

## REPORT OF THE DIRECTORS

The directors present their report and the audited financial statements of the Company and the Group for the year ended 30 June 2001.

### PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding.

The principal activities of the subsidiaries and associates are the manufacture and sale of electronic components, including double-sided and multi-layered printed circuit boards, liquid crystal displays and magnetic products. During the year, the Group commenced the information technology-related business including the provision of information technology consultancy and software development services. There were no other changes in the nature of the Group's principal activities during the year.

### SEGMENTAL INFORMATION

An analysis of the Group's turnover and contribution to its loss from operating activities by business segment for years ended 30 June 2001 and 2000 is as follows:

Business segments	Contribution to loss from operating activities		Contribution to loss from operating activities	
	Turnover	2001	Turnover	2000
	2001	2001	2000	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Printed circuit boards	116,315	21,326	—	—
Liquid crystal displays	199,963	(27,936)	158,899	(30,628)
Magnetic products	83,902	2,798	61,166	(1,900)
Information technology	1,123	(15,676)	—	—
Corporate and treasury	—	(24,385)	—	8,558
	401,303	(43,873)	220,065	(23,970)

## Report of the Directors

### SEGMENTAL INFORMATION (continued)

An analysis of the Group's turnover and contribution to its loss from operating activities by geographical area for the years ended 30 June 2001 and 2000 is as follows:

Marketing locations	2001		2000	
	Turnover HK\$'000	Contribution to loss from operating activities HK\$'000	Turnover HK\$'000	Contribution to loss from operating activities HK\$'000
North and Central America	43,631	1,757	3,704	(62)
Europe	76,062	11	29,135	(2,465)
Asia	281,610	(45,641)	187,226	(21,443)
	<b>401,303</b>	<b>(43,873)</b>	220,065	(23,970)

An analysis of turnover and contribution to the loss from operating activities by geographical area for Asia is as follows:

Marketing locations	2001		2000	
	Turnover HK\$'000	Contribution to loss from operating activities HK\$'000	Turnover HK\$'000	Contribution to loss from operating activities HK\$'000
Hong Kong	187,580	(40,284)	150,786	(20,973)
Singapore	48,697	1,686	21,155	(1,041)
Other locations	45,333	(7,043)	15,285	571
	<b>281,610</b>	<b>(45,641)</b>	187,226	(21,443)

## Report of the Directors

### RESULTS AND DIVIDENDS

The Group's profit for the year ended 30 June 2001 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 33 to 72.

An interim dividend of 3.0 Hong Kong cents per ordinary share was paid on 16 March 2001.

The directors recommend the payment of a final dividend of 2.0 Hong Kong cents per ordinary share in respect of the year to shareholders whose names appear on the Registers of Members on 29 October 2001. This recommendation has been incorporated in the financial statements.

### SUMMARY OF FINANCIAL INFORMATION

A summary of the results and of the assets and liabilities of the Group for the last five financial years, as extracted from the audited financial statements and restated as appropriate, is set out on page 5. This summary is not part of the audited financial statements.

### ACCOUNTING POLICIES

A summary of the significant accounting policies of the Group is set out in note 3 to the financial statements.

### FIXED ASSETS

Details of movements in the fixed assets of the Group are set out in note 12 to the financial statements.

### SUBSIDIARIES

Particulars of the Company's principal subsidiaries are set out in note 14 to the financial statements.

### ASSOCIATES AND A JOINTLY-CONTROLLED ENTITY

Particulars of the Company's and the Group's interests in associates and a jointly-controlled entity are set out in notes 15 and 16 to the financial statements, respectively.

### BANK LOANS, OVERDRAFTS AND OTHER BORROWINGS

Details of bank loans, overdrafts and other borrowings of the Group are set out in note 22 to the financial statements.

### SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the year, together with explanations therefor, are set out in note 24 to the financial statements.

## Report of the Directors

### SHARE CAPITAL AND SHARE OPTIONS (continued)

There are no provisions for pre-emptive rights under the Company's bye-laws or the laws of Bermuda which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

### PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the year, the Company repurchased certain of its shares on The Stock Exchange of Hong Kong Limited and these shares were subsequently cancelled by the Company. The directors consider that the repurchase of shares will benefit shareholders by enhancing the earnings per share of the Group. Further details of these transactions are set out in note 24 to the financial statements. Except as disclosed above, neither the Company, nor any of its subsidiaries or associates purchased, redeemed or sold any of the Company's listed securities during the year.

### RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 25 to the financial statements.

### DISTRIBUTABLE RESERVES

At 30 June 2001, the Company's reserves available for distribution, calculated in accordance with the Companies Act 1981 of Bermuda (as amended), amounted to HK\$448,940,000. In addition, the Company's share premium account, in the amount of HK\$36,444,000, may be distributed in the form of fully paid bonus shares.

### CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions totalling HK\$223,000.

### MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers and purchases from the Group's five largest suppliers accounted for less than 30% of the Group's total sales and 30% of the Group's total purchases for the year, respectively.

## Report of the Directors

### DIRECTORS

The directors of the Company during the year and up to the date of this report were:

#### Executive directors:

David SO Cheung Sing  
Marcus TSANG Ming Pui  
Wilson TAM Kam Ho  
Johnny NG Ho Kin  
KONG Do Chak (*retired with effect from 1 July 2001*)  
Canice CHUNG Tai Keung

#### Independent non-executive directors:

Peter LEE Yip Wah  
Eugene LEE

In accordance with Company's bye-law 107(A), David SO Cheung Sing, Wilson TAM Kam Ho and Johnny NG Ho Kin will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

The appointments of Peter LEE Yip Wah and Eugene LEE as non-executive directors of the Company expired on 31 March 2001 and 12 May 2001 respectively, but were renewed for a further term of two years with effect from 1 April 2001 and 13 May 2001 respectively. In accordance with Company's bye-law 98, Peter LEE Yip Wah and Eugene LEE will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

### BRIEF BIOGRAPHICAL INFORMATION ON DIRECTORS

#### Directors

##### David SO Cheung Sing

David SO Cheung Sing, aged 59, is one of the founders of the Elec & Eltek Group which was established in 1972. In his capacity as the Chairman and Chief Managing Director, he is responsible for leading the management in setting the Group's mission and objectives, and developing business and management strategies for all the businesses of the Group.

Mr. SO is a director of Elec & Eltek Investments Limited which is a substantial shareholder of the Company.

## Report of the Directors

### BRIEF BIOGRAPHICAL INFORMATION ON DIRECTORS (continued)

#### Directors (continued)

##### Marcus TSANG Ming Pui

Marcus TSANG Ming Pui, aged 61, is also one of the founders of the Elec & Eltek Group and is the Deputy Chairman and Managing Director. Together with other Board members, he is also responsible for setting the Group's mission and objectives, and developing business and management strategies.

Mr. TSANG is also a director of Elec & Eltek Investments Limited which is a substantial shareholder of the Company.

##### Wilson TAM Kam Ho

Wilson TAM Kam Ho, aged 59, is also one of the founders of the Elec & Eltek Group and is the Deputy Chairman and Managing Director. Together with other Board members, he is also responsible for setting the Group's mission and objectives, and developing business and management strategies.

Mr. TAM is also a director of Elec & Eltek Investments Limited which is a substantial shareholder of the Company.

##### Johnny NG Ho Kin

Johnny NG Ho Kin, aged 54, joined the Elec & Eltek Group in 1972. He is an Executive Director of the Company and the Senior Vice President — Corporate Control and Audit of the printed circuit board business. Together with other Board members, he is also responsible for setting the Group's mission and objectives, and developing business and management strategies.

Mr. NG is also a director of Elec & Eltek Investments Limited which is a substantial shareholder of the Company.

##### KONG Do Chak

KONG Do Chak, aged 64, joined the Elec & Eltek Group in 1984. Prior to his retirement with effect from 1 July 2001, he was an Executive Director of the Company and the Senior Vice President — Corporate Planning and Business Development of the printed circuit board business. Together with other Board members, he was also responsible for setting the Group's mission and objectives, and developing business and management strategies.

Mr. KONG was also a director of Elec & Eltek Investments Limited which is a substantial shareholder of the Company.

## Report of the Directors

### BRIEF BIOGRAPHICAL INFORMATION ON DIRECTORS (continued)

#### Directors (continued)

##### Canice CHUNG Tai Keung

Canice CHUNG Tai Keung, aged 46, joined the Elec & Eltek Group in 1991. In his capacity as an Executive Director of the Company and the Chief Executive Officer of the printed circuit board business, he is responsible for the financial and administrative functions of the Group as well as the overall operations of the printed circuit board business. Together with other Board members, he is also responsible for setting the Group's mission and objectives, and developing business and management strategies.

