
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult a licensed securities dealer, a bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Daiwa Associate Holdings Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser or transferee, or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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

DAIWA

DAIWA ASSOCIATE HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)
(Stock code: 1037)

MAJOR AND CONNECTED TRANSACTION, PROPOSED RIGHTS ISSUE ON THE BASIS OF TWO RIGHT SHARES FOR EVERY THREE EXISTING SHARES HELD, WHITEWASH WAIVER AND PROPOSED AMENDMENTS TO BYE-LAWS

Financial Adviser to Daiwa Associate Holdings Limited



ASIAN CAPITAL
(CORPORATE FINANCE) LIMITED

卓亞(企業融資)有限公司

Independent financial adviser to the Independent Board Committee
and the Independent Shareholders



SHENYIN WANGUO CAPITAL (H.K.) LIMITED

A letter from the Independent Board Committee containing its advice to the Independent Shareholders is set out on pages 33 to 34 of this circular. A letter from Shenyin Wanguo containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 35 to 51 of this circular.

A notice convening the SGM to be held at 10:30 a.m. on Monday, 30 August 2004 at Garden Room A-B, 2/F., Hotel Nikko Hongkong, 72 Mody Road, Tsimshatsui East, Kowloon, Hong Kong or any adjourned meeting is set out on pages 132 to 139 of this circular. A form of proxy for used by the Independent Shareholders at the SGM is enclosed with this circular. Whether or not you are able to attend the SGM in person, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and return the same to the Registrar at G/F, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong as soon as practicable but in any event not later than 48 hours before the time appointed for the holding of the SGM or any adjourned meeting. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjourned meeting should you so desire.

Please note that the Underwriter may terminate the Underwriting Agreement by notice in writing to the Company given at any time up to 6:00 p.m. on the Settlement Date, if at or prior to 6:00 p.m. on the Settlement Date: (a) there develops, occurs or comes into force: (i) the introduction of any new law or regulation or any change in existing laws or regulations (or the judicial interpretation thereof) or any other similar event which in the absolute opinion of the Underwriter has or is likely to have a material adverse effect on the business or financial condition or prospects of any member of the Group; or (ii) any change (whether or not permanent) in local, national or international economic, financial, political or military conditions or any event beyond the control of the parties hereto (including, without limitation, acts of government, strikes, explosion, flooding, civil commotion, acts of God or accident) which in the absolute opinion of the Underwriter is or may be materially adverse in the context of the Rights Issue or makes it inadvisable or inexpedient to proceed therewith; or (iii) any change (whether or not permanent) in local, national or international stock market conditions (including any moratorium, suspension of or material restriction on trading in securities generally) which in the absolute opinion of the Underwriter would materially and adversely affect the Rights Issue or makes it inadvisable or inexpedient to proceed therewith; or (iv) any change, or any development involving a prospective change, in taxation in Hong Kong, Bermuda or any other jurisdiction to which any member of the Group is subject or the implementation of any exchange controls which in the absolute opinion of the Underwriter would or might materially and adversely affect any member of the Group or its present or prospective shareholders in their capacity as such; or (v) any change to the system pursuant to which the value of the currency of Hong Kong is linked to the currency of the United States of America; or (b) there comes to the notice of the Underwriter any matter or event showing any of the representations or warranties given by the Company under the Underwriting Agreement to be untrue or inaccurate in any respect which in the absolute opinion of the Underwriter is materially adverse in the context of the Rights Issue and/or the Acquisition; or (c) the Company is in breach of any of its obligations under the Underwriting Agreement which in the absolute opinion of the Underwriter is material in the context of the Rights Issue and/or the Acquisition.

In the event that the Underwriting Agreement shall have been terminated, the Rights Issue and the Acquisition will not proceed.

Please also note that the last day of dealings in the Shares on a cum-rights basis is Monday, 23 August 2004. Existing Shares will be dealt with on an ex-rights basis from Tuesday, 24 August 2004. The Right Shares will be dealt in their nil-paid form from Thursday, 2 September 2004 to Friday, 10 September 2004, both days inclusive. Shareholders should note that dealings in such Shares will take place while the conditions to which the Underwriting Agreement is subject remain unfulfilled. Any dealings in such Shares up to the date on which all conditions to which the Rights Issue is subject are fulfilled, are accordingly at the investors' own risk. Shareholders and potential investors should therefore exercise caution when dealing in the Shares or Rights Shares in their nil-paid form, and if they are in any doubt about their position, they are recommended to consult their professional adviser.

5 August 2004

CONTENTS

	<i>Page</i>
Definitions	1
Expected timetable	7
Letter from the Board	
1. Introduction	9
2. Sale and Purchase Agreement	10
3. Proposed Rights Issue	17
4. Terms of the Rights Issue	19
5. Conditions of the Rights Issue	20
6. Underwriting arrangements	22
7. Shareholding structure of the Company	25
8. Warning of the risks of dealings in Shares and nil-paid Rights Shares	27
9. Reason for the Rights Issue and use of proceeds	28
10. Future intention of Smartco	28
11. Business review and future prospect of the Group	28
12. Amendments to Bye-laws	29
13. SGM	30
14. Recommendations	32
15. Additional information	32
Letter from the Independent Board Committee	33
Letter from Shenyin Wanguo	35

CONTENTS

	<i>Page</i>
Appendix I — Accountants' report on Elite	52
Appendix II — Financial information of the Group	77
Appendix III — Financial information of the Enlarged Group	112
Appendix IV — General information	119
Notice of SGM	132

DEFINITIONS

In this circular, the following expressions shall have the following meanings unless the context requires otherwise:

“Acquisition”	the acquisition of the entire issued share capital of Elite pursuant to the Sale and Purchase Agreement
“Allotment Letter(s)”	the provisional allotment letter(s), together with application form(s), for use by the Qualifying Shareholders to apply for the Rights Issue
“Announcement”	the announcement of the Company dated 24 June 2004 in relation to, amongst other things, the Acquisition, the Rights Issue and the Whitewash Waiver
“associates”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Business Day”	any day (other than Saturday) on which banks are generally open for business in Hong Kong
“Bye-laws”	the bye-laws of the Company as amended from time to time
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“China Capital”	China Capital Holdings Investment Ltd, a company incorporated in the British Virgin Islands wholly owned by a trustee for the benefit of a discretionary trust the beneficiaries of which include Mr. Lau, Ms. Chan and certain of their family members
“Company”	Daiwa Associate Holdings Limited, an exempted company incorporated in Bermuda with limited liability, the shares of which are listed on the Stock Exchange
“Daiwa BVI”	Daiwa BVI Limited, a company incorporated in the British Virgin Islands and is wholly owned by the Company
“Director(s)”	the director(s), including independent non-executive director(s), of the Company

DEFINITIONS

“Elite”	Elite Century Holdings Limited, a company incorporated in the British Virgin Islands and is wholly owned by Smartco
“Elite Business”	the principal business activities of the subsidiaries of Elite, namely the sale and distribution of computer goods and electronic products in Canada
“Elite Group”	Elite and its subsidiaries
“Enlarged Group”	the Group as enlarged following completion of the Acquisition and the Rights Issue
“Executive”	the Executive Director of the Corporate Finance Division of the SFC or any delegate of the Executive Director
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“HKSCC”	Hong Kong Securities Clearing Company Limited
“Independent Board Committee”	independent board committee of the Company comprising Mr. Yuen Chi Choi, Simon and Mr. Barry John Buttifant, established for the purpose of advising the Independent Shareholders in relation to the Acquisition, the Rights Issue and the Whitewash Waiver
“Independent Shareholders”	Shareholders who are not involved or interested in the Acquisition and the Rights Issue and the Whitewash Waiver, being Shareholders other than Mr. Lau, Ms. Chan, China Capital, Mr. Yuen, Mr. Wan and Cyber Concept Limited, a company incorporated in the British Virgin Islands wholly owned by Mr. Yuen and is interested in 7,870,000 Shares as at the Latest Practicable Date
“Last Trading Day”	10 June 2004, being the last trading day before the suspension of the trading of the Shares on the Stock Exchange pending the release of the Announcement
“Latest Acceptance Date”	Wednesday, 15 September 2004, or such other date as the Underwriter may agree with the Company in writing, being the last date upon which provisional allotments of Rights Shares in nil-paid form may be validly accepted

DEFINITIONS

“Latest Practicable Date”	2 August 2004, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Mr. Lau”	Mr. Lau Tak Wan, an executive Director and a Shareholder who is beneficially interested in 31,233,300 Shares, representing approximately 19.67% of the issued share capital of the Company as at the Latest Practicable Date
“Mr. Wan”	Mr. Wan Chor Fai, an executive Director and a Shareholder who is interested in 90,000 Shares, representing approximately 0.06% of the existing issued share capital of the Company as at the Latest Practicable Date
“Mr. Yuen”	Mr. Yuen Che Bun, a Shareholder who is beneficially interested in 7,872,000 Shares, representing approximately 4.96% of the issued share capital of the Company as at the Latest Practicable Date and a beneficial owner of approximately 2.24% of the issued share capital of Smartco as at the Latest Practicable Date
“Ms. Chan”	Ms. Chan Yuen Mei, Pinky, an executive Director and a Shareholder who is beneficially interested in 30,133,300 Shares, representing approximately 18.97% of the existing issued share capital of the Company as at the Latest Practicable Date. Ms. Chan is Mr. Lau’s spouse
“Non-Qualifying Shareholders”	those Shareholders whose addresses (as shown on the branch register of members of the Company in Hong Kong at the close of business on the Record Date) are outside Hong Kong or who are persons to whom in the Directors’ opinion, Rights Shares may not be offered without compliance with registration and/or other legal or regulatory requirements of that jurisdiction or jurisdictions outside of Hong Kong
“PRC”	the People’s Republic of China

DEFINITIONS

“Qualifying Shareholders”	the Shareholders on the branch register of members of the Company in Hong Kong at the close of business on the Record Date, other than the Non-Qualifying Shareholders
“Record Date”	Monday, 30 August 2004, or such later date as the Underwriter may agree in writing with the Company, being the record date for determining the entitlements of Shareholders to participate in the Rights Issue
“Registrar”	Abacus Share Registrars Limited, the Company’s Hong Kong share registrar
“Relevant Period”	the period between 25 December 2003, being the date falling six months prior to the date of the Announcement, and the Latest Practicable Date
“Rights Issue”	the proposed issue by the Company of 105,873,067 Rights Shares at HK\$0.45 per Rights Share by way of rights on the basis of 2 Rights Shares for every 3 Shares held on the Record Date and otherwise on the terms and subject to the conditions set out in the Underwriting Agreement
“Rights Issue Documents”	the Rights Issue Prospectus, the Allotment Letter and the form of application for excess Rights Shares
“Rights Issue Prospectus”	the prospectus to be issued by the Company in relation to the Rights Issue
“Rights Share(s)”	new Share(s) to be allotted and issued under the Rights Issue
“Sale and Purchase Agreement”	the sale and purchase agreement dated 10 June 2004 entered into among the Company, Daiwa BVI, Smartco and Mr. Lau in relation to the Acquisition as supplemented by a supplemental agreement entered into by the same parties dated 7 July 2004
“SFC”	the Securities and Futures Commission in Hong Kong
“SFO”	the Securities and Future Ordinance (Chapter 571 of the Laws of Hong Kong)

DEFINITIONS

“Settlement Date”	the date falling within three Business Days after the Latest Acceptance Date
“SGM”	the special general meeting of the Company to be held on Monday, 30 August 2004 for the purpose of approving, inter alia, the Acquisition, the Rights Issue, the Whitewash Waiver and the amendment to the Bye-laws
“Share(s)”	ordinary share(s) of par value of HK\$0.10 each in the capital of the Company
“Shareholder(s)”	the shareholder(s) of the Company
“Shenyin Wanguo”	Shenyin Wanguo Capital (H.K.) Limited, a licensed corporation to conduct type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO and the independent financial adviser to the Independent Board Committee and the Independent Shareholders
“Smartco”	Smartco United Limited, a company incorporated in the British Virgin Islands with limited liability and is 89.10% beneficially owned by Mr. Lau, 2.24% by Mr. Yuen, 0.67% by Mr. Patrick Lee, 3.33% by Mr. Albert Poon and the remaining 4.66% by Ms. Wong Yuk Ying. Under the Listing Rules, Mr. Albert Poon, Ms. Wong Yuk Ying and Mr. Patrick Lee are considered as independent third parties not connected with the Directors, chief executive and substantial shareholders of the Company or its subsidiaries or any of their respective associates and they are not connected persons of the Company. Mr. Albert Poon, Ms. Wong Yuk Ying and Mr. Patrick Lee are parties acting in concert with Mr. Lau under the Takeovers Code
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription Price”	the subscription price of HK\$0.45 per Rights Share
“subsidiary”	has the meaning ascribed to it in Section 2 of the Companies Ordinance (Cap. 32 of the Laws of Hong Kong), whether incorporated in Hong Kong, Canada or elsewhere

DEFINITIONS

“Takeovers Code”	the Hong Kong Code of Takeovers and Mergers
“Underwriter”	Smartco
“Underwriting Agreement”	the underwriting agreement dated 10 June 2004 entered into between the Company and the Underwriter in relation to the Rights Issue as supplemented by a supplemental agreement entered into by the same parties dated 7 July 2004
“Whitewash Waiver”	a waiver by the Executive pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code in respect of the obligation of Mr. Lau to make a mandatory general offer for all the shares of the Company not already owned by him and parties acting in concert with him which would otherwise arise as a result of the Underwriter subscribing for the Rights Shares under the term of the Underwriting Agreement
“CAD”	Canadian dollars, the lawful currency of Canada
“HK\$” and “cents”	Hong Kong dollars and cents, the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC
“USD”	United States dollars, the lawful currency used in the United States of America

For the purpose of this circular, unless otherwise specified, the conversion of CAD into HK\$ is based on the exchange rate of CAD1 = HK\$5.956 and the conversion of RMB into HK\$ is based on the exchange rate of RMB1 = HK\$0.9434

EXPECTED TIMETABLE

2004

Last day of dealings in Shares on a cum-rights basis	Monday, 23 August
Commencement of dealings in Shares on an ex-rights basis	Tuesday, 24 August
Latest time for lodging transfers of Shares in order to qualify for the Rights Issue	4:30 p.m. on Wednesday, 25 August
Register of members closes (both dates inclusive)	Thursday, 26 August to Monday, 30 August
Latest time for lodging forms of proxy for the SGM	10:30 a.m. on Saturday, 28 August
SGM	10:30 a.m. on Monday, 30 August
Record Date	Monday, 30 August
Register of members reopens	Tuesday, 31 August
Announcement of results of the SGM	Tuesday, 31 August
Despatch of the Rights Issue Documents	Tuesday, 31 August
First day of dealings in nil-paid Rights Shares	Thursday, 2 September
Latest time for splitting nil-paid Rights Shares	4:00 p.m. on Tuesday, 7 September
Last day of dealings in nil-paid Rights Shares	Friday, 10 September
Latest time for acceptance of, and payment for, Rights Shares and application for excess Rights Shares	4:00 p.m. on Wednesday, 15 September
Settlement Date (<i>Note i</i>)	Monday, 20 September
Latest time for terminating the Underwriting Agreement	6:00 p.m. on Monday, 20 September

EXPECTED TIMETABLE

2004

Announcement of the results of acceptance
of the Rights Issue Tuesday, 21 September

Despatch of refund cheques in respect of wholly
or partially unsuccessful application for
excess Rights Shares Wednesday, 22 September

Despatch of certificates for fully-paid Rights Shares Wednesday, 22 September

Dealings in fully-paid Rights Shares commence Friday, 24 September

Notes:

- (i) The Company and the Underwriter agreed that 3 Business Days will give sufficient time for the Underwriter to subscribe or procure subscription for the Rights Shares not taken up by the Qualifying Shareholders pursuant to the Underwriting Agreement.
- (ii) All reference to time in this circular are Hong Kong time.

Dates or deadlines stated in this circular for events in the timetable are indicative only and may be extended or varied. Any changes to the anticipated timetable for the Rights Issue will be announced as appropriate.

LETTER FROM THE BOARD

DAIWA

DAIWA ASSOCIATE HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock code: 1037)

Directors

Executive Director:

Lau Tak Wan

Wan Chor Fai

Mak Hon Kai, Stanly

Chan Yuen Mei, Pinky

Independent non-executive Director:

Yuen Chi Choi, Simon

Barry John Buttifant

Registered Office

Canon's Court

22 Victoria Street

Hamilton HM12

Bermuda

Head Office and Principal

Place of Business

11th Floor

Block G

East Sun Industrial Centre

16 Shing Yip Street

Kwun Tong

Kowloon

Hong Kong

5 August 2004

To Shareholders

Dear Sir or Madam,

**MAJOR AND
CONNECTED TRANSACTION,
PROPOSED RIGHTS ISSUE ON THE BASIS OF
TWO RIGHT SHARES FOR EVERY THREE EXISTING SHARES HELD,
WHITEWASH WAIVER
AND
PROPOSED AMENDMENTS TO BYE-LAWS**

1. INTRODUCTION

The Directors announced on 24 June 2004 that the Sale and Purchase Agreement was entered into among the Company, Daiwa BVI, Smartco and Mr. Lau on 10 June 2004 whereby Smartco agreed to sell and Daiwa BVI agreed to purchase the entire issued share capital of Elite at a consideration of HK\$47,000,000. The Sale and Purchase

LETTER FROM THE BOARD

Agreement is amended by a supplemental agreement entered into by the same parties on 7 July 2004. The major amendments of the supplemental agreement include the timing of completion of the Acquisition and the definition of “accounts”.

On the same date, the Directors also announced a proposed rights issue to raise approximately HK\$47,643,000 before expenses, by issuing 105,873,067 Rights Shares at a price of HK\$0.45 per Rights Share by way of the Rights Issue on the basis of two Rights Shares for every three Shares held on the Record Date. Pursuant to the Underwriting Agreement dated 10 June 2004, Smartco agreed to act as an underwriter of the Rights Issue. The Underwriting Agreement is amended by a supplemental agreement entered into by the same parties on 7 July 2004. The major amendments of the supplemental agreement include the force majeure expiry time and the reduction of the total underwriting commitment of the Underwriter from 105,873,067 Rights Shares to 79,409,534 Rights Shares as a result of the irrevocable undertakings given by Mr. Lau, Ms. Chan, China Capital, Mr. Yuen and Mr. Wan to the Company and the Underwriter to take up all their entitlements under the Rights Issue representing 26,463,533 Rights Shares.

The purpose of this circular is to provide you with further details relating to, among other things, the Acquisition and the Rights Issue, and to give you the notice of the SGM.

2. SALE AND PURCHASE AGREEMENT

Parties

- (i) The Company;
- (ii) Daiwa BVI, a wholly owned subsidiary of the Company, as the purchaser;
- (iii) Smartco, a company incorporated in the British Virgin Islands and is principally engaged in investment holdings, as the vendor; and
- (iv) Mr. Lau, an executive Director and a substantial Shareholder and the owner of approximately 89.10% of the total issued share capital of Smartco, as the guarantor of the obligations of Smartco.

Assets to be acquired

2,500,000 shares of US\$1.00 each representing the entire issued share capital of Elite.

Consideration

The consideration for the acquisition of the entire issued share capital of Elite is HK\$47,000,000, which will be settled at completion of the Acquisition by way of (i) cash to be raised under the Rights Issue (before Smartco, which also acts as the

LETTER FROM THE BOARD

Underwriter, is called upon to subscribe or procure subscription for the Rights Shares) (the “First Payment”); (ii) cash to be raised from the subscriber(s) procured by the Underwriter, if any, to subscribe for the Rights Shares not taken up by the Qualifying Shareholders (“the Second Payment”). In the event that the sum of First Payment and the Second Payment falls short of the consideration of HK\$47,000,000, the remaining balance will be set off against the amount to be paid by Smartco as a result of Smartco’s obligations to subscribe for the Rights Shares under the Underwriting Agreement.

The determination of the consideration was arrived at after taking into account (i) the operating history of Elite Business of more than ten years and the established market presence in Canada; (ii) the audited combined profit record over the past 2 years; and (iii) the size of the operation with audited combined turnover of approximately CAD54,839,000 (equivalent to approximately HK\$326,621,000) for the year ended 31 March 2004.

The consideration represents a price-earning ratio of approximately 6.48 times of the audited combined profit after taxation of Elite Group of approximately CAD1,217,000 (equivalent to approximately HK\$7,248,000) for the year ended 31 March 2004. The consideration represents approximately 54.40% premium to the audited combined net tangible assets of Elite Group of approximately CAD5,111,000 (equivalent to approximately HK\$30,441,000) as at 31 March 2004.

The estimated costs of the Acquisition, which mainly include professional and printing costs, of approximately HK\$1,400,000 will be financed by internal resources of the Company.

As at the date of the Sale and Purchase Agreement and the Latest Practicable Date, Elite Group had no shareholders’ loan due to its shareholders. The Company has indicated that it will not assume any shareholders’ loan of Elite Group incurred after the signing of the Sale and Purchase Agreement and up to the completion of the Acquisition, if any.

The Directors are of the view that the terms of the Sale and Purchase Agreement including the consideration are in the interests of the Company and the Shareholders as a whole.

Conditions of the Acquisition and date of completion

Completion of the Acquisition is conditional upon:

- (i) the majority of the Independent Shareholders at the SGM approving, amongst other things, the Sale and Purchase Agreement, the Rights Issue and the Whitewash Waiver pursuant to the requirements under the Listing Rules and/or the Takeovers Code;

LETTER FROM THE BOARD

- (ii) Smartco agreeing to act as the Underwriter, all the conditions set out in the Underwriting Agreement (except the condition that the Sale and Purchase Agreement shall have become unconditional in accordance with its terms and subject to its conditions) becoming unconditional in accordance with its terms and subject to its conditions;
- (iii) the warranties under the Sale and Purchase Agreement remaining true and accurate and not misleading in any material respect at completion of the Acquisition as if they are repeated at completion of the Acquisition and at all times between the date of the Sale and Purchase Agreement and the completion of the Acquisition;
- (iv) Smartco having performed in all material respects all of the covenants and agreements required to be performed by it under the Sale and Purchase Agreement; and
- (v) the audited combined net tangible asset value of Elite as at 31 March 2004 and the audited combined profit after tax of Elite for the financial year ended 31 March 2004 shall not be less than CAD5.00 million (equivalent to approximately HK\$29.78 million) and CAD1.00 million (equivalent to approximately HK\$5.96 million), respectively.

Daiwa BVI may waive all or any of the above conditions (except conditions (i) and (ii)) at any time by notice in writing to Smartco.

Smartco has agreed to act as the Underwriter pursuant to the Underwriting Agreement and hence this part of the condition (ii) has been fulfilled. Condition (v) has been satisfied as at the date of the Announcement. The covenants and agreements which are required to be performed by Smartco in relation to the Acquisition under condition (iv) represent commercial obligations of Smartco in relation to the Acquisition including, amongst other things, ensuring Elite Business is operating in the same manner as it was operated prior to the signing of the Sale and Purchase Agreement until completion of the Acquisition and allowing Daiwa BVI to access to the premises and all books, title deeds, records and accounts of Elite Group for the purpose of confirming the accuracy of the warranties given under the Sale and Purchase Agreement.

Completion of the Acquisition will take place after 6:00 p.m. on the Settlement Date. In the event that any of the above conditions has not been fulfilled or waived on or before 30 October 2004 (or such later date as Daiwa BVI and Smartco may agree in writing) or the Underwriting Agreement is terminated in accordance with its terms, the Sale and Purchase Agreement will be terminated.

LETTER FROM THE BOARD

Implications of the Listing Rules

As the consideration of the Acquisition of HK\$47,000,000 represented approximately 54.81% of the total market capitalisation of the Company calculated based on the average closing price of the Shares as quoted on the Stock Exchange for the last five trading days immediately preceding the date of the Sale and Purchase Agreement in accordance with Rule 14.07(4) of the Listing Rules, the Acquisition constitutes a major transaction of the Company under Rule 14.06(3) of the Listing Rules.

In addition, as Mr. Lau is a Director and is deemed to be interested in approximately 19.67% of the total issued share capital of the Company and Mr. Lau is also legally and beneficially interested in approximately 89.10% of the total issued share capital of Smartco, the Acquisition constitutes a connected transaction of the Company under Rule 14A.13 of the Listing Rules. Pursuant to Rule 14A.18 of the Listing Rules, the Acquisition will be subject to the approval by the Independent Shareholders by way of a poll at the SGM. Mr. Yuen, a Shareholder beneficially interested in 4.96% of the total issued share capital of the Company, is interested in 2.24% of the total issued share capital of Smartco. Mr. Lau, Ms. Chan, China Capital, Mr. Yuen and Mr. Wan and their respective associates and parties acting in concert with any of them will abstain from voting on the resolution approving the Acquisition at the SGM. An Independent Board Committee has been formed to advise the Independent Shareholders in relation to Acquisition and Shenyin Wanguo has been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

Information on Elite

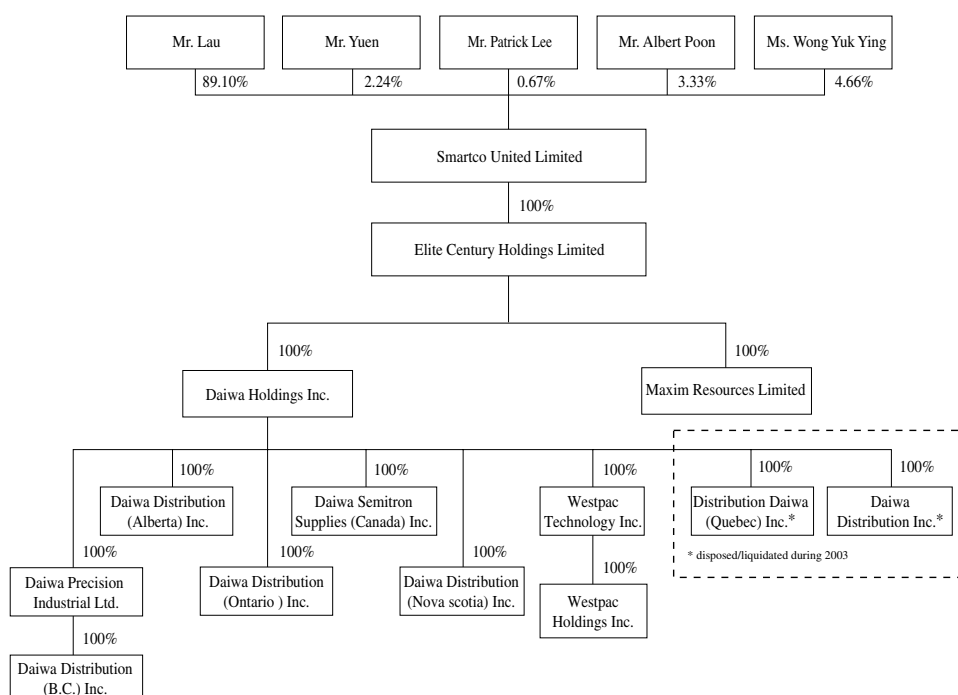
Elite is a company incorporated in the British Virgin Islands on 23 February 2004 and is a wholly owned subsidiary of Smartco. Smartco is an investment holding company incorporated in the British Virgin Islands on 10 February 2004 and is 89.10% beneficially owned by Mr. Lau, 2.24% by Mr. Yuen, 0.67% by Mr. Patrick Lee, 3.33% by Mr. Albert Poon and the remaining 4.66% by Ms. Wong Yuk Ying. Under the Listing Rules, Mr. Albert Poon, Ms. Wong Yuk Ying and Mr. Patrick Lee are considered as independent third parties not connected with the Directors, chief executive and substantial shareholders of the Company or its subsidiaries or any of their respective associates and they are not connected persons of the Company. Mr. Albert Poon, Ms. Wong Yuk Ying and Mr. Patrick Lee are parties acting in concert with Mr. Lau under the Takeovers Code. As at the Latest Practicable Date, none of Mr. Albert Poon, Ms. Wong Yuk Ying and Mr. Patrick Lee has any interest in the Shares.

Elite is an investment holding company and its subsidiaries are principally engaged in the sale and distribution of computer goods and electronic products in Canada.

LETTER FROM THE BOARD

Prior to a corporate reorganisation which took place before the signing of the Sale and Purchase Agreement, the Elite Business was primarily conducted by Daiwa Holdings Inc., a company incorporated in Canada and 89.10% owned by Mr. Lau, 2.24% by Mr. Yuen, 0.67% by Patrick Lee, 3.33% by Mr. Albert Poon and the remaining 4.66% by Ms. Wong Yuk Ying. Following completion of the reorganisation, Daiwa Holdings Inc. is a wholly owned subsidiary of Elite.

