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# THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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**If you have sold or transferred** all your shares in **Ju Teng International Holdings Limited** (the “Company”), you should at once hand this circular to the purchaser(s) or the transferee(s) or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or the transferee(s).

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**巨騰國際控股有限公司**

**JU TENG INTERNATIONAL HOLDINGS LIMITED**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 3336)**

## **REVISED CAPS FOR EXISTING CONTINUING CONNECTED TRANSACTIONS**

**Financial Adviser**



**SinoPac Securities (Asia) Limited**

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



**SOMERLEY LIMITED**

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A letter from the Board is set out on pages 4 to 9 of this circular.

A letter from the Independent Board Committee to the independent Shareholders containing its recommendations in relation to the Revised Caps and the Continuing Connected Transactions is set out on pages 10 to 11 of this circular.

A letter from Somerley, the independent financial adviser to the Independent Board Committee and the independent Shareholders, containing its advice in connection with the Continuing Connected Transactions as contemplated under the Master Sales Agreement and the Revised Caps is set out on pages 12 to 17 of this circular.

18 October 2006

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## DEFINITIONS

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

“Approved Caps”	the annual caps for the Continuing Connected Transactions for the period from 27 March 2006 to 31 December 2006 and each of the two years ending 31 December 2008, as stated in the March Announcement and the April Circular and previously approved by the independent Shareholders
“April Circular”	the circular of the Company dated 18 April 2006 in relation to the Master Sales Agreement
“Board”	the board of Directors
“Cheng Family Trust”	the family trust founded by Mr. Cheng Li-Yu, an executive Director and the chairman of the Company, the beneficiaries of which include Mr. Cheng Li-Yen, Mr. Cheng Li-Yu and certain of their respective family members
“Company”	Ju Teng International Holdings Limited, a company incorporated under the laws of the Cayman Islands with limited liability and the Shares of which are listed on the Stock Exchange
“connected person”	has the same meaning ascribed thereto under the Listing Rules
“Continuing Connected Transactions”	the sales of the Products by the Group to Wistron and the other members of the Wistron Group, details of which are set out in the section headed “Continuing Connected Transactions and the Revised Caps” of this circular
“Director(s)”	the director(s) of the Company
“Extrawell”	Extrawell Developments Limited, a company incorporated in Samoa on 25 October 2000, being one of the substantial shareholders of the Company with shareholding interest of approximately 18.23% of the issued share capital of the Company
“Giant Glory”	Giant Glory International Limited, a company incorporated under the laws of Samoa and a wholly-owned subsidiary of the Company
“Group”	the Company and its subsidiaries

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## DEFINITIONS

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“Hong Kong”	The Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	a board of committee, comprising the independent non-executive Directors who are not interested in the transactions contemplated under the Master Sales Agreement, established to advise the independent Shareholders in respect of the Revised Caps and the Continuing Connected Transactions
“Independent Third Party(ies)”	independent third party or parties and its/their ultimate beneficial owner(s) who is/are independent to the Company and is/are not the connected person(s) of the Company
“Latest Practicable Date”	13 October 2006, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information for inclusion in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“March Announcement”	the announcement of the Company dated 27 March 2006 in relation to the Master Sales Agreement
“Master Sales Agreement”	the master sales agreement dated 27 March 2006 and entered into between Giant Glory (for itself and on behalf of other members of the Group) and Wistron (for itself and on behalf of other members of the Wistron Group) in relation to the sales of the Products by the Group to the Wistron Group
“PRC”	The People’s Republic of China, which for the purpose of this circular, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Products”	casings for electronic products and related materials manufactured and/or supplied by the Group
“Revised Caps”	the monetary amounts of HK\$780 million, HK\$1,170 million and HK\$1,404 million, being the revised caps for the period from 27 March 2006 to 31 December 2006 and each of the two years ending 31 December 2008, respectively, in respect of the Continuing Connected Transactions

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## DEFINITIONS

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“SFO”	Securities and Futures Ordinance (cap 571, laws of Hong Kong)
“Share(s)”	ordinary share(s) of HK\$0.10 each in the share capital of the Company
“Shareholders”	shareholders of the Company
“Somerley”	Somerley Limited, a licensed corporation under the SFO 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, and is the independent financial adviser to the Independent Board Committee and independent Shareholders in connection with the Continuing Connected Transactions as contemplated under the Master Sales Agreement and the Revised Caps
“Southern Asia”	Southern Asia Management Limited, a company incorporated in Samoa on 8 August 2000, being one of the substantial shareholders of the Company with shareholding interest of approximately 39.59% of the issued share capital of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“substantial shareholder”	has the same meaning ascribed thereto under the Listing Rules
“Wistron”	Wistron Corporation, a company incorporated in Taiwan and a substantial shareholder of Mindforce Holdings Limited, a 70%-owned indirect subsidiary of the Company
“Wistron Group”	collectively, Wistron and its subsidiaries from time to time
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“%”	per cent.



