

## ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 30 JUNE 2002

The board of directors (the “Board”) of Elec & Eltek International Holdings Limited (the “Company”) is pleased to announce the audited condensed consolidated profit and loss account of the Company and its subsidiaries (the “Group”) for the year ended 30 June 2002:

### CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

		<b>Year ended 30 June</b>	
		<b>2002</b>	<b>2001</b>
		<i>(audited)</i>	<i>(audited)</i>
	<i>Notes</i>	<b>HK\$'000</b>	<b>HK\$'000</b>
<b>TURNOVER</b>	2	<b>2,223,654</b>	401,303
Cost of sales		<b>(1,718,985)</b>	(332,945)
Gross profit		<b>504,669</b>	68,358
Other revenue		<b>1,903</b>	10,962
Selling and distribution costs		<b>(117,316)</b>	(25,584)
Administrative expenses		<b>(161,664)</b>	(66,425)
Other operating expenses		<b>(19,729)</b>	(31,184)
<b>PROFIT/(LOSS) FROM OPERATING ACTIVITIES</b>		<b>207,863</b>	(43,873)
Finance costs		<b>(23,339)</b>	(11,386)
Share of profits less losses of associates		—	185,931
Share of loss of a jointly-controlled entity		<b>(904)</b>	(2,144)
<b>PROFIT BEFORE TAX</b>	3	<b>183,620</b>	128,528
Tax	4	<b>(30,329)</b>	(13,575)
<b>PROFIT BEFORE MINORITY INTERESTS</b>		<b>153,291</b>	114,953
Minority interests		<b>(105,819)</b>	(9,700)
<b>NET PROFIT FROM ORDINARY ACTIVITIES</b>			
<b>ATTRIBUTABLE TO SHAREHOLDERS</b>		<b>47,472</b>	105,253
<b>DIVIDENDS</b>	5		
Interim		<b>11,751</b>	29,284
Proposed final		<b>17,626</b>	23,501
Adjustments to dividends payable in prior years as a result of options exercised and shares repurchased during the year		—	180
		<b>29,377</b>	52,965
		<i>(HK cents)</i>	<i>(HK cents)</i>
<b>EARNINGS PER SHARE</b>	6		
Basic		<b>4.04</b>	8.98
Diluted		<b>4.03</b>	8.50

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 1. SIGNIFICANT ACCOUNTING POLICIES

#### Principal accounting policies

In the current year condensed financial statements, the Group adopted the following Statement of Standard Accounting Practice (“SSAPs”) and related Interpretations issued by the Hong Kong Society of Accountants.

SSAP 9 (Revised)	:	“Events after the balance sheet date”
SSAP 18 (Revised)	:	“Revenue”
SSAP 26	:	“Segment Reporting”
SSAP 28	:	“Provisions, contingent liabilities and contingent assets”
SSAP 29	:	“Intangible assets”
SSAP 30	:	“Business combinations”
SSAP 31	:	“Impairment of assets”
SSAP 32	:	“Consolidated financial statements and accounting for investments in subsidiaries”
Interpretation 12	:	“Business combinations - Subsequent adjustment of fair values and goodwill initially reported”
Interpretation 13	:	“Goodwill - continuing requirements for goodwill and negative goodwill previously eliminated against/credited to reserves”

These SSAPs prescribe new accounting measurement and disclosure practices. The major effects on the Group’s accounting policies and on the amounts disclosed in these condensed financial statements of adopting these SSAPs and Interpretations are summarised as follows:

SSAP 9 (Revised) prescribes which type of events occurring after the balance sheet date require adjustment to the financial statements, and which require disclosure, but no adjustment. Its principal impact on these financial statements is that the proposed final dividend which is not declared and approved until after the balance sheet date, is no longer recognised as a liability at the balance sheet date, but is disclosed as an allocation of retained earnings on a separate line within the capital and reserves section of the balance sheet.