The following chart sets out the group structure of Elite before completion of the Acquisition:



The Elite Business was first started by Mr. Lau in Toronto, Canada, in 1989 and has now expanded to various provinces in Canada, including Ontario, British Columbia, Nova Scotia and Alberta. Its major business is distribution of personal computers and peripherals such as mother-boards, display cards, hard disk drives, CD/DVD ROMs, casings, printers, softwares as well as integrated personal computer systems. Major customers of Elite Group include retailers, wholesalers and institutional customers. The Elite Group has no other significant investments.

The audited combined turnover of Elite Group for the financial year ended 31 March 2004 decreased by approximately 7.60% as compared with that in the financial year ended 31 March 2003 to approximately CAD54.84 million (equivalent to approximately HK\$326.63 million), mainly due to unfavorable sales in motherboard and add-on cards. Despite the decrease in turnover, the gross profit for the financial year ended 31 March 2004 increased by approximately 3.80% as compared with that in the financial year ended 31 March 2003. This was mainly attributable to the successful procurement of

LETTER FROM THE BOARD

products at lower costs. The audited combined net profit after taxation of Elite Group for the financial year ended 31 March 2004 increased substantially by 70.45% as compared with that in the financial year ended 31 March 2003 to approximately CAD1.22 million (equivalent approximately HK\$7.25 million). Such growth was mainly contributed by the implementation of better cost control system and the net gain arising from the disposal of Distribution Daiwa (Quebec) Inc. and liquidation of Daiwa Distribution Inc. in April 2003 and November 2003 respectively. Both Distribution Daiwa (Quebec) Inc. and Daiwa Distribution Inc. were wholly owned subsidiaries of Daiwa Holdings Inc. prior to the disposal/liquidation. Distribution Daiwa (Quebec) Inc. was incorporated in Canada and was engaged in the distribution of computer products in Quebec, Canada whereas Daiwa Distribution Inc. was incorporated in the United States of America and was engaged in the distribution of computer products in the United States of America. Since both subsidiaries incurred losses in the past years, the management of Daiwa Holdings Inc. considered it would be more appropriate to dispose/liquidate these subsidiaries and to allocate the resources to develop the business of other subsidiaries.

With over ten years of operating history, Elite Business has established close business relationships with its suppliers. It is the distributor of various renowned personal computer and peripheral manufacturers such as Panasonic, BenQ, MSI (Microstar), ECS, KDS, SMC, Gnet (GVC) Communication, HIS and Thermaltake and is an associate distributor of Microsoft and business partner of Intel, AMD, Epson and HP. About 70% of its products are sourced from North America and the remaining 30% are sourced from Asia. Products importing from Asia include display cards, add-on cards, mother-boards and computer casings.

The Elite Group has about 76 employees, comprising of management, sales, accounting, administrative and technical supportive staff. The employees are generally remunerated by salaries and year-end discretionary bonus. Sales staff is entitled to sales commission. The Elite Business was mainly financed by shareholders' fund, trade payable and internal cash resources. A subsidiary of Elite had bank loan facilities of CAD500,000 as at 31 March 2004, which bear floating interest rate. The facility was secured by the assets of that subsidiary, a property held by a subsidiary of Elite and guarantees from other subsidiaries. No bank facility or other borrowing facility was drawn in the past three years because of abundant cash reserve and sufficient credit terms provided by suppliers. As such, The Elite Group has no gearing ratio (being the ratio of total bank borrowing to shareholders' equity). Elite Group's transactions were mainly denominated in Canadian and US dollars. Elite Group utilises forward currency contracts for committed bulk shipments to control exchange risk and actively takes payment option of cash delivery discount offered by its suppliers when exchange rate is favourable.

LETTER FROM THE BOARD

The management of Elite is of the view that personal computer market will be steady while the demand for notebook computers, liquid crystal display monitors and wired or wireless networking devices will growth steadily. With promising support from its major suppliers and distributors, the management believes that Elite Group can share the growth in this sector. During the past years, the Elite Group has paid utmost effort in promoting the high margin integrated personal computer systems to institutional customers and will continue to explore this market. Elite can resume its sales domain in add-on cards such as video graphics array display cards, network cards and sound cards as one of the major suppliers in Canada. The management of the Elite Group considers that the Group is now equipped with production facilities that can produce wide variety of personal computer products and the synergy of merging the capabilities of Elite Group and the Group can bring the development of these two group companies towards the integration of marketing and manufacturing. Currently, the management of Elite has no plan to inject any assets or businesses into Elite Group or to redeploy the fixed assets and make any significant changes to the Elite Business.

The following table sets out a summary of the audited combined financial information of Elite Group for each of the two years ended 31 March 2004.

	2003		2004	
		<i>Equivalent</i>		<i>Equivalent</i>
	<i>CAD'000</i>	<i>HK\$'000</i>	<i>CAD'000</i>	<i>HK\$'000</i>
Audited combined net				
profits before taxation				
and extraordinary items	1,068	6,361	1,458	8,684
Audited combined net				
profits after taxation				
and extraordinary items	714	4,253	1,217	7,248
Audited combined net				
tangible assets				
(as at 31 March)	4,111	24,485	5,111	30,441

An accountants' report containing audited combined financial information of Elite Group for the three years ended 31 March 2004 is set out in Appendix I to this circular. As mentioned in the accountants' report of Elite, the reporting accountants of the Company were unable to verify the inventory balance of Elite Group as at 1 April 2001 due to the accounting records of Elite's subsidiaries did not permit adequate retroactive verification of the inventory quantity as at that date and there were no other satisfactory audit procedures that the reporting accountants of the Company could adopt to obtain sufficient evidence regarding the carrying value of inventories as at that date. However, clean opinions were issued by the reporting accountants of the Company on the combined balance sheet (including inventory balance) of Elite Group as at 31 March 2003 and 2004 and on the combined results and cash flows of Elite Group for the years ended 31

LETTER FROM THE BOARD

March 2002, 2003 and 2004. Accordingly, the Directors considered that qualification of the inventory balance in the accountants' report as at 1 April 2001 did not have any material impact on the combined financial position (including inventory balance) of Elite Group as at 31 March 2002, 2003 and 2004 nor had any material impact on the combined results and cash flows of Elite Group for the years ended 31 March 2002, 2003 and 2004.

Certain events of Elite Group have taken place subsequent to the financial year ended 31 March 2004 but prior to and/or in connection with the reorganisation of Elite. Details of such events are set out on Note 20 of the accountants' report of Elite in Appendix I to this circular.

Reasons for the Acquisition

Daiwa BVI is an investment holding company. The Group is principally engaged in the design, development, manufacture and distribution of electronic components and the provision of electronic manufacturing services in Hong Kong and the PRC.

The Directors consider that the Acquisition will enable the Group to diversify into the business of the sale and distribution of computer goods and electronic products in Canada and also to enhance the recurrent income base of the Group.

3. PROPOSED RIGHTS ISSUE

Issue statistics

Basis of the Rights Issue	: 2 Rights Shares for every 3 Shares held on the Record Date
Number of existing Shares in issue	: 158,809,600 Shares as at the Latest Practicable Date
Number of Rights Shares	: 105,873,067 Rights Shares
Subscription Price	: HK\$0.45 per Rights Share, payable in full upon acceptance

As at the Latest Practicable Date, the Company has no outstanding options, warrants, derivatives or other securities that are convertible into Shares. Under the Rights Issue, 105,873,067 Rights Shares would be provisionally allotted which represent approximately 66.67% of the existing issued share capital of the Company and 40.00% of the issued share capital of the Company as enlarged by the Rights Issue.

LETTER FROM THE BOARD

Qualifying Shareholders

The Rights Issue is only available to the Qualifying Shareholders. The Company will send (i) the Rights Issue Documents to the Qualifying Shareholders and (ii) the Rights Issue Prospectus to the Non-Qualifying Shareholders for their information only subject to compliance with the relevant local laws, regulations and requirements.

To qualify for the Rights Issue, Shareholders must at the close of the business on the Record Date:

- (i) be registered on the register of members of the Company; and
- (ii) either have an address in Hong Kong on the register of members of the Company or have an address which is not in a place where, in the Directors' opinion, Rights Shares may not be offered without compliance with registration and/or other legal or regulatory requirements.

In order to be registered as shareholders of the Company on the Record Date, Shareholders must lodge any transfer of Shares (together with the relevant share certificates) for registration by 4:30 p.m. on Wednesday, 25 August 2004 with the Registrar at G/F, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong.

Rights of the Non-Qualifying Shareholders

The Rights Issue Prospectus will not be registered or filed under any securities or equivalent legislation in any jurisdictions other than Hong Kong and Bermuda. The Directors are of the view that the offer of the Rights Shares to the Non-Qualifying Shareholders would or might, in the absence of compliance with registration or other special formalities in such other jurisdictions, be unlawful or impracticable. Accordingly, the Rights Issue will not be available to the Non-Qualifying Shareholders. The Company will send the Rights Issue Prospectus to the Non-Qualifying Shareholders for their information only subject to compliance with the relevant local laws, regulations and requirements. The Company will not send the Allotment Letters and the forms of application for excess Rights Shares to the Non-Qualifying Shareholders. The Non-Qualifying Shareholders will be entitled to vote at the SGM to consider and if, thought fit, pass the resolutions approving, amongst other things, the Rights Issue. Based on the register of members of the Company, as at the Latest Practicable Date, the Company has no Non-Qualifying Shareholders. The Directors will make the necessary legal enquiry regarding the legal restrictions under the laws of the relevant place and the requirements of the relevant regulatory body or stock exchange in relation to the offer of the Rights Shares to the Non-Qualifying Shareholders as and when the Directors are aware of any Non-Qualifying Shareholders of the Company.

LETTER FROM THE BOARD

Arrangements will be made for the Rights Shares which would otherwise have been provisionally allotted to the Non-Qualifying Shareholders to be sold in the market in their nil-paid form as soon as practicable after dealings in the nil-paid Rights Shares commence on the Stock Exchange and in any event before 3:30 p.m. on the last day of dealings in the nil-paid Rights Shares on the Stock Exchange, if a premium (net of expenses) can be obtained. The proceeds of each sale, less expenses, of HK\$100 or more will be paid to the relevant Non-Qualifying Shareholders in Hong Kong dollars pro rata to their respective entitlement as soon as practicable. The Company will retain individual amounts of less than HK\$100 for its own benefit. Any unsold Rights Shares will be available for excess application.

Closure of register of members

The register of members of the Company will be closed from Thursday, 26 August 2004 to Monday, 30 August 2004 (both days inclusive) to determine the entitlements to the Rights Issue. No transfers of Shares will be registered during this period.

4. TERMS OF THE RIGHTS ISSUE

Subscription Price for the Rights Shares

HK\$0.45 per Rights Share, payable in full by the Qualifying Shareholders upon acceptance of the provisional allotment of Rights Shares under the Rights Issue or application for excess Rights Shares or when a transferee of nil-paid Rights Shares applies for the Rights Shares.

The Subscription Price represents:

- (i) a discount of approximately 18.18% to the closing price of HK\$0.55 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (ii) a discount of approximately 11.76% to the theoretical ex-rights price of approximately HK\$0.51 per Share based on the closing price of HK\$0.55 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (iii) a discount of approximately 16.67% to the average price of approximately HK\$0.54 per Share as quoted on the Stock Exchange for the 10 trading days up to and including the Last Trading Day;
- (iv) no discount or premium to the closing price of HK\$0.45 per Share as quoted on the Stock Exchange on the Latest Practicable Date;

LETTER FROM THE BOARD

- (v) no discount or premium to the average price of approximately HK\$0.45 per Share as quoted on the Stock Exchange for the 10 trading days up to and including the Latest Practicable Date; and
- (vi) a discount of approximately 74.43% to the audited net tangible asset value per Share of the Company of approximately HK\$1.76 at as 31 March 2004.

The Subscription Price was arrived at with reference to the market price of the Shares under the prevailing market conditions. The Directors consider the terms of the Rights Issue are in the interests of the Company and the Shareholders as a whole.

5. CONDITIONS OF THE RIGHTS ISSUE

Completion of the Rights Issue is conditional upon:

- (i) the despatch of this circular to all the Shareholders on the register of members of the Company;
- (ii) the passing at the SGM (or any adjournment thereof) of the necessary ordinary resolutions by the Independent Shareholders to approve the Acquisition, the Rights Issue and the Whitewash Waiver in accordance with the Listing Rules and/or Takeovers Code (as the case maybe);
- (iii) the Bermuda Monetary Authority having given all necessary consents, approvals and authorisations in connection with the Rights Shares and the Rights Issue including, without limitation, the allotment and issue and free transferability of the Rights Shares;
- (iv) the signing of 2 copies of each of the Rights Issue Documents by or on behalf of each of the Directors in accordance with section 342C of the Companies Ordinance and the filing and registration of one such signed copy of each of the Rights Issue Documents (together with all other documents required by section 342C of the Companies Ordinance to be attached thereto) with the Registrar of Companies in Hong Kong;
- (v) the signing of 1 copy of the Rights Issue Prospectus by or on behalf of each of the Directors and the filing of such signed copy of the Rights Issue Prospectus (together with any other documents required by the Companies Act to be annexed thereto) with the Registrar of Companies in Bermuda;
- (vi) the posting of the Rights Issue Documents to the Qualifying Shareholders and the posting of the Rights Issue Prospectus to Non-Qualifying Shareholders;

LETTER FROM THE BOARD

- (vii) the Listing Committee of the Stock Exchange granting or agreeing to grant (subject to allotment), and not having revoked the grant of, listing of and permission to deal in the Rights Shares in both their nil-paid and fully-paid forms, either unconditionally or subject to such conditions as are accepted by the Underwriter;
- (viii) the Executive granting to Mr. Lau the Whitewash Waiver and the satisfaction of any conditions attached to the Whitewash Waiver by the Executive; and
- (ix) all the conditions set out in the Sale and Purchase Agreement having been fulfilled in accordance with its terms and subject to its conditions.

None of the above conditions can be waived by the Company or the Underwriter. Hence, if the Whitewash Waiver is not granted by the Executive, the Rights Issue will not proceed and Mr. Lau will not make a mandatory general offer under Rule 26 of the Takeovers Code for all the Shares not held by him and his associates and parties acting in concert with any of them.

In the event that the above conditions are not fulfilled, none of which can be waived by the Company or the Underwriter, by 30 October 2004, all obligations and liabilities of the parties under the Underwriting Agreement shall cease and no party shall have any claim against the others (save for any antecedent breaches thereof).

Status of the Rights Shares

The Rights Shares, when allotted, fully paid and issued, will rank *pari passu* in all respects with, and be identical to, the Shares in issue on the date of allotment and issue of the Rights Shares. Holders of the Rights Shares will be entitled to receive all future dividends and distributions which are declared, made or paid on or after the date of allotment and issue of the Rights Shares.

Certificates of the fully-paid Rights Shares and refund cheques

Subject to fulfillment of the conditions of the Rights Issue, share certificates for the fully-paid Rights Shares and refund cheques in respect of wholly or partially unsuccessful applications for excess Rights Shares are expected to be posted on Wednesday, 22 September 2004 to those entitled thereto at their own risks.

Fractions of Rights Shares

The Company will not provisionally allot fractions of Rights Shares (nil-paid and fully-paid). The Company will sell in the market any such Rights Shares created from the aggregation of fractions of Rights Shares (if a premium, net of expenses, can be obtained) for its own benefit.

LETTER FROM THE BOARD

Application for excess Rights Shares

Qualifying Shareholders are entitled to apply for any Rights Shares provisionally allotted but not accepted by Qualifying Shareholders and any unsold entitlements of Non-Qualifying Shareholders and any unsold Rights Shares created by adding together fractions of Rights Shares. Application may be made by completing the form of application for excess Rights Shares and lodging the same with a separate remittance for such excess Rights Shares. The Directors will allocate the excess Rights Shares at their discretion, on a fair and equitable basis by reference to the number of excess Rights Shares applied for by each Qualifying Shareholder, but will give preference to topping-up odd lots to whole board lots.

The latest time for acceptance of, and payment for, Rights Shares and application for excess Rights Shares is expected to be at 4:00 p.m. on Wednesday, 15 September 2004, or such later date as may be agreed by the Company and the Underwriter.

Listing and dealings

The Company will apply to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Rights Shares, in both their nil-paid and fully-paid forms. Dealings in the nil-paid and fully-paid Rights Shares will be subject to the payment of stamp duty in Hong Kong.

Subject to the granting of listing of, and permission to deal in, the Rights Shares in both their nil-paid and fully-paid forms of the Stock Exchange as well as compliance with the stock admission requirements of HKSCC, the Rights Shares in both their nil-paid and fully-paid forms will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the commencement dates of dealings in the Rights Shares in their nil-paid and fully-paid forms on the Stock Exchange or such other dates as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

All necessary arrangements will be made to enable the Rights Shares in both their nil-paid and fully-paid forms to be admitted into CCASS.

6. UNDERWRITING ARRANGEMENTS

Underwriting Agreement

(Amended by a supplemental agreement dated 7 July 2004 the major amendments of which include the force majeure expiry time and the reduction of the total underwriting commitment of the Underwriter from 105,873,067 Rights Shares to 79,409,534 Rights

LETTER FROM THE BOARD

Shares as a result of the irrevocable undertaking given by Mr. Lau, Ms. Chan, China Capital, Mr. Yuen and Mr. Wan to the Company and the Underwriter to take up all their entitlements under the Rights Issue, representing 26,463,533 Rights Shares.)

Date : 10 June 2004

Underwriter : Smartco

Number of Rights Shares underwritten : 79,409,534

Mr. Lau, Ms. Chan, China Capital, Mr. Yuen and Mr. Wan together with their associates and parties acting in concert with any of them have irrevocably undertaken to the Company and the Underwriter to take up all their entitlements under the Rights Issue, representing 26,463,533 Rights Shares.

Pursuant to the Underwriting Agreement, the Underwriter has agreed to subscribe or procure subscription of the Rights Shares which have not been taken up and fully-paid for up to 4:00 p.m. on the Latest Acceptance Date. Accordingly, the Rights Issue is fully underwritten, other than those Rights Shares undertaken to be accepted by Mr. Lau, Ms. Chan, China Capital, Mr. Yuen, and Mr. Wan together with their associates and parties acting in concert with any of them. No underwriting commission will be payable to the Underwriter as a result of the Underwriter's obligation to subscribe for the Rights Shares under the Underwriting Agreement.

Since Smartco is 89.10% owned by Mr. Lau, the Underwriting Agreement constitutes a connected transaction of the Company under Rule 14A.31(3)(c) of the Listing Rules. As the Company has complied with Rule 7.21(2) of the Listing Rules, the connected transaction is exempted from the reporting, announcement and independent shareholders' approval requirements contained in Chapter 14A of the Listing Rules.

Termination of the Underwriting Agreement

The Underwriter may terminate the Underwriting Agreement by notice in writing to the Company given at any time up to 6:00 p.m. on the Settlement Date, if at or prior to 6:00 p.m. on the Settlement Date:

- (a) any of the following develops, occurs or comes into force:
 - (i) the introduction of any new law or regulation or any change in existing laws or regulations (or the judicial interpretation thereof) or any other similar event which in the absolute opinion of the Underwriter has or is likely to have a material adverse effect on the business or financial conditions or prospects of any member of the Group; or

LETTER FROM THE BOARD

- (ii) any change (whether or not permanent) in local, national or international economic, financial, political or military conditions or any event beyond the control of the parties hereto (including, without limitation, acts of government, strikes, explosion, flooding, civil commotion, acts of God or accident) which in the absolute opinion of the Underwriter is or may be materially adverse in the context of the Rights Issue or makes it inadvisable or inexpedient to proceed therewith; or
 - (iii) any change (whether or not permanent) in local, national or international stock market conditions (including any moratorium, suspension of or material restriction on trading in securities generally) which in the absolute opinion of the Underwriter would materially and adversely affect the Rights Issue or makes it inadvisable or inexpedient to proceed therewith; or
 - (iv) any change, or any development involving a prospective change, in taxation in Hong Kong, Bermuda or any other jurisdiction to which any member of the Group is subject or the implementation of any exchange controls which in the absolute opinion of the Underwriter would or might materially and adversely affect any member of the Group or its present or prospective shareholders in their capacity as such; or
 - (v) any change to the system pursuant to which the value of the currency of Hong Kong is linked to the currency of the United States of America; or
- (b) there comes to the notice of the Underwriter any matter or event showing any of the representations or warranties given by the Company under the Underwriting Agreement to be untrue or inaccurate in any respect which in the absolute opinion of the Underwriter is materially adverse in the context of the Rights Issue and/or the Acquisition; or
 - (c) the Company is in breach of any of its obligations under the Underwriting Agreement which in the absolute opinion of the Underwriter is material in the context of the Rights Issue and/or the Acquisition.

In the event that the Underwriting Agreement shall have been terminated, the Company and the Underwriter shall return all moneys received from subscribers for Rights Shares and the Rights Issue will not proceed.

LETTER FROM THE BOARD

7. SHAREHOLDING STRUCTURE OF THE COMPANY

The shareholding structure of the Company immediately before and after completion of the Rights Issue is as follows:

	Immediately before completion of the Rights Issue		Immediately after completion of the Rights Issue (assuming all Qualifying Shareholders will take up their respective entitlements under the Rights Issue)		Immediately after completion of the Rights Issue (assuming no Qualifying Shareholder, except for Mr. Lau, Ms. Chan, China Capital, Mr. Yuen and Mr. Wan, will take up his/her/its entitlements under the Rights Issue)	
	Shares	%	Shares	%	Shares	%
Mr. Lau and Ms. Chan	3,612,000 (Note 1)	2.27%	6,020,000	2.27%	6,020,000	2.27%
China Capital	28,121,300 (Note 2)	17.71%	46,868,833	17.71%	46,868,833	17.71%
Mr. Yuen	7,872,000 (Note 3)	4.96%	13,120,000	4.96%	13,120,000	4.96%
Smartco	—	—	—	—	79,409,534	30.00%
Subtotal — Mr. Lau and parties acting in concert with him	39,605,300	24.94%	66,008,833	24.94%	145,418,367	54.94%
Mr. Wan (Note 4)	90,000	0.06%	150,000	0.06%	150,000	0.06%
Mr. Barry John Buttifant (Note 5)	100,000	0.06%	166,667	0.06%	100,000	0.04%
Public Shareholders	119,014,300	74.94%	198,357,167	74.94%	119,014,300	44.96%
Total	<u>158,809,600</u>	<u>100.00%</u>	<u>264,682,667</u>	<u>100.00%</u>	<u>264,682,667</u>	<u>100.00%</u>

LETTER FROM THE BOARD

Notes:

1. Mr. Lau individually owns 1,600,000 Shares whereas Ms. Chan individually owns 500,000 Shares. The remaining 1,512,000 Shares are jointly held by Mr. Lau and Ms. Chan.
2. The entire issued share capital of China Capital is owned by a discretionary trustee for the benefit of Mr. Lau, Ms. Chan and other family members.
3. Mr. Yuen is personally interested in 2,000 Shares whereas the remaining 7,870,000 Shares are owned by Cyber Concept Limited, a company wholly owned by Mr. Yuen. Mr. Yuen is also a shareholder of Smartco interested in approximately 2.24% of the issued share capital of Smartco.
4. Mr. Wan is an executive Director.
5. Mr. Barry John Buttifant is an independent non-executive Director. He is not a party acting in concert with Mr. Lau.

In the event that Smartco is called upon to take up its obligations under the Underwriting Agreement in full, the aggregate shareholding interests of Mr. Lau and his associates and parties acting in concert with him will be increased from approximately 24.94% of the issued share capital of the Company as at the Latest Practicable Date to approximately 54.94% of the enlarged issued share capital of the Company immediately after completion of the Rights Issue. Accordingly, the underwriting by Smartco of the Rights Shares and the Rights Issue may increase the aggregate interest of Mr. Lau and his associates and parties acting in concert with him in the Company to over 30% of the Company's enlarged issued share capital and hence trigger a mandatory general offer to be made by Mr. Lau for all the Shares in issue other than those already owned or agreed to be acquired by Mr. Lau and/or parties acting in concert with him under Rule 26 of the Takeovers Code. An application has been made by Mr. Lau to the Executive for the Whitewash Waiver. The Executive has indicated that the Whitewash Waiver will be granted, subject to the approval of the Independent Shareholders on a vote taken by way of a poll at the SGM.

If the Whitewash Waiver is not granted by the Executive, the Rights Issue will not proceed and Mr. Lau will not make a mandatory general offer under Rule 26 of the Takeovers Code for all the Shares not held by him and his associates and parties acting in concert with any of them.

Pursuant to Rule 7.19(6)(a) of the Listing Rules, Mr. Wan, being an executive Director, shall abstain from voting in favour of resolution approving the Rights Issue. Mr. Wan has indicated that he will not vote on resolutions approving the Rights Issue and the Whitewash Waiver. Mr. Lau, Ms. Chan, China Capital, Mr. Yuen, and Mr. Wan and any of their respective associates and parties acting in concert with any of them will abstain from voting on the resolutions approving the Rights Issue and Whitewash Waiver at the SGM.

LETTER FROM THE BOARD

Save for Mr. Lau, Ms. Chan, Mr. Wan and Mr. Barry John Buttifant, none of the Directors and their associates has any interest in Shares as at the Latest Practicable Date.

If the aggregate shareholding interests of Mr. Lau and parties acting in concert with him after the completion of the Rights Issue are in the range of 30% to 50% of the enlarged issued share capital of the Company, Mr. Lau and parties acting in concert with him will be subject to the 2% creeper as set out in the Takeovers Code.

If the aggregate shareholding interests of Mr. Lau and parties acting in concert with him after the completion of the Rights Issue exceed 50% of the enlarged issued share capital of the Company, Mr. Lau and parties acting in concert with him can acquire further Shares without triggering a mandatory general offer.

The Group had not engaged in any capital raising activities during the twelve months period immediately preceding the Latest Practicable Date.

8. WARNING OF THE RISKS OF DEALINGS IN SHARES AND NIL-PAID RIGHTS SHARES

Shareholders and potential investors should note that the Acquisition, which is subject to a number of conditions set out under the section headed “Conditions of the Acquisition” above. In addition, the Acquisition will not proceed if the Underwriting Agreement is terminated in accordance with its terms. Accordingly, the Acquisition may or may not proceed.

In addition, the Rights Issue is subject to the conditions set out under the section headed “Conditions of the Rights Issue” above. In particular, the Rights Issue is conditional on, amongst other things, the Underwriting Agreement not being terminated in accordance with its terms, the details of which are set out in the section headed “Termination of the Underwriting Agreement” above. Accordingly, the Rights Issue may or may not proceed.

The last day of dealings in the Shares on a cum-rights basis is Monday, 23 August 2004. Existing Shares will be dealt with on an ex-rights basis from Tuesday, 24 August 2004. The Right Shares will be dealt with in their nil-paid form from Thursday, 2 September 2004 to Friday, 10 September 2004, both days inclusive. Shareholders should note that dealings in such Shares will take place while the conditions to which the Underwriting Agreement is subject remain unfulfilled. Any dealings in such Shares up to the date on which all conditions to which the Rights Issue is subject are fulfilled are accordingly at the investors’ own risk. Shareholders and potential investors should therefore exercise caution when dealing in the Shares or Rights Shares in their nil-paid form, and if they are in any doubt about their position, they are recommended to consult their professional adviser.

LETTER FROM THE BOARD

9. REASON FOR THE RIGHTS ISSUE AND USE OF PROCEEDS

The net proceeds from the Rights Issue are estimated to be approximately HK\$47,043,000. The Directors intend to use HK\$47,000,000 of the net proceeds of the Rights Issue for the Acquisition and the balance for general working capital of the Company.

The Directors consider that the Rights Issue provides a good opportunity for the Company to strengthen its financial position so as to facilitate the Company's plans to further develop its existing business by acquiring Elite. The Directors also consider that the Rights Issue will enlarge the capital base of the Company and the Rights Issue provides an opportunity to the Shareholders to participate in the growth of the Company.

10. FUTURE INTENTION OF SMARTCO

In the event that Smartco subscribes for such part of the Rights Shares in full pursuant to its obligations under the Underwriting Agreement, Smartco will become the single largest Shareholder upon completion of the Rights Issue. It is the intention of Smartco to continue with the existing business of the Group. Smartco has no plan to inject any assets or businesses into the Group or to redeploy the fixed assets and make any significant changes to the existing businesses of the Group. Smartco intends to continue the employment of existing employees of the Group and has no intention to make any material changes to the existing directors, senior management or the employees of the Group.