巨騰國際控股有限公司

JU TENG INTERNATIONAL HOLDINGS LIMITED

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 3336)**

*Executive Directors:*

Mr. Cheng Li-Yu  
Mr. Cheng Li-Yen  
Mr. Hsieh Wan-Fu  
Mr. Huang Kuo-Kuang  
Mr. Lo Jung-Te  
Mr. Tsui Yung Kwok

*Registered office:*

Century Yard, Cricket Square  
Hutchins Drive  
P.O. Box 2681 GT  
George Town, Grand Cayman  
Cayman Islands  
British West Indies

*Independent Non-executive Directors:*

Mr. Tsai Wen-Yu  
Mr. Yip Wai Ming  
Mr. Yu Chwo-Ming

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

Suites 3311-3312  
Jardine House  
1 Connaught Place  
Central  
Hong Kong

18 October 2006

*To the Shareholders*

Dear Sir or Madam,

**REVISED CAPS FOR EXISTING  
CONTINUING CONNECTED TRANSACTIONS**

**INTRODUCTION**

In an announcement dated 28 September 2006, the Company announced that the Company proposed to adopt the Revised Caps to cater for the increasing demand for the Products by the Wistron Group.

Since the applicable percentage ratios for the Revised Caps are expected to exceed 2.5% of the applicable percentage ratios as defined under Rule 14.07 of the Listing Rules (other than the profits test ratio) and the annual consideration of the Continuing Connected Transactions is expected to be more than HK\$10 million, the Continuing Connected Transactions with the Revised Caps constitute non-exempt continuing connected

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## LETTER FROM THE BOARD

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transactions of the Company under Rule 14A.35 of the Listing Rules and are subject to the announcement, reporting and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The purpose of this circular is to provide you with, among other information, (i) a letter from the Board containing further information on the Revised Caps and the Continuing Connected Transactions; (ii) a letter of advice from Somerley, the independent financial adviser to the Independent Board Committee and independent Shareholders in connection with the Revised Caps and the Continuing Connected Transactions; and (iii) a letter of advice from the Independent Board Committee to the independent Shareholders in connection with the Continuing Connected Transactions as contemplated under the Master Sales Agreement and the Revised Caps.

### BACKGROUND

The Group has been principally engaged in the manufacturing and sale of notebook computer casings, parts and other related materials. The products of the Group also include casings for LCD PCs, digital cameras and game consoles.

Giant Glory, an investment holding company, is principally engaged in the sales of notebook computer casings and trading of production materials for notebook computer casings.

As stated in the March Announcement, the Group had been selling the Products to the Wistron Group on an on-going basis, and the Group and Wistron (for itself and on behalf of the other members of the Wistron Group) had entered into the Master Sales Agreement in respect of such sales. Wistron and other members of the Wistron Group are principally engaged in the design and manufacturing of products of information and communication technology and the provision of related services.

### PRINCIPAL TERMS OF THE MASTER SALES AGREEMENT

The Master Sales Agreement was entered into between Giant Glory (for itself and on behalf of the other members of the Group) and Wistron (for itself and on behalf of the other members of the Wistron Group) on 27 March 2006, pursuant to which the Group agreed to sell the Products to Wistron or other members of the Wistron Group at prices to be determined from time to time by the Group and Wistron (for itself and on behalf of the other members of the Wistron Group) with reference to the market prices and on such terms that are no more favourable than those applicable to the sales of the Products by the Group to Independent Third Parties. The payment term for the sales of the Products to the Wistron Group is subject to the individual sales orders agreed between the relevant member of the Wistron Group and the Group. During the period from 27 March 2006 up to the Latest Practicable Date, payments for the Products sold to the Wistron Group had generally been made in arrears after delivery of the Products. The Master Sales Agreement is for a period from 27 March 2006 to 31 December 2008 unless terminated earlier according to the terms and conditions of the Master Sales Agreement.

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## LETTER FROM THE BOARD

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The terms of the Master Sales Agreement were arrived at after arm's length negotiation between the Group and Wistron and are fair and reasonable so far as the Group and the Shareholders are concerned.

### CONTINUING CONNECTED TRANSACTIONS AND THE REVISED CAPS

As Wistron is a substantial shareholder of one of the Company's subsidiaries and therefore a connected person of the Company, the sales of the Products to the Wistron Group pursuant to the Master Sales Agreement constitute continuing connected transactions and are subject to the announcement, reporting and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. The Continuing Connected Transactions and the Approved Caps were approved by way of a written approval from a closely allied group of the Shareholders holding more than 50% of the issued share capital of the Company. Further details of the Continuing Connected Transactions were disclosed in the April Circular.

