's PRC subsidiaries and jointly controlled entities. None of the Group's PRC reserve funds at 31 December 2003 were distributable in the form of cash dividends.

Certain amounts of negative goodwill arising on the acquisition of a subsidiary prior to 1 January 2001 remain credited to the capital reserve, as further explained in note 16 to the financial statements.

## Company

	Share premium account HK\$'000	Contributed surplus HK\$'000	Retained profits/ (accumulated losses) HK\$'000	Total HK\$'000
At 1 January 2002	72,641	63,623	(7,681)	128,583
Net profit for the year	—	—	17,493	17,493
At 31 December 2002 and at 1 January 2003	72,641	63,623	9,812	146,076
Net profit for the year	—	—	194	194
At 31 December 2003	<u>72,641</u>	<u>63,623</u>	<u>10,006</u>	<u>146,270</u>

The contributed surpluses of the Group and of the Company represent the difference between the nominal value of the Company's shares issued in exchange for the issued share capital of the subsidiaries and the net asset value of the subsidiaries acquired, respectively. Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus is distributable to shareholders in certain circumstances.

## 32. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT

## Major non-cash transactions

During the year, the Group entered into finance lease arrangements in respect of assets with a total capital value at the inception of leases of HK\$16,717,000 (2002: HK\$14,890,000).

**33. CONTINGENT LIABILITIES**

At the balance sheet date, the Group had no guarantee (2002: HK\$472,000) in respect of banking facilities granted to the PRC joint venture partner of Wuxi Heli, as further detailed in note 36(b) to the financial statements.

The Company had guarantees amounting to HK\$387,719,000 (2002: HK\$213,930,000) in respect of banking facilities and finance lease contracts granted to its subsidiaries, and approximately HK\$90,447,000 (2002: HK\$86,474,000) of which was utilised at the balance sheet date.

**34. OPERATING LEASE ARRANGEMENTS**

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

At the balance sheet date, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	<b>Group</b>	
	<b>2003</b>	<b>2002</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	10,766	7,810
In the second to fifth years, inclusive	32,424	20,680
After five years	5,461	19,512
	<u>48,651</u>	<u>48,002</u>

**35. COMMITMENTS**

In addition to the operating lease commitments detailed in note 34 above, the Group had the following capital commitments at the balance sheet date:

	<b>Group</b>	
	<b>2003</b>	<b>2002</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Plant and machinery:		
Contracted, but not provided for	<u>2,910</u>	<u>–</u>

At the balance sheet date, the Company did not have any significant commitments (2002: Nil).

**36. RELATED PARTY TRANSACTIONS**

(a) During the year, the Group had the following material transactions with its jointly controlled entities:

	<b>2003</b>	<b>2002</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Purchases of raw materials	9,048	8,113
Purchases of finished goods	–	2,049
Sale of raw materials	<u>2,769</u>	<u>810</u>

The above purchases of raw materials were carried out at terms similar to those offered by other suppliers, except that a longer credit period was granted. The above sales transactions were carried out in accordance with the Group's pricing policy, and were calculated on a cost-plus basis.

- (b) The following were accounted for by the Group in respect of material transactions between Wuxi Heli and the PRC joint venture partner or associates of the PRC joint venture partner during the year:

(i)	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Purchases of raw materials	1,046	6,495
Sales of finished goods	–	165
Rent, utilities and other operating expenses	<u>2,790</u>	<u>2,857</u>

The above sales transactions were carried out in accordance with the Group's pricing policy, and were calculated on a cost-plus basis. The above purchases of raw materials and payments for rent, utilities and other operating expenses were carried out in the ordinary course of business, and according to terms and conditions similar to those offered by other suppliers, except that a longer credit period was granted.

- (ii) As at 31 December 2002, Wuxi Heli provided a corporate guarantee to a bank for facilities granted to an associate of the PRC joint venture partner for an amount of HK\$472,000.

### 37. COMPARATIVE AMOUNTS

As further explained in note 2 to the financial statements, due to the adoption of certain new and revised SSAPs 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 comparative amounts have been reclassified to conform with the current year's presentation.

