

## CHAIRMAN'S LETTER



**David So Cheung Sing**  
Chairman and Chief Managing Director

### RESULTS

The financial year 2001 was very challenging. The Group had seen a bullish global economy in the first half of the financial year 2001 resulting from an overheated new economy. However, this had drastically turned sluggish towards the end of the year 2000 and continued through June 2001, triggered by the burst of the Internet bubble.

Despite the adjustment encountered during the second half of the current financial year, the Group achieved a turnover growth in the businesses of Printed Circuit Boards ("PCB"), Liquid Crystal Displays ("LCD") and Magnetic Products by 20.1%, 25.9% and 37.1% respectively over the last financial year for the financial year ended 30 June 2001 (the "financial year 2001"). This was achieved predominantly through a migration to higher-end and higher value-added products and much better results enjoyed by the Group in the first half of the financial year.

The Company successfully acquired a majority interest in Elec & Eltek International Company Limited ("EEICL"), formerly an associate company responsible for the PCB Business and listed on the Singapore Exchange Securities Trading Limited, from 43.65% to 52.15% on 15 June 2001 upon the completion of a partial offer. Since then, the Group has consolidated the PCB Business in its financial statements.

**Printed**  
**Circuit Boards**

## Chairman's Letter

The net profit attributable to the shareholders in the financial years 2001 and 2000 was HK\$105.3 million and HK\$115.3 million respectively.

Basic earnings per share for the financial year 2001 stood at 8.98 Hong Kong cents, compared with 9.93 Hong Kong cents for the financial year 2000.

### FINAL DIVIDENDS

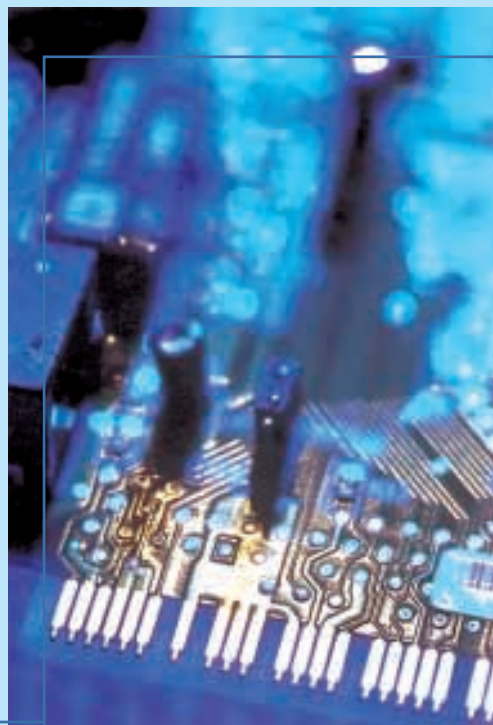
The Group proposes a final dividend of 2.0 Hong Kong cents (2000: 2.0 Hong Kong cents) per share for the financial year 2001. Together with the interim dividend of 3.0 Hong Kong cents (2000: 2.0 Hong Kong cents) per share, this will bring a total distribution of 5.0 Hong Kong cents for the financial year 2001. The final dividend, if approved at the forthcoming Annual General Meeting, will be payable to shareholders whose names appear on the Registers of Members at the close of business on 29 October 2001. Dividend warrants, if approved, will be sent to shareholders on or about 16 November 2001. The Registers of Members will be closed from 24 October 2001 to 29 October 2001, both dates inclusive. In order to qualify for the final dividend, transfers accompanied by the relevant share certificates must be lodged with the Company's Share Registrars in Hong Kong, Central Registration Hong Kong Limited, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:00 p.m. on 23 October 2001.

### BUSINESS REVIEW

#### Printed Circuit Boards

The turnover and pre-tax operating profits of the PCB Business for the financial year 2001 recorded an increase of HK\$443.7 million or 20.1% to HK\$2,653.6 million and HK\$88.6 million or 23.3% to HK\$468.1 million respectively. This improvement was due to an increase in production capacity, as well as a larger proportion of sales in higher layer count product categories.

The pre-tax operating profit margin on turnover improved from 17.2% in the last financial year to 17.6% in the current financial year despite higher depreciation expenses and higher raw material costs due to difference in product mix.



## Chairman's Letter

# Liquid crystal Displays

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Due to a significant slowdown in the world electronics industry following the burst of the Internet bubble in late 2000, the overall business environment in the second half of the current financial year was difficult. In March and April 2001, the PCB Business saw its lowest bookings and recorded the lowest shipments in April and May 2001. Bookings did, however, start to improve slightly from June onward.