For the period from 27 March 2006 to 31 August 2006, the aggregate value of the Continuing Connected Transactions reached approximately HK\$316 million, representing approximately 54% of the Approved Cap for the period from 27 March 2006 to 31 December 2006. In such regard and also taken into account of the recent estimation of the demand for the Products by the Wistron Group, the Directors noted that the demand for the Products by the Wistron Group had been growing in a fast pace and the aggregate values of the Continuing Connected Transactions were expected to exceed the Approved Caps. The Company proposes to revise the annual caps for the Continuing Connected Transactions to cater for the increasing demand for the Products by the Wistron Group. As at the Latest Practicable Date, the Approved Cap for the period from 27 March 2006 to 31 December 2006 had not been exceeded.

The Approved Caps and the Revised Caps are set out below:

	<b>27 March 2006 to 31 December 2006</b>	<b>Year ending 31 December 2007</b>	<b>Year ending 31 December 2008</b>
	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
Approved Caps	585	780	1,170
Revised Caps	780	1,170	1,404

The Revised Caps for the period from 27 March 2006 to 31 December 2006 and each of the two years ending 31 December 2008 represent an average of approximately 34% increase from the Approved Caps and were determined by the Company with reference to the following factors:

- (i) the historical sales of the Products to the Wistron Group in the previous financial years;
- (ii) the unaudited figures for the sales of the Products to the Wistron Group for the period from 27 March 2006 to 31 August 2006 of approximately HK\$316 million;

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## LETTER FROM THE BOARD

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- (iii) seasonal factors affecting the demands for the Products from the Wistron Group;
- (iv) the most up-to-date estimation of the demand for the Products by the Wistron Group in the future; and
- (v) the latest research reports for the expected growth trend of the notebook computer industry.

If the aggregate annual value of the Continuing Connected Transactions exceeds the Revised Caps, the Company will further comply with all relevant requirements of Chapter 14A of the Listing Rules.

### **REASONS FOR THE CONTINUING CONNECTED TRANSACTIONS AND THE MASTER SALES AGREEMENT**

As those Products sold by the Group to Wistron and other members of the Wistron Group are principally parts and components of notebook computer casings which are manufactured by using the metallic stamping moulds and plastic injection moulds solely owned by the Group, Wistron and other members of the Wistron Group can purchase such designated parts and components of these notebook computer casings from the Group only. The Directors considered that the Group would benefit from the Continuing Connected Transactions and the Master Sales Agreement for the further enhancement of the Group's sales portfolio.

The Directors (including the independent non-executive Directors) are of the view that the Revised Caps are fair and reasonable, and that the terms of the Continuing Connected Transactions under the Master Sales Agreement are fair and reasonable, on normal commercial terms, in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole.

### **LISTING RULES IMPLICATION AND SHAREHOLDERS' WRITTEN APPROVAL**

Since the adoption of the Revised Caps will result in the applicable percentage ratios as defined under Rule 14.07 of the Listing Rules (other than the profits test ratio) exceeding 2.5% and the annual consideration exceeding HK\$10 million, the Continuing Connected Transactions with the Revised Caps constitute non-exempt continuing connected transactions of the Company under Rule 14A.35 of the Listing Rules and such transactions and the Revised Caps are subject to the announcement, reporting and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Under 14A.43 of the Listing Rules, independent Shareholders' approval for the Revised Caps may be obtained by written Shareholders' approval in lieu of convening a general meeting if (i) no Shareholder is required to abstain from voting if the Company were to convene a general meeting for the approval of the Revised Caps; and (ii) written approval has been obtained from one or a closely allied group of independent Shareholders who in aggregate hold more than 50% in nominal value of the issued share capital of the Company giving the right to attend and vote at the general meeting to approve the transactions.

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## LETTER FROM THE BOARD

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So far as the Directors were aware after making reasonable enquires, none of the Shareholders as at the Latest Practicable Date had interest in the Continuing Connected Transactions or the Master Sales Agreement and none of them would be required to abstain from voting if the Company were to convene a general meeting for the approval of the Revised Caps.

The Directors consider that each of Southern Asia and Extrawell, which beneficially owned approximately 39.59% and 18.23% of the issued share capital of the Company as at the Latest Practicable Date, respectively, can be regarded as a “closely allied group of Shareholders” under Rule 14A.45 of the Listing Rules on the following basis:

1. they are co-founders of the Group;
2. they have been the substantial shareholders of members of the Group since the establishment of the Group in 2000;
3. they have played the management and decision-making roles in the Group’s business since the commencement of business of the Group; and
4. they have exercised their respective voting powers as shareholders of the members of the Group in the same manner in passing any shareholders’ resolutions of the relevant Group members.

Southern Asia and Extrawell, which together beneficially owned approximately 57.82% of the issued capital of the Company as at the Latest Practicable Date, have given their respective written approvals for the Revised Caps.

In view of the fulfillment of the requirements under Rule 14A.43 of the Listing Rules as mentioned above, the Stock Exchange has granted a waiver to the Company from strict compliance with the requirement of convening a general meeting to seek independent Shareholders’ approval in respect of the Revised Caps. Therefore, no physical general meeting of the Company will be convened for considering the Revised Caps.