### 38. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 20 April 2004.

### 3. STATEMENT OF INDEBTEDNESS

As at the close of business on 31 March 2004, the Group had consolidated borrowings in respect of bank loans and finance leases of approximately HK\$226.96 million, of which approximately HK\$203.08 million was unsecured and approximately HK\$23.88 million was secured by fixed charges over certain machinery and equipment of the Group with value of approximately HK\$54.47 million. The borrowings comprised interest-bearing bank loans of approximately HK\$210.02 million and finance lease payables of approximately HK\$16.94 million.

Save as aforesaid or as otherwise disclosed herein, and apart from intra-group liabilities, no companies within the Group had outstanding at the close of business on 31 March 2004 any mortgages, charges or debentures, loan capital, bank overdraft, loans or other similar indebtedness or any hire purchase commitments, or any guarantees or other material contingent liabilities.

### 4. MATERIAL CHANGE

The Directors are not aware of any material change in the financial or trading positions or prospects of the Company since 31 December 2003, the date to which the latest audited consolidated financial statements of the Group were made up.



**5. COMFORT LETTER ON PRO FORMA FINANCIAL INFORMATION**

31 May 2004

The Directors  
Man Yue International Holdings Limited

Dear Sirs

**Man Yue International Holdings Limited (the “Company”) and its subsidiaries (collectively the “Group”)**

We report on the pro forma financial information set out on pages 9 to 11 of the circular of the Company dated 31 May 2004 (the “Circular”), which has been prepared, for illustrative purposes only, to provide information about how the proposed conditional voluntary cash offer to repurchase shares of the Company might have affected the relevant financial information presented in respect of the Group.

**RESPONSIBILITIES**

It is the responsibility solely of the directors of the Company to prepare the pro forma financial information in accordance with Rule 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

It is our responsibility to form an opinion, as required by the Listing Rules, on the pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

**BASIS OF OPINION**

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards and Bulletin 1998/8 “Reporting on pro forma financial information pursuant to the Listing Rules” issued by the Auditing Practices Board of the United Kingdom, where applicable. Our work, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the pro forma financial information with the directors of the Company.

Our work does not constitute an audit or review in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants, and accordingly, we do not express any such assurance on the pro forma financial information.

The pro forma financial information has been prepared on the bases set out in the Circular for illustrative purposes only and because of its nature, it may not be indicative of:

- the results and earnings per share of the Group for any future periods.
- the financial position of the Group at any future date.

**OPINION**

In our opinion:

- (a) the pro forma financial information has been properly compiled on the basis stated;
- (b) such basis is consistent with the accounting policies of the Company; and
- (c) the adjustments are appropriate for the purposes of the pro forma financial information as disclosed pursuant to Rule 4.29 of the Listing Rules.

Yours faithfully  
**Ernst & Young**  
*Certified Public Accountants*  
Hong Kong

## 1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Codes for the purposes of giving information with regard to the Company. The information contained in this circular has been supplied by the Directors who have taken all reasonable care to ensure that the information stated herein is accurate. The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this circular have been arrived at after due and careful consideration and there are no other facts not contained in this circular, the omission of which would make any statement contained in this circular misleading.

## 2. MARKET PRICES

- (i) The table below sets out the closing prices of the Shares on the Stock Exchange on the last business day of each of the six calendar months immediately preceding the Announcement Date on which trading of the Shares took place:

<b>Date</b>	<b>Closing price</b> <i>HK\$</i>
31 October 2003	0.290
28 November 2003	0.295
31 December 2003	0.270
30 January 2004	0.290
27 February 2004	0.300
30 March 2004	0.300

- (ii) The closing price of the Shares on the Stock Exchange as at the Last Trading Day was HK\$0.30.
- (iii) The closing price of the Shares on the Stock Exchange as at the Latest Practicable Date was HK\$0.475.
- (iv) The lowest and highest market prices of the Shares recorded on the Stock Exchange during the period between the Relevant Period were HK\$0.25 on 18 December 2003 and HK\$0.33 on 2, 3, 4, 5, 8, 9, 10 and 11 of March 2004.
- (v) All the Shares are listed on the Stock Exchange.

### 3. SHARE REPURCHASES, SHARE CAPITAL AND SHARE ISSUES

The Company has not repurchased any Shares during the twelve month period immediately preceding the date of this circular nor since the end of the last financial year ended 31 December 2003.