With the customers in the desk-top computer and consumer sectors scaling back their production gradually in September 2000, and with higher-end computer and communication sectors following suit in early part of year 2001, adjustments were needed to deal with excess product inventories. For the customers within the computer sector, those adjustments in inventory have more or less been completed. However, market demand remains soft — particularly in the US and Europe — and inventory adjustment is ongoing in the communication and consumer sectors.

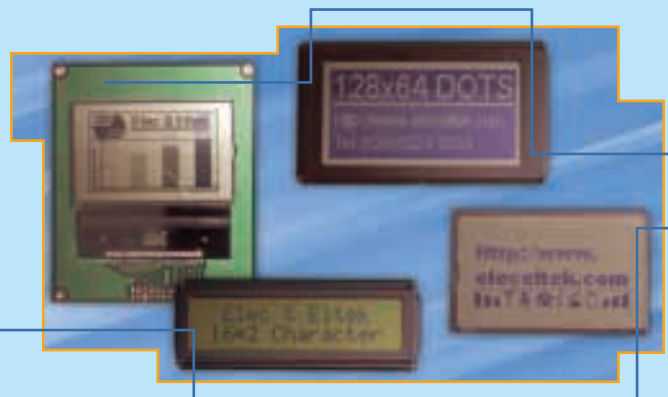
Because of these factors, the proportion of PCBs sold to communication and network customers dropped from 47.0% in the first half to 42.0% in the second half of the current

financial year. At the same time, the proportion of PCBs sold to the computer and peripherals sectors increased from 45.0% in the first half to 49.0% in the second half of the current financial year. For the current financial year, PCB sales to the communication and computer sectors stood at 45.0% and 46.0% respectively, versus 38.0% and 55.0% in the last financial year.

Although the PCB Business suffered from lower prices caused by sluggish economies in the US and Europe, the average selling price in the second half of the financial year was still marginally up by 1.7% over that for the first half of the financial year. This was primarily due to continued growth in six-layer and eight-layer PCB sales, which expanded by 1.5% and 2.5% respectively in the second half when compared with the first half of the current financial year. The full-year turnover for six-layer, eight-layer and 10-layer and above PCBs stood at 22.0%, 11.0% and 18.0% respectively.

In addition, the new Kaiping Plant Phase IV commenced operation in September 2000 and contributed positively to the PCB Business's result from February 2001.

## Chairman's Letter



### Liquid Crystal Displays

The turnover of the Group's LCD Business increased from HK\$158.9 million of the last financial year to HK\$200.0 million of the current financial year. This increase was attributable to an expanded client base covering Asia, Europe and North America.

Most of the growth was increase in sales of flat panel LCD products. Module products made its first year contribution of HK\$11.1 million turnover for the year under review. The COG product for mobile phone applications did not however perform to our expectation due to a heavy inventory adjustment in telecommunication sector and global economic slowdown.

LCD prices gradually moved in a downward trend. Losses from the LCD Business stood at HK\$33.8 million, 3.7% downwards from HK\$35.1 million of the last financial year.

### Magnetic Products

Despite slowdown in internet-related and telecommunication industries, the Magnetic Products Business upheld its commitment to working with silicon vendors and valued customers, and achieved a growth in turnover to HK\$83.9 million in the financial year 2001, up from HK\$61.2 million in the last financial year. Operating results for the financial year 2001 showed a turnaround from a loss of HK\$2.0 million in the financial year 2000 to a profit of HK\$2.6 million in the year under review.

The Magnetic Products Business set up its Research and Development center in the US in the second half of the financial year 2001, in line with our long-term strategy of continuing technological advancements and staying close to our valued customers.

## Chairman's Letter

### Information Technology

The Information Technology ("IT") Business is in its initial start-up mode and, due to the abrupt downturn in the information technology sector worldwide, reported a loss of HK\$17.7 million in the current financial year.

The US-led Internet/IT hype accelerated its downward adjustment during the year under review. Nevertheless, our prudent management practice enabled us to minimize expenses in the IT Business.

The Group pursues an IT investment policy that ensures synergy, focus and direction along the core business and niche areas of the Group. An investment was made during the year in the majority owned joint venture "Beijing Yilaida Information Technology Limited" ("Yilaida") in Beijing, set up jointly with the China National Electronics Components & Equipment Corporation. Yilaida is poised to promote the export of electronics components from China, as well as to invite foreign technology and investment, through the integration of information technology.

The Group envisages information technology not as an end but as the means to improving efficiency and effectiveness, which in turn

enhances cost reduction and customer support. As a result, resources were concentrated on enterprise business software solutions for e-commerce. The modulations of Customer Relationship Management ("CRM") and Supply Chain Management ("SCM") have progressed in accordance with the plan. Developed modules will be deployed within the Group for further refinement and testing before a commercial launch in the market.