### OPINION

The Independent Board Committee comprising all the independent non-executive Directors, namely, Mr. Tsai Wen-Yu, Mr. Yip Wai Ming and Mr. Yu Chwo-Ming, has been established to advise the independent Shareholders as to the fairness and reasonableness of the Revised Caps, and whether the Continuing Connected Transactions as contemplated under the Master Sales Agreement are on normal commercial terms, in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole. Your attention is drawn to the advice of the Independent Board Committee as set out in its letter on pages 10 to 11 of this circular. Your attention is also drawn to the letter of advice from Somerley to the Independent Board Committee and independent Shareholders in respect of the Revised Caps and the Continuing Connected Transactions as contemplated under the Master Sales Agreement as set out on pages 12 to 17 of this circular.

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## LETTER FROM THE BOARD

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The Independent Board Committee, having taken into account the advice from Somerley, considers that the Revised Caps are fair and reasonable, and that the Continuing Connected Transactions as contemplated under the Master Sales Agreement are on normal commercial terms, in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole.

### ADDITIONAL INFORMATION

Your attention is also drawn to the additional information set out in the appendix to this circular.

Yours faithfully,

By order of the Board  
**Ju Teng International Holdings Limited**  
**Cheng Li-Yu**  
*Chairman*



巨騰國際控股有限公司

JU TENG INTERNATIONAL HOLDINGS LIMITED

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 3336)**

*Member of the Independent*

*Board Committee:*

Mr. Tsai Wen-Yu

Mr. Yip Wai Ming

Mr. Yu Chwo-Ming

*Registered office:*

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P.O. Box 2681 GT

George Town, Grand Cayman

Cayman Islands

British West Indies

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

Suites 3311-3312

Jardine House

1 Connaught Place

Central

Hong Kong

18 October 2006

*To the independent Shareholders*

Dear Sir or Madam,

**REVISED CAPS FOR EXISTING  
CONTINUING CONNECTED TRANSACTIONS**

We refer to the circular (the “**Circular**”) issued by the Company to the Shareholders dated 18 October 2006 of which this letter forms part. Capitalised terms defined in the Circular shall have the same meanings when used in this letter, unless the context otherwise requires.

We have been appointed by the Board to consider the Revised Caps and the Continuing Connected Transactions as contemplated under the Master Sales Agreement and to advise you as to whether in our opinion, the Revised Caps are fair and reasonable, and whether the Continuing Connected Transactions as contemplated under the Master Sales Agreement are on normal commercial terms, in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole. Somerley has been appointed as the independent financial adviser to advise us and the independent Shareholders in this respect.

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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We wish to draw your attention to the letter from the Board as set out on pages 4 to 9 of the Circular and the letter of advice from Somerley as set out on pages 12 to 17 of the Circular.

Having considered the principal factors and the reasons considered by, and the advice of, Somerley as set out in its letter of advice, we consider that the Revised Caps are fair and reasonable. We also consider that the Continuing Connected Transactions as contemplated under the Master Sales Agreement are on normal commercial terms, in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole.

Yours faithfully,

For and on behalf of  
**Independent Board Committee**

**Mr. Tsai Wen-Yu**

**Mr. Yip Wai Ming**

**Mr. Yu Chwo-Ming**

**SOMERLEY LIMITED**

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

18 October 2006

*To the Independent Board Committee and  
the independent Shareholders*

Dear Sirs,

## **REVISED CAPS FOR EXISTING CONTINUING CONNECTED TRANSACTIONS**

### **INTRODUCTION**

We refer to our appointment to advise the Independent Board Committee and the independent Shareholders in connection with the sale of the Products to the Wistron Group by the Group, details of which are set out in the letter from the Board contained in the circular of the Company to the Shareholders dated 18 October 2006 (the “**Circular**”), of which this letter forms part. Unless otherwise defined, capitalised terms used in this letter shall have the same meanings as those defined in the Circular.

As disclosed in the March Announcement, the Group has been selling the Products to the Wistron Group on an on-going basis, and that Giant Glory (for itself and on behalf of other members of the Group) and Wistron (for itself and on behalf of other members of the Wistron Group) had entered into the Master Sales Agreement in March 2006. By virtue of Wistron’s 30% interest in a non-wholly owned subsidiary of the Company, the sales of the Products by the Group to the Wistron Group under the Master Sales Agreement constitute continuing connected transactions for the Company under the Listing Rules. The Continuing Connected Transactions and the Approved Caps were approved by way of a written approval from Southern Asia and Extrawell, being a closely allied group of Shareholders holding approximately 57.82% of the issued share capital of the Company, and therefore no Shareholders’ meeting was held.