The authorised share capital of the Company is HK\$100,000,000 divided into 1,000,000,000 Shares. As at the Latest Practicable Date, the issued share capital of the Company was HK\$37,344,000 divided into 373,440,000 Shares. All of the Shares currently in issue rank pari passu in all respects with each other, including, in particular, as to dividends, voting rights and capital.

No Shares were issued during the period commencing on 31 December 2003, being the last financial year end date of the Company, and ending on the Latest Practicable Date.

As at the Latest Practicable Date, other than the outstanding 32,100,000 Share Options, the Company has no other convertible securities, warrants, derivatives and conversion rights in respect of the Shares. Details of the Share Options outstanding are summarized in the table below:

Name of participant	Number of share options as at the Latest Practicable Date	Date of grant	Exercise period	Exercise price (HK\$)
<b>Directors</b>				
Mr. Chan Ho Sing	11,000,000	30/12/1997	30/12/1997 – 12/2/2007	0.7856
	12,000,000	5/6/2000	5/6/2000 – 12/2/2007	0.432
	<u>23,000,000</u>			
Mr. Ko Pak On	1,500,000	30/12/1997	30/12/1997 – 12/2/2007	0.7856
	300,000	5/6/2000	5/6/2000 – 12/2/2007	0.432
	<u>1,800,000</u>			
<b>Other employees</b>				
In aggregate	2,500,000	30/12/1997	30/12/1997 – 12/2/2007	0.7856
In aggregate	880,000	21/1/2000	21/1/2000 – 12/2/2007	0.3192
In aggregate	3,220,000	5/6/2000	5/6/2000 – 12/2/2007	0.432
In aggregate	700,000	15/5/2002	15/5/2002 – 12/2/2007	0.163
	<u>7,300,000</u>			
<b>Total</b>	<b><u><u>32,100,000</u></u></b>			

There was no reorganisation of the capital of the Company nor any change to the issued capital of the Company during the 2 financial years preceding the commencement of the Offer period.

None of the Shares to be repurchased were issued during the two-year period immediately preceding the date of the Offer.

#### 4. DISCLOSURE OF INTEREST

##### (a) Interest and short positions of the Directors in the share capital of the Company

As at the Latest Practicable Date, the interests and short positions of the Directors and their associates in the Shares and underlying Shares of the Company or its associated corporations (within the meaning of the Part XV of the SFO) as recorded in the Registrar by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO and the Model Code for the Securities Transactions by Directors of Listed Companies were as follows:

*Long positions in the ordinary Shares of the Company:*

Name of director	Number of Shares held, capacity and nature of interest			Percentage of the Company's issued share capital
	Directly beneficially owned	Founder of a trust	Total	
Chan Ho Sing ( <i>Note</i> )	–	179,734,000	179,734,000	48.13
Ko Pak On	400,000	–	400,000	0.11
	<u>400,000</u>	<u>179,734,000</u>	<u>180,134,000</u>	<u>48.24</u>

*Note:* These Shares are owned by Man Yue Holdings Inc., a company incorporated in the Bahamas, the entire issued share capital of which is ultimately beneficially owned by the family trust of Chan Ho Sing.

*Long positions in the ordinary Shares of the Company:*

Name of director	Number of Share Options held, capacity and nature of interest		Total
	Directly beneficially owned	Through spouse or minor children	
Chan Ho Sing ( <i>Note</i> )	–	5,500,000	5,500,000
Chan Ho Sing	17,500,000	–	17,500,000
Ko Pak On	1,800,000	–	1,800,000
	<u>19,300,000</u>	<u>5,500,000</u>	<u>24,800,000</u>

*Note:* The interests through spouse represent Share Options held by Kee Chor Lin, the spouse of Chan Ho Sing.

In addition to the above, Chan Ho Sing has non-beneficial personal equity interests in certain subsidiaries held for the benefit of the Company solely for the purpose of complying with the minimum company membership requirements.

Save as disclosed above, and in the section headed “3. Share Repurchases, Share Capital and Share Issue”, at no time during the year were rights to acquire benefits by means of the acquisition of Shares in the Company granted to any Director or their respective spouse or minor children, or were any such rights exercised by them; or 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.

**(b) Interest and short positions of the substantial shareholders in the share capital of the Company**

According to the register of interests required to be kept by the Company pursuant to Section 336 of the SFO and as far as the Directors are aware, as at the Latest Practicable Date, the

following parties had interests and short positions of 5% or more of the share capital of the Company.