### FUTURE PROSPECTS

The global economy remains sluggish. Business environments in the US and Europe are expected to remain challenging for the next twelve months.

In the short term, the worldwide market remains cyclical. Recovery in the US and European markets will be much influenced by aggressive interest rate cuts by the US Federal Reserve Board, corporate earnings and the strategic action plans of major corporations.

In the medium and long term, the growth in the communication, networking, and PC and handheld devices sectors is expected to be reflected by an increase in demand. China, which remains one of the countries with lowest manufacturing costs, is forecast to enjoy high economic growth in the coming

**Magnetic**  
products

## Chairman's Letter

years. The country's accession to the World Trade Organisation ("WTO") in the latter part of 2001 will lead to a gradual opening up of markets to international investors and the Chinese Government will accelerate its development of wireless and networking telecommunication infrastructures. With a strong manufacturing presence in China, the Group will be well positioned to take full advantage of the enhanced opportunities in the region.

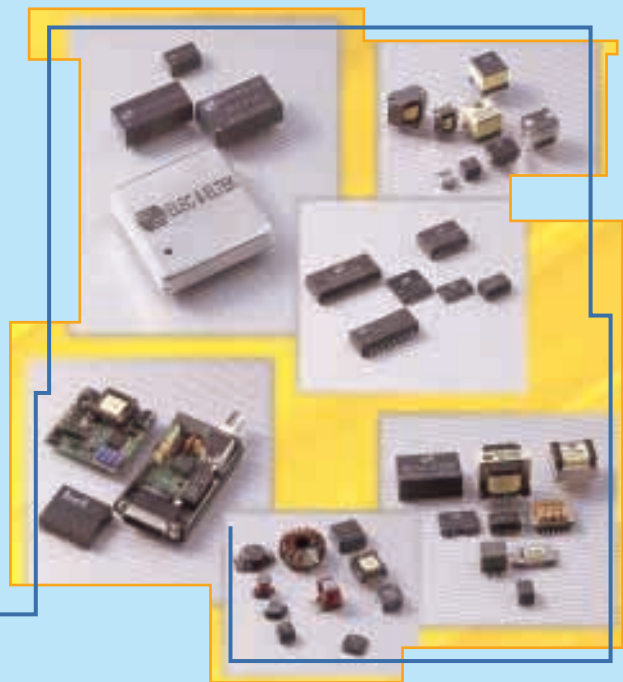
### Printed Circuit Boards

With Europe's summer vacation ending in September and Christmas season falling in the second quarter of the new financial year, we expect to see a mild quarter-on-quarter pick-up in booking. The completion of inventory adjustments in the consumer and communication sectors anticipated in September and October 2001 may also contribute to this gradual improvement.

In the new financial year, the PCB industry is expected to consolidate further. Several manufacturers have shut down their plants in the US and Europe and are either investing in or expanding their existing capacities in China. In light of this, we expect lower-end consumer type PCBs to face further price erosion in the region, while the medium and higher-end PCBs traditionally built in the US, Europe and Japan will begin to face competition as first tier PCB shops in China

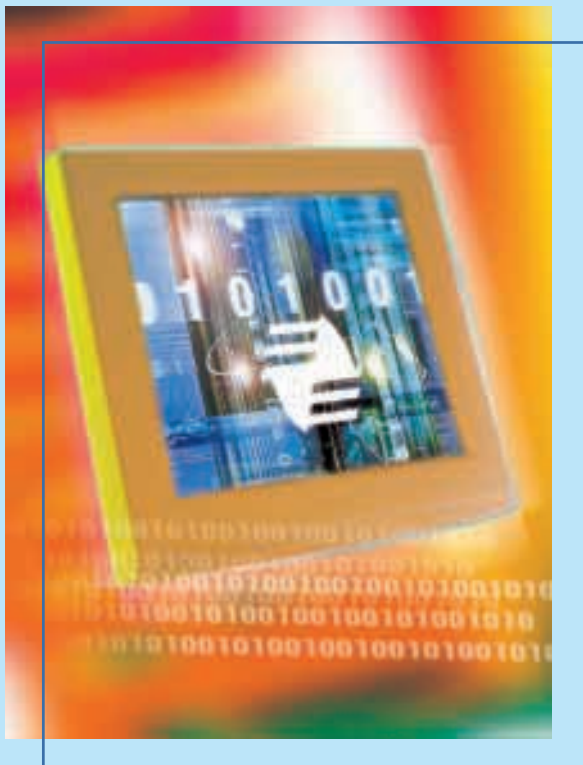
continue to develop the technology to manufacture higher layer, higher value-added conventional and high-density interconnect ("HDI") PCBs and backplane PCBs.