11. BUSINESS REVIEW AND FUTURE PROSPECT OF THE GROUP

The Group is engaged in two major businesses, namely (i) manufacturing and distribution of electronic components; and (ii) electronic manufacturing services, original equipment manufacturing and original design manufacturing. Despite the continuing weakness in the global economy and the pressure on product price deduction, the Group stood firm as one of the market leaders in the industry by offering competitive price with high quality. During the year ended 31 March 2004, the Group was able to achieve 22.94% increase in consolidated net profit as compared with that in the financial year ended 31 March 2003, which was mainly attributable to i) an increase in turnover generated from the provision of electronic manufacturing services as a result of the implementation of new assembling technologies and reliable quality and management systems; and ii) an increase in distribution of electronic components through new distributorship with principal suppliers.

LETTER FROM THE BOARD

Looking ahead, the Group will continue to look for new distributorships with suppliers and to further explore new geographical markets and clients as well as produce high value added products. The Directors consider that the acquisition of Elite will enable the Group to enter into the market of computer and accessories distribution in Canada. Besides the increase of regular turnover, both the Group's production and customer base will be increased. In addition, to cope with increasing demand for its products, the Company intends to expand its production capacity by constructing additional production facilities in the PRC. An announcement was made by the Company on 25 June 2004 in relation to an acquisition of the land use right on a piece of industrial land located in the Heyuan Hi-Tech Development Zone in Heyuan City, Guangdong Province of the PRC at RMB 12,000,000 (equivalent to approximately HK\$11,320,000). The land will be used for the construction of production plants of the Group and the plants will be used for the manufacture of consumer electronic products and as a plastic injection workshop. Details of the above acquisition are set out in the circular of the Company dated 15 July 2004.

12. AMENDMENTS TO THE BYE-LAWS

With the SFO coming into effect on 1 April 2003, the Securities and Futures (Clearing Houses) Ordinance (Chapter 420 of the Laws of Hong Kong) (the "Repealed Ordinance") was repealed. As the Bye-laws have made reference to the Repealed Ordinance, the Directors propose to amend the Bye-laws so as to bring them in line with the changes brought upon by the enactment of the SFO.

On 30 January 2004, the Stock Exchange announced certain amendments to the Listing Rules relating to corporate governance issues, initial listing criteria and continuing listing obligations, most of which came into effect on 31 March 2004 (subject to certain transitional arrangements). These amendments include, amongst other things, disclosure of information on proposed directors before election at general meeting and notices to be given in relation thereto, voting of members at general meeting and of directors at board meeting on any matter in which their respective associates have a material interest.

In order to bring the Bye-laws in line with changes brought by the amendments to the Listing Rules, the Directors propose to amend the Bye-laws to satisfy the requirements in the following aspects:

- (i) "associate" shall be added to the definition to mean the meaning ascribed to it in the Listing Rules;
- (ii) "clearing house" shall be amended to mean a recognised clearing house within the meaning of Part 1 of Schedule 1 to the SFO;

LETTER FROM THE BOARD

- (iii) “Hong Kong” shall be added to the definition to mean “the Hong Kong Special Administrative Region of the People’s Republic of China”;
- (iv) if a poll is required under the Listing Rules or is duly demanded it shall be taken in such manner and at such time and place, not being more than 30 days from the date of the meeting or adjourned meeting at which the poll was so required or demanded, as the chairman directs and the result of the poll shall be deemed to be the resolution of the meeting at which the poll was so required or demanded;
- (v) the requirement for a poll under the Listing Rules or the demand of a poll shall not prevent the continuance of a meeting for the transaction of any business other than the question on which a poll has been required or demanded;
- (vi) where any Shareholder is, under the Listing Rules, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such Shareholder in contravention of such requirement or restriction shall not be counted;
- (vii) the minimum length of the period during which lodgment by Shareholder notice to the Company of the intention to propose a person for election as a Director and during which notice to the company by such person of his willingness to be elected may be given will be at least 7 days, commencing no earlier than the date after the despatch of the notice of the meeting appointed for such election and ending no later than 7 days prior to the date of such meeting; and
- (viii) a Director shall not vote on any resolution of the Directors approving any contract or arrangement or any other proposal in which he or any of his associate(s) has to his knowledge a material interest.

The full text of the proposed amendments to the Bye-laws is set out in the Notice of SGM in this circular.

13. SGM

Set out on pages 132 to 139 of this circular is a notice convening the SGM to be held at 10:30 a.m. on Monday, 30 August 2004 at Garden Room A-B, 2/F., Hotel Nikko Hongkong, 72 Mody Road, Tsimshatsui East, Kowloon, Hong Kong at which resolutions will be proposed to (i) the Shareholders to consider and, if thought fit, to approve the proposed amendments to the Bye-laws and (ii) the Independent Shareholders to consider and, if thought fit, to approve the Acquisition, the Rights Issue and the Whitewash Waiver.

LETTER FROM THE BOARD

As at the Latest Practicable Date, Mr. Lau, Ms. Chan, China Capital, Mr. Yuen and Mr. Wan and their associates and any parties acting in concert with them are in aggregate interested in approximately 25% of the total issued share capital of the Company and all of them have control over the voting rights in respect of their Shares. As at the Latest Practicable Date, no voting trust or other agreement or arrangement or understanding was entered into by or binding upon any of the above Shareholders which has passed or may result in temporarily or permanently passing control over the exercise of the voting right in respect of any of their Shares to a third party.

Mr. Lau, Ms. Chan, China Capital, Mr. Yuen and Mr. Wan and their associates and any parties acting in concert with them will abstain from voting on the resolutions approving the Acquisition, the Rights Issue and the Whitewash Waiver at the SGM. Mr. Lau, Ms. Chan, China Capital, Mr. Yuen, Mr. Wan and their respective associates and parties acting in concert with any of them can vote on resolution approving the amendment to the Bye-laws whereas Mr. Barry John Buttifant can vote on resolutions approving the Acquisition, the Rights Issue, the Whitewash Waiver and the amendment to the Bye-laws.

A form of proxy for use by the Shareholders at the SGM is enclosed with this circular. Whether or not you are able to attend the SGM in person, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and return it to the Registrar at G/F, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong as soon as practicable but in any event not later than 48 hours before the time appointed for the holding of the SGM or any adjourned meeting. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjourned meeting should you so desire.

The votes to be taken at the SGM in respect of the Acquisition, the Rights Issue and the Whitewash Waiver will be taken by poll, the results of which will be announced after the SGM.

Under the Bye-laws, a poll can be demanded by:

- (a) the chairman;
- (b) at least three members present in person or by proxy or authorised representative for the time being entitled to vote at the meeting;
- (c) any member or members present in person or by proxy or authorised representative and holding between them not less than one-tenth of the total voting rights of all members having the right to attend and vote at the meeting; or

LETTER FROM THE BOARD

- (d) any member or members present in person or by proxy or authorised representative and holding shares in the Company conferring a right to attend and vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

The chairman will demand a poll at the SGM and will be scrutinised by the Registrar.

14. RECOMMENDATIONS

Shenyin Wanguo has been appointed to advise the Independent Board Committee and the Independent Shareholders with regard to the terms of the Acquisition, the Rights Issue and the Whitewash Waiver. The text of letter of the advice from Shenyin Wanguo containing its recommendation and the principal factors it has taken into account in arriving at its recommendation is set out on pages 35 to 51 of this circular. The text of the letter from the Independent Board Committee containing its recommendation to the Independent Shareholders is set out on pages 33 and 34 of this circular.

The Directors consider that the terms of the proposed amendments to the Bye-laws are fair and reasonable and are in the interest of the Company and its shareholders as a whole. Accordingly, the Directors recommend that Shareholders to vote in favour of the relevant resolution to be proposed at the SGM.

15. ADDITIONAL INFORMATION

Subject to, amongst other things, the passing of the resolutions approving the Acquisition, the Rights Issue and the Whitewash Waiver to be proposed at the SGM, it is expected that the Rights Issue Prospectus together with the Allotment Letters and the excess application forms will be despatched to the Qualifying Shareholders on 31 August 2004.

Your attention is also drawn to the Appendices to this circular.

Yours faithfully,
By order of the Board
Daiwa Associate Holdings Limited
Lau Tak Wan
President

DAIWA
DAIWA ASSOCIATE HOLDINGS LIMITED
(Incorporated in Bermuda with limited liability)
(Stock code: 1037)

5 August 2004

To the Independent Shareholders

Dear Sir or Madam,

**MAJOR AND
CONNECTED TRANSACTION,
PROPOSED RIGHTS ISSUE ON THE BASIS OF
TWO RIGHT SHARES FOR EVERY THREE EXISTING SHARES HELD
AND
WHITEWASH WAIVER**

We refer to the circular of the Company dated 5 August 2004 (the “Circular”) to the Shareholders, of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

We have been appointed by the Board as members to form the Independent Board Committee and to advise you the terms of the Acquisition, the Rights Issue and the Whitewash Waiver, whether such terms are in the interest of the Company and its shareholders as a whole and to advise the Independent Shareholders on how to vote on resolutions approving the Acquisition, the Rights Issue and the Whitewash Waiver.

Shenyin Wanguo has been appointed to advise the Independent Board Committee and the Independent Shareholders as to whether the terms of the Acquisition, the Rights Issue and the Whitewash Waiver are fair and reasonable so far as the Independent Shareholders are concerned, whether such terms are in the interest of the Company and its shareholders as a whole and to advise the Independent Shareholders on how to vote on resolutions approving the Acquisition, the Rights Issue and the Whitewash Waiver. Details of its advice, together with the principal factors taken into consideration in arriving at such advice, is set out on pages 35 and 51 of the Circular.

Your attention is also drawn to the letter from the Board set out on pages 9 to 32 of the Circular and the additional information set out in the appendices of the Circular.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Having considered the terms of the Acquisition, the Rights Issue and the Whitewash Waiver and the advice of Shenyin Wanguo, we are of the opinion that the terms of the Acquisition, the Rights Issue and the Whitewash Waiver are fair and reasonable so far as the Independent Shareholders are concerned and are in the interest of the Company and the Independent Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the resolutions to be proposed at the SGM to approve the Acquisition, the Rights Issue and the Whitewash Waiver.

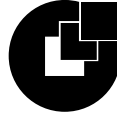
Yours faithfully,
Independent Board Committee of
Daiwa Associate Holdings Limited

Yuen Chi Choi, Simon
Independent
Non-executive Director

Barry John Buttifant
Independent
Non-executive Director

LETTER FROM SHENYIN WANGUO

The following is the text of a letter of advice from Shenyin Wanguo to the Independent Board Committee and the Independent Shareholders prepared for the purpose of inclusion in this circular.



SHENYIN WANGUO CAPITAL (H.K.) LIMITED

28th Floor, Citibank Tower

Citibank Plaza

3 Garden Road

Hong Kong

The Independent Board Committee and the Independent Shareholders

Daiwa Associate Holdings Limited

11/F Block G East Sun Industrial Centre

16 Shing Yip Street

Kwun Tong, Kowloon

Hong Kong

5 August 2004

Dear Sirs,

PROPOSED MAJOR AND CONNECTED TRANSACTION — THE ACQUISITION, THE RIGHTS ISSUE AND THE WHITEWASH WAIVER

INTRODUCTION

We refer to our engagement by the Company as independent financial adviser to advise you in respect of the Acquisition, the Rights Issue and the Whitewash Waiver, details of which are contained in the Letter from the Board as set out in the circular of which this letter forms part. Capitalised terms used in this letter shall bear the same meanings as defined in the circular unless the context otherwise requires. This letter contains our advice to the Independent Board Committee and the Independent Shareholders.

Mr. Lau Tak Wan, an executive Director who has been receiving salary from the Company and/or its subsidiaries, is the beneficial owner of approximately 89.10% of the total issued share capital of Smartco. Ms. Chan Yuen Mei, Pinky, the wife of Mr. Lau, is an executive Director who has been receiving salary from the Company and/or its subsidiaries. Both Mr. Lau and Ms. Chan are also the directors of Smartco. Messrs Wan Chor Fai and Mak Hon Kai, Stanly are executive Directors and salaried employees of the Group. Therefore, none of the above executive Directors is considered to be independent under the Listing Rules and the Takeovers Code in respect of the Acquisition, the Rights Issue and the Whitewash Waiver.

LETTER FROM SHENYIN WANGUO

Messrs. Barry John Buttifant and Simon Yuen Chi Choi, the independent non-executive Directors, have been appointed by the Board as members of the Independent Board Committee to advise the Independent Shareholders on the Acquisition, the Rights Issue and the Whitewash Waiver.

BASIS OF OUR OPINION

Our role as the independent financial adviser to the Independent Board Committee and the Independent Shareholders is to express our opinion as to whether the terms and conditions of the Acquisition, the Rights Issue and the Whitewash Waiver are fair and reasonable in so far as the Independent Shareholders are concerned, whether or not the Acquisition, the Rights Issue and the Whitewash Waiver are in the interest of the Company and its shareholders as a whole. In formulating our recommendations, we have relied on the accuracy of the information and representations contained in the circular which have been provided to us by the Directors and have also assumed that all information and representations made or referred to in the circular were true and correct in all respects at the time when they were made and continued to be true and correct in all respects as at the date of despatch of the circular. We have also assumed that all statements of belief, opinion and intention made by the Directors in the circular were reasonably made after due and careful enquiry and were based on honestly held opinions. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors and have been advised by the Directors that no material facts have been omitted from the information and representations provided in and referred to in the circular. We consider that we have reviewed sufficient information to reach an informed view and to justify our reliance on the accuracy of the information and representations contained in the circular and to provide a reasonable basis for our advice. We have not, however, carried out any independent verification of the information provided by the Directors, nor have we conducted an independent in-depth investigation into the business and affairs or the future prospects of the Group.

In the following discussion, we shall set out our opinion on the Acquisition, the Rights Issue and the Whitewash Waiver. Finally, we shall make our recommendations to the Independent Board Committee and the Independent Shareholders in respect of the Acquisition, the Rights Issue and the Whitewash Waiver.

THE ACQUISITION

In arriving at our recommendation, we have taken into consideration the following principal factors and reasons:

1. Background of Elite

As referred to in the Letter from the Board, the Elite Business was founded by Mr. Lau in Toronto, Canada in 1989. The principal activities of Elite are the sale and distribution of computer goods, namely personal computers and peripherals, motherboards, display

LETTER FROM SHENYIN WANGUO

cards, hard disk drives, CD/DVD ROMs, casings, printers, software and integrated personal computer systems. Elite sources computer goods from renowned computer manufacturers, whilst the customers of Elite include institutions, wholesalers and retailers situated in various provinces in Canada, namely Ontario, British Columbia, Nova Scotia, and Alberta. As advised by the Directors, in order to reinforce market presence in Canada, Elite has established one retail outlet in Ontario and four sales offices in Ontario, British Columbia, Nova Scotia and Alberta.

According to IDC Canada Ltd. (“IDC Canada”), the personal computer market grew by about 8.3% in 2003 and the overall information technology sector was estimated to have a compound annual growth rate of about 2.7% for the period between 2003 and 2008. As discussed in the section headed “Consideration of the Acquisition” below, we noted that 4 out of the 5 Comparable Companies (as defined below) were profitable in their last corresponding financial years respectively.

Set out below is a summary of the combined financial results of Elite for the financial years ended 31 March 2002 (“FY2002”), 2003 (“FY2003”) and 2004 (“FY2004”) as set out in the Letter from the Board.

	FY2002		FY2003		FY2004	
	CAD'000	HK\$'000	CAD'000	HK\$'000	CAD'000	HK\$'000
Motherboards and add-on cards	16,176	96,344	20,104	119,739	15,377	91,585
Personal computer	8,342	49,685	9,754	58,095	10,065	59,947
Storage and memory	16,673	99,304	16,862	100,430	15,802	94,117
Monitor	6,356	37,856	4,553	27,118	5,448	32,448
Others	7,807	46,498	8,078	48,113	8,147	48,524
Turnover	<u>55,354</u>	<u>329,688</u>	<u>59,351</u>	<u>353,495</u>	<u>54,839</u>	<u>326,620</u>
Operating profit	537	3,198	1,068	6,361	1,471	8,761
Gain on disposal of a subsidiary	—	—	—	—	419	2,496
Loss on liquidation of a subsidiary	—	—	—	—	(13)	(77)
	<u>537</u>	<u>3,198</u>	<u>1,068</u>	<u>6,361</u>	<u>1,877</u>	<u>11,180</u>
Taxation for the year	(250)	(1,489)	(265)	(1,578)	(424)	(2,525)
Over/(under) provision of income tax in prior financial years	<u>54</u>	<u>322</u>	<u>(89)</u>	<u>(530)</u>	<u>(236)</u>	<u>(1,406)</u>
Profit after taxation	<u>341</u>	<u>2,031</u>	<u>714</u>	<u>4,253</u>	<u>1,217</u>	<u>7,249</u>

Note: CAD1 = HK\$5.956

LETTER FROM SHENYIN WANGUO

As shown above, the turnover of Elite increased by approximately 7.2% from approximately CAD55,354,000 in FY2002 to approximately CAD59,351,000 in FY2003, mainly due to a favourable sales in computer motherboards and personal computers as a result of the aggressive marketing program. For FY2004, turnover of Elite decreased by approximately 7.6% to approximately CAD54,839,000 which was mainly due to a lower sales in motherboards and add-on cards caused by the outbreak of severe acute respiratory syndrome. Elite recorded a substantial growth in profit after taxation from CAD341,000 in FY2002 to CAD714,000 in FY2003 and to CAD1,217,000 in FY2004, representing a compound annual growth rate of 88.9% during the period. However, such growth was, to a certain extent, exaggerated by net gains arising from the disposal and liquidation of two subsidiaries of Daiwa Holdings Inc. in April 2003 and November 2003 respectively, and an adjustment for over/underprovision of income tax in prior financial years. The two subsidiaries were disposed of and liquidated as they had incurred operating loss in FY2002 and FY2003.

Based on the Accountant's report on Elite, the operating profit were CAD537,000, CAD1,068,000 and to CAD1,471,000 for FY2002, FY2003 and FY2004, respectively, representing a compound annual growth rate of approximately 65.5% during the period.

In addition, the operating profit margin of Elite improved from 0.97% in FY2002 to 1.80% in FY2003 and to 2.68% in FY2004. The improvement was mainly due to the increase of gross margin as a result of overall cost control and the disposal/liquidation of the two loss-making subsidiaries.

We also noted from the Accountant's report on Elite that certain events have taken place after 31 March 2004 (the "Subsequent Events"), which may have affected the net assets of Elite. Details of which are set out below:

- (i) During the months of April and May 2004, prior to the Reorganisation, Daiwa Holdings Inc., redeemed a total of 424,050 issued and fully paid shares with a par value of CAD0.1 each for approximately CAD731,000 and in this connection, the equity of the Elite Group was reduced by approximately CAD731,000.
- (ii) In June 2004, prior to the Reorganisation, Daiwa Holdings Inc. declared dividends totalling CAD3,000,000 to its then shareholders and, in this connection, the equity of the Elite Group was reduced by the same amount.
- (iii) In June 2004, prior to the Reorganisation, Maxim Resources Limited declared dividends totalling HK\$7,000,000 (approximately equivalent to CAD1,175,000) to its then shareholders and in this connection, the equity of the Elite Group was reduced by the same amount.

LETTER FROM SHENYIN WANGUO

- (iv) In June 2004, in connection with the Reorganisation, the share capital of Elite was increased from 1 share of US\$1 each to 2,500,000 shares of US\$1 each. 2,262,970 shares were issued for cash of approximately CAD2,964,000 and 237,029 shares were issued and credited as fully paid at par value of US\$1 each, as consideration for the share exchanges in connection with the Reorganisation. In this connection, the equity of the Elite Group was increased by approximately CAD2,964,000.

2. Reasons for and benefits of the Acquisition

The Group is principally engaged in the manufacture and distribution of electronic components, original equipment manufacturing and original design manufacturing businesses and provision of electronic manufacturing services. Such electronic components are generally used in all kinds of electronic appliances. The turnover of the Group is currently generated from Mainland China, USA, Europe, Japan and other Asian countries. The Group does not have any business presence in Canada, nor any income derived from the sale of computer goods.

With over ten years of operating history, Elite has established close business relationships with its suppliers. As set out in the Letter from the Board, Elite is the distributor of various renowned brand names of personal computer and peripheral manufacturers such as Panasonic, BenQ, MSI (Microstar), ECS, KDS, SMC, Gnet (GVC) Communication, HIS and Thermaltake. The Directors consider that the Acquisition would enable the Group to diversify its business into the sale and distribution of computer goods in Canada. As the production facilities of the Group are capable of manufacturing components of personal computer, the Directors are of the view that the Acquisition would serve as a stepping stone for the Group to enter into the market for the manufacture and distribution of computers and accessories components. We concur with the Directors that the Acquisition would improve the Group's recurrent income base and is in line with the business strategy of the Group of further exploring new geographical markets and clients as stated in the Letter from the Board. We further concur with the Directors that the Acquisition may provide an opportunity for the Group to expand into the manufacturing of computer accessories and components.

Having regards to the above, we are of the view that the Acquisition is in the interest of the Company and the Shareholders as a whole.

3. Consideration of the Acquisition

Price/earning (“P/E”) ratio

According to the Sale and Purchase Agreement, the consideration payable by the Group for the Acquisition (the “Consideration”) is HK\$47,000,000 and will be satisfied in cash upon completion. As noted in the Letter from the Board, the Consideration has determined with reference to, inter alias, the audited combined profit record of Elite. In assessing the fairness and reasonableness of the Consideration, we have chosen P/E ratio approach as a valuation methodology as this is commonly accepted by the market as an appropriate benchmark for valuing trading businesses in general. We consider it appropriate to compare the P/E multiple represented by the Consideration with those of companies of a business nature similar to that of Elite. The profit after taxation of Elite in FY2004 was approximately CAD1,217,000 (equivalent to approximately HK\$7,248,000). Accordingly, the Consideration represents a 2004 P/E ratio of approximately 6.48 times.

In this regard, we consider appropriate to adjust the audited profit after taxation of Elite for the effect of the net gain from disposal/liquidation and the underprovision of income tax in FY2004 (“Adjusted PAT”) for analysis purposes. The Adjusted PAT for FY2004 was approximately CAD1,047,000 (equivalent to approximately HK\$6,236,000). On this basis, the Consideration would represent a 2004 P/E ratio of approximately 7.54 times.

LETTER FROM SHENYIN WANGUO

In assessing the fairness of the Consideration, we identified 5 listed companies which are principally engaged in the sale and distribution of computers and accessories in North America with business operations similar to that of Elite (the “Comparable Companies”). We have set out below details of the Comparable Companies for the purposes of comparison:

	Place of listing	Market Capitalisation (US\$'Million)	In the last financial year			On the Last Trading Day	
			Turnover (US\$'Million)	Net income/ (net loss) (US\$'Million)	Net profit margin %	P/E ratio (time)	P/B ratio (time)
United Stationers Inc	US	1,252	3,848	73	1.9	17.2	1.8
Scansource Inc	US	650	991	23	2.3	28.8	3.7
Ingram Micro Inc	US	2,250	22,613	149	0.7	15.1	1.2
Bell Microproducts Inc	US	176	2,230	(4)	N/A	N/A	0.9
Emj Data Systems Ltd	Canada	38	140	2	1.4	20.9	2.1
Range					0.7% — 2.3%	15.1 — 28.8	0.9-3.7
Average					1.58%	20.5	1.94

Elite:

— Based on the profit after taxation	—	—	42 ¹	0.9 ¹	2.1	6.48	—
— Based on the Adjusted PAT	—	—	42 ¹	0.8 ¹	1.9	7.54	—
— Based on the audited combined net assets as at 31 March 2004	—	—	—	—	—	—	1.52
— Based on the audited combined net assets as at 31 March 2004 and adjusted for financial impact of the Subsequent Events	—	—	—	—	—	—	2.43

Source: *Bloomberg*

Note 1: *CAD1 = US\$0.77*

On the Last Trading Day, the shares of the Comparable Companies (excluding one loss making company) were traded at P/E ratio of between 15.1 times and 28.8 times with an average P/E ratio of approximately 20.5 times, whereas the P/E ratios, implied by the Consideration, of 6.48 times (based on the profit after taxation) and 7.54 times (based on the Adjusted PAT) are below the low end of the range of P/E ratios of the Comparable Companies. The net profit margin of the Comparable Companies (excluding the loss making company) in the last financial year ranged from 0.7% to 2.3% and with an average of 1.58%. The net profit margin of Elite of 2.1% (based on the profit after taxation) and 1.9% (based on the Adjusted PAT) are within the range and higher than the average net profit margin of the Comparable Companies in their last corresponding financial years. We are therefore of the view that the Consideration is fair and reasonable in so far as the Independent Shareholders are concerned.

LETTER FROM SHENYIN WANGUO

Price to book value (“P/B”) ratio

In addition to assessing the fairness of the Consideration by P/E ratio, we have also made reference to comparison between P/B ratio represented by the Consideration and those of the Comparable Companies.

We noted that on the Last Trading Day, the shares of the Comparable Companies were traded at P/B ratio of between 0.9 time and 3.7 times with an average P/B ratio of approximately 1.94 times.

The audited combined net asset value of the Elite Group as at 31 March 2004 was approximately CAD5,183,000 (equivalent to approximately HK\$30,871,000). On this basis, the Consideration would represent a P/B ratio of 1.52 times, which is within the range, and below the average, of P/B ratios of the Comparable Companies.

Taking into account of the financial impact of the Subsequent Events, the Consideration would represent a P/B ratio of 2.43 times, which is within the range and above the average of P/B ratios of the Comparable Companies. In this regard, we are of the view that the Consideration, based on the P/B ratio of 2.43 times, is acceptable in so far as the Independent Shareholders are concerned.

Taking into account of the the P/E ratio and the P/B ratio implied by the Consideration as compared to those of the Comparable Companies, we consider that the Consideration is determined on normal commercial terms and are fair and reasonable in so far as the Independent Shareholders are concerned.

THE RIGHTS ISSUE AND THE WHITEWASH WAIVER

In arriving at our recommendation, we have taken into consideration the following principal factors and reasons:

1. Reasons for the Rights Issue and use of proceeds

The proceeds from the Rights Issue will be used to finance the Acquisition. The net proceeds of the Rights Issue are estimated to be approximately HK\$47,043,000. The Directors intend to use approximately HK\$47,000,000 of the proceeds of the Rights Issue for the Acquisition and the remaining balance as general working capital for the Company.

Based on the audited consolidated balance sheet of the Group as set out in Appendix II to the circular, the consolidated cash and bank balance of the Group as at 31 March 2004 amounted to approximately HK\$67,953,000. Therefore, the short-term liquidity of the Group will be adversely affected if the Acquisition is to be entirely financed by its

LETTER FROM SHENYIN WANGUO

internal resources. The alternative of debt financing will increase the Group's gearing ratio from 0.69 time (being the ratio of the sum of total liabilities to the net assets of the Group as at 31 March 2004, as referred to in Appendix III to the circular) to 0.85 time (being the ratio of the sum of total liabilities (including an additional amount of HK\$47,000,000 to be entirely financed by debt) to the net assets of the Group as at 31 March 2004). In addition, debt financing will likely bring about additional finance cost and may have negative impact on the Group's earnings. Given the Group's current financial position and the constraints of debt financing, we concur with the Directors that it will be in the interests of both the Company and the Shareholders to finance the Consideration by means of equity financing.

We further concur with the Directors that the Rights Issue is a reasonable fund raising method to strengthen the Group's financial position and to enlarge its capital base as it will allow the Qualifying Shareholders to have an equal opportunity to participate in the enlargement of the capital base of the Company whilst maintaining their proportionate interests in the Company.

It should be noted that the Rights Issue is conditional upon, among other things, the Acquisition, the Underwriting Agreement becoming unconditional and the Whitewash Waiver being granted by the Executive. If the Acquisition does not proceed or the Underwriting Agreement is being terminated, or the Whitewash Waiver is not granted by the Executive, the Rights Issue, as well as the Acquisition, will not proceed.