To comply with this revised SSAP, a prior year adjustment has been made to reclassify the proposed final dividend for the year ended 30 June 2001 of HK\$23,501,000, which was recognised as a current liability at the prior year end, to the proposed final dividend reserve account within the capital and reserves section of the balance sheet. Consequently, dividends of HK\$125,088,000 from a subsidiary for the year ended 30 June 2001 that are declared and approved by the subsidiary after 30 June 2001 are no longer recognised in the Company’s financial statements for the year ended 30 June 2001, the net effect to the Group is a reclassification of dividend payable to minority shareholders of HK\$60,105,000 from other payables to minority interests. Accordingly, the comparative amounts in the consolidated balance sheet as at 30 June 2001 have been restated by prior year adjustments relating to dividends. The results of these have been to reduce the Group’s current liabilities by HK\$83,606,000, and increase the reserves and minority interests previously reported as at 30 June 2001 by HK\$23,501,000 and HK\$60,105,000, respectively.

The effect of this change in accounting policy as at 30 June 2002 is that the current year's proposed final dividend of 1.5 HK cents was included in the proposed final dividend reserve account within the capital and reserves section of the balance sheet at that date whereas in previous years, it would have been recognised as a current liability at the balance sheet date.

SSAP 29 prescribes the recognition and measurement criteria for intangible assets, together with the disclosure requirements. The adoption of this SSAP has resulted in no change to the previously adopted accounting treatment for intangible assets and the additional disclosures that it requires have not been significant for these financial statements.

SSAP 30 prescribes the accounting treatment for business combinations, including the determination of the date of acquisition, the method for determining the fair values of the assets and liabilities acquired, and the treatment of goodwill or negative goodwill arising on acquisition. The SSAP requires the disclosure of goodwill and negative goodwill in the non-current assets section of the balance sheet. It requires that goodwill is amortised to the profit and loss account over its estimated useful life. Negative goodwill is recognised in the profit and loss account depending on the circumstances from which it arose.

In respect of goodwill previously eliminated to reserves, the Group has applied the transitional provision 1(1) in SSAP30 and the relevant goodwill previously eliminated against reserves has not been restated. In accordance with the transitional provisions of SSAP30 and SSAP31, where an impairment loss has arisen since the date of acquisition on goodwill previously written off against reserves, and previously there was not a policy to recognise such impairment losses, this change in accounting policy should be applied retrospectively.

At 30 June 2002, the Group performed an assessment of the fair value of goodwill previously eliminated against reserves. The assessment was based on value in use of the assets as determined at the cash generating unit (the individual business operations) based on the present values of estimated future cash flows. As a result of the assessment an HK\$1,163,000 and HK\$24,863,000 impairment losses arising from acquisition of subsidiaries engaged in two discontinued business of OEM and power supply 24,863,000 for the year ended 30 June 1995 and 1996 respectively was identified. This goodwill was previously eliminated against reserves. The Group has retrospectively restated and adjusted the profits for the years ended 30 June 1995 and 1996. These adjustments has resulted no net overall effect on the amount of consolidated retained profits previously reported in consolidated reserves.

#### **Note to change in depreciation method**

As a refinement to the straight-line basis of depreciation for plant and machinery, the unit-of-production depreciation method was implemented for the manufacturing plants which have temporarily reduced their production capacities due to the prevailing industry slow-down, as the method would provide a better matching of revenue to costs. The unit-of-production method determines the assets depreciation based on their actual utilization and would better reflect their consumption pattern. Utilization is measured by comparing actual output against the expected total output derived over the asset's estimated useful life of 5 and 7 years. Full utilization is assumed unless the asset's utilization falls substantially below its optimal production capacity. On this basis, the depreciation charge in respect of such plant and machinery for the PCB Business has been reduced by approximately HK\$37.3 million for the current financial year. The adoption of the new depreciation method has no effect on the LCD and the Magrtic Products Business as both operated above the optimal production capacity during the year.

In an effort to reflect a fairer consumption pattern for leasehold improvements, management has reviewed and changed the estimated useful lives of leasehold improvements from 5 years to 10 years. During the year, leasehold improvements are amortises at the rate of 10% (2001: 20%) per annum on cost or on the straight-line basis over the unexpired terms of the leases on the individual premises, whichever is shorter. The financial impact of this change related to PCB business was approximately HK\$9.5 million.