Mr. CHUNG is also a director of Elec & Eltek Investments Limited which is a substantial shareholder of the Company.

##### Peter LEE Yip Wah

Peter LEE Yip Wah, aged 59, has been an Independent Non-executive Director of the Company since 1 April 1997 and was re-appointed by the Board on 1 April 2001. Mr. LEE is a practising solicitor and a partner of Messrs. Woo, Kwan, Lee & Lo and is a China-appointed attesting officer. He is also a non-executive director of a number of listed companies in Hong Kong including Shum Yip Investment Limited and Cosco Pacific Limited.

##### Eugene LEE

Eugene LEE, aged 52, has been an Independent Non-executive Director of the Company since 13 May 1997 and was re-appointed by the Board on 13 May 2001. Mr. LEE was engaged in merchant banking, finance and securities in Asia, Europe and the United States of America for over 20 years.

Biographical information on senior management is not shown as the directors consider this would result in particulars of excessive length.

### EMOLUMENTS OF DIRECTORS AND OF THE FIVE HIGHEST PAID INDIVIDUALS

Details of the emoluments of directors and of the five highest paid individuals in the Group are set out in note 7 to the financial statements.

### DIRECTORS' SERVICE CONTRACTS

Each of the executive directors has a service contract with Elec & Eltek Corporate Services Limited, a wholly-owned subsidiary of the Company. Each of the service contracts will continue in force until terminated by not less than six months' written notice by either party.

Independent non-executive directors are appointed by the Company for a renewable fixed term of two years which can be terminated by either party in accordance with the bye-laws of the Company.

## Report of the Directors

### DIRECTORS' SERVICE CONTRACTS (continued)

Apart from the foregoing, no director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment other than statutory compensation.

### DIRECTORS' INTERESTS IN CONTRACTS

During the year, Elec & Eltek Corporate Services Limited, a wholly-owned subsidiary of the Company, received management fees of HK\$150,000 from each of Elec & Eltek Holding Company Limited and Elec & Eltek Investments Limited, companies in which David SO Cheung Sing, Marcus TSANG Ming Pui, Wilson TAM Kam Ho and Johnny NG Ho Kin had direct or indirect beneficial interests at the balance sheet date.

Except as disclosed above, none of the directors had beneficial interests in any material contract to which the Company or any of its subsidiaries was a party during the year.

### DIRECTORS' INTERESTS IN SHARE CAPITAL

At the balance sheet date, the directors had the following beneficial interests in the share capital of the Company and its associated corporations as recorded in the register required to be kept under Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"):

Name of director	Number of ordinary shares of HK\$0.10 each in the Company		
	Personal	Family	Total
David SO Cheung Sing	14,472,000	18,076,800	32,548,800
Marcus TSANG Ming Pui	22,632,775	—	22,632,775
Wilson TAM Kam Ho	7,200,000	—	7,200,000
Johnny NG Ho Kin	13,878,104	415,800	14,293,904
KONG Do Chak	7,644,000	—	7,644,000



## Report of the Directors

### DIRECTORS' INTERESTS IN SHARE CAPITAL (continued)

Certain of the Company's directors also held shares in Elec & Eltek International Company Limited ("EEICL"), a subsidiary of the Company which is listed on the Singapore Exchange Securities Trading Limited, as follows:

Name of director	Number of ordinary shares of S\$0.80 each in EEICL		
	Personal	Family	Total
David SO Cheung Sing	—	540,000	540,000
Marcus TSANG Ming Pui	—	540,000	540,000
Wilson TAM Kam Ho	—	300,000	300,000
Johnny NG Ho Kin	386,400	—	386,400
KONG Do Chak	619,200	—	619,200
Canice CHUNG Tai Keung	1,924,800	—	1,924,800

At the balance sheet date, Elec & Eltek Investments Limited had beneficial interests in 521,921,359 shares in the Company. The shareholders of Elec & Eltek Investments Limited are as follows:

Name of shareholder	Percentage shareholding in Elec & Eltek Investments Limited
Plenty Gain Limited	30.97%
Champion Oriental Inc.	29.98%
Goldful Holdings Limited	29.98%
Expert Gold Inc.	9.07%
	100%

Plenty Gain Limited is ultimately 100% owned by a discretionary trust, the eligible beneficiaries of which include the family members of David SO Cheung Sing, other than David SO Cheung Sing himself.