For the period from 27 March 2006 to 31 August 2006, the aggregate value of the Continuing Connected Transactions reached approximately HK\$316 million, representing approximately 54% of the Approved Cap for the period from 27 March 2006 to 31 December 2006. Based on the recent estimation of demand for the Products by the Wistron Group, the Directors note that the demand of the Products by the Wistron Group has been growing and hence anticipate that the aggregate values of the Continuing Connected Transactions are likely to exceed the Approved Caps. In this regard, the Company proposes to revise the Approved Caps to cater for the increasing demand.

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## LETTER FROM SOMERLEY

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As the Revised Caps will result in the applicable percentage ratios (other than the profit ratio) exceeding 2.5% and the annual consideration exceeding HK\$10 million, the Continuing Connected Transactions with the Revised Caps constitute non-exempt continuing connected transactions for the Company under Rule 14A.35 of the Listing Rules and are therefore subject to the disclosure, reporting and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Pursuant to Rule 14A.43 of the Listing Rules, a written approval has been obtained from Southern Asia and Extrawell, which together held approximately 57.82% in the issued capital of the Company as at the Latest Practicable Date. Neither Southern Asia, Extrawell nor any Shareholders has material interest in the Continuing Connected Transactions, and therefore no Shareholder is required to abstain from voting if the Company was to convene a general meeting for the approval of the Continuing Connected Transactions and the Revised Caps. Having obtained the written approval from Southern Asia and Extrawell, the Company has met all the conditions set out in Rule 14A.43 of the Listing Rules. Pursuant to Rule 14A.53 of the Listing Rules, the Company has applied to and has obtained from the Stock Exchange a waiver from strict compliance with the requirement for the Company to hold a Shareholders' meeting. The Stock Exchange has permitted a written independent Shareholders' approval to be given in relation to the Continuing Connected Transactions and the Revised Caps in lieu of holding a Shareholder's meeting.

The Independent Board Committee, comprising all the independent non-executive Directors, being Mr. Tsai Wen-Yu, Mr. Yip Wai Ming and Mr. Yu Chwo-Ming, has been constituted to consider whether the Revised Caps are fair and reasonable and the terms of the Continuing Connected Transactions as contemplated under the Master Sales Agreement are on normal commercial terms, in the ordinary and usual course of business of the Group and in the interests of the Company and its shareholders as a whole. We have been appointed to advise the Independent Board Committee and the independent Shareholders in this respect.

In formulating our advice and recommendation, we have relied on the information and facts supplied, and the opinions expressed, by the Directors and the staff of the Company and have assumed that such information, facts and opinions are true and accurate. We have also sought and received confirmation from the Directors that no material factors have been omitted from the information supplied and opinions expressed to us. However, we have not conducted any independent investigation into the business, operations or financial condition of the Group and/or of the Wistron Group. We have assumed that all information and representations contained or referred to in the Circular were accurate at the time when they were made and remain true at the date of the Circular.

### PRINCIPAL FACTORS AND REASONS TAKEN INTO ACCOUNT

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

#### **1. Background**

The Group has been principally engaged in the manufacturing and sale of notebook computer casings, parts and other related materials. The Wistron Group is principally engaged in the design and manufacturing of products of information and communication technology and the provision of related services, and its customers are primarily original equipment manufacturers for international renowned computer companies. The Wistron Group is one of the Group's customers, and the Group has been selling the Products to the Wistron Group since 2004. As discussed above, the Continuing Connected Transactions and the Approved Caps were approved by way of a written approval from Southern Asia and Extrawell, and therefore no Shareholders' meeting was held. Details of the Continuing Connected Transactions and the Approved Caps are set out in the April Circular.

#### **2. Principal terms of the Master Sales Agreement**

The Master Sales Agreement was entered into between Giant Glory (for itself and on behalf of other members of the Group), a wholly-owned subsidiary of the Company, and Wistron (for itself and on behalf of other members of the Wistron Group) on 27 March 2006 in respect of the sales of the Products by the Group to the Wistron Group. The Master Sales Agreement is for a period from 27 March 2006 to 31 December 2008 unless terminated earlier according to the terms and conditions of the Master Sales Agreement.

Pursuant to the Master Sales Agreement, the Group agreed to supply the Products to the Wistron Group, after arm's length negotiations, at prices to be determined from time to time by the Group and Wistron (for itself and on behalf of other members of the Wistron Group) with reference to market prices and on such terms that are no more favourable than those applicable to the sales of the Products by the Group to Independent Third Parties. The payment terms for the sales of the Products to the Wistron Group are subject to negotiations in respect of each individual sales order agreed between the relevant members of the Wistron Group and the Group.

We have reviewed and compared the terms (including payment terms other than pricing) of the purchase orders placed by the Wistron Group with the purchase orders placed by Independent Third Parties during the period from 27 March 2006 to 31 August 2006. We note that the material terms, including payment terms, of the purchase orders placed by the Wistron Group are similar to those offered by the Group to Independent Third Parties. Based on the above, we are satisfied that the sales of the Products to the Wistron Group during the period from 27 March 2006 to 31 August 2006 were carried out in accordance with the terms of the Master Sales Agreement and that such terms were no more favourable than those offered by the Group to Independent Third Parties.