## 2. SEGMENT INFORMATION

The Group engages in the businesses of manufacture and sale of electronic components, including double-sided and multi-layered printed circuit board (“PCB”), liquid crystal displays (“LCD”), magnetic products (“Magnetics”) and provision of information technology and products (“IT”).

### Business Segments:

	PCB		LCD		Magnetics		IT		Corporate & Others		Elimination's		Consolidated	
	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001
Segment revenue:														
Sales to external customers	1,904,242	116,315	216,394	199,963	102,562	83,902	456	1,123	—	—	—	—	2,223,654	401,303
Other revenue	—	—	—	358	279	602	—	—	4,964	16,164	(4,531)	(15,864)	712	1,260
Total revenue	<u>1,904,242</u>	<u>116,315</u>	<u>216,394</u>	<u>200,321</u>	<u>102,841</u>	<u>84,504</u>	<u>456</u>	<u>1,122</u>	<u>4,964</u>	<u>16,164</u>	<u>(4,531)</u>	<u>(15,864)</u>	<u>2,224,366</u>	<u>402,563</u>
Segment results	220,775	21,181	12,288	(28,014)	6,162	3,021	(11,562)	(15,690)	(18,178)	(34,073)	—	—	209,485	(53,575)
Interest income													1,191	4,971
Gain on disposal of other investment													—	4,731
Unallocated expenses													(2,813)	—
Profit/(loss) from operating activities													207,863	(43,873)
Finance costs													(23,339)	(11,386)
Share of profits less losses of:														
Associates	—	186,197	—	—	—	—	—	—	—	(266)			—	185,931
Jointly-controlled entity	—	—	—	—	—	—	(904)	(2,144)	—	—			(904)	(2,144)
Profit before tax													<u>183,620</u>	<u>128,528</u>
													2002	2001
													HK\$'000	HK\$'000

### Geographical Segments:

#### Segment revenue, customer based

Asia													276,199	187,580
Hong Kong													175,206	48,697
Singapore													249,293	11,692
People's Republic of China													502,876	4,305
Malaysia													62,888	4,647
Thailand													492,052	76,062
Europe													321,198	43,631
America													143,942	24,689
Other Countries													<u>2,223,654</u>	<u>401,303</u>

Contribution to profit from operations by geographical segments has not been presented as the contribution to profit from operations in each geographical segment is substantially in line with the overall Group's ratio of profit from operations to turnover.

### 3. PROFIT BEFORE TAX

Profit before tax is arrived at after charging/(crediting):

	Year ended 30 June	
	2002 HK\$'000	2001 HK\$'000
Depreciation of fixed assets	239,586	37,610
Amortisation of intangible assets	765	33
Loss on disposal of fixed assets	2,587	182
Interest on bank loans, overdrafts and other borrowings wholly repayable within five years	33,413	11,386
Less: amount capitalised	(10,074)	—
Net interest expense	<u>23,339</u>	<u>11,386</u>
Exchange (gains)/loss, net	(1,239)	827
Interest income	(1,191)	(4,971)
Gain on disposal of other investments	—	(4,731)
Provision for obsolete inventories / (amounts written back), net	(1,191)	7,603
Provision for doubtful debts / (amounts written back), net	(1,424)	2,312
General provisions written back	(15,274)	—
Loss on deemed disposal of interests in subsidiaries	2,813	—
Severance payments for PCB business	12,296	—
Restructuring expenses of LCD business	<u>11,732</u>	<u>—</u>

### 4. TAX

	Year ended 30 June	
	2002 HK\$'000	2001 HK\$'000
Current year's provision for tax:		
The People's Republic of China:		
Hong Kong	16,181	202
Mainland	13,360	942
Overseas	555	13
Deferred tax	<u>233</u>	<u>133</u>
	<u>30,329</u>	<u>1,290</u>
Share of tax of associates	—	12,285
Tax charge for the year	<u>30,329</u>	<u>13,575</u>

Hong Kong profits tax has been provided at the rate of 16% (2001: 16%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable in other jurisdictions have been calculated at rates of tax prevailing in the jurisdictions in which the Group operates.