2. The subscription price of the Rights Issue

Price performance of the Shares

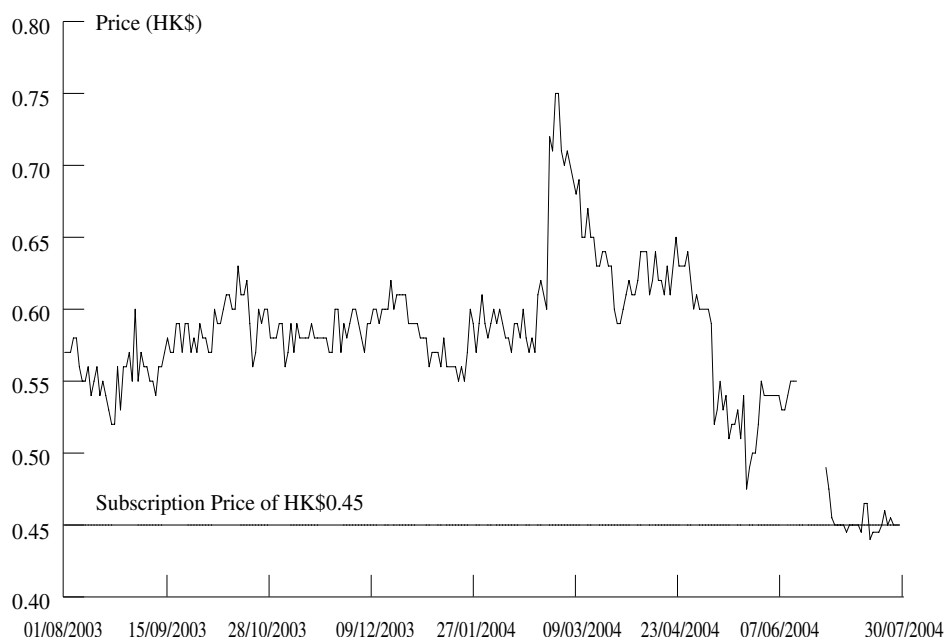
The Company will provisionally allot two Rights Shares for every three Shares held by the Qualifying Shareholders whose names appear on the register of members of the Company as at the close of business on the Record Date at a Subscription Price of HK\$0.45 per Rights Share which represents:

- (i) a discount of approximately 18.18% to the closing price of HK\$0.55 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (ii) a discount of approximately 11.76% to the theoretical ex-rights price of approximately HK\$0.51 per Share based on the closing price of HK\$0.55 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (iii) a discount of approximately 16.67% to the average price of approximately HK\$0.54 per Share as quoted on the Stock Exchange for the 10 trading days up to and including the Last Trading Day;
- (iv) a discount of approximately 74.6% to the net assets per Share of HK\$1.77 as at 31 March 2004;

LETTER FROM SHENYIN WANGUO

- (v) no discount or premium to the closing price of HK\$0.45 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (vi) no discount or premium to the theoretical ex-rights price of approximately HK\$0.45 per Share based on the closing price of the HK\$0.45 per Share on the Latest Practicable Date.

Set out below are a chart and a table showing the closing price and trading volume of the Shares for the 12-month period from 1 August 2003 to 30 July 2004 (the “Review Period”).



	Monthly trading volume of Shares (million)	Monthly trading volume to issued Shares (%)
August 2003	10.8	6.8
September 2003	10.6	6.8
October 2003	11.7	7.4
November 2003	10.5	6.8
December 2003	12.1	7.6
January 2004	9.8	6.2
February 2004	19.3	12.2
March 2004	11.1	7.4
April 2004	10.4	6.8
May 2004	7.2	4.5
June 2004	3.0	1.9
July 2004	3.1	2.0

Source: Bloomberg

LETTER FROM SHENYIN WANGUO

As shown above, the Shares were traded above the Subscription Price in most of the time during the Review Period. The monthly trading volume of the Shares ranged from 3.0 million Shares to 12.1 million Shares for the 12-month period from 1 August 2003 to 30 July 2004, while the monthly trading volume as a percentage of total number of issued Shares ranged from 1.9% to 12.2%.

Comparison to recent rights issue exercises

We have reviewed rights issues announced by companies (the “Comparable Rights Issues”) listed on the main board of the Stock Exchange since 1 January 2004 to the Latest Practicable Date.

Company	Date of the announcement	Underwriting Commission %	Effective subscription price HK\$	Closing price before their respective announcement HK\$	Discount of effective subscription price to closing price %	Theoretical ex-rights price (Note) HK\$	Discount of effective subscription price to theoretical ex-right price %
Asia Alliance Holdings Limited	12/01/2004	1.00	0.25	1.8	86.11	0.508	50.79
Capital Prosper Limited	12/02/2004	2.50	0.05	0.064	21.88	0.059	15.25
Easyknit International Holdings Limited	11/05/2004	1.00	0.11	0.124	11.29	0.119	7.56
Imagi International Holdings Limited (formerly known as IMI Global Holdings Limited)	01/03/2004	2.00	1.08	1.6	32.5	1.430	24.48
K.P.I. Company Limited	27/04/2004	2.75	0.1	0.13	23.08	0.120	16.67
Lai Fung Holdings Limited	03/06/2004	Fixed commission	0.1	0.235	57.45	0.208	51.92
Millennium Group Limited	13/01/2004	2.50	0.02	0.15	86.67	0.110	81.82
New World Development Company Limited	13/02/2004	2.00	5.4	8.7	37.93	7.760	30.41
Polytec Asset Holdings Limited	13/04/2004	2.00	0.025	0.051	50.98	0.038	34.21
Sunny Global Holdings Limited	29/01/2004	1.50	0.1	0.13	23.08	0.110	9.09
Wai Yuen Tong Medicine Holdings Limited	20/04/2004	3.00	0.12	0.36	66.67	0.168	28.57
Range					11.29 — 86.67		7.56 — 81.82
Average					45.24		31.89
The Rights Issue		Nil	0.45	0.55	18.18	0.51	11.76

Note: The theoretical ex-rights price is calculated based on the closing price of the relevant shares on the last trading day prior to the date of the announcement relating to the rights issue.

Source: The announcements of the respective companies

LETTER FROM SHENYIN WANGUO

In order to enhance the attractiveness of a rights issue, it is not uncommon that the subscription price of a rights issue represents a discount to the prevailing market prices of the relevant shares.

As shown in the above table, the subscription prices of the Comparable Rights Issues were set at discounts to their respective closing prices on the last trading day immediately before the relevant announcements were released and the discounts ranged from approximately 11.29% to 86.67%. Such subscription prices also represented discounts from approximately 7.56% to 81.82% to the theoretical ex-right prices per share based on the respective closing prices per share on the last trading day immediately before the relevant announcements were released.

We note that the discount of the Subscription Price to the closing price of the Shares of 18.18% as at the Last Trading Day is within the range of and below the average of those of the Comparable Rights Issues of 45.24%. In addition, the discount of the Subscription Price to the theoretical ex-rights price of the Share of 11.76% is also within the range of and below the average of those of the Comparable Rights Issues of 31.89%. Accordingly, we consider the discount and the Subscription Price to be fair and reasonable.

Rights attaching to the Rights Shares

The Rights Shares, when allotted, fully paid and issued, will rank *pari passu* in all respects with the Shares then in issue on the date of allotment and issue of the Rights Shares. Holders of the Rights Shares will be entitled to receive all dividends and distributions which are declared, made or paid on or after the date of allotment and issue of the Rights Shares.

3. Dilution effect on shareholding interest of the Independent Shareholders

All Qualifying Shareholders are entitled to subscribe for the Rights Shares. For those Qualifying Shareholders who take up their entitlements in full under the Rights Issue, their shareholding interests in the Company will remain unchanged after the Rights Issue.

For those Qualifying Shareholders who do not exercise their rights to subscribe for the Rights Shares in full, depending on the extent to which they take up their entitlements, their shareholding interests, will be diluted up to a maximum of 60%. It should be noted that such Shareholders will have the opportunity to realize their nil-paid rights to subscribe for the Rights Shares on the market, subject to the then prevailing market conditions.

LETTER FROM SHENYIN WANGUO

For the Non-Qualifying Shareholders, they will not be entitled to the Rights Issue. The shareholding interests of the Non-Qualifying Shareholders will likewise be diluted by 60%. Nevertheless, their entitlements to the Rights Shares will be sold on the market in nil-paid forms, subject to market conditions. The net proceeds of each sale of HK\$100 or more will then be paid to the relevant Non-Qualifying Shareholders pro rata to their respective entitlements as soon as practicable. The Company will retain individual amounts of less than HK\$100 for its own benefit.

On the other hand, the Qualifying Shareholders who wish to increase their shareholdings in the Company through the Rights Issue may, subject to availability, acquire additional nil-paid rights on the market. The Qualifying Shareholders may also apply for excess Rights Shares.

We are of the opinion that the terms of the Rights Issue are in line with the market practice for rights issues and there are sufficient arrangements for shareholders to deal in the Rights Shares in nil-paid forms and to apply for excess Rights Shares by acquiring additional nil-paid rights on the market.

4. Underwriting arrangements

The Rights Issue, other than the entitlement of Mr. Lau, Ms. Chan, China Capital, Mr. Yuen and Mr. Wan, together with their associates and parties acting in concert to them, is fully underwritten by Smartco. A maximum of 79,409,534 Rights Shares will be underwritten by Smartco.

We have set out in the subsection headed “The subscription price of the Rights Issue” the underwriting commission charged by the underwriters in the table of Comparable Rights Issues for reference purposes. As shown in the table, Smartco will receive no underwriting commission under the Underwriting Agreement.

The net proceeds from the Rights Issue will be used to finance the Acquisition. As the Directors consider that it is in the interests of the Group to proceed with the Acquisition and having regard to the appropriate means of funding available to finance the Acquisition, the Rights Issue as an equitable way of fund raising in which all Qualifying Shareholders are eligible to participate, the discount of the Subscription Price of the Rights Shares as compared to those of the Comparable Rights Issues and the fact that no commission is payable to Smartco as the underwriter, we are of the view that the terms of the Rights Issue and its related underwriting arrangements are fair and reasonable in so far as the Independent Shareholders are concerned.

5. Whitewash waiver

In the event that Smartco is called upon to take up its obligations under the Underwriting Agreement in full, the aggregate shareholding interests of Mr. Lau and his associates

LETTER FROM SHENYIN WANGUO

and parties acting in concert with them will be increased from approximately 24.94% of the issued share capital of the Company as at the Latest Practicable Date to approximately 54.94% of the enlarged issued share capital of the Company immediately after completion of the Rights Issue. Accordingly, the underwriting by Smartco of the Rights Issue may result in the aggregate interest of Mr. Lau and his associates and parties acting in concert with them in the Company exceeding 30% of the Company's issued share capital and thereby trigger a mandatory general offer to be made by Mr. Lau for all the Shares in issue other than those already owned or agreed to be acquired by Mr. Lau and/or his associates and parties acting in concert with them under Rule 26 of the Takeovers Code. In this connection, an application has been made by Mr. Lau to the Executive for the Whitewash Waiver. The Executive has indicated that the Whitewash Waiver will be granted, subject to the approval of the Independent Shareholders on a vote taken by way of a poll at the SGM.

Given that the granting of the Whitewash Waiver is a condition of the Acquisition and the Rights Issue, if the Whitewash Waiver is not granted by the Executive or approved by the Independent Shareholders, the Acquisition and the Rights Issue will not proceed. On the other hand, upon granting of the Whitewash Waiver, Mr. Lau will not be required to make a mandatory general offer under Rule 26 of the Takeovers Code for all the Shares not held by him and his associates and parties acting in concert with any of them.

As stated in the Letter from the Board, in the event that Smartco becomes the single largest Shareholder pursuant to the underwriting arrangements, it is the intention of Smartco to continue with the existing business of the Group and Smartco has no plan to inject any assets or businesses into the Group or to re-deploy the fixed assets and make any significant changes to the existing businesses of the Group. Smartco further indicated that it intends to continue the employment of existing employees of the Group and has no intention to make any material changes to the existing director, senior management or the employees of the Group. Having considered the above, we are of the view that the business and operations of the Group will not be materially affected should Smartco become the single largest Shareholder.

When considering the effects of the Whitewash Waiver, it should be noted that if the aggregate shareholding interests of Mr. Lau and his associate and parties acting in concert with them after the completion of the Rights Issue are in the range of 30% to 50% of the enlarged issued share capital of the Company, Mr. Lau and his associate and parties acting in concert with them will be subject to the 2% creeper as set out in the Takeovers Code. Independent Shareholders should further note that if the aggregate shareholding interests of Mr. Lau and his associate and parties acting in concert with them after the completion of the Rights Issue exceed 50% of the enlarged issued share capital of the Company, Mr. Lau and his associate and parties acting in concert with them can acquire further Shares without triggering a mandatory general offer. Nevertheless, we consider that such a possibility arises as

LETTER FROM SHENYIN WANGUO

a result of Mr. Lau's intention to facilitate the Rights Issue and their continued support for the Group. On balance, we consider such possibility acceptable and that the terms of the Whitewash Waiver are reasonable in so far as the Independent Shareholders are concerned.

FINANCIAL EFFECTS ON THE ENLARGED GROUP

Earnings

The Group's consolidated audited profit attributable to the Shareholders for FY2004 was approximately HK\$14,502,000, whilst the audited combined profit of Elite for FY2004 was approximately CAD1,217,000 (equivalent to approximately HK\$7,248,000). After the completion of the Acquisition, 100% of the financial results of Elite will be consolidated with the results of the Group.

As referred to in the Accountant's report of Elite, the goodwill arising from the Acquisition, before accounting for the financial impact of the Subsequent Events, is estimated to be approximately HK\$17,529,000 (being the difference between the sum of the Consideration and the cost of acquisition, and the combined audited net assets of Elite of HK\$30,871,000). As advised by the Directors, the goodwill will be amortised over a period of 10 years under the Company's accounting policy. Approximately HK\$1,753,000 of goodwill amortization, representing 24.2% of Elite's profit after taxation in FY2004, will thus be charged to the profit and loss account of the Enlarged Group on an annual basis after completion of the Acquisition.

After taking into account of the financial impact of the Subsequent Events, the aggregate goodwill arising from the Acquisition is estimated to be approximately HK\$29,097,000 (being the difference between the sum of the Consideration and the cost of acquisition, and the adjusted net assets of Elite. As discussed, the goodwill will be amortised over a period of 10 years. Approximately HK\$2,910,000 of goodwill amortisation, representing 40.1% of Elite's profit after taxation in FY2004, will be charged to the profit and loss account of the Enlarged Group on an annual basis after completion of the Acquisition. We consider such effect on the Enlarged Group's earnings to be in the interests of the Company and the Shareholders in the context where the Acquisition is expected to enhance the Enlarged Group's recurrent income base and earnings quality.

Net assets

Based on the unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group as set out in Appendix III to the circular, the net assets of the Group as at 31 March 2004 was approximately HK\$280,786,000, whilst that of the Enlarged Group upon the completion of the Acquisition and the Rights Issue, before accounting for the financial impact of the Subsequent Events, is approximately HK\$327,829,000.

LETTER FROM SHENYIN WANGUO

The audited consolidated net assets per Share as at 31 March 2004 was approximately HK\$1.77. Upon completion of the Acquisition and the Rights Issue, before accounting for the financial impact of the Subsequent Events, the pro forma audited net assets per Share of the Enlarged Group will be decreased by 29.9% to approximately HK\$1.24. The pro forma unaudited net assets per Share of the Enlarged Group will be further decreased after accounting for the financial impact of the Subsequent Events. We consider that the Acquisition will have a negative effect on the net assets per Share.

Working Capital

The Consideration is to be fully financed by the net proceeds from the Rights Issue. The Directors are of the opinion that, upon completion of the Acquisition and based on the present credit facilities and the internal resources, the Enlarged Group will have sufficient working capital for the 12-month period after the completion of the Acquisition and up to 30 September 2005. In this regard, we are of the view that the Acquisition and the Rights Issue will have a positive effect on the Group's cash position and working capital position.

We set out below a summary of the financial impact on the Group after the completion of the Acquisition and Rights Issue:

	Before the completion of the Acquisition and the Rights Issue (HK\$) Approximately	After the completion of the Acquisition and the Rights Issue (HK\$) Approximately
Annual goodwill amortisation, based on the amortisation period of 10 years (before accounting for the financial impact of the Subsequent Events)	—	1,753,000
Annual goodwill amortisation, based on the amortisation period of 10 years (after accounting for the financial impact of the Subsequent Events)	—	2,910,000
Net asset value of the Company as referred to in Appendix III (before accounting for the financial impact of the Subsequent Events)	280,786,000	327,829,000
Net asset value per Share (before accounting for the financial impact of the Subsequent Events)	1.77	1.24
Cash and bank balances of the Company as referred to in Appendix III (before accounting for the financial impact of the Subsequent Events)	67,953,000	84,625,000
Working capital (net current assets) of the Company as referred to in Appendix III (before accounting for the financial impact of the Subsequent Events)	150,381,000	178,608,000

LETTER FROM SHENYIN WANGUO

Taking into account of the expected improvement in the Enlarged Group's earning potential and the effect on the Enlarged Group's working capital position, we consider the negative effect on the net assets per Share and the overall financial effect of the Acquisition on the Enlarged Group to be acceptable in so far as the Independent Shareholders are concerned.

RECOMMENDATIONS

Having regards to the abovementioned principal factors and reasons, we consider the terms of the Acquisition, the Rights Issue and the Whitewash Waiver to be fair and reasonable in so far as the Independent Shareholders are concerned and that the Acquisition, the Rights Issue and the Whitewash Waiver are in the overall interests of the Company and the Shareholders. We therefore recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolutions regarding the Acquisition, the Rights Issue and the Whitewash Waiver at the SGM.

Yours faithfully,

For and on behalf of

Shenyin Wanguo Capital (H.K.) Limited

Simon Lee

Director, Head of Corporate Finance



羅兵咸永道會計師事務所

PricewaterhouseCoopers
22nd Floor Prince's Building
Central Hong Kong
Telephone: (852) 2289 8888
Facsimile: (852) 2810 9888
www.pwchk.com

5 August 2004

The Directors
Elite Century Holdings Limited

Dear Sirs,

We set out below our report on the financial information relating to Elite Century Holdings Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) for the years ended 31 March 2002, 2003 and 2004 (the “Relevant Periods”) for inclusion in the circular of Daiwa Associate Holdings Limited dated 5 August 2004 (the “Circular”) in connection with the proposed acquisition by Daiwa BVI Limited, a wholly owned subsidiary of Daiwa Associate Holdings Limited, of 100% interest in the Company.

The Company was incorporated in the British Virgin Islands on 23 February 2004 with limited liability under the International Business Companies Act, Cap 291 of the British Virgin Islands. In June 2004, the Company acquired the entire issued capital of Daiwa Holdings Inc., a company incorporated in Canada, and Maxim Resources Limited, a company incorporated in the British Virgin Islands, through share exchanges (the “Reorganisation”) and consequently became the holding company of the subsidiaries now comprising the Group, details of which are set out in Section I — Note 1 below.

In April 2003, a group company, Daiwa Holdings Inc. disposed its 100% interest in Distribution Daiwa (Quebec) Inc., a company incorporated in Canada, and in November 2003, Daiwa Distribution Inc., a group company incorporated in the United States of America was liquidated. For the purpose of this report, the financial positions, results and cash flows of Distribution Daiwa (Quebec) Inc. and Daiwa Distribution Inc. were included in the combined financial information of the Group up to their respective dates of disposal/liquidation.

No audited accounts have been prepared by the Company, Daiwa Precision Industrial Ltd., Westpac Holdings Inc., Westpac Technology Inc., Distribution Daiwa (Quebec) Inc. and Daiwa Distribution Inc. as they were not subject to any statutory audit requirement in their jurisdictions of incorporation. We have, however, reviewed all relevant transactions undertaken by these companies during the Relevant Periods and carried out such procedures as we considered necessary for inclusion of the financial information relating to these companies in our report.

We have audited the accounts of Maxim Resources Limited as at and for the year ended 31 March 2004. The following accounts of the group companies during the Relevant Periods were audited by auditors other than PricewaterhouseCoopers, Hong Kong, as detailed below:

Name	Financial years	Other auditors
Daiwa Holdings Inc.	31 March 2002, 2003 and 2004	PricewaterhouseCoopers LLP, Chartered Accountants, Canada
Maxim Resources Limited	31 March 2002 and 2003	W. C. Chan & Co., Certified Public Accountants, Hong Kong
Daiwa Distribution (Alberta) Inc.	31 March 2002, 2003 and 2004	Lo Porter Hetu, Chartered Accountants, Canada
Daiwa Distribution (B.C.) Inc.	31 March 2002 and 2003	Deloitte Touche Tohmatsu LLP, Chartered Accountants, Canada
	31 March 2004	PricewaterhouseCoopers LLP, Chartered Accountants, Canada
Daiwa Distribution (Nova Scotia) Inc.	31 March 2002, 2003 and 2004	Hemming Weir Casey Inc., Chartered Accountants, Canada
Daiwa Distribution (Ontario) Inc.	31 March 2002 and 2003	Ernst and Young LLP, Chartered Accountants, Canada
	31 March 2004	PricewaterhouseCoopers LLP, Chartered Accountants, Canada
Daiwa Semitron Supplies (Canada) Inc.	31 March 2002, 2003 and 2004	Wong & Chiu LLP, Chartered Accountants, Canada

For the purpose of preparing this report, we have audited, in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants, the consolidated accounts of Daiwa Holdings Inc. (comprising Daiwa Distribution (Alberta) Inc., Daiwa Distribution (B.C.) Inc., Daiwa Distribution (Nova Scotia) Inc., Daiwa Distribution (Ontario) Inc., Daiwa Precision Industrial Ltd., Daiwa Semitron Supplies (Canada) Inc., Westpac Holdings Inc., Westpac Technology Inc., Distribution Daiwa (Quebec) Inc. and Daiwa Distribution Inc., where applicable) as at and for the years ended 31 March 2002, 2003 and 2004. However, the evidence available to us as to the balance of inventories of the Group as at 1 April 2001 of approximately CAN\$2,773,000 was limited as the accounting records of Daiwa Holdings Inc. and its subsidiaries in respect of the year ended 31 March 2002, do not permit adequate

retroactive verification of the inventory quantity as at that date and there were no other satisfactory audit procedures that we could adopt to obtain sufficient evidence regarding the carrying value of inventories as at that date.

We have examined the audited accounts of Maxim Resources Limited, the audited consolidated accounts of Daiwa Holdings Inc. and the unaudited accounts of the Company, where applicable, for the Relevant Periods, and have carried out such additional procedures as are necessary in accordance with Auditing Guideline “Prospectuses and the Reporting Accountant” issued by the Hong Kong Society of Accountants.

The financial information set out in sections I and II below (the “Financial Information”) has been prepared in accordance with accounting principles generally accepted in Hong Kong based on the audited accounts of Maxim Resources Limited, the audited consolidated accounts of Daiwa Holdings Inc. and the unaudited accounts of the Company on the basis set out in section I — Note 1 below. The directors of the respective group companies, during the Relevant Periods, are responsible for preparing these accounts which give a true and fair view. In preparing these accounts, it is fundamental that appropriate accounting policies are selected and applied consistently.

The directors of the Company are responsible for the Financial Information. It is our responsibility to form an independent opinion, based on our examination, on the Financial Information and to report our opinion to you.

In our opinion, except for any adjustments that might have been found to be necessary had we been able to obtain sufficient evidence concerning the quantity of inventories of the Group as at 1 April 2001, the Financial Information, for the purpose of this report, which is prepared on the basis set out in section I — Note I below, gives a true and fair view of the combined results and cash flows of the Group for the year ended 31 March 2002. Further, in our opinion, the Financial Information, for the purpose of this report, which is prepared on the basis set out in section I — Note I below, gives a true and fair view of the combined financial position of the Group as at 31 March 2002, 2003 and 2004 and of the combined results and cash flows of the Group for the years ended 31 March 2003 and 2004.

I. FINANCIAL INFORMATION ABOUT THE GROUP

The following are the combined accounts of the Group as at 31 March 2002, 2003 and 2004, and for the years ended 31 March 2002, 2003 and 2004, prepared on the basis set out in Note 1 below and expressed in Canadian dollars ("CAN\$"):

Combined profit and loss accounts

		Year ended 31 March		
		2002	2003	2004
	<i>Note</i>	<i>CAN\$'000</i>	<i>CAN\$'000</i>	<i>CAN\$'000</i>
Turnover	3	55,354	59,351	54,839
Cost of sales		<u>(50,647)</u>	<u>(54,118)</u>	<u>(49,407)</u>
Gross profit		4,707	5,233	5,432
Other revenue	3	49	—	5
Distribution and selling expenses		(3,017)	(2,909)	(2,793)
General and administrative expenses		(1,202)	(1,256)	(1,186)
Gain on disposal of a subsidiary	16	<u>—</u>	<u>—</u>	<u>419</u>
Profit before taxation	4	537	1,068	1,877
Taxation	6	<u>(196)</u>	<u>(354)</u>	<u>(660)</u>
Profit for the year		<u>341</u>	<u>714</u>	<u>1,217</u>
Dividend	7	<u>—</u>	<u>—</u>	<u>—</u>

Combined balance sheets

		As at 31 March		
		2002	2003	2004
	<i>Note</i>	<i>CAN\$'000</i>	<i>CAN\$'000</i>	<i>CAN\$'000</i>
Non-current assets				
Fixed assets	8	489	419	344
Deferred tax assets	12	77	69	72
		<u> </u>	<u> </u>	<u> </u>
Total non-current assets		566	488	416
		<u> </u>	<u> </u>	<u> </u>
Current assets				
Inventories	9	2,886	2,858	3,047
Trade receivables	10	3,754	3,091	3,638
Prepayments and other receivables		51	55	40
Cash and bank deposits		2,219	2,631	3,027
		<u> </u>	<u> </u>	<u> </u>
Total current assets		8,910	8,635	9,752
		<u> </u>	<u> </u>	<u> </u>
Current liabilities				
Trade payables	11	5,073	3,866	3,946
Accruals and other payables		686	600	424
Due to a related company	19	—	216	—
Taxation payable		156	28	415
		<u> </u>	<u> </u>	<u> </u>
Total current liabilities		5,915	4,710	4,785
		<u> </u>	<u> </u>	<u> </u>
Net current assets		2,995	3,925	4,967
		<u> </u>	<u> </u>	<u> </u>
Total assets less current liabilities		3,561	4,413	5,383
Non-current liabilities				
Loans from shareholders	13	—	233	200
		<u> </u>	<u> </u>	<u> </u>
Net assets		3,561	4,180	5,183
		<u> </u>	<u> </u>	<u> </u>
Representing—				
Share capital	14	211	211	204
Reserves	15	3,350	3,969	4,979
		<u> </u>	<u> </u>	<u> </u>
Equity		3,561	4,180	5,183
		<u> </u>	<u> </u>	<u> </u>

Combined cash flow statements

		Year ended 31 March		
		2002	2003	2004
	<i>Note</i>	<i>CAN\$'000</i>	<i>CAN\$'000</i>	<i>CAN\$'000</i>
Operating activities				
Net cash (used in)/generated				
from operations	16(i)	(1,259)	453	1,018
Interest received		49	—	5
Canadian income tax				
refunded/(paid)		124	(474)	(276)
Net cash (outflow)/inflow				
from operating activities		(1,086)	(21)	747
Investing activities				
Additions of fixed assets		(17)	(16)	(18)
Net cash outflow from				
investing activities		(17)	(16)	(18)
Net cash (outflow)/inflow				
before financing activities		(1,103)	(37)	729
Financing activities	16(ii)			
New loans from shareholders		—	233	—
Repayment of loans				
from shareholders		—	—	(33)
Redemption of shares		—	—	(84)
Increase/(decrease) in amount				
due to a related company		—	216	(216)
Net cash inflow/(outflow)				
from financing		—	449	(333)
(Decrease)/increase in cash				
and cash equivalents		(1,103)	412	396
Cash and cash equivalents,				
beginning of year		3,322	2,219	2,631
Cash and cash equivalents,				
end of year	16(iv)	2,219	2,631	3,027

Combined statements of changes in equity

	<i>Note</i>	Year ended 31 March		
		2002	2003	2004
		<i>CAN\$'000</i>	<i>CAN\$'000</i>	<i>CAN\$'000</i>
Total equity, beginning of year		3,171	3,561	4,180
Profit for the year		341	714	1,217
Exchange differences arising from translation of accounts of subsidiaries		49	(95)	(130)
Redemption of shares	14	—	—	(84)
Total equity, end of year		3,561	4,180	5,183

Notes to the combined accounts

1. Basis of presentation

As at the date of this report, the Company has direct and indirect interests in the following subsidiaries, all of which are limited liability private companies or, if incorporated or established outside Hong Kong, have substantially the same characteristics as a Hong Kong incorporated limited liability private company.