Champion Oriental Inc. holds the shares of Elec & Eltek Investments Limited as trustee for a unit trust, of which 99.9999948% of the units are owned by a discretionary trust, the eligible beneficiaries of which include the family members of Marcus TSANG Ming Pui, other than Marcus TSANG Ming Pui himself, with the remaining units being owned by Marcus TSANG Ming Pui directly.

## Report of the Directors

### DIRECTORS' INTERESTS IN SHARE CAPITAL (continued)

Goldful Holdings Limited is ultimately 100% owned by a discretionary trust, the eligible beneficiaries of which include the family members of Wilson TAM Kam Ho, other than Wilson TAM Kam Ho himself.

Expert Gold Inc. holds the shares of Elec & Eltek Investments Limited as trustee for a unit trust, of which 99.99998% of the units are owned by a discretionary trust, the eligible beneficiaries of which include the family members of Johnny NG Ho Kin, other than Johnny NG Ho Kin himself.

Except as disclosed above, none of the directors or their associates had any personal, family, corporate or other interests in the equity of the Company or its associated corporations as defined in the SDI Ordinance.

### DIRECTORS' RIGHTS TO ACQUIRE SHARES

Share options to subscribe for ordinary shares in the Company held by certain directors of the Company were all exercised during the year. Details were as follows:

Name of director	Number of share options in the Company		
	Outstanding at beginning of year	Exercised during the year	Outstanding at end of year
David SO Cheung Sing	3,000,000	3,000,000	—
Marcus TSANG Ming Pui	3,000,000	3,000,000	—
Wilson TAM Kam Ho	3,000,000	3,000,000	—
	9,000,000	9,000,000	—

Certain of the Company's directors also held share options to subscribe for ordinary shares in EEICL. The number of share options in EEICL exercised by the directors during the year and those outstanding at the balance sheet date are as follows:

Name of director	Number of share options in EEICL			
	Outstanding at beginning of year	Adjustment*	Exercised during the year	Outstanding at end of year
Johnny NG Ho Kin	500,000	100,000	360,000	240,000
KONG Do Chak	500,000	100,000	360,000	240,000
Canice CHUNG Tai Keung	1,383,000	276,600	1,368,000	291,600
	2,383,000	476,600	2,088,000	771,600

\* The adjustment was made pursuant to a one-for-five bonus issue of shares in EEICL which was approved by the shareholders of EEICL at an extraordinary general meeting held on 18 April 2001.

## Report of the Directors

### DIRECTORS' RIGHTS TO ACQUIRE SHARES (continued)

The share options to subscribe for ordinary shares in EEICL which are outstanding at the balance sheet date are exercisable on the following terms:

Name of director	Number of share options	Exercise price per share US\$	Exercise period
Johnny NG Ho Kin	120,000	4.833	10 April 1999 to 8 April 2003
	120,000	3.100	20 April 2000 to 18 April 2004
	240,000		
KONG Do Chak	120,000	4.833	10 April 1999 to 8 April 2003
	120,000	3.100	20 April 2000 to 18 April 2004
	240,000		
Canice CHUNG Tai Keung	135,600	4.833	10 April 1999 to 8 April 2003
	156,000	3.100	20 April 2000 to 18 April 2004
	291,600		

Except as disclosed above, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any directors or their respective spouse or children under 18 years of age, or were any such rights exercised by them, nor was the Company, or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

## Report of the Directors

### SUBSTANTIAL SHAREHOLDERS

At 30 June 2001, the following interests of 10% or more in the share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 16(1) of the SDI Ordinance.

Name	Number of shares held
Elec & Eltek Investments Limited	521,921,359
Kingboard Chemical Holdings Limited	118,092,000

Save as disclosed above, no person, other than the directors of the Company, whose interests are set out above, had registered an interest in the share capital of the Company that was required to be recorded in the register maintained pursuant to Section 16(1) of the SDI Ordinance.

### AUDIT COMMITTEE

Pursuant to the terms of reference of the Company's Audit Committee, which was set up on 30 June 1999, meetings were held on 2 February 2001 to review the interim financial statements of the Group and on 7 September 2001 to review the financial statements of the Group for the financial year ended 30 June 2001.

### PENSION SCHEMES

Details of the pension schemes of the Group and the employer's pension costs charged to the profit and loss account for the year are set out in notes 3 and 5 to the financial statements, respectively.

### CODE OF BEST PRACTICE

In the opinion of the directors, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules of The Stock Exchange of Hong Kong Limited throughout the accounting period covered by the annual report.

### AUDITORS

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the board



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

Hong Kong  
10 September 2001