The share of tax of the associates in the prior year represented the Group's attributable share of profits tax and deferred tax of the associates. Hong Kong profits tax for the associates had been provided at the rate of 16% on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable in other jurisdictions have been calculated at the rate of tax prevailing in the jurisdictions in which the associates operated.

## 5. DIVIDENDS

	Year ended 30 June	
	2002	2001
	HK\$'000	HK\$'000
Interim dividend of 1.0 HK Cents (2001: 3.0 HK Cents) per ordinary share	11,751	29,284
Proposed final dividend of 1.5 HK Cents (2001: 2.0 HK Cents) per ordinary share	17,626	23,501
Adjustments to dividends payable in prior years as a result of options exercised and shares repurchased during the year	—	180
	<u>29,377</u>	<u>52,965</u>

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

During the year, the Group adopted the revised SSAP 9: "Events after the balance sheet date". (Refer to Note 1)

To comply with the revised SSAP 9, a prior year adjustment has been made to reclassify the proposed final dividend for the year ended 30 June 2001 of HK\$23,501,000, which was recognised as a liability in the prior year end, to the proposed final dividends reserve account within the capital and reserves section of the balance sheet.

## 6. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the consolidated net profit attributable to shareholders for the year of HK\$47,472,000 (2001: HK\$105,253,000) and the weighted average of 1,175,062,408 (2001: 1,172,220,579) ordinary shares in issue during the year.

The calculation of diluted earnings per share is based on the adjusted consolidated net profit attributable to shareholders for the year of HK\$47,364,000 (2001: HK\$99,682,000) and the weighted average of 1,175,062,408 (2001: 1,172,788,828) ordinary shares outstanding during the year, adjusted for the effects of all dilutive potential shares.

The adjusted consolidated net profit attributable to shareholders is calculated based on the consolidated net profit attributable to shareholders for the year of HK\$47,472,000 (2001: HK\$105,253,000) less the dilution in the shares of results of a subsidiary by HK\$108,000 (2001: HK\$5,571,000) arising from the deemed exercise of all of the outstanding employee share options of a subsidiary.

There were no adjustment to numbers of shares deemed to be issued in the calculation of the weighted average number of shares in the year as no share option was outstanding at the end of the year. In the previous year, the weighted average number of shares used in the calculation of diluted earnings per share was based on the weighted average of 1,172,220,579 shares in issue during the year plus the weighted average of 568,249 shares deemed to be issued at no consideration as if all of the outstanding share options had been exercised.

## 7. RESERVES

	Share premium account HK\$'000	Exchange reserve HK\$'000	Capital redemption reserve HK\$'000	Statutory and other reserves HK\$'000	Retained profits HK\$'000	Total HK\$'000
As 1 July 2000	50,834	(61,375)	26,004	12,431	594,530	622,424
Currency translation differences	—	(9,421)	—	—	—	(9,421)
Issue of new shares	6,625	—	—	—	—	6,625
Repurchase of shares	(1,431)	—	174	—	(174)	(1,431)
Bonus issue of shares	(19,584)	—	—	—	—	(19,584)
Net profit attributable to shareholders	—	—	—	—	105,253	105,253
Interim 2001 dividend	—	—	—	—	(29,284)	(29,284)
Proposed final 2001 dividend	—	—	—	—	(23,501)	(23,501)
Adjustments to 2000 dividend as a result of options exercised and share repurchased	—	—	—	—	(180)	(180)
Goodwill eliminated on acquisition of additional interests in EEICL	—	—	—	—	(222,350)	(222,350)
Goodwill eliminated on acquisition of additional interests in a subsidiary	—	—	—	—	(41)	(41)
Transfers from/(to) retained earnings	—	—	—	(3,869)	3,869	—
At 30 June 2001 and 1 July 2001	36,444	(70,796)	26,178	8,562	428,122	428,510
Currency translation differences	—	11,998	—	—	—	11,998
Exchange reserve released upon:						
disposal of a subsidiary	—	(133)	—	—	—	(133)
deemed disposal of interests in subsidiaries	—	537	—	—	—	537
Goodwill released upon deemed disposal of interests in subsidiaries	—	—	—	—	1,760	1,760
Net profit attributable to shareholders	—	—	—	—	47,472	47,472
Interim 2002 dividend	—	—	—	—	(11,751)	(11,751)
Proposed final 2002 dividend	—	—	—	—	(17,626)	(17,626)
At 30 June 2002	<u>36,444</u>	<u>(58,394)</u>	<u>26,178</u>	<u>8,562</u>	<u>447,977</u>	<u>460,767</u>