### **3. Reasons for the Continuing Connected Transactions**

As stated in the letter from the Board, the Group is the sole supplier of the Products purchased by the Wistron Group, being parts and components of notebook computer casing manufactured by using the metallic stamping moulds and plastic injection moulds solely owned by the Group. For this reason, the Wistron Group will not be able to source such designated parts and components from other suppliers.

In view of the growing outsourcing trend of notebook computer manufacturers as reported by Market Intelligence Centre (a division of Taiwan's Institution for Information Industry specialising on provision of research and consulting services to information and technology companies), the expected growth of the notebook computer industry as reported by International Data Group ("IDG", an international leading technology media, research and event company), and the historical sales of the Products by the Group to the Wistron Group, the Directors consider that the Continuing Connected Transactions will continue to provide a recurring source of revenue to the Group. On this basis, we consider that the commercial reasons for the Continuing Connected Transactions are sound.

### **4. Revised Caps**

The Approved Caps were approved by way of a written approval from Southern Asia and Extrawell. The Directors, having considered the recent estimation of a growing demand for the Products by the Wistron Group, believe that the aggregate values of the Continuing Connected Transactions are likely to exceed the Approved Caps and accordingly propose to revise the Approved Caps.

The Approved Caps and the Revised Caps are set out below:

	<b>27 March 2006 to 31 December 2006</b>	<b>Year ending 31 December 2007</b>	<b>Year ending 31 December 2008</b>
	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
Approved Caps	585	780	1,170
Revised Caps	780	1,170	1,404

The Revised Caps were determined by the Company with reference to the following factors:

- (i) the historical sales of the Products to the Wistron Group in the previous financial years;
- (ii) the unaudited figures for the sales of the Products to the Wistron Group for the period from 27 March 2006 to 31 August 2006 of approximately HK\$316 million;
- (iii) seasonal factors affecting the demands for the Products from the Wistron Group;

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## LETTER FROM SOMERLEY

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- (iv) the most up-to-date estimation of the demand for the Products by the Wistron Group in the future; and
- (v) the latest research reports for the expected growth trend of the notebook computer industry.

To assess whether the bases of the Revised Caps for each relevant period/year are fair and reasonable, we have considered the following principal factors:

*(a) The historical sales of the Products by the Group to the Wistron Group*

For the financial years ended 31 December 2004 and 31 December 2005, and the eight months ended 31 August 2006, sales of the Products to the Wistron Group amounted to HK\$0.3 million, HK\$227.8 million and HK\$376.8 million respectively. Such historical sales figures demonstrate that the demand for the Products by the Wistron Group continues growing, which is in line with the outsourcing trend of Taiwanese notebook computer and components manufacturers as reported by Market Intelligence Centre. In view of the above, the Directors believe the sales of the Products to the Wistron Group will continue to increase in the next two years.

*(b) The Wistron Group's purchase estimation*

For the purpose of facilitating raw material acquisition, production scheduling and timely delivery of finished products, customers of the Group (including the Wistron Group) regularly provide their purchase forecasts to the Group. Such purchase forecasts will be provided by the customers to the Group six to nine months in advance and will be further updated by the customers from time to time.

Despite the fact that the Wistron Group had provided the Group with its purchase forecast and has updated the purchase forecast whenever necessary, we noted from the sales analysis prepared by the Company that the actual purchase of the Products by the Wistron Group was usually higher than the forecasted purchase by more than 20%. In this respect, the Company, in determining the Revised Cap for the period from 27 March 2006 to 31 December 2006, has also taken into account such historical deviation.

Based on the most recent purchase forecast provided by the Wistron Group and the prevailing market prices of the Products, and having taken into account the historical deviation between the actual purchase and the forecasted purchase by the Wistron Group, the Group estimates that the sales to the Wistron Group for the period from 27 March 2006 to 31 December 2006 will reach approximately HK\$780 million.

In view of the above, we consider that the Group's bases in determining the Revised Cap for the period from 27 March 2006 to 31 December 2006 are reasonable.

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## LETTER FROM SOMERLEY

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*(c) Forecast of market growth*

According to a market forecast issued in July 2006 by IDG, it is estimated that the quantity and value of the worldwide shipment of notebook computers will grow at a compound annual growth rate (“**CAGR**”) of approximately 18% and 10% respectively from 2005 to 2010. IDG also reported in its market forecast issued in July 2005 that CAGR of the value of shipment of notebook computers from 2002 to 2005 was expected to be approximately 14%. Given the turnover of the Wistron Group increased at CAGR of approximately 26% from 2002 to 2005, exceeding IDG’s estimated industry average by approximately 12% for the same periods, the Directors have taken a prudent approach in determining the growth rate and anticipate that purchase orders from the Wistron Group will grow at a modest rate of 20% in 2007 and 2008.