Name	Place and date of incorporation	Issued and fully paid up capital	Percentage of equity interest attributable to the Group	Principal activities and place of operation
<i>Directly held —</i>				
Daiwa Holdings Inc.	Ontario, Canada 24 April 1990	CAN\$223,015	100%	Investment holding
Maxim Resources Limited	British Virgin Islands 21 December 1993	US\$1,000	100%	Procurement of computer goods and electronic goods, Hong Kong and the PRC
<i>Indirectly held —</i>				
Daiwa Distribution (Alberta) Inc.	Alberta, Canada 21 July 1999	CAN\$120	100%	Sales and distribution of computer goods and electronic goods, Alberta, Canada
Daiwa Distribution (B.C.) Inc.	British Columbia, Canada 27 October 1992	CAN\$300,000	100%	Sales and distribution of computer goods and electronic goods, British Columbia, Canada
Daiwa Distribution (Nova Scotia) Inc.	Nova Scotia, Canada 28 September 1998	CAN\$100	100%	Sales and distribution of computer goods and electronic goods, Nova Scotia, Canada
Daiwa Distribution (Ontario) Inc.	Ontario, Canada 12 February 1991	CAN\$300,000	100%	Sales and distribution of computer goods and electronic goods, Ontario, Canada
Daiwa Precision Industrial Ltd.	Ontario, Canada 22 January 1993	CAN\$1	100%	Investment holding

Name	Place and date of incorporation	Issued and fully paid up capital	Percentage of equity interest attributable to the Group	Principal activities and place of operation
<i>Indirectly held —</i>				
Daiwa Semitron Supplies (Canada) Inc.	Ontario, Canada 24 April 1990	CAN\$1	100%	Sales and distribution of computer goods and electronic goods, Ontario, Canada
Westpac Holdings Inc.	Ontario, Canada 2 February 1993	CAN\$1	100%	Property holding, Ontario, Canada
Westpac Technology Inc.	Ontario, Canada 10 September 1992	CAN\$1	100%	Investment holding

The combined accounts of the Group as at and for the years ended 31 March 2002, 2003 and 2004, have been prepared to present the financial positions, results of operations and cash flows of the companies now comprising the Group, as if the current structure of the Group had been in existence throughout the Relevant Periods or since their respective dates of incorporation, where this is a shorter period, together with the financial positions, results and cash flows of Distribution Daiwa (Quebec) Inc. and Daiwa Distribution Inc., up to the respective dates of their disposal/liquidation.

All significant intra-group transactions and balances have been eliminated on combination.

2. Principal accounting policies

The Financial Information is prepared under the historical cost convention and in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants.

(a) Subsidiaries

Subsidiaries are those entities in which the Company, directly or indirectly, controls more than one half of the voting power; has the power to govern the financial and operating policies, to appoint or remove the majority of the members of the board of directors, or to cast majority of votes at the meetings of the board of directors.

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group’s share of its net assets together with any related accumulated foreign currency translation reserve.

(b) *Revenue recognition*

(i) *Sales of goods*

Revenue from sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed.

(ii) *Interest income*

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

(c) *Deferred taxation*

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

(d) *Borrowing costs*

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. All other borrowing costs are charged to the profit and loss account in the period in which they are incurred.

(e) *Fixed assets*

(i) *Fixed assets*

Fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses.

(ii) *Depreciation*

Fixed assets are depreciated at rates sufficient to write off their costs less accumulated impairment losses and estimated residual value over their expected useful lives on a straight-line basis for leasehold improvements and on a declining balance basis for other fixed assets. The principal annual rates are as follows:

Land and building	2.5% straight-line
Leasehold improvements	20% to 33% straight-line
Fixture and furniture	20% declining balance
Office equipment	20% declining balance
Motor vehicles	30% declining balance

The depreciation method and useful lives are reviewed periodically to ensure that the method and rates of depreciation are consistent with the expected pattern of economic benefits from fixed assets.

(iii) *Impairment and gain or loss on sale*

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that assets included in fixed assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account.

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

(f) *Inventories*

Inventories are stated at the lower of cost and net realisable value. Cost, calculated on the weighted average basis, comprises cost of purchase and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

(g) *Accounts receivable*

Provision is made against accounts receivables to the extent that they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision.

(h) *Provisions*

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

(i) *Contingent liabilities and contingent assets*

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably. A contingent liability is not recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group. Contingent assets are not recognised but are disclosed in the notes to the accounts when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

(j) Translation of foreign currencies

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

The balance sheets of subsidiaries expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date, whilst the profit and loss accounts are translated at an average rate. Exchange differences are dealt with as a movement in reserves.

(k) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the profit and loss account on a straight-line basis over the lease periods.

(l) Segment reporting

In accordance with the Group's internal financial reporting, the Group has determined that business segments be presented as the primary reporting format and geographical segments as the secondary reporting format.

Segment assets consist primarily of fixed assets, inventories, receivables and other operating assets. Segment liabilities comprise operating liabilities and exclude taxation. Capital expenditures comprise additions to fixed assets.

In respect of geographical segment reporting, turnover and segments results are determined based on the destination of delivery of goods. Total assets, liabilities, capital expenditures and depreciation are based on where the assets and liabilities are located.

(m) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks, cash investments with a maturity of three months or less from date of investment and bank overdrafts.

3. Turnover, revenue and segment information**(a) Turnover and revenue**

The Group is principally engaged in the sales and distribution of computer goods and electronic goods. The Group's turnover and revenue were follows:

	Year ended 31 March		
	2002 CAN\$'000	2003 CAN\$'000	2004 CAN\$'000
Turnover			
Sale of goods	55,354	59,351	54,839
Other revenue			
Interest income from bank deposits	49	—	5
Total revenue	<u>55,403</u>	<u>59,351</u>	<u>54,844</u>

(b) Segment information

No segment information by business segment is presented as the Group operated in one business segment — sales and distribution of computer goods and electronic goods.

Substantially all of the Company's sales were shipped/delivered to North America. Substantially all of the Company's assets and liabilities were located in Canada.

4. Profit before taxation

Profit before taxation is stated after charging and crediting the following:

	Year ended 31 March		
	2002 CAN\$'000	2003 CAN\$'000	2004 CAN\$'000
Charging —			
Employment costs (including directors' emoluments) — salaries, wages and allowances	2,460	2,405	2,316
Operating lease rental in respect of rented premises	491	418	381
Depreciation of fixed assets	100	86	78
Write-down of inventories to net realisable value	—	247	—
Provision for bad and doubtful debts	167	154	142
Auditors' remuneration	<u>60</u>	<u>66</u>	<u>75</u>
Crediting —			
Exchange gains, net	140	245	181
Reversal of write-down of inventories	<u>181</u>	<u>—</u>	<u>181</u>

5. Directors’ and senior management’s emoluments

(a) Directors’ emoluments

The aggregate amounts of emoluments paid/payable to directors of the Company were as follows:

	Year ended 31 March		
	2002	2003	2004
	CAN\$’000	CAN\$’000	CAN\$’000
Fees	—	—	—
Other emoluments —			
Salaries and other allowances	184	203	210
	<u>184</u>	<u>203</u>	<u>210</u>

The emoluments of the directors fell within the following band:

	Number of directors		
	2002	2003	2004
Nil — approximately CAN\$169,000 (equivalent of Nil — HK\$1,000,000)	<u>4</u>	<u>4</u>	<u>4</u>

All directors during the Relevant Periods were executive directors. None of the directors waived any emoluments during the Relevant Periods.

(b) Five highest paid individuals

The five individuals whose emoluments were the highest for the years ended 31 March 2002, 2003 and 2004, include one, one and one director, respectively, whose emoluments are reflected in the analysis presented in Note 5(a) above. The emoluments payable to the remaining individuals are as follows:

	Year ended 31 March		
	2002	2003	2004
	CAN\$’000	CAN\$’000	CAN\$’000
Salaries and other allowances	<u>230</u>	<u>250</u>	<u>253</u>

The emoluments fell within the following band:

	Year ended 31 March		
	2002	2003	2004
	CAN\$’000	CAN\$’000	CAN\$’000
Nil — approximately CAN\$169,000 (equivalent of Nil — HK\$1,000,000)	<u>4</u>	<u>4</u>	<u>4</u>

(c) During the Relevant Periods, no emoluments have been paid to the directors of the Company or the five highest paid individuals as an inducement to join or as compensation for loss of office.

6. Taxation

	Year ended 31 March		
	2002	2003	2004
	CAN\$'000	CAN\$'000	CAN\$'000
Current taxation			
— Canadian income tax	204	346	410
— Hong Kong profits tax	—	—	253
Deferred taxation	(8)	8	(3)
	196	354	660

(i) Canadian income tax

Canadian income tax has been provided at the rates of approximately 38.3%, 32.7% and 33.5% for the years ended 31 March 2002, 2003 and 2004, respectively, on the estimated assessable profit assessable for Canadian income tax purpose.

(ii) Overseas income taxes

The Company was incorporated in the British Virgin Islands as an exempted company with limited liability under the International Business Companies Acts of the British Virgin Islands and, accordingly, is exempted from payment of British Virgin Islands income tax.

(iii) *Hong Kong profits tax*

Hong Kong profits tax has been provided at the rates of 16.0%, 16.0% and 17.5% for the years ended 31 March 2002, 2003 and 2004, respectively, on the estimated profit assessable for Hong Kong profits tax purpose.

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the income tax rate in Canada, where the Group principally operates, as follows:

	Year ended 31 March		
	2002	2003	2004
	CAN\$'000	CAN\$'000	CAN\$'000
Profit before taxation	537	1,068	1,877
Calculated at a taxation rate of approximately 38.3% for 2002, 32.7% for 2003 and for 33.5% for 2004	206	349	628
Effect of different taxation rates in other countries	(47)	(34)	(52)
Tax effect of income not subject to taxation	(36)	(33)	(136)
Tax effect of expenses not deductible for taxation purposes	9	17	12
Utilisation of previously unrecognised tax losses	(32)	(44)	(26)
Unrecognised tax losses of current year	137	—	—
(Over)/underprovision of income tax in prior years	(54)	89	236
Others	13	10	(2)
Taxation charge	196	354	660

7. **Dividends**

No dividend has been paid or declared by the Company since its incorporation.

No dividend was paid by the subsidiaries out of their retained earnings to their then shareholders during the years ended 31 March 2002, 2003 and 2004.

8. Fixed assets

Movements were:

	Land and building <i>CAN\$'000</i>	Leasehold improvements, fixture and furniture <i>CAN\$'000</i>	Office equipment <i>CAN\$'000</i>	Motor vehicles <i>CAN\$'000</i>	Total <i>CAN\$'000</i>
Cost					
At 1 April 2001	200	810	338	48	1,396
Additions	<u>—</u>	<u>7</u>	<u>10</u>	<u>—</u>	<u>17</u>
At 31 March 2002	200	817	348	48	1,413
Additions	<u>—</u>	<u>4</u>	<u>12</u>	<u>—</u>	<u>16</u>
Disposals	<u>—</u>	<u>(39)</u>	<u>(34)</u>	<u>—</u>	<u>(73)</u>
At 31 March 2003	200	782	326	48	1,356
Additions	<u>—</u>	<u>2</u>	<u>16</u>	<u>—</u>	<u>18</u>
Disposals	<u>—</u>	<u>(14)</u>	<u>(21)</u>	<u>—</u>	<u>(35)</u>
At 31 March 2004	<u>200</u>	<u>770</u>	<u>321</u>	<u>48</u>	<u>1,339</u>
Accumulated depreciation					
At 1 April 2001	46	518	220	40	824
Charge for the year	<u>5</u>	<u>63</u>	<u>30</u>	<u>2</u>	<u>100</u>
At 31 March 2002	51	581	250	42	924
Charge for the year	<u>5</u>	<u>56</u>	<u>23</u>	<u>2</u>	<u>86</u>
Disposals	<u>—</u>	<u>(39)</u>	<u>(34)</u>	<u>—</u>	<u>(73)</u>
At 31 March 2003	56	598	239	44	937
Charge for the year	<u>5</u>	<u>53</u>	<u>19</u>	<u>1</u>	<u>78</u>
Disposals	<u>—</u>	<u>(9)</u>	<u>(11)</u>	<u>—</u>	<u>(20)</u>
At 31 March 2004	<u>61</u>	<u>642</u>	<u>247</u>	<u>45</u>	<u>995</u>
Net book value					
At 31 March 2004	<u>139</u>	<u>128</u>	<u>74</u>	<u>3</u>	<u>344</u>
At 31 March 2003	<u>144</u>	<u>184</u>	<u>87</u>	<u>4</u>	<u>419</u>
At 31 March 2002	<u>149</u>	<u>236</u>	<u>98</u>	<u>6</u>	<u>489</u>

The land and building is located in Canada and is freehold. It is pledged as collateral for the Group’s banking facility (*see Note 17*).

9. Inventories

	As at 31 March		
	2002	2003	2004
	CAN\$'000	CAN\$'000	CAN\$'000
Trading merchandise	2,886	2,858	3,047

Inventories of approximately CAN\$755,000, CAN\$1,348,000, and CAN\$1,217,000 as at 31 March 2002, 2003 and 2004, respectively, were stated at net realisable value.

10. Trade receivables

The credit period granted by the Group to its customers was generally around 30 to 45 days. The aging analysis of trade and bills receivables is as follows:

	As at 31 March		
	2002	2003	2004
	CAN\$'000	CAN\$'000	CAN\$'000
0 to 30 days	3,357	2,546	2,733
31 to 60 days	388	553	404
61 to 90 days	13	—	174
91 to 180 days	—	—	455
	3,758	3,099	3,766
Less: Provision for bad and doubtful debts	(4)	(8)	(128)
	3,754	3,091	3,638

11. Trade and bills payables

The aging analysis of trade and bills payables is as follows:

	As at 31 March		
	2002	2003	2004
	CAN\$'000	CAN\$'000	CAN\$'000
0 to 30 days	4,130	3,810	3,940
31 to 60 days	941	56	—
61 to 90 days	2	—	6
	5,073	3,866	3,946

12. Deferred taxation

Deferred taxation are calculated in full on temporary differences under the liability method using a principal taxation rate of approximately 38.3%, 32.7% and 33.5% for the years ended 31 March 2002, 2003 and 2004, respectively.

Deferred tax assets are recognised for tax loss carried forwards to the extent that realisation of the related tax benefit through the future taxable profits is probable. As at 31 March 2002 and 2003, the Group had unrecognised tax losses of approximately CAN\$493,000 and CAN\$399,000, respectively, to carry forward against future taxable income. These tax losses can only be offset against future profits and have not been recognised in the combined accounts. These tax losses begin to expire in 2007. As at 31 March 2004, the Group had no unrecognised tax loss.

Movements of deferred income tax asset account were:

	2002	2003	2004
	CAN\$'000	CAN\$'000	CAN\$'000
As at 1 April	69	77	69
Deferred taxation (credited)/charged to profit and loss account (<i>Note 6</i>)	8	(8)	3
As at 31 March	77	69	72

The movements in deferred tax assets and liabilities (prior to offsetting of balances within the same taxation jurisdiction) were:

Deferred tax assets —

	Decelerated depreciation	Tax losses	Total
	CAN\$'000	CAN\$'000	CAN\$'000
At 1 April 2001	12	71	83
Credited to profit and loss account	3	8	11
At 31 March 2002	15	79	94
Charged to profit and loss account	(1)	(10)	(11)
At 31 March 2003	14	69	83
Credited to profit and loss account	1	—	1
At 31 March 2004	15	69	84

Deferred tax liabilities —

	Others CAN\$'000
At 1 April 2001	14
Charged to profit and loss account	3
At 31 March 2002	17
Credited to profit and loss account	(3)
At 31 March 2003	14
Credited to profit and loss account	(2)
At 31 March 2004	12

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off and when the deferred income taxes relates to the same fiscal authority. The total amounts, determined after appropriate offsetting, are shown in the combined balance sheet:

	2002 CAN\$'000	2003 CAN\$'000	2004 CAN\$'000
Deferred tax assets	77	69	72
Deferred tax liabilities	—	—	—

13. Loans from shareholders

Loans from shareholders as at 31 March 2002, 2003 and 2004 were unsecured, non-interest bearing and without pre-determined repayment terms. The loans from shareholders were fully settled after 31 March 2004.

14. Share capital

The Company was incorporated in the British Virgin Islands on 23 February 2004 and accordingly had no issued share capital as at 31 March 2002 and 2003. As at 31 March 2004, the Company issued 1 share of CAN\$1.3 (equivalent of US\$1) each, nil paid.

In the combined balance sheets, the share capital represents the aggregated amount of the issued and paid up capital of Daiwa Holdings Inc. and Maxim Resources Limited, the intermediate holding companies, as at 31 March 2002, 2003 and 2004.

In July 2003, Daiwa Holdings Inc. redeemed 60,000 issued and fully paid shares with a par value of CAN\$0.1 each, for approximately CAN\$84,000, representing a premium of CAN\$77,000. The premium on redemption was charged against contributed surplus account (*see Note 15*).

15. Reserves

Movements were:

	Contributed Surplus <i>CAN\$'000</i>	Cumulative translation reserve <i>CAN\$'000</i>	Retained earnings <i>CAN\$'000</i>	Total <i>CAN\$'000</i>
As at 1 April 2001	182	(107)	2,885	2,960
Exchange differences arising from translation of accounts of foreign subsidiaries	—	49	—	49
Profit for the year	<u>—</u>	<u>—</u>	<u>341</u>	<u>341</u>
As at 31 March 2002	182	(58)	3,226	3,350
Exchange differences arising from translation of accounts of foreign subsidiaries	—	(95)	—	(95)
Profit for the year	<u>—</u>	<u>—</u>	<u>714</u>	<u>714</u>
As at 31 March 2003	182	(153)	3,940	3,969
Exchange differences arising from translation of accounts of foreign subsidiaries	—	(130)	—	(130)
Profit for the year	<u>—</u>	<u>—</u>	<u>1,217</u>	<u>1,217</u>
Premium on redemption of shares (<i>see Note 14</i>)	<u>(77)</u>	<u>—</u>	<u>—</u>	<u>(77)</u>
As at 31 March 2004	<u><u>105</u></u>	<u><u>(283)</u></u>	<u><u>5,157</u></u>	<u><u>4,979</u></u>

16. Combined cash flow statement

(i) Reconciliation of profit before taxation to net cash inflow generated from operations:

	2002	2003	2004
	CAN\$'000	CAN\$'000	CAN\$'000
Profit before taxation	537	1,068	1,877
Interest income	(49)	—	(5)
Depreciation of fixed assets	100	86	78
Gain on disposal of a subsidiary	—	—	(419)
Loss on liquidation of a subsidiary	—	—	13
Operating profit before working capital changes	588	1,154	1,544
(Increase)/decrease in inventories	(113)	28	(189)
Decrease/(increase) in trade receivables	1,441	663	(113)
(Increase)/decrease in prepayments and other receivables	(4)	(4)	15
Decrease in trade payables	(3,085)	(1,302)	(63)
Decrease in accruals and other payables	(86)	(86)	(176)
Net cash (used in)/generated from operations	(1,259)	453	1,018

(ii) Analysis of changes in financing:

	Share capital and contributed surplus	Due to related company	Loans from shareholders
	CAN\$'000	CAN\$'000	CAN\$'000
At 1 April 2001 and 2002	393	—	—
New loans	—	216	233
At 31 March 2003	393	216	233
Repayments	—	(216)	(33)
Redemption of shares	(84)	—	—
At 31 March 2004	309	—	200

(iii) Disposal of a subsidiary:

During the year ended 31 March 2004, the Group disposed its entire 100% interest in Distribution Diawa (Quebec) Inc., a company incorporated in Quebec, Canada, for approximately CAN\$477,000, and recognised a gain of approximately CAN\$419,000. Details of the subsidiary disposed are: —

	CAN\$'000
Fixed assets	14
Current assets	44
	58
Proceeds of the disposal	477
	419
Gain on disposal	
Analysis of the consideration received —	
Cash	1
Assumption of amount payable to a subsidiary	476
	477

(iv) Cash and cash equivalents:

Cash and cash equivalents consisted of cash and bank deposits.

17. Banking facility/pledge of assets

As at 31 March 2004, a subsidiary had loan facilities of CAN\$500,000, which bear interest at Canada prime borrowing rate plus 0.75% per annum. The facility is pledged by all of the assets of Daiwa Distribution (Ontario) Inc. amounting to approximately CAN\$7,079,000 as at 31 March 2004, unlimited guarantees and postponement claims from Daiwa Distribution (Alberta) Inc., Daiwa Distribution (B.C.) Inc., Daiwa Distribution (Nova Scotia) Inc., Daiwa Precision Industrial Ltd., Daiwa Semitron Supplies (Canada) Inc., Westpac Holdings Inc., Westpac Technology Inc., and a pledge of the Group’s land and building with a net book value of approximately CAN\$139,000 as at 31 March 2004 (see Note 8). As at 31 March 2004, no amount was drawn on the facility.

18. Operating leases

The Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of rented premises and operating leases of motor vehicles, as follows:

	As at 31 March		
	2002	2003	2004
	CAN\$'000	CAN\$'000	CAN\$'000
Not later than one year	391	351	334
Later than one year and not later than five years	1,014	743	548
Later than five years	195	115	34
	1,600	1,209	916

19. Related parties transaction

Parties are considered to be related if one party has the ability, directly or indirectly, 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.

During the years ended 31 March 2002, 2003 and 2004, the Group paid rent of approximately CAN\$184,000, CAN\$184,000 and CAN\$184,000, respectively, to a beneficial shareholder and his spouse.

At 31 March 2003, the amount due to a related company was unsecured, non-interest bearing and without pre-determined repayment terms.

20. Significant subsequent events

The following significant events have taken place subsequent to 31 March 2004:

- (i) During the months of April and May 2004, prior to the Reorganisation, Daiwa Holdings Inc., redeemed a total of 424,050 issued and fully paid shares with a par value of CAN\$0.1 each for approximately CAN\$731,000 and in this connection, the Group's equity was reduced by approximately CAN\$731,000.
- (ii) In June 2004, prior to the Reorganisation, Daiwa Holdings Inc. declared dividends totalling of CAN\$3,000,000 to its then shareholders and, in this connection, the Group's equity was reduced by the same amount.
- (iii) In June 2004, prior to the Reorganisation, Maxim Resources Limited declared dividends totalling of HK\$7,000,000 (approximately equals to CAN\$1,175,000) to its then shareholders and in this connection, the Group's equity was reduced by the same amount.
- (iv) In June 2004, in connection with the Reorganisation, the share capital of the Company was increased from 1 share of US\$1 each to 2,500,000 shares of US\$1 each. 2,262,970 shares were issued for cash of approximately CAN\$2,964,000 (equivalent of US\$2,263,280) and 237,029 shares were issued and credited as fully paid at par value of US\$1 each, as consideration for the share exchanges in connection with the Reorganisation. In this connection, the Group's equity was increased by approximately CAN\$2,964,000 (equivalent of US\$2,263,280) .

II. FINANCIAL INFORMATION ABOUT THE COMPANY

The Company has not carried on any business since its incorporation on 23 February 2004, except for the acquisition of the entire share capital of Daiwa Holdings Inc., and Maxim Resources Limited on 4 June 2004, through share exchanges as described above.

As at 31 March 2004, the Company had issued one ordinary share of US\$1 each, nil paid. The Company had no reserve available for distribution to its shareholders as at 31 March 2004.

III. SUBSEQUENT ACCOUNTS

No audited accounts have been prepared for the Company or any of the companies now comprising the Group in respect of any period subsequent to 31 March 2004. In addition, except as disclosed in Section I — Note 20, no dividend or distribution has been declared or paid by the Company or any of the companies now comprising the Group in respect of any period subsequent to 31 March 2004.

Yours faithfully,
PricewaterhouseCoopers
Certified Public Accountants
Hong Kong

1. SUMMARY OF FINANCIAL INFORMATION OF THE GROUP

Set out below is a summary of the audited consolidated results and financial position of the Group for each of the three years ended 31 March 2002, 2003 and 2004 as extracted from the annual report of the Company.

The Company's auditors have not issued any qualified opinion on the Group's financial statements for the three preceding years.

Results

	For the year ended 31 March		
	(Restated) <i>(Note 1 & 2)</i>	(Restated) <i>(Note 2)</i>	
	2002	2003	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	733,574	773,487	841,606
Cost of sales	(636,706)	(669,581)	(727,632)
Gross Profit	96,868	103,906	113,974
Other revenue/income	5,202	809	1,833
Selling and distribution expenses	(19,630)	(21,551)	(25,524)
General and administrative expenses	(65,644)	(64,949)	(73,863)
Operating profit	16,796	18,215	16,420
Finance costs	(3,701)	(764)	(1,074)
Share of losses of jointly controlled entities	(1,363)	(3,298)	(160)
Profit before taxation	11,732	14,153	15,186
Taxation	(1,710)	(2,507)	(1,924)
Profit after taxation	10,022	11,646	13,262
Minority interests	573	150	1,240
Profit attributable to Shareholders	<u>10,595</u>	<u>11,796</u>	<u>14,502</u>
Dividends	<u>4,777</u>	<u>4,764</u>	<u>3,970</u>
Dividends per Share	<u>3.00 cents</u>	<u>3.00 cents</u>	<u>2.50 cents</u>
Basic earnings per Share <i>(Note 3)</i>	<u>6.66 cents</u>	<u>7.42 cents</u>	<u>9.13 cents</u>
Diluted earnings per Share <i>(Note 3)</i>	<u>6.65 cents</u>	<u>7.41 cents</u>	<u>9.13 cents</u>

The Group does not have any extraordinary or exceptional items for each of the three years ended 31 March 2002, 2003 and 2004.

Financial Position

	As at 31 March		
	(Restated)	(Restated)	
	(Note 1 & 2)	(Note 2)	
	2002	2003	2004
	HK\$'000	HK\$'000	HK\$'000
TOTAL ASSETS	375,197	430,755	473,493
TOTAL LIABILITIES	111,228	158,475	192,707
	<u>263,969</u>	<u>272,280</u>	<u>280,786</u>

Notes:

- (1) Commencing from 1 April 2002, the Group adopted the Statements of Standard Accounting Practice ("SSAP") Number 34 "Employee benefits" issued by the Hong Kong Society of Accountant ("HKSA") which became effect for accounting period commencing on or after 1 January 2002. Such accounting policy was applied retrospectively so that the consolidated financial statements of the Group for the year ended 31 March 2002 had been restated to reflect the change. Effect of change is disclosed in Note 1(a) on page 30 of the annual report for the year ended 31 March 2003.
- (2) Commencing from 1 April 2003, the Group adopted SSAP 12 (revised) "Income taxes" issued by the HKSA which became effect for accounting period commencing on or after 1 January 2003. Such accounting policy was applied retrospectively so that the consolidated financial statements of the Group for the two years ended 31 March 2002 and 2003 had been restated to reflect the change. Effect of change is disclosed in Note 1(d) on pages 31 and 32 of the annual report for the year ended 31 March 2004.
- (3) The calculation of basic earnings per Share is based on the Group's profit attributable to shareholders for the years ended 31 March 2002, 2003 and 2004 of approximately HK\$10,595,000, HK\$11,796,000 and HK\$14,502,000, respectively.

The basic earnings per Share is based on the weighted average of Shares issued during the year ended 31 March 2002, 2003 and 2004 of approximately 159,122,000 Shares, 159,033,000 Shares and 158,810,000 Shares, respectively.

The diluted earnings per Share is based on the total number of Shares in issue during each respective year ended 31 March 2002, 2003 and 2004 plus the weighted average of approximately 319,000 Shares, 86,000 Shares and nil Shares for each of the year ended 31 March 2002, 2003 and 2004, respectively.

2. AUDITORS’ REPORT

Set out below is auditor’s report extracted from the annual report of the Company for the year ended 31 March 2004. References to the page numbers refer to the page number of the Company’s annual report for the year ended 31 March 2004.



羅兵咸永道會計師事務所

PricewaterhouseCoopers
22/F, Prince's Building
Central, Hong Kong
Telephone (852) 2289 8888
Facsimile (852) 2810 9888
www.pwchk.com

**AUDITOR’S REPORT TO THE SHAREHOLDERS OF
Daiwa Associate Holdings Limited**
(incorporated in Bermuda with limited liability)

We have audited the accounts on pages 23 to 67 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

The Company’s directors are responsible for the preparation of accounts which give a true and fair view. In preparing accounts which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion solely to you, as a body, in accordance with Section 90 of the Companies Act 1981 of Bermuda, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Basis of opinion

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

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

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the Company and of the Group as at 31 March 2004 and of the Group's profit and cash flows for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 23 July 2004

3. EXTRACT OF THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE YEAR ENDED 31 MARCH 2004

Set out below is the extract from the audited consolidated financial statements of the Company for the year ended 31 March 2004.