## CHAIRMAN'S LETTER

### RESULTS

The Group's performance in the second half of the current financial year ended 30 June 2002 (the "financial year 2002") was better than the first half of the current financial year. As mentioned in the annual report for the last financial year ended 30 June 2001 (the "financial year 2001"), the Group had anticipated prolonged sluggish market condition which has affected our overall performance in the current financial year.

The total turnover of the Group for the financial year 2002 was HK\$2,223.7 million. The Group's turnover for the current financial year cannot be directly compared with the Group's turnover for the last financial year. In contrast of a full consolidation of the Printed Circuit Boards ("PCB") Business in the Group's results for the whole current financial year, the Company consolidated the PCB Business only for a 16 days' period in the last financial year. The change in the accounting treatment was due to the Company's acquisition of a majority interest in Elec & Eltek International Company Limited ("EEICL", formerly an associate of the Company) which is responsible for the PCB Business of the Group upon completion of a partial takeover on 15 June 2001.

Operating profit of the Group in the financial year 2002 was HK\$207.9 million, as compared with loss of HK\$43.9 million for the last financial year. The net profit attributable to the shareholders was HK\$47.5 million, a drop of HK\$57.8 million (54.9%).

Basic earnings per share for the financial year 2002 stood at 4.04 Hong Kong cents, compared with 8.98 Hong Kong cents for the financial year 2001.

## **FINAL DIVIDENDS**

The Group proposes a final dividend of 1.5 Hong Kong cents (2001: 2.0 Hong Kong cents) per share for the financial year ended 30 June 2002. Together with the interim dividend of 1.0 Hong Kong cent (2001: 3.0 Hong Kong cents) per share, a total of 2.5 Hong Kong cents per share will be distributed for the financial year 2002. 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 12 November 2002.

Dividend warrants, if approved, will be sent to shareholders on or about 29 November 2002. The Registers of Members will be closed from 11 November 2002 to 12 November 2002, 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, Computershare Hong Kong Investor Services Limited, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai Hong Kong not later than 4:00pm on 8 November 2002.

## **BUSINESS REVIEW**

### **Printed Circuit Boards**

Turnover and pre-tax operating profits of the Printed Circuit Boards ("PCB") Business for the financial year 2002 amounted to HK\$1,904.2 million and HK\$220.8 million respectively, representing a decrease of 28.2% and 52.9% over HK\$2,653.4 million and HK\$483.2 million recorded in the last financial year.

As a result of the global slowdown in the electronics industry and keener competition, the Group faced downward price pressure. This has caused decline in the operating profit margin and profitability.



January and February 2002 were slow months for demand for PCB products following the seasonal peak of the 4th quarter of 2001. Demands for PCBs started to improve in March and April 2002 when Original Equipment Manufacturers (“OEMs”) projected higher sales.

Unfortunately, despite the more optimistic projections by OEMs, the overall demand for electronic products remained low which had resulted in the build-up of inventory in March and April 2002. As a consequence, excessive build-up could only be gradually consumed in May and June 2002. This inventory adjustment had slowed down the demand in the last two months of the current financial year.