In arriving at the Revised Cap for the year ending 31 December 2007 of HK\$1,170 million, the Company has therefore made reference to the total sales of the Group for the six months ended 30 June 2006 and the latest sales mix of the Group, the actual purchase of the Products by the Wistron Group in July and August 2006, the purchase forecast provided by the Wistron Group for the period from September 2006 to December 2006, and the estimated increase of purchase orders from the Wistron Group by 20% in 2007.

The Revised Cap for the year ending 31 December 2008 of HK\$1,404 million is determined by reference to the Revised Cap for 2007 and the estimated increase of purchase orders from the Wistron Group by 20% in 2008.

Based on the above information, we consider the bases and factors that the Directors have taken into account in determining the Revised Caps are relevant and justifiable, and we consider that the Revised Caps for the Continuing Connected Transactions are fair and reasonable.

### OPINION

Based on the above principal factors and reasons, we are of the opinion that the Revised Caps are fair and reasonable and the Continuing Connected Transactions as contemplated under the Master Sales Agreement are on normal commercial terms, in the ordinary and usual course of business of the Group and in the interests of the Company and its shareholders as a whole.

Yours faithfully,  
For and on behalf of  
**SOMERLEY LIMITED**  
**Mei H. Leung**  
*Deputy Chairman*

## 1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually 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 and belief there are no other facts the omission of which would make any statement herein misleading.

## 2. DISCLOSURE OF INTERESTS

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) (a) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers to be notified to the Company and the Stock Exchange, were as follows:

Name of Director	Company/name of associated corporation	Capacity	Number and class of securities (Note 1)	Approximate percentage of shareholding
Mr. Cheng Li-Yu	The Company	Founder and beneficiary of a discretionary trust	395,947,439 Shares (L) (Note 2)	39.59%
	The Company	Beneficial owner	2,800,000 Shares (L)	0.28%
Mr. Cheng Li-Yen	The Company	Beneficiary of a discretionary trust	395,947,439 Shares (L) (Note 2)	39.59%
Mr. Lo Jung-Te	The Company	Beneficial owner	5,967,942 Shares (L)	0.60%
Mr. Tsui Yung Kwok	The Company	Beneficial owner	2,800,000 Shares (L) (Note 3)	0.28% (Note 4)
Mr. Huang Kuo Kuang	The Company	Beneficial owner	1,508,125 Shares (L)	0.15%

*Notes:*

1. The letter “L” denotes the Directors’ and chief executive’s long position in the shares, or as the case may be, the underlying shares of the Company and/or the relevant associated corporations.
2. These Shares were registered in the name of Southern Asia, which was owned as to approximately 69.09% by Shine Century Assets Corp. The entire issued share capital of Shine Century Assets Corp. was owned by the Cheng Family Trust which was founded by Mr. Cheng Li-Yu. Mr. Cheng Li-Yu and Mr. Cheng Li-Yen were also two of the beneficiaries of the Cheng Family Trust. Mr. Cheng Li-Yu and Mr. Cheng Li-Yen were deemed to be interested in all the Shares in which Shine Century Assets Corp. was interested by virtue of the SFO.
3. Mr. Tsui Yung Kwok’s long position in the underlying Shares comprised the 2,800,000 options granted to him by the Company under the pre-IPO share option scheme (“**Pre-IPO Share Option Scheme**”) adopted by the Company on 17 June 2005 and such share options remained outstanding as at the Latest Practicable Date.
4. This percentage was calculated on the basis of 1,002,800,000 Shares in issue immediately following the exercise in full of all the options granted to Mr. Tsui Yung Kwok under the Pre-IPO Share Option Scheme at the same time and assuming that there would be no change in the total issued share capital of the Company other than as enlarged by the exercise of these options prior to the exercise in full of these options.

Save as disclosed herein, as at the Latest Practicable Date, none of the Directors and chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) (a) which were required to be notified to the Company and the Stock Exchange (including interests and short positions which they were taken or deemed to have under such provisions of SFO); or (b) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers to be notified to the Company and the Stock Exchange.

As at the Latest Practicable Date, none of the Directors had any interest, direct or indirect, in any assets which have been since 31 December 2005, being the date to which the latest published audited financial statements of the Group were made up, acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

As at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement subsisting as at the date thereof and which was significant in relation to the business of the Group.