Consolidated Profit and Loss Account

For the year ended 31 March 2004

			(Restated)
		2004	2003
	Note	HK\$'000	HK\$'000
Turnover	2	841,606	773,487
Cost of sales		(727,632)	(669,581)
Gross profit		113,974	103,906
Other revenue/income	2	1,833	809
Selling and distribution expenses		(25,524)	(21,551)
General and administrative expenses		(73,863)	(64,949)
Operating profit	3	16,420	18,215
Finance costs	5	(1,074)	(764)
Share of losses of jointly controlled entities		(160)	(3,298)
Profit before taxation		15,186	14,153
Taxation	6	(1,924)	(2,507)
Profit after taxation		13,262	11,646
Minority interests		1,240	150
Profit attributable to shareholders	9	14,502	11,796
Dividends	10	3,970	4,764
Earnings per share			
— Basic	11	9.13 cents	7.42 cents
— Diluted	11	9.13 cents	7.41 cents

Consolidated Balance Sheet*31 March 2004*

			(Restated)
		2004	2003
	Note	HK\$'000	HK\$'000
Non-current assets			
Goodwill	12	—	469
Fixed assets	13	128,100	124,888
Construction-in-progress	14	5,141	2,511
Interests in jointly controlled entity	16	1,658	8,243
Long-term investments	1(i)	1,050	1,050
Deferred tax assets	23	1,812	331
		<u>137,761</u>	<u>137,492</u>
Current assets			
Inventories	17	131,573	121,275
Trade receivables	18	121,328	94,262
Prepayments, deposits and other receivables		14,878	16,927
Cash and bank balances	19	67,953	60,799
		<u>335,732</u>	<u>293,263</u>
Current liabilities			
Short-term bank borrowings	20	47,358	37,803
Trade payables	21	119,444	95,759
Accruals and other payables		16,648	14,198
Current portion of long-term liabilities	22	1,901	1,937
		<u>185,351</u>	<u>149,697</u>
Net current assets		<u>150,381</u>	<u>143,566</u>
Total assets less current liabilities		<u>288,142</u>	<u>281,058</u>
Non-current liabilities			
Long-term liabilities	22	1,910	4,054
Deferred tax liabilities	23	5,446	4,724
		<u>7,356</u>	<u>8,778</u>
Net assets		<u>280,786</u>	<u>272,280</u>
Financed by:			
Share capital	24	15,881	15,881
Reserves	26	264,229	254,464
Shareholders' equity		280,110	270,345
Minority interests		676	1,935
		<u>280,786</u>	<u>272,280</u>

Approved by the Board of Directors on 23 July 2004

Balance Sheet*31 March 2004*

	<i>Note</i>	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Non-current assets			
Investments in subsidiaries	15	264,042	258,206
Current assets			
Other receivables		166	157
Cash and bank balances		16	24
		182	181
Current liabilities			
Accruals and other payables		283	245
Net current liabilities		(101)	(64)
Net assets		263,941	258,142
Financed by:			
Share capital	24	15,881	15,881
Reserves	26	248,060	242,261
Shareholders' equity		263,941	258,142

Approved by the Board of Directors on 23 July 2004

Consolidated Cash Flow Statement*For the year ended 31 March 2004*

		2004	(Restated)
	<i>Note</i>	<i>HK\$'000</i>	<i>2003</i>
			<i>HK\$'000</i>
Operating activities			
Net cash inflow/(outflow) from operations	27(a)	21,484	(1,855)
Interest paid		(1,074)	(764)
Interest received		318	467
Hong Kong profits tax paid		(689)	(348)
Hong Kong profits tax refunded		76	237
Mainland China enterprise income tax paid		(151)	(248)
Net cash inflow/(outflow) from operating activities		<u>19,964</u>	<u>(2,511)</u>
Investing activities			
Purchases of fixed assets		(12,809)	(8,912)
Proceeds from disposal of fixed assets		11	43
Payments for construction-in-progress		(2,630)	(1,736)
Purchase of additional interests in a jointly controlled entity	27(c)	(1,224)	—
Net cash outflow from investing activities		<u>(16,652)</u>	<u>(10,605)</u>
Net cash inflow/(outflow) before financing		<u>3,312</u>	<u>(13,116)</u>
Financing activities	27(b)		
Proceeds from issue of shares		—	168
Repurchase of shares		—	(327)
Contribution from minority shareholders of a subsidiary		1,000	300
New short-term bank borrowings		163,017	97,631
Repayment of short-term bank borrowings		(153,462)	(80,259)
Payment of capital element of finance lease obligations		(1,976)	(143)
Dividends paid		(4,764)	(3,977)
Net cash inflow from financing activities		<u>3,815</u>	<u>13,393</u>
Increase in cash and cash equivalents		7,127	277
Effect of foreign exchange rate changes		27	117
Cash and cash equivalents, beginning of year		<u>60,799</u>	<u>60,405</u>
Cash and cash equivalents, end of year	27(d)	<u>67,953</u>	<u>60,799</u>

Consolidated Statement of Changes in Equity*For the year ended 31 March 2004*

		2004	(Restated)
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Balance as at beginning of year, as previously reported		274,373	266,039
Effect of change in an accounting policy	<i>1(d)</i>	<u>(4,028)</u>	<u>(3,490)</u>
Balance as at beginning of year, as restated		270,345	262,549
Profit attributable to shareholders		14,502	11,796
Translation adjustment	<i>26</i>	27	136
Dividends paid	<i>26</i>	(4,764)	(3,977)
Issue of shares	<i>24 & 26</i>	—	168
Repurchase of shares	<i>24 & 26</i>	<u>—</u>	<u>(327)</u>
Balance as at end of year		<u><u>280,110</u></u>	<u><u>270,345</u></u>

Notes to the Accounts*31 March 2004***1 PRINCIPAL ACCOUNTING POLICIES**

The principal accounting policies adopted in the preparation of these accounts are set out below:

(a) Basis of preparation

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants (“HKSA”). They have been prepared under the historical cost convention.

In the current year, the Group adopted the revised Statement of Standard Accounting Practice Number 12 “Income taxes” (“SSAP 12”) issued by the HKSA which is effective for accounting periods commencing on or after 1 January 2003. The changes to the Group’s accounting policy and the effect of adopting this revised policy is set out in note 1(d) below.

(b) Group accounting**(i) Consolidation**

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31 March.

Subsidiaries are those entities in which the Company, directly or indirectly, controls more than one half of the voting power; has the power to govern the financial and operating policies, to appoint or remove the majority of the members of the board of directors, or to cast majority of votes at the meetings of the board of directors.

The results of subsidiaries acquired or disposed during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group’s share of its net assets together with any unamortised goodwill or negative goodwill taken to reserves and which was not previously charged or recognised in the consolidated profit and loss account.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

In the Company’s balance sheet, the investments in subsidiaries are stated at cost less accumulated impairment losses, if any. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(ii) *Jointly controlled entities*

A jointly controlled entity is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity.

The consolidated profit and loss account includes the Group's share of the results of jointly controlled entities for the year, and the consolidated balance sheet includes the Group's share of net assets of the jointly controlled entities and goodwill on acquisition net of accumulated amortisation.

(c) *Revenue recognition*

(i) *Sales of goods*

Revenue from the sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed.

(ii) *Interest income*

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

(d) *Deferred taxation*

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries and jointly controlled entities, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

In prior years, deferred taxation was accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset was expected to be payable or recoverable in the foreseeable future. The adoption of the revised SSAP 12 represents a change in accounting policy, which has been applied retrospectively so that the comparatives presented have been restated to conform to the changed policy.

As indicated in Note 26, opening retained profits at 1 April 2002 and 2003 have been reduced by HK\$3,490,000 and HK\$4,028,000, respectively, which represent the unprovided net deferred tax liabilities. This change has resulted in an increase in deferred tax assets and deferred tax liabilities at 31 March 2003 by approximately HK\$331,000 and HK\$4,359,000, respectively.

(e) *Intangible assets*

(i) *Goodwill*

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary jointly controlled entity at the date of acquisition.

Goodwill on acquisitions occurring on or after 1 January 2001 is included in intangible assets and is amortised using the straight-line method over its estimated useful life. Goodwill arising on major strategic acquisitions of the Group to expand its product or geographical market coverage is amortised over a maximum period of 10 years. For all other acquisitions, goodwill is generally amortised over 5 years.

Goodwill on acquisitions that occurred prior to 1 January 2001 was eliminated against reserves. Any impairment arising on such goodwill is accounted for in the profit and loss account.

(ii) *Research and development costs*

Research costs are expensed as incurred. Costs incurred on development projects relating to the design and testing of new or improved products are recognised as an intangible asset where the technical feasibility and intention of completing the product under development has been demonstrated and the resources are available to do so, costs are identifiable and there is an ability to sell or use the asset that will generate probable future economic benefits. Such development costs are recognised as an asset and amortised on a straight-line basis over a period of not more than 5 years to reflect the pattern in which the related economic benefits are recognised. Development costs that do not meet the above criteria are expensed as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

(iii) *Impairment of intangible assets*

Where an indication of impairment exists, the carrying amount of any intangible asset, including goodwill previously written off against reserves, is assessed and written down immediately to its recoverable amount.

(f) *Fixed assets*

Fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses, if any.

Leasehold land is depreciated on a straight-line basis over the period of the lease, while other fixed assets are depreciated at rates sufficient to write off their cost less accumulated impairment losses over their estimate useful lives on a reducing balance basis. The principal annual rates are as follows:

Leasehold land	2% (lease period)
Buildings	2%
Plant and machinery	15%
Leasehold improvements, furniture and equipment	10% to 33%
Motor vehicles	15%
Moulds and tooling	15%

Fixed assets held under finance leases are recorded and depreciated on the same basis as described above.

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that assets included in fixed assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account.

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

(g) *Assets under leases*

(i) *Finance leases*

Leases that substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as finance leases. Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased assets or the present value of the minimum lease payments. Each lease payment is allocated between the capital and finance charges so as to achieve a constant rate on the capital balances outstanding. The corresponding rental obligations, net of finance charges, are included in current and non-current liabilities, where appropriate. The finance charges are charged to the profit and loss account over the lease periods.

(ii) *Operating leases*

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the profit and loss account on a straight-line basis over the lease periods.

(h) *Construction-in-progress*

Construction-in-progress represents factory premises under construction and moulds and toolings under development and is stated at cost less accumulated impairment losses, if any. Cost includes cost of land, construction expenditure incurred and interest and other direct costs attributable to the construction. Construction-in-progress is not depreciated, and will be reclassified as fixed assets when construction is completed.

(i) *Long-term investments*

Long-term investments represent club memberships and are stated at cost less accumulated impairment losses, if any.

(j) *Inventories*

Inventories are stated at the lower of cost and net realisable value. Cost, calculated on the weighted average basis, comprises materials, direct labour and an appropriate proportion of all production overhead expenditure. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

(k) *Accounts receivable*

Provision is made against trade and other receivables to the extent that they are considered to be doubtful. Accounts receivable in the balance sheet is stated net of such provision.

(l) *Translation of foreign currencies*

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

The balance sheet of subsidiaries and jointly controlled entities expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date, whilst the profit and loss account is translated at an average rate. Exchange differences arising in these cases are dealt with as a movement in reserves.

(m) *Cash and cash equivalents*

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks, cash investments with a maturity of three months or less from date of investment and bank overdrafts.

(n) *Provisions*

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

(o) *Contingent liabilities and contingent assets*

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably. A contingent liability is not recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group. Contingent assets are not recognised but are disclosed in the notes to the accounts when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

(p) Employee benefits**(i) Employee leave entitlements**

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long-service leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(ii) Pension obligations

The Group's contributions to defined contribution retirement schemes are expensed as incurred.

(q) Segment reporting

In accordance with the Group's internal financial reporting, the Group has determined that business segments be presented as the primary reporting format and geographical segment as the secondary reporting format.

Unallocated costs represent corporate expenses. Segment assets consist primarily of intangible assets, fixed assets, inventories, receivables and operating cash, and mainly exclude investments and certain corporate assets. Segment liabilities comprise operating liabilities and exclude items such as taxation, corporate accruals and corporate borrowings. Capital expenditure comprises additions to intangible assets and fixed assets, including additions resulting from acquisitions through purchases of subsidiaries.

In respect of geographical segment reporting, sales are based on the country in which the products are delivered to under customers' instructions. Total assets and capital expenditure are where the assets are located.

2. TURNOVER, REVENUE AND SEGMENT INFORMATION

The Group is principally engaged in the design, development, manufacture and distribution of electronic components and the provision of manufacturing services for electronic products. Revenues recognised are as follows:

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Turnover		
Manufacturing and distribution of electronic components	530,126	493,556
Manufacturing services for electronic products	311,480	279,931
	<u>841,606</u>	<u>773,487</u>
Other revenue		
Interest income	318	467
Gain resulting from acquisition of additional interest in a subsidiary	1,023	—
Others	492	342
	<u>1,833</u>	<u>809</u>
Total revenue	<u>843,439</u>	<u>774,296</u>

An analysis of the Group's turnover and results by business segments and geographical segments is as follows:

(a) *Primary reporting format — business segments:*

	Manufacturing and distribution of electronic components		Manufacturing services for electronic products		Eliminations		Group	
	2004	2003	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover								
External sales	530,126	493,556	311,480	279,931				
Inter-segment sales	2,796	5,042	266	1,470	(3,062)	(6,512)		
	<u>532,922</u>	<u>498,598</u>	<u>311,746</u>	<u>281,401</u>	<u>(3,062)</u>	<u>(6,512)</u>	<u>841,606</u>	<u>773,487</u>
Segment results	5,873	6,638	10,547	11,577			16,420	18,215
Finance costs							(1,074)	(764)
Share of losses of jointly controlled entities							(160)	(3,298)
Taxation							(1,924)	(2,507)
Minority interests							1,240	150
Profit attributable to shareholders							<u>14,502</u>	<u>11,796</u>
Assets								
Segment assets	255,105	228,088	180,079	166,203			435,184	394,291
Unallocated assets							38,309	36,464
Total assets							<u>473,493</u>	<u>430,755</u>
Liabilities								
Segment liabilities	116,217	91,500	71,044	61,205			187,261	152,705
Unallocated liabilities							5,446	5,770
Total liabilities							<u>192,707</u>	<u>158,475</u>
Other information								
Capital expenditure	8,081	10,065	11,977	5,607			20,058	15,672
Depreciation, amortisation and impairments	<u>7,884</u>	<u>5,161</u>	<u>8,045</u>	<u>5,401</u>			<u>15,929</u>	<u>10,562</u>

(b) Secondary reporting format — geographical segments:

	Turnover		Capital expenditure		Total assets (Restated)	
	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong and						
Mainland China	536,690	484,165	20,058	15,672	473,493	430,755
United States of America	107,610	115,598	—	—	—	—
Europe	78,200	70,178	—	—	—	—
Japan	111,576	87,267	—	—	—	—
Other Asian countries	7,530	16,279	—	—	—	—
	<u>841,606</u>	<u>773,487</u>	<u>20,058</u>	<u>15,672</u>	<u>473,493</u>	<u>430,755</u>

3. OPERATING PROFIT

Operating profit is stated after charging the following:

	2004 HK\$'000	2003 HK\$'000
Staff costs (including of directors' emoluments) (Note 4)	69,585	65,810
Operating lease rental in respect of		
— office premises	1,628	1,034
— machineries	—	720
Depreciation		
— owned fixed assets	12,641	10,150
— fixed assets held under finance leases	923	107
Loss on disposal of fixed assets	641	185
Amortisation and impairment loss of goodwill (included in general and administrative expenses)	2,365	305
Provision for bad and doubtful debts	621	1,025
Provision for inventory losses	3,572	180
Auditors' remuneration	<u>750</u>	<u>729</u>

4. STAFF COSTS

Staff costs including directors' emoluments, consisted of:

	2004 HK\$'000	2003 HK\$'000
Wages, salaries and allowances	55,703	52,216
Benefits	9,596	10,448
Bonus	3,266	2,048
Pension costs — defined contribution plans	<u>1,020</u>	<u>1,098</u>
	<u>69,585</u>	<u>65,810</u>

5. FINANCE COSTS

	2004 HK\$'000	2003 HK\$'000
Interest expense on bank loans		
wholly repayable within five years	988	746
Interest element of finance leases	86	18
	<u>1,074</u>	<u>764</u>

6. TAXATION

The Company is exempted from taxation in Bermuda. Hong Kong profits tax has been provided at the rate of 17.5% (2003: 16%) on the estimated assessable profits arising in or derived from Hong Kong. Mainland China enterprise income tax is calculated at the rates applicable to the respective subsidiaries.

	2004 HK\$'000	(Restated) 2003 HK\$'000
Current taxation:		
Hong Kong profits tax		
— Current year	2,310	1,514
— Over provision in previous years	(217)	(65)
Mainland China enterprise income tax	590	520
Deferred taxation relating to the origination and reversal of temporary differences	(1,171)	538
Deferred taxation resulting from an increase in tax rate	412	—
	<u>1,924</u>	<u>2,507</u>

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the profits tax rate in Hong Kong, the home country of the Group, and the reconciliation is as follows:

	2004 HK\$'000	2003 HK\$'000
Profit before taxation	<u>15,186</u>	<u>14,153</u>
Calculated at a taxation rate of 17.5% (2003: 16%)	2,658	2,264
Effect of different taxation rates in other countries	182	524
Tax effect of income not subject to taxation	(1,952)	(2,203)
Tax effect of expenses not deductible for taxation purpose	1,744	1,572
Deferred tax assets not recognised	265	415
Recognition of previously unrecognised tax assets	(1,168)	—
Increase in opening net deferred tax liabilities resulting from an increase in tax rate	412	—
Over provision in previous years	(217)	(65)
Taxation charge	<u>1,924</u>	<u>2,507</u>

7. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) *Directors' emoluments*

The aggregate amounts of the emoluments paid and payable to directors of the Company are as follows:

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Fees for independent non-executive directors	120	140
Other emoluments for executive directors		
— basic salaries and allowances	5,785	5,052
— discretionary bonus	1,121	950
— pension scheme contribution	268	249
	<u>7,294</u>	<u>6,391</u>

No director waived any emoluments during the year (2003: nil). No emolument was paid to any directors as inducement to join or as compensation for loss of office during the year (2003: nil). No director has granted or exercised any share option during the year (2003: nil).

The emoluments of the directors fell within the following bands:

	Number of directors 2004	2003
Independent non-executive directors		
Nil — HK\$1,000,000	2	3
Executive directors		
HK\$1,000,001 — 1,500,000	3	3
HK\$2,500,001 — 3,000,000	—	1
HK\$3,000,001 — 3,500,000	1	—
	<u>6</u>	<u>7</u>

(b) *Five highest paid individuals*

The five individuals whose emoluments were the highest in the Group for the year include four (2003: four) directors whose emoluments are reflected in the analysis presented above. The emoluments paid and payable to the remaining one (2003: one) individual are as follows:

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Basic salaries and allowances	506	546
Discretionary bonus	143	68
Pensions scheme contribution	24	26
	<u>673</u>	<u>640</u>

The emoluments fell within the following band:

	Number of individual	
	2004	2003
Nil — HK\$1,000,000	<u>1</u>	<u>1</u>

During the year, no emolument was paid to the five highest paid individuals (including directors and other employees) as inducement to join or as compensation for loss of office (2003: nil).

8. PENSION SCHEMES

The Group has two pension schemes, the ORSO Scheme and the MPF Scheme, for its employees in Hong Kong. The assets of the ORSO Scheme and the MPF Scheme are held separately from those of the Group under independently administered funds.

Under the ORSO Scheme, the Group and its employee make monthly contribution to the scheme of approximately 5% and 5% respectively, of the employees' salary. The unvested benefits of employees who have terminated employment are utilised by the Group to reduce its future contributions. The unvested benefit so utilised under the scheme during the year ended 31 March 2004 amounted approximately HK\$57,000 (2003: HK\$23,000), and the amount of unvested benefits that are available to reduce the Group's future contributions was approximately HK\$52,000 as at 31 March 2004 (2003: HK\$57,000).

Under the MPF Scheme, each of the Group and its employees makes monthly contributions to the scheme at 5% of the employee's relevant income, as defined in the Mandatory Provident Fund Schemes Ordinance. Both the Group's and the employee's contributions are subjected to a cap of HK\$1,000 per month. The contributions are fully and immediately vested with the employee.

As stipulated by rules and regulations in Mainland China, the Group contributes to state-sponsored retirement plans for its employees in Mainland China. The Group's employees make monthly contributions to plans at approximately 5% of the relevant income (comprising salaries, allowances and bonus), while the Group makes monthly contribution at approximately 8-10% of such relevant income and has no further obligations for the actual payment of pensions beyond its contribution. The state-sponsored retirement plans are responsible for the entire pension obligations payable to retired employees.

9. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The consolidated profit attributable to shareholders included a profit of approximately HK\$10,563,000 (2003: HK\$52,000) dealt with in the accounts of the Company.

10. DIVIDENDS

	2004 HK\$'000	2003 HK\$'000
Interim of HK\$0.015 (2003: HK\$0.015) per share	2,382	2,382
Final of HK\$0.01 (2003: HK\$0.015) per share	<u>1,588</u>	<u>2,382</u>
	<u>3,970</u>	<u>4,764</u>

At a meeting held on 23 July 2004, the Company’s directors proposed a final dividend of HK\$0.01 per share. This proposed dividend is not reflected as a dividend payable in these accounts and will be reflected as an appropriation of retained profits during the year ending at 31 March 2005.

11. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share are based on the Group’s consolidated profit attributable to shareholders of HK\$14,502,000 (restated 2003: HK\$11,796,000).

The basic earnings per share is based on the weighted average of approximately 158,810,000 shares in issue during the year (2003: 159,033,000 shares).The diluted earnings per share is based on approximately 158,810,000 shares (2003: 159,119,000 shares), which is the weighted average number of shares in issue during the year plus the weighted average of nil share (2003: 86,000 shares) deemed to be issued at no consideration if all outstanding share options had been exercised.

12. GOODWILL

Movements were:

	2004 HK\$'000	2003 HK\$'000
Cost		
Beginning of year	1,523	1,523
Addition	1,896	—
End of year	3,419	1,523
Accumulated amortisation and impairment losses		
Beginning of year	1,054	749
Amortisation for the year	848	305
Impairment loss	1,517	—
End of year	3,419	1,054
Net book value		
End of year	—	469
Beginning of year	469	774

13. FIXED ASSETS

Movements were:

	Leasehold land and buildings <i>HK\$'000</i>	Plant and machinery <i>HK\$'000</i>	Leasehold improve- ments furniture, fixtures and equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Moulds and tooling <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost						
Beginning of year	85,130	74,497	29,062	5,602	4,175	198,466
Additions	—	8,973	1,349	816	1,671	12,809
Acquisition of a subsidiary (<i>Note 27(c)</i>)	—	4,619	—	—	—	4,619
Disposals	—	—	(618)	(560)	(349)	(1,527)
End of year	<u>85,130</u>	<u>88,089</u>	<u>29,793</u>	<u>5,858</u>	<u>5,497</u>	<u>214,367</u>
Accumulated depreciation						
Beginning of year	20,329	36,551	12,903	2,707	1,088	73,578
Charge for the year	2,346	8,263	1,696	553	706	13,564
Write-back on disposals	—	—	(318)	(426)	(131)	(875)
End of year	<u>22,675</u>	<u>44,814</u>	<u>14,281</u>	<u>2,834</u>	<u>1,663</u>	<u>86,267</u>
Net book value						
End of year	<u>62,455</u>	<u>43,275</u>	<u>15,512</u>	<u>3,024</u>	<u>3,834</u>	<u>128,100</u>
Beginning of year	<u>64,801</u>	<u>37,946</u>	<u>16,159</u>	<u>2,895</u>	<u>3,087</u>	<u>124,888</u>

The Group's leasehold land and buildings were located on land held under medium term leases of 10 to 50 years and were located as follows:

	Hong Kong <i>HK\$'000</i>	Mainland China <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 31 March 2004	<u>15,078</u>	<u>47,377</u>	<u>62,455</u>
At 31 March 2003	<u>15,601</u>	<u>49,200</u>	<u>64,801</u>

At 31 March 2004, the Group had plant and machinery with net book value of approximately HK\$4,912,000 (2003: HK\$6,177,000) held under finance leases .

14. CONSTRUCTION-IN-PROGRESS

Movements were:

	2004 HK\$'000	2003 HK\$'000
Cost		
Beginning of year	2,511	2,498
Additions	2,630	1,736
Transfer to fixed assets	—	(1,723)
End of year	5,141	2,511

15. INVESTMENTS IN SUBSIDIARIES

In the Company's balance sheet, investment in subsidiaries consisted of:

	2004 HK\$'000	2003 HK\$'000
Unlisted shares, at cost	44,715	44,715
Due from subsidiaries	228,811	213,491
Less: Impairment losses	(9,484)	—
	264,042	258,206

The amounts due from subsidiaries are unsecured, non-interest bearing and not repayable within the next twelve months .

The following is a list of the significant subsidiaries as at 31 March 2004:

Company	Place of incorporation	Principal place of operation	Issued and fully paid up share capital	Percentage of equity interest held	Principal activities
Shares held directly —					
Daiwa BVI Limited	British Virgin Islands	British Virgin Islands	US\$10,000	100%	Investment holding
Shares held indirectly —					
Chiasso Inc.	British Virgin Islands	Mainland China	US\$2	100%	Manufacturing services of products
Cypress Distribution Limited	Hong Kong	Hong Kong	HK\$2	100%	Manufacture of consumer electronics

APPENDIX II

FINANCIAL INFORMATION OF THE GROUP

Company	Place of incorporation	Principal place of operation	Issued and fully paid up share capital	Percentage of equity interest held	Principal activities
Daiwa Associate (China) Limited	Hong Kong	Hong Kong	HK\$2	100%	Property holding
Daiwa Associate (H.K.) Limited	Hong Kong	Hong Kong	Ordinary shares HK\$100 Non-voting deferred shares HK\$3,000,000 (Note (iii))	100% —	Management and finance
Daiwa Distribution Limited	Hong Kong	Hong Kong	HK\$2	100%	Distribution of electronic components
Daiwa Imtec Electronics Ltd.	Hong Kong	Hong Kong	HK\$2	100%	Distribution of electronic components
Daiwa Manufacturing Limited	Hong Kong	Hong Kong	HK\$2	100%	Manufacture of electronic components and manufacturing services of electronic products
Daiwa System Limited	Hong Kong	Hong Kong	HK\$2	100%	Trading of computer components
Daiwa (Zhaoqing) Electronics Industrial Limited (Note (ii))	Mainland China	Mainland China	Registered capital US\$3,384,000	100%	Manufacture of electronic components
Dongguan Wafer Semi-Conductor Co., Ltd. (Note (ii))	Mainland China	Mainland China	Registered capital HK\$56,200,000	100%	Manufacture of electronic components
Unity Electrical Industrial Ltd.	Hong Kong	Hong Kong	HK\$2,000,000	100%	Manufacture of electric wire
Vastpoint Industrial Limited	Hong Kong	Hong Kong	Ordinary shares HK\$100 Non-voting deferred shares HK\$1,300,000	100%	Trading of electronic components

¹

Companies not audited by PricewaterhouseCoopers

Notes —

- (i) The above list includes the subsidiaries of the Company which, in the opinion of the Company’s directors and the Group’s management, principally contributed the results or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would result in particulars of excessive length.
- (ii) Dongguan Wafer Semi-Conductor Co., Ltd. was established as a cooperative joint venture enterprise established in Mainland China to be operated for of 20 years up to October 2015. The Group is responsible to manage the operations of the company and accounts for this company as a wholly-owned subsidiary as it is entitled to all of the results and assets and liabilities of the company.

Daiwa (Zhaoqing) Electronics Industrial Limited was established as a foreign investment established in Mainland China to be operated for of 20 years up to May 2023. The Group is responsible to manage the operations of the company and accounts for this company as a wholly-owned subsidiary as it is entitled to all of the results and assets and liabilities of the company.
- (iii) The non-voting deferred shares have no voting rights, are not entitled to any dividends, and are not entitled to any distributions upon winding up unless a sum of HK\$100,000,000,000,000 has been distributed to the holders of ordinary shares.
- (iv) None of the subsidiaries had any loan capital in issue at any time during the year ended 31 March 2004.

16. INTERESTS IN JOINTLY CONTROLLED ENTITY

	2004 HK\$'000	2003 HK\$'000
Share of net assets other than goodwill	1,658	7,547
Goodwill on acquisition less accumulated amortisation	—	696
	<u>1,658</u>	<u>8,243</u>

The Group has interests in the following jointly controlled entity which is established and operating in Mainland China:

Name	Nature of entity	Principal activities	Ownership interest	Percentage of Voting power	Profit/loss sharing
Daiwa (Southern) Precision Industrial Limited	Sino-Foreign cooperative joint venture enterprise	Manufacture of electronic components	60%	60%	60%

The above jointly controlled entity adopted 31 December as its financial year end date. The Group’s consolidated profit and loss account for the year ended 31 March 2004 includes the Group’s share of the results of this jointly controlled entity for the year from 1 January 2003 to 31 December 2003. The Company’s directors and the Group’s management consider that there have been no material changes in the financial position in respect of this jointly controlled entity during the period from 1 January 2004 to 31 March 2004 which would materially affect the view given by the Group’s accounts.