From the global point of view, the PCB market has only stabilised as compared to the previous years. The Group’s sales volume in square footage had grown by 9.4% in the second half as compared to the first half of the current financial year. However, excessive world PCB production capacity resulted in continual erosion of PCB prices. Weighted average prices of the Group’s PCB products had dropped by 15.7% over the first half of the current financial year. As a result, overall turnover in the second half of the current financial year was lower by 6.5% as compared to the first half.

Utilization rate of the Group’s PCB production capacity in the second half of the current financial year remained in the range of 70% to 75%. However, the production at two of the Group’s thirteen manufacturing plants continues to be suspended.

Lower sales to the computer and computer peripherals sectors (50.1% of turnover) were recorded in the second half of the current financial year as compared to the volume sold in the first half (53.7% of turnover). Sales of PCB to the communication sector had stabilized in the second half over the first half and accounted for 35.5% of turnover in the current financial year as against 44.7% in the last financial year.

Demand from the consumer and automotive sectors remain strong. Sales for these two sectors amounted to 12.6% of turnover for the current financial year as compared with 8.6% of turnover for the last financial year.

Due to the increase in sales volume to the consumer sector, the Group’s layer count mix on 2 and 4-layers grew from 49.2% of turnover in the last financial year to 51.4% of turnover of the current financial year.

The Group’s Nanjing Plant, which was set up to cater for the PRC market, achieved a 54.4% of higher sales when compared with the last financial year.

### **Liquid Crystal Displays**

In the financial year 2002, turnover of the Liquid Crystal Displays (“LCD”) Business amounted to HK\$216.4 million, representing an increase of HK\$16.4 million or 8.2% over the HK\$200.0 million turnover recorded in the financial year 2001. The increase in turnover was mainly contributed by increase in sales of modules and chip on glass during the financial year under review.

Operating profit and operating margin of the LCD Business for the second half of the current financial year were HK\$18.2 million and 17.8% respectively.

Operating profit and operating margin of the LCD Business for the current financial year were HK\$12.3 million and 5.7% respectively. Operating profit for the current financial year includes a one-time charge of HK\$11.7 million for the restructuring exercise of the LCD Business including the closure of our low-end capacity in Dongguan in the first half of the current financial year. Excluding this one-time charge, operating profit for the current financial year was HK\$24.0 million as compared to the operating loss of HK\$28.0 million for the last financial year.

During the financial year under review, the LCD industry had faced price-cut pressure resulting from the prolonged sluggish world economy. Our dedicated sales team had been devoted to strengthen our well-established sales network, which had resulted in broadening of our customer base and alleviating negative effects brought forward by the unfavourable market condition. The restructuring exercise of the LCD Business had brought along positive improvement in operating efficiency as well as better product mix, which in turn enhanced competitiveness of the Group's products and improved operating margins and service quality.

### **Magnetic Products**

The Magnetic Products Business, which mainly services the telecommunication, networking and computer industries, has also been adversely affected by the global economic slowdown since 2001. Selling prices erosion has continued due to the stagnant demands and keener competitions.

During the financial year 2002, turnover of the Magnetic Products Business was able to attain HK\$102.6 million, representing an increase of HK\$18.7 million or 22.3% over turnover of HK\$83.9 for the financial year 2001. This result was attributed to improving responding time of our design team to new products and better operating efficiency which helped to expand our market share in this obscure global economic climate.

Operating profit of the Magnetic Products Business during the current financial year amounted to HK\$6.2 million as compared with HK\$3.0 million for the last financial year.

A new line of magnetic integrated connectors had successfully been developed and marketed during the financial year under review. Shipments of these new products had been made since March 2002.

### **Information Technology**

During the current financial year, the Information Technology ("IT") Business continued to focus on development of web-based enterprise software for the manufacturing industry. The development of Supply Chain Management ("SCM") software had made notable progress according to the Group's planning. The IT Business had completed the development of an e-procurement system which is a web-based software tailor-made for the PCB industry. Supported by potential demand from other industries, the IT Business would modify the e-procurement system to make it applicable to other industries as well.