*Long positions:*

Name		Capacity and nature of interest	Number of ordinary shares held	Percentage of the Company's issued share capital
Man Yue Holdings Inc.	<i>Note 1</i>	Beneficial interest	179,734,000	48.1
Li Tung Lok		Beneficial interest	47,760,000	12.8
Kingsway International Holdings Limited	<i>Note 2</i>	Interest through controlled corporations	20,672,000	5.5

*Note 1:* Man Yue Holdings Inc. is ultimately beneficially owned by the family trust of Chan Ho Sing.

*Note 2:* Choi Koon Shum, Jonathan is deemed to be interested in 20,672,000 Shares of the Company which are held through Kingsway International Holdings Limited.

**(c) Others**

So far as the Directors are aware, as at the Latest Practicable Date:

- (i) Save as disclosed in section (a) above, none of the directors of Man Yue Holdings Inc., nor any person acting in concert with the Directors, Man Yue Holdings Inc. or the directors of Man Yue Holdings Inc. was interested in any Shares nor had any such person dealt for value in any Shares during the Relevant Period;
- (ii) Save for the irrevocable undertaking not to accept the Offer given by Man Yue Holdings Inc. and Mr. Ko Pak On in respect of 179,734,000 Shares and 400,000 Shares held by them respectively, no person, prior to the posting of this circular, has irrevocably committed himself to the Company to accept or reject the Offer;
- (iii) After reasonable inquiry by the Company, Mr. Li Tung Lok who is beneficially interested in 47,760,000 Shares of the Company, representing 12.8% of the Company's issued share capital as at the Latest Practicable Date, has indicated that he will not accept the Offer;
- (iv) None of the subsidiaries or associates of the Company, nor pension fund of the Group nor any adviser to the Company as specified in class (2) of the definition of "associate" in the Takeovers Code owned or controlled any shares;

- (v) No person had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Company or with any person who is an associate of the Company by virtue of classes (1), (2), (3) and (4) of the definition of “associate” in the Takeovers Code; and
- (vi) No Shares were being managed on a discretionary basis by fund managers (other than exempt fund managers) connected with the Group.

**5. DEALING IN SECURITIES IN THE COMPANY**

- (i) During the Relevant Period, none of the Directors or any persons acting in concert with the Directors has dealt for value in Shares or in convertible securities, warrants, options or derivatives in respect of the Shares;
- (ii) Man Yue Holdings Inc., its directors and parties acting in concert with it have not dealt in any Shares in the Relevant Period; and
- (iii) The Directors were not aware of any person who had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with Man Yue Holdings Inc. or with any person acting in concert with it or such person who had dealt for value in any Shares during the Relevant Period.
- (iv) None of the subsidiaries or associates of the Company, nor pension fund of the Group nor any adviser to the Company as specified in class (2) of the definition of “associate” in the Takeovers Code had dealt for value in any Shares during the Relevant Period;

**6. INTERESTS AND DEALINGS IN MAN YUE HOLDINGS INC.**

As at the Latest Practicable Date, the entire issued share capital of Man Yue Holdings Inc. is ultimately beneficially owned by the family trust of Mr. Chan Ho Sing, the chairman and an executive Director of the Company. The Company and its other Directors do not control or own any interests in Man Yue Holdings Inc.. During the relevant period, neither the Company and the Directors nor parties acting in concert with any of them had dealt in the securities of Man Yue Holdings Inc..

**7. ARRANGEMENTS AFFECTING DIRECTORS**

- (i) Mr. Chan Ho Sing as an executive Director entered into a service contract with the Company for an initial term of three years commencing on 1 January 2003 and thereafter until terminated by either party giving to the other not less than six months’ notice in writing terminating on or after the expiry of the initial term of three years. Mr. Chan is currently entitled to an annual emolument of HK\$3,500,000 (including a year end bonus equivalent to the aggregate of his last 2 months’ salaries) with reference to, inter alia, consumer price index increase, inflation market rate and performance of Mr. Chan. Pursuant to his service contract with the Company, Mr. Chan is entitled to an annual housing benefit of HK\$1 million. Mr. Chan may be entitled to discretionary management bonus as determined by the Board in its absolute discretion depending on the performance of Mr. Chan and the operating results of the Group for each financial year provided that the total amount of the management



bonuses, if any, to be allocated among all the executive directors of the Company shall not be greater than 5% of the audited consolidated profit attributable to shareholders (after taxation and minority interests but before extraordinary items and before such management bonus) of the Group as reflected in its consolidated audited accounts for the relevant financial year.