17. INVENTORIES

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Trading stocks	53,488	50,438
Raw materials	56,778	46,978
Work-in-progress	10,801	7,120
Finished goods	10,506	16,739
	<u>131,573</u>	<u>121,275</u>

At 31 March 2004, the carrying amount of inventories that was carried at net realisable value amounted to HK\$651,000 (2003: HK\$1,901,000).

Certain inventories were held under the trust receipts bank loan arrangements (*Note 20*).

18. TRADE RECEIVABLES

Majority of the Group's sales is on open account terms, with credit terms generally ranging from 30 days to 60 days. The ageing analysis of trade receivables was as follows:

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Less than 60 days	93,234	73,824
60 days to 119 days	15,501	15,570
120 days to 365 days	12,593	4,868
	<u>121,328</u>	<u>94,262</u>

19 CASH AND BANK BALANCES

As at 31 March 2004, the Group's cash and bank balances of approximately HK\$11,324,000 (2003: HK\$5,351,000) were denominated in Chinese Renminbi, which is not a freely convertible currency in the international market and its exchange rate is determined by the Government of the People's Republic of China.

20 SHORT-TERM BANK BORROWINGS

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Trust receipts bank loans	45,358	37,803
Short-term bank loans	2,000	—
	<u>47,358</u>	<u>37,803</u>

21. AGEING ANALYSIS OF TRADE PAYABLES

The ageing analysis of trade payables was as follows:

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Less than 60 days	103,691	73,518
60 days to 119 days	12,760	15,127
120 days to 365 days	2,993	7,114
	<u>119,444</u>	<u>95,759</u>

22. LONG-TERM LIABILITIES

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Finance lease obligations	3,219	5,195
Provision for long service payments	592	796
	<u>3,811</u>	<u>5,991</u>
Total amounts payable	3,811	5,991
Less: Current portion	1,901	1,937
	<u>1,910</u>	<u>4,054</u>

The Group's finance lease obligations were analysed as follows:

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Total minimum lease payments		
— Within one year	1,919	2,071
— In the second year	1,331	1,919
— In the third to fifth year	—	1,425
	<u>3,250</u>	<u>5,415</u>
Less: Future finance charges	(31)	(220)
	<u>3,219</u>	<u>5,195</u>

The present value of finance lease liabilities is analysed as follows:

Within one year	1,901	1,937
In the second year	1,318	1,847
In the third to fifth year	—	1,411
	<u>3,219</u>	<u>5,195</u>

23. DEFERRED TAXATION

Deferred taxation are calculated in full on temporary differences under the liability method using a principal taxation rate of 17.5% (2003: 16%).

The movement on the deferred tax assets is as follows—

	2004 <i>HK\$'000</i>	(Restated) 2003 <i>HK\$'000</i>
Beginning of year	331	319
Deferred taxation credited to profit and loss account (<i>Note 6</i>)	1,481	12
End of year	<u>1,812</u>	<u>331</u>

The movement on the deferred liabilities is as follows—

	2004 <i>HK\$'000</i>	(Restated) 2003 <i>HK\$'000</i>
Beginning of year	4,724	4,174
Deferred taxation charged to profit and loss account (<i>Note 6</i>)	722	550
End of year	<u>5,446</u>	<u>4,724</u>

Deferred income tax assets are recognised for tax loss carry forwards to the extent that realisation of the related tax benefit through the future taxable profits is probable. The Group has unrecognised tax losses of HK\$11,136,000 (2003:HK\$9,713,000) to carry forward against future taxable income; these tax losses have no expiring date.

The movement in deferred tax assets and liabilities prior to offsetting of balances within the same taxation jurisdiction is as follows:

Deferred tax assets	Tax losses	
	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Beginning of year	421	420
Credited to profit and loss account	2,190	1
End of year	<u>2,611</u>	<u>421</u>
Deferred tax liabilities	Accelerated tax depreciation	
	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Beginning of year	4,814	4,275
Charged to profit and loss account	1,431	539
End of year	<u>6,245</u>	<u>4,814</u>

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The following amounts, determined after appropriate offsetting, are shown in the consolidated balance sheet:

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Deferred tax assets	1,812	331
Deferred tax liabilities	<u>(5,446)</u>	<u>(4,724)</u>
	<u><u>(3,634)</u></u>	<u><u>(4,393)</u></u>

24. SHARE CAPITAL — COMPANY

Movements were:

	2004		2003	
	Number of shares		Number of shares	
	<i>'000</i>	<i>HK\$'000</i>	<i>'000</i>	<i>HK\$'000</i>
Authorised —				
Ordinary shares of HK\$0.10 each	<u>1,000,000</u>	<u>100,000</u>	<u>1,000,000</u>	<u>100,000</u>
Issued and fully paid —				
Ordinary shares of HK\$0.10 each				
Beginning of year	158,810	15,881	159,122	15,912
Issue of shares upon exercise of employee share options	—	—	350	35
Repurchase of shares	<u>—</u>	<u>—</u>	<u>(662)</u>	<u>(66)</u>
End of year	<u><u>158,810</u></u>	<u><u>15,881</u></u>	<u><u>158,810</u></u>	<u><u>15,881</u></u>

25. EMPLOYEE SHARE OPTIONS

In August 2002, the Company has adopted an employee share options scheme (“the Options Scheme”). Under the Options Scheme, the Company may grant options to employees (including executive directors of the Company) subject to a maximum of 30% of the nominal value of the issued share capital of the Company from time to time excluding for this purpose any shares issued upon exercise of employee share options. The exercise price will be determined by the Company’s board of directors and shall at least be the highest if (i) the closing price of the Company’s shares on the date of grant of the options, (ii) any average closing price of the Company’s shares for the five days immediately preceding the date of grant of the options, and (iii) the nominal value of the Company’s shares of HK\$0.10 each.

No share options were granted during the year ended 31 March 2004. No share options were exercised during the year ended 31 March 2004 (2003: 350,000 share options were exercised). No share options were outstanding as at 31 March 2004 (2003: nil).

26. RESERVES

Movements were:

Consolidated

	Share premium <i>HK\$'000</i>	Capital reserves <i>HK\$'000</i>	Cumulative translation adjustments <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Proposed dividends <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 April 2003, as previously reported	160,944	90	(827)	41,201	54,702	2,382	258,492
Effect of change in an accounting policy (Note 1(d))	—	—	—	—	(4,028)	—	(4,028)
At 1 April 2003, as restated	160,944	90	(827)	41,201	50,674	2,382	254,464
Profit for the year	—	—	—	—	14,502	—	14,502
Translation adjustments 2003/2004	—	—	27	—	—	—	27
interim dividend	—	—	—	—	(2,382)	2,382	—
2003/2004 proposed final dividend	—	—	—	—	(1,588)	1,588	—
Dividends paid	—	—	—	—	—	(4,764)	(4,764)
At 31 March 2004	<u>160,944</u>	<u>90</u>	<u>(800)</u>	<u>41,201</u>	<u>61,206</u>	<u>1,588</u>	<u>264,229</u>
Representing —							
Company and subsidiaries	160,944	90	(800)	41,201	68,211	1,588	271,234
Jointly controlled entity	—	—	—	—	(7,005)	—	(7,005)
	<u>160,944</u>	<u>90</u>	<u>(800)</u>	<u>41,201</u>	<u>61,206</u>	<u>1,588</u>	<u>264,229</u>
At 1 April 2002, as previously reported	161,072	90	(963)	41,201	47,132	1,595	250,127
Effect of change in an accounting policy (Note 1(d))	—	—	—	—	(3,490)	—	(3,490)
At 1 April 2002, as restated	161,072	90	(963)	41,201	43,642	1,595	246,637
Profit for the year	—	—	—	—	11,796	—	11,796
Translation adjustments	—	—	136	—	—	—	136
Issue of shares	133	—	—	—	—	—	133
Repurchase of shares	(261)	—	—	—	—	—	(261)
2002/2003 interim dividend paid	—	—	—	—	(2,382)	2,382	—
2002/2003 proposed final dividend	—	—	—	—	(2,382)	2,382	—
Dividends paid	—	—	—	—	—	(3,977)	(3,977)
At 31 March 2003	<u>160,944</u>	<u>90</u>	<u>(827)</u>	<u>41,201</u>	<u>50,674</u>	<u>2,382</u>	<u>254,464</u>
Representing —							
Company and subsidiaries	160,944	90	(827)	41,201	57,519	2,382	261,309
Jointly controlled entities	—	—	—	—	(6,845)	—	(6,845)
	<u>160,944</u>	<u>90</u>	<u>(827)</u>	<u>41,201</u>	<u>50,674</u>	<u>2,382</u>	<u>254,464</u>

Company

	Share premium <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Proposed dividends <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 April 2003	160,944	72,309	6,626	2,382	242,261
Profit for the year	—	—	10,563	—	10,563
2003/2004 interim dividend	—	—	(2,382)	2,382	—
2003/2004 proposed final dividend	—	—	(1,588)	1,588	—
Dividends paid	—	—	—	(4,764)	(4,764)
At 31 March 2004	<u>160,944</u>	<u>72,309</u>	<u>13,219</u>	<u>1,588</u>	<u>248,060</u>
At 1 April 2002	161,072	72,309	11,338	1,595	246,314
Profit for the year	—	—	52	—	52
Issue of shares	133	—	—	—	133
Repurchase of shares	(261)	—	—	—	(261)
2002/2003 interim dividend	—	—	(2,382)	2,382	—
2002/2003 proposed final dividend	—	—	(2,382)	2,382	—
Dividends paid	—	—	—	(3,977)	(3,977)
At 31 March 2003	<u>160,944</u>	<u>72,309</u>	<u>6,626</u>	<u>2,382</u>	<u>242,261</u>

Notes —

- (i) Capital reserve represents statutory surplus reserve of a subsidiary in Mainland China and can be used to offset future losses or increase in capital of the subsidiary.
- (ii) Under the Companies Act 1981 of Bermuda, contributed surplus is distributable to shareholders, subject to the condition that the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if (i) it is, or make after the payment be, unable to pay its liabilities as they become due, or (ii) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium account.

27. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) *Reconciliation of profit before taxation to net cash inflow/(outflow) from operating activities*

	2004	(Restated) 2003
	HK\$'000	HK\$'000
Operating profit	16,420	18,215
Adjustment for —		
Interest income	(318)	(467)
Depreciation of fixed assets	13,564	10,257
Loss on disposal of fixed assets	641	185
Amortisation and impairment loss of goodwill	2,365	305
Gain resulting from acquisition of additional interest in a subsidiary	(1,023)	—
	31,649	28,495
Increase in inventories	(7,944)	(38,485)
Increase in trade receivables	(16,476)	(14,921)
Decrease/(increase) in prepayments, deposits and other receivables	4,152	(1,752)
Increase in trade payables	20,944	25,105
Decrease in accruals and other payables	(10,841)	(297)
Net cash inflow/(outflow) from operating activities	<u>21,484</u>	<u>(1,855)</u>

(b) Analysis of changes in financing:

	Share capital and share premium		Finance lease obligations		Short-term bank borrowings		Minority interests	
	2004	2003	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April	176,825	176,984	5,195	314	37,803	20,431	1,935	1,785
Issue of shares for cash	—	168	—	—	—	—	—	—
Repurchase of shares	—	(327)	—	—	—	—	—	—
Contribution from minority shareholders of a subsidiary	—	—	—	—	—	—	1,000	300
Minority interests in share of losses of subsidiaries	—	—	—	—	—	—	(1,240)	(150)
Acquisition of additional interest in a subsidiary	—	—	—	—	—	—	(1,019)	—
New finance leases	—	—	—	5,024	—	—	—	—
Payment of capital element of finance lease obligations	—	—	(1,976)	(143)	—	—	—	—
New short-term bank borrowings	—	—	—	—	163,017	97,631	—	—
Repayment of short-term bank borrowings	—	—	—	—	(153,462)	(80,259)	—	—
	<u>176,825</u>	<u>176,825</u>	<u>3,219</u>	<u>5,195</u>	<u>47,358</u>	<u>37,803</u>	<u>676</u>	<u>1,935</u>

(c) Purchase of additional interest in a jointly controlled entity:

As at 31 March 2003, the Group had 61% interest in Daiwa (Zhaoqing) Electronics Industrial Limited, which was accounted for as a jointly controlled entity. Effective from 1 April 2003, the Group acquired the remaining 39% in Daiwa (Zhaoqing) Electronics Industrial Limited. Therefore, Daiwa (Zhaoqing) Electronics Industrial Limited has become a wholly owned subsidiary of the Group. Details of the net assets acquired are:

	<i>HK\$'000</i>
Net assets acquired:	
Fixed assets	4,619
Inventories	2,354
Trade receivables	10,590
Prepayments, deposits and other receivables	2,103
Cash and bank balances	195
Trade payables	(2,741)
Accruals and other payables	(10,908)
	<u>6,212</u>
Interests held immediately prior to the acquisition of additional interests	<u>(6,425)</u>
	(213)
Goodwill	<u>1,632</u>
Purchase consideration	<u><u>1,419</u></u>
Satisfied by:	
Cash	<u><u>1,419</u></u>

Analysis of the net cash outflow in respect of the acquisition of additional interest in Daiwa (Zhaoqing) Electronics Industrial Limited:

	<i>HK\$'000</i>
Cash consideration	1,419
Less: Cash and bank balances acquired	<u>(195)</u>
Net cash outflow in respect of the purchase of subsidiary	<u><u>1,224</u></u>

(d) Cash and cash equivalents:

Cash and cash equivalents consisted of cash and bank balances.

28. CONTINGENT LIABILITIES

- (a) At 31 March 2004, the Group had contingent liabilities in respect of guarantees issued by banks to the Group's suppliers amounting to HK\$24,111,000 (2003: HK\$18,111,000).

- (b) As at 31 March 2004, the Company has provided corporate guarantees in respect of banking facilities of its subsidiaries totaling of HK\$113,940,000 (2003: HK\$147,940,000). At 31 March 2004, the Group utilised banking facilities of HK\$71,469,000 (2003: HK\$57,193,000).

29. COMMITMENTS

(a) Capital commitments

The Group had the following commitments:

	2004 HK\$'000	2003 HK\$'000
Contracted but not provided for		
— purchase of additional interest in a jointly controlled entity	—	1,500
— purchase of fixed assets	382	345
	<u>382</u>	<u>1,845</u>

(b) Operating lease commitments

The Group has operating lease commitment in respect of rented office premises under non-cancellable operating lease agreements. The total commitments are analysed as follows:

	2004 HK\$'000	2003 HK\$'000
Not later than one year	540	633
Later than one year and not later than five years	195	203
	<u>735</u>	<u>836</u>

30. SUBSEQUENT EVENTS

The following significant events have taken place subsequent to 31 March 2004:

- (i) In June 2004, a wholly owned subsidiary of the Group entered into a conditional agreement to acquire the entire interest in Elite Century Holdings Limited (“Elite”) for approximately HK\$47,000,000. The acquisition is subject to several conditions, including completion of the rights issue as described in (ii) below. Elite and its subsidiaries are engaged in sales and distribution of computer products primarily in North America. Elite was majority owned and controlled by Mr. Lau Tak Wan, a director of the Company.
- (ii) In July 2004, the Company announced a rights issue at HK\$0.45 per share, on the basis of 2 rights shares of every 3 shares held on the rights issue date, which will raise a net proceeds of approximately HK\$47,043,000. The rights issue is underwritten by Smartco United Limited, which is majority owned and controlled by Mr. Lau Tak Wan, a director of the company.

31. APPROVAL OF ACCOUNTS

The accounts were approved by the Board of Directors on 23 July 2004.

1. UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF ASSETS AND LIABILITIES OF THE ENLARGED GROUP**A. Unaudited Pro Forma Consolidated Statement of Assets and Liabilities of the Enlarged Group After the Acquisition**

The accompanying unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group has been presented to illustrate the effect of the proposed acquisition (the “Acquisition”) by Daiwa BVI Limited, a wholly owned subsidiary of Daiwa Associate Holdings Limited (the “Company”), of 100% interest in Elite Century Holdings Limited (“Elite”) as if the Acquisition had taken place on 31 March 2004.

The consideration for the Acquisition amounted to HK\$47,000,000 and the estimated costs of the Acquisition amounted to approximately HK\$1,400,000. The consideration for the Acquisition will be financed by the proceeds to be raised under the Rights Issue of approximately HK\$47,000,000 (calculated based on the gross proceeds of HK\$47,643,000 less estimated costs of approximately HK\$600,000 and approximately HK\$43,000 for general working capital) and the costs of the Acquisition of HK\$1,400,000 will be financed by internal cash resources.

The unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group is based on the audited consolidated balance sheet of the Group as at 31 March 2004 (reproduced in Appendix II) and the audited combined balance sheet of Elite as at 31 March 2004 as contained in the accountants’ report on Elite (reproduced in Appendix I). It has been prepared to illustrate the effect of the Acquisition on the assets and liabilities of the Group, as if the Acquisition had taken place on 31 March 2004. It has been prepared for illustrative purposes only and, because of its nature, may not give a true picture of the financial position of the Enlarged Group as at 31 March 2004 or at any future date.

APPENDIX III FINANCIAL INFORMATION OF THE ENLARGED GROUP

Unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group:

	The Group 31 March 2004 HK\$'000	Elite 31 March 2004 CAN\$'000	HK\$'000 (iii)	adjustments HK\$'000	Pro Forma Enlarged Group HK\$'000
Non-current assets					
Intangible assets	—	—	—	17,529 (i)	17,529
Fixed assets	128,100	344	2,049		130,149
Construction-in-progress	5,141	—	—		5,141
Interests in jointly controlled entities	1,658	—	—		1,658
Other investments	1,050	—	—		1,050
Deferred tax assets	1,812	72	429		2,241
Total non-current assets	137,761	416	2,478		157,768
Current assets					
Inventories	131,573	3,047	18,148		149,721
Trade receivables	121,328	3,638	21,668		142,996
Prepayments, deposits and other receivables	14,878	40	238		15,116
Cash and bank balances	67,953	3,027	18,029	(1,357) (ii)	84,625
Total current assets	335,732	9,752	58,083		392,458
Current liabilities					
Short-term bank borrowings	(47,358)	—	—		(47,358)
Trade and bills payables	(119,444)	(3,946)	(23,502)		(142,946)
Accruals and other payables	(15,374)	(424)	(2,525)		(17,899)
Current portion of long-term liabilities	(1,901)	—	—		(1,901)
Taxation payable	(1,274)	(415)	(2,472)		(3,746)
Total current liabilities	(185,351)	(4,785)	(28,499)		(213,850)
Net current assets	150,381	4,967	29,584		178,608
Total assets less current liabilities	288,142	5,383	32,062		336,376
Non-current liabilities					
Long-term liabilities	(1,910)	—	—		(1,910)
Deferred tax liabilities	(5,446)	—	—		(5,446)
Other loans	—	(200)	(1,191)		(1,191)
Total non-current liabilities	(7,356)	(200)	(1,191)		(8,547)
Net assets, before minority interests	280,786	5,183	30,871		327,829
Minority interests	(676)	—	—		(676)
Net assets, after minority interests	280,110	5,183	30,871		327,153

Notes:

- (i) Goodwill represents the excess of (a) the purchase consideration of HK\$47,000,000 together with the estimated costs of HK\$1,400,000 over (b) the Group's share of the fair value of the underlying identifiable assets and liabilities of Elite. The adjustment reflects the recording of the goodwill in connection with the acquisition of Elite of approximately HK\$17,529,000, as if the Acquisition had taken place on 31 March 2004.
- (ii) The total consideration of the Acquisition amounting to HK\$47,000,000 and the estimated costs for the Acquisition amounted to approximately HK\$1,400,000. The consideration for the Acquisition will be financed by the proceeds to be raised under the Rights Issue of approximately HK\$47,000,000 (calculated based on the gross proceeds for the rights issue of HK\$47,643,000 less estimated costs of approximately HK\$600,000 and approximately HK\$43,000 for general working capital) and the costs of the Acquisition of HK\$1,400,000 will be financed by internal cash resources. The adjustment reflects the increase in share capital/share premium and increase in working capital of approximately HK\$43,000 of the Company as a result of the issue of shares and the settlement of the purchase consideration as if the proceeds of the rights issue had been received on 31 March 2004 and the payment of the purchase consideration had been taken place on 31 March 2004.
- (iii) For the purpose of the unaudited proforma consolidated assets and liabilities, the conversion of CAN\$ into HK\$ is based on the exchange rate of CAN\$1 = HK\$5.956.

B. Letter on unaudited pro forma financial information of the Enlarged Group

The following is the text of a letter from PricewaterhouseCoopers, the reporting accountants, in respect of the unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group.

PRICEWATERHOUSECOOPERS 

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22nd Floor Prince's Building
Central Hong Kong
Telephone: (852) 2289 8888
Facsimile: (852) 2810 9888
www.pwchk.com

5 August 2004

The Directors
Daiwa Associate Holdings Limited
11/F, Block G
East Sun Industrial Centre
16 Shing Yip Street
Kwun Tong
Kowloon
Hong Kong

Dear Sirs,

We report on the pro forma consolidated statement of assets and liabilities set out in Section 1A of Appendix III of the circular dated 5 August 2004 (the “Circular”) of Daiwa Associate Holdings Limited (the “Company”) in connection with the proposed acquisition by Daiwa BVI Limited, a wholly owned subsidiary of the Company, of 100% interest in Elite Century Holdings Limited (the “Acquisition”). The pro forma consolidated statement of assets and liabilities has been prepared by the directors of the Company, for illustrative purposes only, to provide information about how the Acquisition might have affected the relevant financial information of the Company and its subsidiaries (collectively the “Group”) as at 31 March 2004.

Responsibilities

It is the responsibility solely of the directors of the Company to prepare the pro forma consolidated statement of assets and liabilities 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 Rule 4.29 of the Listing Rules, on the pro forma consolidated statement of assets and liabilities 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 consolidated statement of assets and liabilities 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 with reference to 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 in the United Kingdom, where applicable. Our work consisted primarily of comparing the unadjusted historical financial information with the information set out in Appendices I and II, where relevant, of the Circular, considering the evidence supporting the adjustments and discussing the pro forma consolidated statement of assets and liabilities with the directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

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 consolidated statement of assets and liabilities.

The pro forma consolidated statement of assets and liabilities has been prepared on the bases set out in Section 1A of Appendix III of the Circular for illustrative purposes only and, because of its nature, it may not be indicative of the financial position of the Group as at 31 March 2004 or at any future date.

Opinion

In our opinion:

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

Yours faithfully,
PricewaterhouseCoopers
Certified Public Accountants
Hong Kong

2. INDEBTEDNESS

Borrowings

As at the close of business on 31 May 2004, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Enlarged Group had outstanding borrowings of approximately HK\$42,418,000, comprising the following:

- (i) short-term bank loans of approximately HK\$39,513,000, which were denominated in Hong Kong dollars; and
- (ii) obligations under finance leases of approximately HK\$2,904,000. These obligations were denominated in Hong Kong dollars.

Contingent liabilities

As at 31 May 2004, the Enlarged Group had contingent liabilities in respect of guarantees issued by banks to certain suppliers of the Enlarged Group's of approximately HK\$24,111,000.

Disclaimer

Save as aforesaid and apart from intra-group liabilities, neither the Enlarged Group nor any of the companies comprising the Enlarged Group had, at the close of business on 31 May 2004, any loan capital issued and outstanding or agreed to be issued, bank overdrafts, term loans, debt securities or other similar indebtedness, liabilities under acceptance (other than normal trade bills and payables) or acceptance credits, debentures, mortgages, charges, hire purchase or other finance lease commitments, guarantees or other material contingent liabilities.

The Directors have confirmed that there has been no material change in the indebtedness and contingent liabilities of the Enlarged Group since 31 March 2004, being the date to which the latest published audited accounts of the Company were made up to.

3. WORKING CAPITAL

The Directors are of the opinion that, upon completion of the Acquisition and based on the present credit facilities and the internal resources, the Enlarged Group will have sufficient working capital for the 12-month period after completion of the Acquisition and up to 30 September 2005.

1. RESPONSIBILITY STATEMENTS

This circular includes particulars given in compliance with the Takeovers Code and the Listing Rules for the purpose 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 in this circular misleading.

2. SHARE CAPITAL

The authorised and issued share capital of the Company as at the Latest Practicable Date and immediately upon completion of the Rights Issue are set out below:

<i>Authorised:</i>		<i>HK\$</i>
<u>1,000,000,000</u>	Shares as at the Latest Practicable Date	<u>100,000,000</u>
<i>Issued and fully paid:</i>		<i>HK\$</i>
158,809,600	Shares as at the Latest Practicable Date	15,880,960
<u>105,873,067</u>	Rights Shares to be issued under the Rights Issue	<u>10,587,307</u>
<u>264,682,667</u>	Shares in issue immediately upon completion of the Rights Issue	<u>26,468,267</u>

All of the Shares currently in issue rank pari passu in all respects with each other, including, in particular, as to dividend, voting rights and return of capital. The Rights Shares to be allocated and issued will, when issued and fully paid, rank pari passu in all respects with the existing Shares.

No Share was issued during the period commencing on 31 March 2004, being the date to which the latest published audited financial statements of the Group were made up, and ending on the Latest Practicable Date.

As at the Latest Practicable Date, the Company has no outstanding options, warrants, derivatives or other securities that are convertible into the Shares.

3. MARKET PRICES

The table below shows the closing prices of the Shares on the Stock Exchange (i) on the last trading day of each of the six calendar months immediately preceding the date of the Announcement; (ii) on the Last Trading Date; and (iii) on the Latest Practicable Date.

Date	Price per Share <i>(HK\$)</i>
31 December 2003	0.57
30 January 2004	0.58
27 February 2004	0.65
31 March 2004	0.62
30 April 2004	0.52
27 May 2004	0.54
10 June 2004	0.55
Latest Practicable Date	0.45

The highest and lowest closing prices of the Shares recorded on the Stock Exchange during the period between the Relevant Period were HK\$0.75 on 11 February 2004 and 12 February 2004, and HK\$0.44 on 19 July 2004 respectively.

4. DISCLOSURE OF INTEREST

As at the Latest Practicable Date, the interests and short positions of Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of the Part XV of the SFO) which were required, pursuant to the Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have taken under such provisions of the SFO), to be notified to the Company and the Stock Exchange, or which were required, pursuant to Section 352 of the SFO, to be entered in the register kept by the Company, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

(a) Directors’ and chief executives’ interests in the Company

Long positions:

Name of Director	Personal interests	Corporate interests	Other interests	Total interest	Percentage of total issued share capital (Note 8)
Mr. Lau					
— Shares	3,112,000 (Note 1)	—	28,121,300 (Note 2)	31,233,300	11.80%
— Rights Shares	2,074,666 (Note 3)	—	98,157,067 (Note 4)	100,231,733	37.87%
Total	<u>5,186,666</u>	<u>—</u>	<u>126,278,367</u>	<u>131,465,033</u>	<u>49.67%</u>
Ms. Chan					
— Shares	2,012,000 (Note 1)	—	28,121,300 (Note 2)	30,133,300	11.38%
— Rights Shares	1,341,333 (Note 5)	—	18,747,533 (Note 6)	20,088,866	7.59%
Total	<u>3,353,333</u>	<u>—</u>	<u>46,868,833</u>	<u>50,222,166</u>	<u>18.97%</u>

Name of Director	Personal interests	Corporate interests	Other interests	Total interest	Percentage of total issued share capital (Note 8)
Mr. Wan Chor Fai					
— Shares	90,000	—	—	90,000	0.04%
— Rights Shares	60,000	—	—	60,000	0.02%
	(Note 7)				
Total	150,000	—	—	150,000	0.06%
Mr. Barry John Buttifant					
— Shares	100,000	—	—	100,000	0.04%

Notes:

1. Out of these Shares, 1,512,000 Shares are jointly held by Mr. Lau and Ms. Chan.
2. These Shares are held by China Capital whose entire issued share capital is owned by a discretionary trustee for the benefit of Mr. Lau, Ms. Chan and other family members.
3. The long position in these Shares represents Shares not yet been issued by the Company as at the Latest Practicable Date which has arisen as a result of the irrevocable undertaking given by Mr. Lau in respect of his entire entitlement to subscribe for the Rights Shares under the Rights Issue, details of which are set out in the “Letter from the Board” on pages 9 to 32 of this circular.
4. Out of these Shares, the long position in 18,747,533 Shares represents Shares not yet been issued by the Company as at the Latest Practicable Date which has arisen as a result of the irrevocable undertaking given by China Capital in respect of its entire entitlement to subscribe for the Rights Shares under the Rights Issue. The remaining long position in 79,409,534 Shares has arisen as a result of the underwriting obligations of Smartco, a company 89.10% owned by Mr. Lau, pursuant to the Underwriting Agreement. Such long position of 79,409,534 Shares has not been issued by the Company as at the Latest Practicable Date. Details of which are set out in the “Letter from the Board” on pages 9 to 32 of this circular.
5. The long position in these Shares represents Shares not yet been issued by the Company as at the Latest Practicable Date which has arisen as a result of the irrevocable undertaking given by Ms. Chan in respect of her entire entitlement to subscribe for the Rights Shares under the Rights Issue, details of which are set out in the “Letter from the Board” on pages 9 to 32 of this circular.
6. The long position in these Shares represents Shares not yet been issued by the Company as at the Latest Practicable Date which has arisen as a result of the irrevocable undertaking given by China Capital in respect of its entire entitlement to subscribe for the Rights Shares under the Rights Issue, details of which are set out in the “Letter from the Board” on pages 9 to 32 of this circular.