Beijing Yilaida Information Technology Limited (“Yilaida”), a joint venture investment project in China with the China National Electronics Components & Equipment Corporation, had launched its new information portal in the second half of the current financial year in collaboration with the China Electronic Components Association. The number of visitors browsing the portal has been increasing steadily as reflected by the increasing amount of enquiries received via the Internet. Yilaida continued to provide services to customers in the PRC as well as in overseas countries.

In the financial year under review, net spendings on the IT Business was HK\$11.6 million and was reduced from HK\$15.7 million incurred for the last financial year.

## **FUTURE PROSPECTS**

The Group expects the overall business environment to remain challenging in the new financial year in view of the continuing uncertainty in the US and European markets.

### **Printed Circuit Boards**

The Group believes that the PCB industry in high-cost countries such as North America, Europe and Japan will further consolidate. Larger manufacturers with excessive capacity in high production cost countries and PCB shops in a weaker financial position will gradually fade out from the industry.

However, PCB production capacity in China is expected to grow further as more business opportunities will be opened to multi-national companies after China’s accession to the World Trade Organisation as well as pricing pressure with regard to end products and components will encourage overseas manufacturers to shift their manufacturing bases or to source their components in China. The Group with its significant presence in China is positioned to benefit from this.

Management will monitor such business developments in the China market and will decide when to invest in plant and machinery for the new Huangpu East plant. The Group remains optimistic in the medium and long term future in view of our position as the world’s 14th ranking independent PCB manufacturer and the largest PCB output manufacturer in China in 2001 (source: NT Information Ltd.). The Group is ready to further expand its customer base and strengthen its market position in the emerging China market. It is also on course in obtaining the necessary qualifications from new customers.

Provided that the economies in the US and Europe gradually improve in the coming quarters and new customers’ qualifications are received on schedule, the Directors expect improvements in the of the PCB Business results for the new financial year.

### **Liquid Crystal Displays**

Market demand for LCDs and module products by office automation, multimedia, audio / visual and automotive sectors remains stable. Our experienced sales team will seek to actively extend their reach to the US and European markets for more value-added businesses from multinational companies. The Group will invest to upgrade the already automated and

advanced Huangpu production plant in order to further enhance its production capability to meet the increasing market needs. We will keep on strengthening our research and development activities of more high-end and value-added products which will generate higher profit margin for the Group.

The LCD Business has turned around its operating results during the financial year under review and its continuous contribution to the Group's profit is expected.

### **Magnetic Products**

The soft market condition in communication and network industries is expected to persist at least in the new financial year. However, by expansion of our marketing and sales networks and introduction of new products, in particular the new series of magnetic integrated connectors, into the market, the Magnetic Products Business, committing to its long-term direction to continuous technological advancement and improvement of service quality, will further be realized as a valued magnetic component supplier to the world class manufacturers.

Barring from unforeseen circumstances, the Directors anticipate improvement in operating result of the Magnetic Products Business for the new financial year.

### **Information Technology**

Despite the hindered economic condition, the IT Business will continue making cautious moves in allocating resources for the development of web-based enterprise software for the market. The Group remains positive regarding the future prospect of the IT market. The Group's profound industry experience, coupled with its expertise in information technology, will definitely help build a solid foundation for the future development of the IT Business.

## **APPRECIATION**

This year is the 30th anniversary of the Elec & Eltek Group. On behalf of the Board, I would like to express my most heartfelt appreciation to all the staff, business partners and shareholders of the Group. Without the loyalty and expertise of our staff, we can never keep on progressing and cope with any difficulties that emerge along the road when we move on. Without the support and understanding from our business partners, we would not have developed as successfully as we are nowadays. Without the support from our shareholders, we would not have such impetus to improve ourselves every day in these past years.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **Liquidity and financial resources**

The Group was able to maintain its financial liquidity as a total of HK\$409 million cash was generated from operations internally in the current financial year.