- (ii) Mr. Ko Pak On as an executive Director entered into his first service contract with the Company for an initial term of three years commencing on 1 January 2004 and thereafter until terminated by either party giving to the other not less than two months' notice in writing terminating on or after the expiry of the initial term of three years. Mr. Ko is currently entitled to an annual emolument of HK\$702,000 (including a year end bonus equivalent to his last month's salary) with reference to market terms, and performance, qualifications and experience of Mr. Ko. Mr. Ko may be entitled to discretionary bonus by reference to the annual result of the Company and the performance of the individual subject to the approval by the board of directors.

Save for the above, no Director has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation or which has been entered into or amended within 6 months before the date of the Announcement.

- (iii) As at the Latest Practicable Date, there is no agreement or arrangement or understanding (including any compensation arrangement) between Man Yue Holdings Inc. or parties acting in concert with it and any of the directors, recent directors, shareholders or recent shareholders of the Company having any connection with or dependence upon the Offer or Whitewash Waiver.
- (iv) As at the Latest Practicable Date, there is no agreement or arrangement between any Director and any other person which is conditional on the outcome of the Offer or Whitewash Waiver or otherwise connected with the Offer or Whitewash Waiver.

## **8. CONSENT**

Each of Asian Capital, AMS and Ernst & Young has given and has not withdrawn their respective written consents to the issue of this circular with the inclusion herein of their letters, opinions and/or recommendations and the references to their names and reports, as the case may be, in the form and context in which they respectively appear.

## **9. MATERIAL LITIGATION**

Neither the Company nor any of its subsidiaries is engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened by or against the Company or any of its subsidiaries.

**10. MATERIAL CONTRACTS**

So far as the Directors are aware, no material contracts have been entered into by members of the Group, not being contracts entered into during the ordinary course of business carried on or intended to be carried on by the Group, after the date two years preceding the Announcement Date.

**11. GENERAL**

- (i) The registered office of the Company is situated at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda and its principal office in Hong Kong is situated at 16th Floor, Yiko Industrial Building, 10 Ka Yip Street, Chai Wan, Hong Kong. The address of the Company's branch share registrar, Tengis Limited, is G/F, BEA Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong.
- (ii) The following are the qualifications of the experts who have given an opinion or advice which is contained in the circular:

<b>Name</b>	<b>Qualification</b>
Asian Capital	a corporation licensed under the SFO to perform types 1, 4, 6 and 9 regulated activities (dealing in securities, advising on securities and corporate finance and asset management, respectively) under the SFO
AMS	a corporation deemed licensed under transitional arrangement to carry on type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO
Ernst & Young	Certified Public Accountants

- (iii) The registered office of Asian Capital is Suite 1006, Bank of America Tower, 12 Harcourt Road, Central, Hong Kong.
- (iv) The registered office of AMS is 20/F., Hong Kong Diamond Exchange Building, 8-10 Duddell Street, Hong Kong.
- (v) The registered address of Man Yue Holdings Inc. is One Montague Place, East Bay Street, Nassau, Bahamas, the entire issued share capital of which is ultimately beneficially owned by the CK Trust, the family trust of Mr. Chan Ho Sing, the chairman and an executive Director of the Company. The trustee of the CK Trust is Ernst & Young Trust Corporation and its address is P.O. Box 261, Bush Hill, Bay Street, Barbados. Mr. Chan Ho Sing and Mr. Chan Yu Ching Eugene, an assistant executive director of the Company and the son of Mr. Chan Ho Sing, are the directors of Man Yue Holdings Inc. The address of the directors and shareholders of Man Yue Holdings Inc. is 16th Floor, Yiko Industrial Building, 10 Ka Yip Street, Chai Wan, Hong Kong.
- (vi) The English text of this circular and the Form of Acceptance shall prevail over the Chinese text in the case of inconsistency.