7. The long position in these Shares represents Shares not yet been issued by the Company as at the Latest Practicable Date which has arisen as a result of the irrevocable undertaking given by Mr. Wan in respect of his entire entitlement to subscribe for the Rights Shares under the Rights Issue, details of which are set out in the “Letter from the Board” on pages 9 to 32 of this circular.
8. This percentage is calculated based on the enlarged issued share capital of the Company immediately after completion of the Right Issue.

(b) Interests in associated corporations

Dominion International Limited which is wholly owned by a trustee for the benefit of a discretionary trust the beneficiaries of which include Mr. Lau, Ms. Chan and certain of their family member, has beneficial interests in the following subsidiaries of the Company:

Long positions:

	Number of non-voting deferred shares held
Cosmos Wires and Connectors Manufacturing Limited	50,000
Westpac Digital Limited	1
Vastpoint Industrial Limited	455,000
Daiwa Associate (H.K.) Limited	1,500,000

In addition, each of Mr. Lau and Ms. Chan beneficially owns 140,000 and 10,000 non-voting deferred shares respectively in Cosmotec Precision Industrial Limited.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or chief executives of the Company has any interests or short positions in any shares, underlying shares and debentures of the Company or any of their associated corporations (within the meaning of the SFO) which were required, pursuant to the Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have taken under such provisions of the SFO), to be notified to the Company and the Stock Exchange, or which were required, pursuant to Section 352 of the SFO, to be entered in the register kept by the Company, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies of the Listing Rules, to be notified to the Company and the Stock Exchange.

(c) Other interests in the Company

As at the Latest Practicable Date,

- (i) save for Mr. Lau, Ms. Chan, Mr. Wan and Mr. Yuen, none of Smartco, its directors and parties acting in concert with them had any interest in the securities of the Company;

- (ii) none of the subsidiaries or associates of the Company, nor any pension funds of the Company or of any of its subsidiaries, nor any fund managed on a discretionary basis by any fund manager connected with the Company, nor any advisers to the Company as specified in class (2) of the definition of associate in the Takeovers Code had any interest in the securities of the Company;
- (iii) save for Mr. Lau, Ms. Chan, China Capital, Mr. Wan and Mr. Yuen, no person who, prior to the posting of this circular, has irrevocably committed itself to accept or reject the Rights Issue and the Whitewash Waiver had any interest in any securities of the Company; and
- (iv) no person who 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 as defined in the Takeovers Code.

5. SUBSTANTIAL SHAREHOLDERS

As at the latest Practicable Date, to the best knowledge of the Directors or chief executive of the Company, the following parties (other than a Director or chief executive of the Company), had an interest or short position in the Shares or underlying Shares which are required to be disclosed to the Company under the provision of Divisions 2 and 3 of Part XV of the SFO, or, who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group:

Long positions:

Name of Shareholder	Number of Shares held	Percentage of total issued share capital (Note 5)
Smartco (Note 1)	79,409,534	30.00%
China Capital (Note 2)	46,868,833	17.71%
Billion World International Limited (Note 3)	13,748,000	5.19%
Mr. Chen Zhao Hua (Note 3)	13,748,000	5.19%
Telfast Consultancy Limited (Note 4)	13,281,800	5.02%
Mr. Nip Chung Hon (Note 4)	13,283,800	5.02%

Notes:

1. The long position in 79,409,534 Shares has arisen as a result of the underwriting obligations of Smartco, a company 89.10% owned by Mr. Lau, pursuant to the Underwriting Agreement. None of such Shares has been issued as at the Latest Practicable Date. The directors of Smartco are Mr. Lau and Ms. Chan.
2. Out of these Shares, 28,121,300 Shares are existing issued shares of the Company as at the Latest Practicable Date. The remaining long position in 18,747,533 Shares represents Shares not yet been issued by the Company as at the Latest Practicable Date which has arisen as a result of the irrevocable undertaking given by China Capital in respect of its entire entitlement to subscribe for the Rights Shares under the Rights Issue. The directors of China Capital are Mr. Lau and Ms. Chan.
3. Billion World International Limited is 100% owned by Mr. Chen Zhao Hua. Accordingly, Mr. Chen Zhao Hua is deemed by SFO to be interested in 13,748,000 Shares. Mr. Chen Zhao Hua is a sole director of Billion World International Limited.
4. Telfast Consultancy Limited is 100% owned by Mr. Nip Chung Hon. Mr. Nip Chung Hon is also personally interested in 2,000 Shares. Accordingly, Mr. Nip Chung Hon is deemed by SFO to be interested in 13,283,800 Shares. Mr. Nip Chung Hon is a sole director of Telfast Consultancy Limited.
5. This percentage is calculated based on the enlarged issued share capital of the Company immediately after completion of the Rights Issue.

Save as disclosed above, the Directors or the chief executive of the Company are not aware of any person (other than a director or chief executive of the Company) who, as at the Latest practicable Date, had an interest or short position in the Shares or underlying Shares which are required to be disclosed to the Company under the provision of Divisions 2 and 3 of Part XV of the SFO, or, who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.

6. DEALINGS IN SECURITIES

- (i) The following table set out the dealing in securities of the Company by Directors during the Relevant Period:

Name	Date	Number of Share	Purchase /Disposal	Price per Share HK\$
Mr. Mak Hon	5 January 2004	110,000	Disposal	0.61
Kai, Stanly	7 January 2004	600,000	Disposal	0.58
	14 January 2004	140,000	Disposal	0.59
	15 January 2004	378,000	Disposal	0.59
	30 January 2004	840,000	Disposal	0.58
Mr. Wan	7 April 2004	50,000	Disposal	0.61
	7 April 2004	50,000	Disposal	0.60
	8 April 2004	10,000	Disposal	0.63
	8 April 2004	50,000	Disposal	0.62

Save as disclosed above, none of the Directors and any party acting in concert with them had dealt in any securities of the Company.

- (ii) None of the Smartco, its directors, and any party acting in concert with them had dealt in any securities of the Company during the Relevant Period.
- (iii) None of the subsidiaries or associates of the Company, nor any pension funds of the Company or of any of its subsidiaries, nor any fund managed on a discretionary basis by any fund manager connected with the Company, nor any advisers to the Company as specified in class (2) of the definition of associate in the Takeovers Code had dealt in any interest in the securities of the Company during the Relevant Period.
- (iv) Save as disclosed above, no person who, prior to the posting of this circular, has irrevocably committed itself to accept or reject the Rights Issue and the Whitewash Waiver had dealt in any interest in any securities in the Company during the Relevant Period.

7. INTERESTS AND DEALINGS IN SMARTCO

As at the Latest Practicable Date, Mr. Lau and Mr. Yuen was interested in approximately 89.10% and 2.24% of the total issued share capital of Smartco, respectively. Save as disclosed aforesaid, none of the Company, Directors, and parties acting in concert with any of them had any interest in the securities of Smartco.

Save for the incorporation of Smartco on 10 February 2004 pursuant to which 89.10% of its shares were allotted to Mr. Lau, 2.24% to Mr. Yuen, 0.67% to Mr. Patrick Lee, 3.33% to Mr. Albert Poon and the remaining 4.66% to Ms. Wong Yuk Ying, none of the Company, Directors, and parties acting in concert with any of them had dealt in any such securities during the Relevant Period.

As at the Latest Practicable Date, there was no agreement, arrangement or understanding (including any compensation arrangement) between Smartco and other persons that the Rights Shares to be acquired by Smartco under the Underwriting Agreement will be transferred to that person.

8. ARRANGEMENTS AFFECTING DIRECTORS

- (i) There is no existing or proposed service contract between any of the Directors and the Company or any of its members which (excluding contracts expiring or determinable by the employer) is not terminable within one year without payment compensation (other than statutory compensation) and no service contract has been entered into or amended within six months before 24 June 2004, being the date of the Announcement.
- (ii) Save for the Acquisition, none of the Directors has, or has had any direct or indirect interest in any assets which have been acquired, disposed of or leased to or which are proposed to be acquired, disposed of or leased to the Company or any member of the Group since 31 March 2004, being the date to which the latest published audited accounts of the Company were made up.
- (iii) No benefits (other than statutory compensation) have been or will be given to the Directors as compensation for loss of office or otherwise in connection with the Rights Issue and/or the Whitewash Waiver.
- (iv) Save for the Sale and Purchase Agreement and the Underwriting Agreement, there is no material contract or arrangement entered into by any of the Directors and Smartco or any party acting in concert with them which any Director has a material interest.

- (v) Save for the Sale and Purchase Agreement, there is no agreement, arrangement or understanding (including any compensation arrangement) exists between Smartco or any party acting in concert with it or any of the Directors, recent Directors, Shareholders or recent Shareholders having any connection with or dependence upon the Rights Issue and/or the Whitewash Waiver.

9. MATERIAL LITIGATION

As at the Latest Practicable Date, neither the Company nor Elite nor any of their subsidiaries is engaged in any litigation or arbitration of material importance and there was no litigation or claims of material importance known to the Directors to be pending or threatened against the Company or Elite or any of their subsidiaries.

10. MATERIAL CONTRACTS

Save for disclosed below, neither the Company nor any other members of the Group has entered into any material contracts (not being contracts entered into in the ordinary course of business carried out by the Group) within the two years preceding the Latest Practicable Date:

- (i) the Sale and Purchase Agreement;
- (ii) the Underwriting Agreement; and
- (iii) the sale and purchase agreement on 2 June 2004 entered into between Daiwa Trading (Guangdong) Limited, a wholly owned subsidiary of the Company, and Heyuan Hi-Tech Development Zone Co. Ltd. in relation to an acquisition of a land use right on a piece of industrial land located in the PRC at RMB12,000,000 (equivalent to approximately HK\$11,321,000). Heyuan Hi-Tech Development Zone Co. Ltd. is a third party independent of and not connected with the directors, chief executive or substantial shareholders of the Company and its subsidiaries and associates of any of them and not a connected person of the Company as defined under the Listing Rules.

11. MATERIAL CHANGES IN THE FINANCIAL OR TRADING POSITION

As at the Latest Practicable Date, save as the acquisition of a land use right on a piece of industrial land located in the PRC at RMB12,000,000 (equivalent to approximately HK\$11,321,000) as announced on 25 June 2004, details of which are set out on Note (iii) under section headed “10. Material Contracts” of this appendix, the Directors are not aware of any circumstance or events that may give rise to a material change in the financial or trading position or prospect of the Group since 31 March 2004, being the date to which the latest published audited accounts of the Company were made up.

The Directors consider that the above acquisition will not give rise to any material adverse impact on the financial or trading position or prospect of the Group.

12. EXPERTS AND CONSENTS

The following is the qualification of the experts who have given an opinion or advice, which is contained or referred to in this circular:

Name	Qualification
Shenyin Wanguo	a licensed corporation to conduct type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO
PricewaterhouseCoopers	Certified Public Accountants, Hong Kong

None of Shenyin Wanguo or PricewaterhouseCoopers had any interest in the securities of the Company as at the Latest Practicable Date nor had dealt in any interest in the securities of the Company during the Relevant Period.

As at the Latest Practicable Date, none of Shenyin Wanguo or PricewaterhouseCoopers was beneficially interested in the share capital of any member of the Group or had any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group and have any interest, either directly or indirectly, in any assets which have been, since 31 March 2004, being the date to which the latest published audited accounts of the Company were made up, acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group.

Each of the experts above has given and has not withdrawn its written consent to the issue of this circular with the inclusion therein of its opinion or letter, as the case may be, and the references to its name, opinion or letter in the form and context in which it respectively appears.

13. MISCELLANEOUS

- (a) As at the Latest Practicable Date, none of the Shareholders who are entitled to vote has irrevocably committed themselves to vote for or against the Rights Issue and the Whitewash Waiver.
- (b) The company secretary and the qualifying accountant of the Company under Rule 3.24 of the Listing Rules is Ms. Lee Pui Shan, Lesley, members of ACCA and HKSA.

- (c) The Company's Hong Kong branch share registrar is Abacus Share Registrars Limited at G/F, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong.
- (d) The registered office of the Company is Canon's Court, 22 Victoria Street, Hamilton HM12, Bermuda and the principal place of business of the Company in Hong Kong is at 11th Floor, Block G, East Sun Industrial Centre, 16 Shing Yip Street, Kwun Tong, Kowloon, Hong Kong.
- (e) The registered office of Smartco is Sea Meadow House, Blackburne Highway, (P.O. Box 116), Road Town, Tortola, British Virgin Islands.
- (f) The directors of Smartco are Mr. Lau and Ms. Chan.
- (g) The registered office of Shenyin Wanguo is 28/F., Citibank Tower, Citibank Plaza, 3 Garden Road, Hong Kong.
- (h) The registered office of PricewaterhouseCoopers is 22/F., Prince's Building, Central, Hong Kong.
- (i) The English text of this circular and form of proxy shall prevail over the Chinese text in the case of any inconsistency.

14. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at the office of the Company at 11/F, Block G, East Sun Industrial Centre, 16 Shing Yip Street, Kwun Tong, Kowloon, Hong Kong up to and including 30 August 2004:

- (a) the memorandum of association and Bye-laws of the Company;
- (b) the memorandum and articles of association of Smartco;
- (c) the material contracts referred to in the section headed "Material Contracts" in this appendix;
- (d) the letter from the Independent Board Committee, the text of which is set out on pages 33 to 34 of this circular;
- (e) the letter of advice from Shenyin Wanguo the text of which is set out on pages 35 to 51 of this circular;

- (f) the annual reports of the Company for the financial year ended 31 March 2004;
- (g) the accountants' report of Elite, the text of which is set out in Appendix I to this circular;
- (h) the letter from PricewaterhouseCoopers on the unaudited pro forma financial information of the Enlarged Group, the text of which is set out on pages 115 to 117 of this circular;
- (i) the consent letters referred to under the section headed "Experts and consents" in this Appendix; and
- (j) a copy of the circular of the Company dated 15 July 2004 in relation to a disclosable transaction of the Company.

NOTICE OF SGM

DAIWA

DAIWA ASSOCIATE HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock code: 1037)

NOTICE IS HEREBY GIVEN that a special general meeting (the “**SGM**”) of Daiwa Associate Holdings Limited (the “**Company**”) will be held at 10:30 a.m. on Monday, 30 August 2004 at Garden Room A-B, 2/F., Hotel Nikko Hongkong, 72 Mody Road, Tsimshatsui East, Kowloon, Hong Kong for the purpose of considering and, if thought fit, passing, with or without modification, the following resolutions:

ORDINARY RESOLUTIONS

1. **“THAT** the agreement (the “**SP Agreement**”) dated 10 June 2004 entered into amongst (i) the Company; (ii) Daiwa BVI Limited (“**Daiwa BVI**”), a wholly-owned subsidiary of the Company, as the purchaser; (iii) Smartco United Limited (“**Smartco**”) as the vendor; and (iv) Mr. Lau Tak Wan, relating to the acquisition by Daiwa BVI of 2,500,000 shares of US\$1.00 each in the share capital of Elite Century Holdings Limited (“**Elite**”), representing the entire issued share capital of Elite, from Smartco for a total cash consideration of HK\$47 million (a copy of the SP Agreement marked “A” has been produced to this meeting and initialed by the Chairman of the meeting for the purpose of identification) be and is hereby approved, confirmed and ratified and the supplemental agreement dated 7 July 2004 entered in to amongst the same parties amending certain terms of the SP Agreement (a copy of such supplemental agreement marked “B” has been produced to this meeting and initialed by the Chairman of the meeting for the purpose of identification) be and is hereby approved, confirmed and ratified (provided that the directors of the Company (the “**Directors**”) be and are hereby authorised to approve any further amendments of the SP Agreement) and the Directors be authorised to do all such acts and things, to sign and execute all such further documents and to take such steps as they may in their absolute discretion consider necessary, appropriate, desirable or expedient to give effect to the SP Agreement and the transactions contemplated thereunder (subject to any amendments as may be approved by them); and
2. **“THAT** subject to the underwriting agreement (the “**Underwriting Agreement**”) entered into between the Company and Smartco on 10 June 2004 (as supplemented by a supplemental agreement dated 7 July 2004 entered into between the same parties to amend certain terms of the Underwriting Agreement) (a copy of the Underwriting Agreement together with the supplemental agreement marked “C” has been produced to

NOTICE OF SGM

this meeting and initialed by the Chairman of the meeting for the purpose of identification) becoming unconditional and not being terminated in accordance with its terms:

- (a) the issue by way of rights (the “**Rights Issue**”) of 105,873,067 new shares of HK\$0.10 each (“**Rights Shares**”) of the Company at a subscription price of HK\$0.45 per Rights Share in the proportion of 2 Rights Shares for every 3 issued shares of HK\$0.10 each of the Company then held to the shareholders of the Company whose names appear on the register of members of the Company as at the close of business on Monday, 30 August 2004 (or such later date as Smartco and the Company may agree in writing) (the “**Qualifying Shareholders**”) on the terms and subject to the conditions set out in the circular (the “**Circular**”) to the shareholders of the Company dated 5 August 2004 (a copy of which marked “D” has been produced to this meeting and initialed by the Chairman of the meeting for the purpose of identification) be and is hereby approved;
- (b) the Directors be and are hereby authorised to allot and issue the Rights Shares pursuant to or in connection with the Rights Issue provided that no Rights Shares shall be allotted and issued to those shareholders of the Company whose names appear on the register of members of the Company as at the close of business of Monday, 30 August 2004 (or such later date as Smartco and the Company may agree in writing) and having registered addresses outside the Hong Kong Special Administration of the People’s Republic of China (“**Hong Kong**”) or stipulated in place(s) where, in the Directors’ opinion, the Rights Shares may not be offered without compliance with the registration and/or other legal or regulatory requirements of that jurisdiction or jurisdictions outside Hong Kong (the “**Non-Qualifying Shareholders**”), but shall be aggregated and issued to a broker to be named by the Company and such Rights Shares shall be sold in the market as soon as practicable after dealings in the Rights Shares in nil-paid form commence and such proceeds (after deduction of expenses) shall be distributed to the Non-Qualifying Shareholders pro rata to their respective shareholdings provided that the Company shall retain individual amounts of HK\$100 or less for the benefit of the Company; and
- (c) the Directors be and are hereby authorised to make such other exclusions or other arrangements in relation to the Non-Qualifying Shareholders as they may deem necessary or expedient and having regard to any restrictions or obligations under the laws of, or the requirements of any recognized regulatory body or stock exchange in, any territory outside Hong Kong and generally to do such things or make such arrangements as they may think fit to effect the Rights Issue; and

NOTICE OF SGM

3. **THAT** the waiver pursuant to Note 1 on dispensation of Rule 26 of the Hong Kong Code on Takeovers and Mergers (the “**Takeovers Code**”) waiving any obligation on the part of Mr. Lau Tak Wan to make a mandatory general offer for all the issued shares in the capital of the Company not already owned by him or parties acting in concert with him which would otherwise arise under Rule 26.1 of the Takeovers Code as a result of the Rights Issue and Smartco subscribing for such part of the Rights Shares under the terms of the Underwriting Agreement be and is hereby approved.”

SPECIAL RESOLUTION

4. **“THAT** the existing Bye-laws of the Company be and are hereby amended in the following manner:

- (a) By adding the following new definition in the existing Bye-law 1 immediately after the definition of “the Act”:

““associate” has the meaning ascribed to it by the rules of the Designated Stock Exchange from time to time”

- (b) By deleting the words “a recognized clearing house within the meaning of Section 2 of the Securities (Clearing Houses) Ordinance of Hong Kong” from the definition of “Clearing House” in the existing Bye-law 1 and substituting therefor the following:

“a recognized clearing house within the meaning of Part 1 of Schedule 1 to the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) and any amendments thereto for the time being in force”.

- (c) by adding the following new definition in the existing Bye-law 1, immediately after the definition of ““dollars” or “HK\$””:

““Hong Kong” means the Hong Kong Special Administrative Region of the People’s Republic of China”

- (d) By adding the words “a poll is required under the rules of the Designated Stock Exchange or” in the first paragraph of the existing Bye-law 69 immediately after the words “At any general meeting a resolution put to vote of the meeting shall be decided on a show of hands, unless”.

- (e) By deleting the words “Unless a poll is so demanded and” in the last paragraph of the existing Bye-law 69 and substituting therefor the following:

“Unless a poll is so required under the rules of the Designated Stock Exchange or so demanded and, in the latter case,”.

NOTICE OF SGM

- (f) By deleting the words “If a poll is duly demanded it shall (subject as provided in Bye-law 73) be taken in such manner (including the use of ballot or voting papers or tickets or scrutineers) and at such time and place, not being more than 30 days from the date of the meeting or adjourned meeting at which the poll was demanded, as the chairman directs and the result of the poll shall be deemed to be the resolution of the meeting at which the poll was demanded.” in the existing Bye-law 70 and substituting therefor the following:

“If a poll is so required under the rules of the Designated Stock Exchange or is duly demanded it shall (subject as provided in Bye-law 73) be taken in such manner (including the use of ballot or voting papers or tickets or scrutineers) and at such time and place, not being more than 30 days from the date of the meeting or adjourned meeting at which the poll was so required or demanded, as the chairman directs and the result of the poll shall be deemed to be the resolution of the meeting at which the poll was so required or demanded.”

- (g) By deleting the existing Bye-law 72 in its entirety and replacing therefor the following new Bye-law 72:

“The requirement for a poll under the rules of the Designated Stock Exchange or the demand of a poll shall not prevent the continuance of a meeting for the transaction of any business other than the question on which a poll has been required or demanded.”

- (h) By deleting the existing Bye-law 73 in its entirety and substituting therefor the following new Bye-law 73:

“A poll so required or duly demanded on the election of a chairman of a meeting or on a question of adjournment shall be taken forthwith at the meeting and without adjournment. A poll so required or demanded on any other question shall be taken at such time (being not later than 30 days after the date of the demand) and place as the chairman of the meeting directs.”

- (i) By adding the following new Bye-law 77.1 immediately after the existing Bye-law 77:

“Where any member is, under the rules of the Designated Stock Exchange, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such member in contravention of such requirement or restriction shall not be counted.”

NOTICE OF SGM

- (j) By deleting the existing Bye-law 89 in its entirety and substituting therefor the following:

“(A) No person, other than a retiring Director, shall, unless recommended by the Directors for election, be eligible for election to the office of Director at any general meeting, unless notice in writing by some member (not being the person to be proposed) entitled to attend or vote at the meeting for which such notice is given of his intention to propose that person for election as a Director and notice in writing by that person of his willingness to be elected shall have been given to the Company. The minimum length of the period during which such notices may be given will be at least 7 days.

(B) The minimum period of 7 days for lodgment of the notices referred to in paragraph (A) of this Bye-law will commence no earlier than the day after the despatch of the notice of the general meeting appointed for such election and end no later than 7 days prior to the date of such general meeting.

(C) For the avoidance of doubt, paragraph (B) of this Bye-law applies for the purposes of calculating the minimum period of 7 days, and it does not prevent the Company from accepting the notices referred to in paragraph (A) of this Bye-law earlier than the time when the notice of the meeting referred to in paragraph (B) of this Bye-law is despatched.”

- (k) By deleting paragraphs (E) and (F) of the existing Bye-law 112 and substituting therefor the following:

“(E) A Director shall not vote (nor be counted in the quorum) on any resolution of the Directors approving any contract or arrangement or any other proposal in which he or any of his associate(s) has to his knowledge a material interest, but this prohibition shall not apply to any of the following proposals, contracts or arrangements, namely:

(i) the giving of any security or indemnity either:

(a) to the Director or his associate(s) in respect of money lent or obligations incurred or undertaken by him or any of them at the request of or for the benefit of the Company or any of its subsidiaries; or

NOTICE OF SGM

- (b) to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his associate(s) has himself/themselves assumed responsibility in whole or in part and whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (ii) any proposal concerning an offer of shares or debentures of other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase where the Director or his associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
- (iii) any proposal concerning any other company in which the Director or his associate(s) is/are interested only, whether directly or indirectly, as an officer or executive or shareholder or in which the Director or his associate(s) is/are beneficially interested in shares of that company, provided that the Director and any of his associate(s) are not in aggregate beneficially interested in 5 per cent or more of the issued shares of any class of such company (or any third company through which his interest or that of his associate(s) is derived) or of the voting rights;
- (iv) any proposal or arrangement concerning the benefit of the employees of the Company or its subsidiaries including:
 - (a) the adoption, modification or operation of any employees' share scheme or any share incentive or share option scheme under which the Director or his associate(s) may benefit; or
 - (b) the adoption, modification or operation of a pension fund or retirement, death or disability benefits scheme which relates both to Directors, his associate(s) and employees of the Company or any of its subsidiaries and does not provide in respect of any Directors, or his associate(s), as such any privilege or advantage not generally accorded to the class of persons to which such scheme or fund relates; and
- (v) any contract or arrangement in which the Director or his associate(s) is/are interested in the same manner as other holders or shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company.

NOTICE OF SGM

- (F) If any question shall arise at any meeting of the Directors as to the materiality of the interest of a Director or his associate(s) (other than the chairman of the meeting) or as to the entitlement of any Director (other than the chairman) to vote and such question is not resolved by his voluntarily agreeing to abstain from voting, such question shall be referred to the chairman of the meeting and his ruling in relation to such other Director shall be final and conclusive except in a case whether the nature or extent of the interest of the Director and of his associate(s) concerned as known to such Director has not been fairly disclosed to the other Directors. If any question as aforesaid shall arise in respect of the chairman of the meeting, such question shall be decided by a resolution of the Directors (for which purpose such chairman shall not vote thereon) and such resolution shall be final and conclusive except in a case where the nature or extent of the interest of such chairman and of his associate(s) as known to him has not been fairly disclosed to the other Directors.”
- (I) The numbering of other Bye-laws being affected by the above amendments will be accordingly adjusted in proper order.”

By order of the Board
Daiwa Associate Holdings Limited
Lau Tak Wan
President

Hong Kong, 5 August 2004

Head Office and Principal Place of Business

11th Floor

Block G

East Sun Industrial Centre

16 Shing Yip Street

Kwun Tong

Kowloon

Hong Kong

Notes:

1. The register of members of the Company will be closed from Thursday, 26 August 2004 to Monday, 30 August 2004, both dates inclusive, during which period no transfer of shares will be registered. In order to determine the entitlement to attend and vote at the meeting, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch registrar in Hong Kong, Abacus Share Registrars Limited, at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong no later than 4:30 p.m. on Wednesday, 25 August 2004.

NOTICE OF SGM

2. A member entitled to attend and vote at the SGM is entitled to appoint a proxy or proxies to attend and vote on his behalf. A proxy need not be a member of the Company. Completion and return of a form of proxy will not preclude a member from attending and voting in person at the meeting.
3. In order to be valid, a form of proxy together with a power of attorney or other authority (if any) under which it is signed, or a notarially certified copy thereof, must be deposited at the office of the Company's branch registrar in Hong Kong, Abacus Share Registrars Limited, G/F, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, not later than 48 hours before the time appointed for holding the meeting or adjourned meeting or poll (as the case may be).
4. In the case of joint holders, the vote of the senior who tenders a vote shall be accepted to the exclusion of the votes of the other joint holders and for this purpose seniority shall be determined by the order in which the names stand in the register.
5. Pursuant to Bye-law 69 of the Company, at any general meeting a resolution put to vote of the meeting shall be decided on a show of hands, unless a poll is (before or on the declaration of the result of the show of hands) demanded by:
 - (i) the chairman;
 - (ii) at least 3 members present in person or by proxy or authorised representative for the time being entitled to vote at the meeting;
 - (iii) any member or members present in person or by proxy or authorised representative and holding between them not less than one-tenth of the total voting rights of all the members having the right at attend and vote at the meeting; or
 - (iv) any member or members present in person or by proxy or authorised representative and holding shares in the Company conferring a right to attend and vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

Unless a poll is so demanded and the demand is not withdrawn, a declaration by the chairman that a resolution has, on a show of hands, been carried or carried unanimously or by a particular majority or lost and an entry to that effect in the book of the proceedings of the Company shall be conclusive evidence of the fact, without proof of the number or proportion of the votes recorded in favour of or against that resolution.