In the medium and longer term, the growth in the PCB market is expected to continue — particularly in China. The opening up of China's local market will attract Original Equipment Manufacturers ("OEMs") and Contract Manufacturers ("CMs") to migrate to or invest in China aggressively. We expect enormous business opportunities in China's communication sector in the years ahead. The Group was the largest PCB capacity holder in China in 2000 (as reported by NT Information Ltd) with 23 million square feet of manufacturing capacity, which amounted to around 85.0% of its total PCB capacity of 27 million square feet. The Group has modified its investment plans by changing the plant





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currently under construction in Huangpu Eastern Park into a high-layer backplane manufacturing operation. In addition, the Kaiping Plant Phase IV is also being converted into a 2.5 million square feet production capacity for conventional PCBs and 1.5 million square feet for HDI PCBs.

Provided that the economies in the US and Europe gradually improve in the coming quarters, the Directors expect to maintain good results in the new financial year.

### Liquid Crystal Displays

Success in the coming year hinges on the recovery of the US market and the

turnaround of the technology sector across all continents. With an expanded product range and broadened market base, the LCD Business will be less vulnerable to economic slowdown in a particular region. The implementation of effective and tighter cost control will provide competitive edge to the LCD Business.

It is expected that the product mix will improve towards the higher-end products, which will contribute a better operating margin for the new financial year.

### Magnetic Products

Despite the slowdown in the internet and telecommunication industries, emerging technologies requiring even faster speed in data transmission will provide tremendous business opportunities for magnetic products. The high growth rate of the enterprise networking market calls for magnetic products for voice over Internet protocol (VOIP) and gigabit technologies. Pocket PC, PDA and other handheld devices require high density, miniaturised and integrated components and high efficient power conversion magnetic products.

The Magnetic Products Business will respond to and stay on top of these evolving technological advancements and is expected to enlarge its product range and continue contributing to the Group's profit.

## Chairman's Letter

### Information Technology

The cooling down of the overheated new economy sector has resulted in adjustments in the world's investment atmosphere. Nevertheless, the Group remains confident that the information technology sector will continue to grow and contribute to the business community in the long term. With resources in reserve and a long-term visionary view, the Group is poised to continue cautiously its investment in IT development.

Leveraging on the strength of the Group's core manufacturing business, strong presence in China and global network, Yilaida is expected to benefit from China's entry into the WTO and accommodate the Group's Greater China business strategy. With a leading position in the China's electronics industry, the China National Electronics Components & Equipment Corporation will provide a strong customer base for Yilaida and ultimately for the Group's IT Business, which will endeavor to work closely with Yilaida's Chinese partners to help formulate a synergetic strategy.

### APPRECIATION

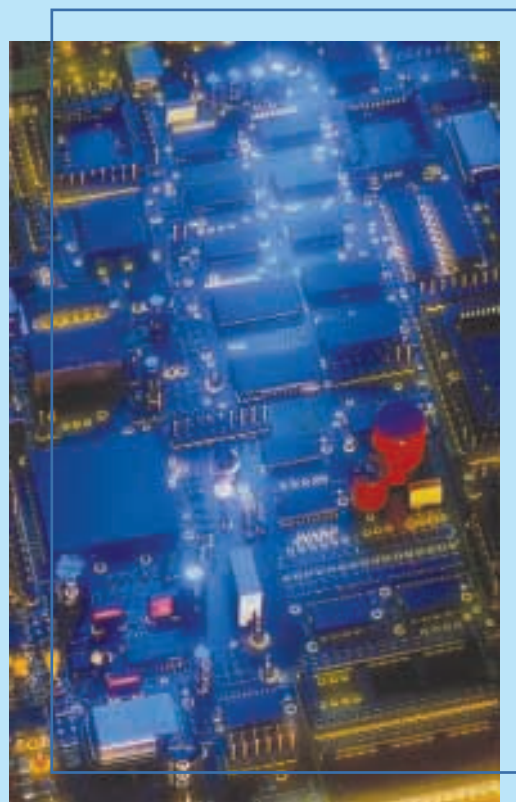
On behalf of the Board, I would like to extend our deepest appreciation to all our employees for their loyalty, commitment and contributions throughout the year, and to our shareholders for their continuing support of the Group.



**David So Cheung Sing**

*Chairman and Chief Managing Director*

10 September 2001



Information  
technology