**12. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents are available for inspection at the office of the Company at 16th Floor, Yiko Industrial Building, 10 Ka Yip Street, Chai Wan, Hong Kong during normal business hours on any weekday (except for public holidays) while the Offer remains open for acceptance:

- (i) the Memorandum of Association and Bye-laws of the Company and Man Yue Holdings Inc.;
- (ii) the annual reports of the Company for the two financial years ended 31 December 2002 and 2003;
- (iii) the letter of advice from Asian Capital as set out on pages 16 to 24 of this circular;
- (iv) the letter of advice from AMS as set out on pages 27 to 43 of this circular;
- (v) the letter of advice from the Independent Director as set out on pages 25 to 26 of this circular;
- (vi) the letters of consent of Asian Capital, AMS and Ernst & Young as referred to in paragraph 8 of this Appendix;
- (vii) the comfort letter on pro forma financial information as set out on pages 94 to 95 of this circular;
- (viii) the contracts of Mr. Chan Ho Sing and Mr. Ko Pak On with the Company referred to in paragraph 7 of this Appendix;
- (ix) the undertaking given by Man Yue Holdings Inc. that it will not, and will procure its respective Associates and parties acting in concert with it not to, accept the Offer in respect of the Shares owned by them; and
- (x) the undertaking given by Mr. Ko Pak On that he will not, and will procure his respective Associates and parties acting in concert with him not to, accept the Offer in respect of the Shares owned by them.

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## NOTICE OF SPECIAL GENERAL MEETING

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MAN YUE INTERNATIONAL HOLDINGS LIMITED

*(Incorporated in Bermuda with limited liability)*

**NOTICE IS HEREBY GIVEN** that a special general meeting (the “SGM”) of Man Yue International Holdings Limited (the “Company”) will be held at Gloucester Room II, 3/F, The Excelsior Hong Kong, 281 Gloucester Road, Causeway Bay, Hong Kong on Thursday, 24 June 2004 at 10:00 a.m. for the purpose of considering and, if thought fit, passing with or without modifications, the following resolutions numbered 1 and 2 as ordinary resolutions as indicated:

### ORDINARY RESOLUTIONS

1. “**THAT,**

the proposed conditional voluntary cash offer (the “Offer”) by Asian Capital (Corporate Finance) Limited on behalf of the Company to repurchase up to 66,000,000 shares of HK\$0.10 each in the issued share capital of the Company (“Shares”) held by shareholders of the Company by way of tender upon the terms and subject to the Conditions set out in the circular to shareholders of the Company dated 31 May 2004 and the accompanying Form of Acceptance (a copy of which marked “A” has been produced to the SGM and for the purpose of identification signed by the Chairman of the SGM) at HK\$0.38 in cash per Share be approved and the Board be authorised to do all things and execute all documents in connection with or incidental to the Offer with such amendments or modifications (if any) as the Board may consider necessary or appropriate.” and

2. “**THAT,**

the waiver (the “Whitewash Waiver”) granted or to be granted by the Executive Director of the Corporate Finance Department of the Securities and Futures Commission pursuant to Note 1 of the Notes on Dispensations from Rule 26 of the Hong Kong Code on Takeovers and Mergers waiving any obligation on the part of Man Yue Holdings Inc. and parties acting in concert with it, to make a general offer for all the shares of the Company not already owned by them upon completion of the Offer, be and is hereby approved and the directors of the Company are hereby authorised to do all such things and take all such actions as they may consider to be necessary or desirable to give effect to any of the matters relating to, or incidental to, the Whitewash Waiver.”

For and on behalf of  
**Man Yue International Holdings Limited**  
**Chan Ho Sing**  
*Chairman*

Hong Kong, 28 May 2004

\* *for identification purpose only*

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## NOTICE OF SPECIAL GENERAL MEETING

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*Notes:*

1. Any member entitled to attend and vote at the SGM is entitled to appoint one or more separate proxies to attend and, on a poll, vote instead of him. A proxy need not be a member of the Company.
2. In the case of joint holders of Share, the vote of the senior who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the votes of the other joint holders and for this purpose seniority will be determined by the order in which the names stand in the register of members in respect of the joint holding.
3. A form of proxy for use at the SGM is enclosed with the circular to Shareholders.
4. To be valid, the form of proxy, together with the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy thereof, must be deposited at the Company's branch share registrar in Hong Kong at G/F, BEA Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, not less than 48 hours before the time appointed for holding the SGM or at any adjournment thereof. Completion and delivery of the form of proxy will not preclude members from attending and voting in person at the SGM or at any adjournment thereof.