

## MANAGEMENT DISCUSSION AND ANALYSIS

### FINANCIAL ANALYSIS

Total shareholder's equity at 30 June 2001 decreased by HK\$173.6 million as compared with that at 30 June 2000. The decrease was due to the diluting effect of the partial offer whereby a goodwill on consolidation of HK\$222.4 million was written off against reserves.

A comparison of total shareholders' equity and assets and liabilities as at 30 June 2001 and 30 June 2000 is shown below.

	Increase/ (decrease) HK\$ million	30 June 2001 HK\$ million	30 June 2000 HK\$ million
Fixed assets	1,629.5	1,778.0	148.5
Intangible assets	2.7	2.7	—
Interest in associates	(575.3)	—	575.3
Interest in a jointly-controlled entity	10.5	10.5	—
Current assets	946.3	1,220.8	274.5
Current liabilities	(811.6)	(1,009.8)	(198.2)
Interest-bearing bank loans — long term portion	(461.2)	(461.2)	—
Deferred tax	(12.2)	(12.2)	—
Minority interests	(902.3)	(902.3)	—
<b>Net decrease in shareholders' equity</b>	(173.6)	<b>626.5</b>	800.1

There was substantial increase in balances of each item of assets and liabilities at the end of the financial year 2001 compared with the end of the financial year 2000 mainly because of consolidation of Elec & Eltek International Company Limited ("EEICL") after the partial offer. Prior to that, EEICL was equity accounted under "interest in associates". The change in accounting treatment has no significant effect on the overall liquidity, profitability and efficiency, which has been maintained or even improved. Compared with the last financial year, the current ratio decreased slightly from 1.39 to 1.21, quick ratio decreased slightly from 1.11 to 0.89, the gross profit margin increased from 9% to 17%.

### MAJOR ACQUISITION AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATES

The Company acquired a further of 16,268,359 shares of EEICL at US\$3.08 each through the partial offer. The proceeds for the partial offer was financed by a combination of bank loan and internal funds. From the date of the acquisition, total equity interest in EEICL has increased to 52.15% resulting in consolidation of EEICL in the financial statements of the Group.

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### LIQUIDITY AND FINANCIAL RESOURCES

The ratio of total bank borrowings to shareholders' equity increased to 1.32 at the end of the financial year 2001 as compared with 0.13 of the financial year 2000. The increase in total bank borrowings balances was due to a HK\$400 million new term loans raised to finance the partial offer, a new term loan of HK\$60 million for operating working capital of the liquid crystal displays ("LCD") business and the consolidation of HK\$277.4 million of EEICL borrowings. The new long term bank borrowings are repayable by 12 to 17 quarterly installments and at commercial floating interest rates.

### CAPITAL STRUCTURE AND TREASURY POLICY

The increase in share capital during the year under review was due to the bonus issue of shares on the basis of one for every five existing shares created by capitalization of HK\$19.6 million from share premium account and the exercise of 9,200,000 shares under employee share option scheme. During the financial year under review, 1,745,000 shares were re-purchased with internally generated funds so as to enhance shareholders worth per share and earnings per share.

The major exposure to foreign exchange fluctuations is from the settlement of raw materials purchased payable in Japanese Yen currency. The Group uses forward contract to hedge an expected strengthening of the currency. No forward contract was outstanding at the end of the current financial year.

### INVESTMENTS

Investments in bonds were disposed during the year giving a profit on disposal of HK\$4.7 million. During the year under review, a new joint venture agreement was signed with the Chinese partners on the formation of a new joint venture company in Beijing for IT business. Capital investment of approximately HK\$15.1 million was financed by internally generated funds. The investment was equity accounted for as "interest in a jointly-controlled entity".

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### SEGMENTAL INFORMATION

The following table shows the segmental information of revenue and results of each business segment of the Group. The profits for PCB business presented was the proportionate share of profits of EEICL for the financial year up to 15 June 2001, the date of acquisition, and the consolidated results thereafter. The full year profits attributable to members of EEICL for the year under review was approximately HK\$416.4 million (2000: approximately HK\$336.3 million)

	2001						2000				
	Group						Group				
	Consolidated						Consolidated				
	Total	LCD	Magnetic	IT	Corporate	PCB	Total	LCD	Magnetic	Corporate	PCB
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>REVENUE</b>											
Turnover	402,764	199,963	83,902	2,584	—	116,315	220,065	158,899	61,166	—	—
Inter-division set off	(1,461)	—	—	(1,461)	—	—	—	—	—	—	—
<b>Net</b>	<b>401,303</b>	<b>199,963</b>	<b>83,902</b>	<b>1,123</b>	<b>—</b>	<b>116,315</b>	<b>220,065</b>	<b>158,899</b>	<b>61,166</b>	<b>—</b>	<b>—</b>
<b>RESULTS</b>											
Profit/(loss) before interest											
income	(48,843)	(28,014)	2,771	(15,690)	(29,091)	21,181	(33,397)	(30,708)	(1,927)	(762)	—
Interest income	4,970	78	27	14	4,706	145	9,427	80	27	9,320	—
Profit/(loss) from operating											
activities	(43,873)	(27,936)	2,798	(15,676)	(24,385)	21,326	(23,970)	(30,628)	(1,900)	8,558	—
Finance costs	(11,386)	(5,860)	(213)	—	(4,503)	(810)	(6,039)	(4,466)	(90)	(1,483)	—
Share of results of											
— associates	185,931	—	—	—	(266)	186,197	154,905	—	—	(617)	155,522
— a jointly-controlled											
entity	(2,144)	—	—	(2,144)	—	—	—	—	—	—	—
Tax	(13,575)	—	—	—	—	(13,575)	(9,604)	—	—	—	(9,604)
Minority interests	(9,700)	—	—	145	(177)	(9,668)	—	—	—	—	—
Net profit/(loss) attributable to											
shareholders	105,253	(33,796)	2,585	(17,675)	(29,331)	183,470	115,292	(35,094)	(1,990)	6,458	145,918

Times interest earned ratio for the current financial year was 12.3 as compared with 21.7 of the last financial year. Interest expense increased was due to increase in borrowings to finance the partial offer and for increased operating working capital for the LCD business.

The effective tax rate for the current financial year was 10.6% compared with 7.7% of the last financial year. More efficiency in effective tax rate as compared to Hong Kong standard tax rate of 16% was due to location of major manufacturing plants in tax efficient area where local government tax incentives are granted.

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### EMPLOYEE

At 30 June 2001, the Group had approximately 9,300 (2000: 8,900) employees worldwide. There was no change in the employee remuneration policies and the employee benefit, save for the contributions to retirement schemes have been made to Mandatory Provident Fund Scheme since 1 December 2000 to replace the Occupational Retirement Scheme (“ORS”). The ORS is continued without further contributions but balances accrued will be available when the employee retires or resigns.