### 3. SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, so far as was known to any Directors or chief executive of the Company, the persons (other than a Director or chief executive of the Company) (a) who had an interest or short position in the Shares and underlying Shares which would fall to be

disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO; or (b) who were, 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 the general meetings of the Company or any other members of the Group, were as follows:

<b>Name of Shareholder</b>	<b>Company/name of Group member</b>	<b>Capacity</b>	<b>Number and class of securities (Note 1)</b>	<b>Approximate percentage of shareholding</b>
Southern Asia	The Company	Beneficial owner	395,947,439 Shares (L)	39.59%
Shine Century Assets Corp.	The Company	Interest of a controlled corporation	395,947,439 Shares (L) (Note 2)	39.59%
East Asia International Trustees Limited	The Company	Trustee (other than a bare trustee)	395,947,439 Shares (L) (Note 2)	39.59%
Extrawell	The Company	Beneficial owner	182,282,174 Shares (L)	18.23%
Ms. Lin Mei Li	The Company	Interest of a spouse	398,747,439 Shares (L) (Note 3)	39.87%
Win Smart Co., Ltd.	Mindforce Holdings Limited	Beneficial owner	3,000,000 ordinary shares of US\$1.00 each (L)	30%

*Notes:*

1. The letter “L” denotes the Shareholders’ long position in the share capital of the relevant member of the Group.
2. These Shares were registered in the name of Southern Asia which was owned as to approximately 69.09% by Shine Century Assets Corp. The entire issued share capital of Shine Century Assets Corp. was owned by the Cheng Family Trust, the trustee of which was East Asia International Trustees Limited. Shine Century Assets Corp. was deemed to be interested in all the Shares in which Southern Asia was interested by virtue of the SFO. East Asia International Trustees Limited was deemed to be interested in all the Shares in which Shine Century Assets Corp. was interested by virtue of the SFO.
3. Ms. Lin Mei-Li was the wife of Mr. Cheng Li-Yu and she was deemed to be interested in all the Shares in which Mr. Cheng Li-Yu was interested by virtue of the SFO.

Save as disclosed herein, there was no person (other than the Directors or chief executive of the Company) known to any Directors or chief executive of the Company, who, as at the Latest Practicable Date, had an interest or short position in the Shares and underlying Shares of the Company which would fall to be disclosed to the Company under the provisions 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 the general meetings of the Company or any other member of the Group.

#### **4. SERVICE AGREEMENTS**

Each of Mr. Cheng Li-Yu, Mr. Cheng Li-Yen, Mr. Huang Kuo-Kuang and Mr. Tsui Yung Kwok, all being executive Directors, has entered into a service contract with the Company for an initial fixed term of three years commencing from 1 June 2005 renewable automatically for successive terms of one year each commencing from the next day after the expiry of the then current term of the service contracts until terminated by not less than three months' notice in writing served by either party to the other.

Each of Mr. Hsieh Wan-Fu and Mr. Lo Jung-Te, both being executive Directors, has entered into a service contract with the Company for an initial fixed term of three years commencing from 25 May 2006 renewable automatically for successive terms of one year each commencing from the day next after the expiry of the then current term of his service contract, until terminated by not less than three months' notice in writing served by either party to the other.

Save as disclosed herein, none of the Directors had entered or proposed to enter into a service contract with any member of the Group (other than contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)) as at the Latest Practicable Date.

#### **5. MATERIAL CHANGES**

The Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2005, being the date to which the latest published audited financial statements of the Group were made up.

#### **6. COMPETING INTEREST**

As at the Latest Practicable Date, none of the Directors and his associates (as would be required to be disclosed under Rule 8.10 of the Listing Rules if any of them was a controlling Shareholder) was interested in any business apart from the business of the Group, which competes or is likely to compete, either directly or indirectly, with that of the Group.

**7. QUALIFICATION AND CONSENT OF EXPERT**

Somerley is a licensed corporation under the SFO 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, and is the independent financial adviser to the Independent Board Committee and the independent Shareholders in connection with the Continuing Connected Transactions as contemplated under the Master Sales Agreement and the Revised Caps. Its letter of advice to the Independent Board Committee and the independent Shareholders dated as of the date of this circular was given for the purpose of incorporation herein.

Somerley has given and has not withdrawn its written consent to the issue of this circular with references to its name and its letter in the form and context in which they appear.

As at the Latest Practicable Date, Somerley did not have any shareholding, directly or indirectly, in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, Somerley did not have any interest, direct or indirect, in any assets which have been since 31 December 2005, being the date to which the latest published audited financial statements of the Group were made up, acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

**8. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection at the principal place of business in Hong Kong of the Company at Suites 3311-3312, Jardine House, 1 Connaught Place, Central, Hong Kong during normal business hours from 18 October 2006 up to and including 1 November 2006:

- (a) the Master Sales Agreement;
- (b) the service agreements as referred to in paragraph 4 of this appendix;
- (c) the letter from the Independent Board Committee, the text of which is set out on pages 10 to 11 of this circular;
- (d) the letter from Somerley, the full text of which is set out on pages 12 to 17 of this circular; and
- (e) the letter of consent as referred to in paragraph 7 of this appendix.

**9. MISCELLANEOUS**

The English text of this circular shall prevail over its Chinese text.