## Capital structure and treasury policy

The Group continues to maintain an optimal mix of equity and debt in the capital structure. The gearing ratio, based on the total bank borrowings to shareholders' equity, decreased from 1.27 to 1.01 as a result of the repayment and net reduction of bank borrowings.

The Group's long term bank borrowings are primarily denominated in the US and Hong Kong dollars, unsecured, at commercial floating interest rates and repayable by installments in one to four years term. The Group arranged an US dollar average SIBOR interest rate swap contract to hedge interest rate volatility for one of the long term bank loans during the financial year.

## Investments, material acquisitions and disposals in subsidiaries

The equity interest in EEIC decreased slightly from 52.15% to 51.80% due to the dilutive effect of exercise of EEIC's share options by EEIC employees. Loss on deemed disposal amounting to HK\$2.8 million was charged to the consolidated profit and loss account for the current financial year.

## Segment information

Both the turnover of LCD and Magnetic Products Businesses have increased. The PCB Business has increased sales ratio Asian-Pacific Region which becomes more important as the manufacturing centre for the electronic products. Only the post-acquisition turnover and results of PCB Business was consolidated into the Group's financial statements after the Company acquired the controlling interest in the last financial year. Details of the acquisition was explained in the Chairman's letter.

The profit and loss account of the PCB Business for the year ended 30 June

	<b>2002</b> <b>HK\$'000</b>	2001 HK\$'000
REVENUE		
External sales	<u>1,904,242</u>	<u>2,653,444</u>
RESULTS		
Profit before interest income	220,775	483,191
Interest income	<u>972</u>	<u>3,297</u>
Profit from operating activities	221,747	486,488
Finance cost	<u>(1,211)</u>	<u>(18,487)</u>
Profit before tax	<u>220,536</u>	<u>468,001</u>

Reconciliation of profit and loss account of PCB Business to the segment information for the year ended 30 June 2001:

	<b>July 1, 2000 to June 14, 2001 HK\$'000</b>	<b>June 15, 2001 to June 30, 2001 HK\$'000</b>	<b>July 1, 2000 to June 30, 2001 HK\$'000</b>
<b>Consolidated</b>			
<b>REVENUE</b>			
External sales	<u>—</u>	<u>116,315</u>	<u>116,315</u>
<b>RESULTS</b>			
Profit before interest income	—	21,181	21,181
Interest income	<u>—</u>	<u>145</u>	<u>145</u>
Profit from operating activities	—	21,326	21,326
Finance cost	<u>—</u>	<u>(810)</u>	<u>(810)</u>
Profit before tax	<u>—</u>	<u>20,516</u>	<u>20,516</u>
<b>Equity accounted</b>			
Profit before tax attributable to the Group	195,338	—	195,338
Less: Consolidation adjustments	<u>(9,141)</u>	<u>—</u>	<u>(9,141)</u>
Share of profits of associates before tax	<u>186,197</u>	<u>—</u>	<u>186,197</u>
Total Profit before tax attributable from the PCB Business	<u>186,197</u>	<u>20,516</u>	<u>206,713</u>

#### **Number & remuneration of employees**

At 30 June 2002, the Group had approximately 8,700 employees worldwide. The reduction in number of employee was mainly due to the reductions of 804 head counts from the consolidation of LCD plants and the layoff of 511 PCB head counts. There was no change in the Group's employee remuneration policy, which continued to be structured by reference to the market terms and industry practice. Other staff benefits such as option and incentive schemes, bonus and insurance policies also remained the same.

#### **Changes in group's assets**

Total shareholders' equity increased from HK\$650.0 million to HK\$676.4 million. Compared with last financial year, current ratio increased slightly from 1.32 to 1.49, quick ratio increased from 0.98 to 1.15 and the gross profits margin increased from 17.0% to 22.7% due to tighter cost control measures by internal restructuring and streamlining of processes.

#### **Exposure to fluctuations in exchange rates and related hedge**

The Group's trade receivables are mainly invoiced in Hong Kong and US dollars and have no significant exposure to foreign exchange fluctuations. The only potential exchange risk exposure is the settlement of trade creditors payable in Japanese Yen by the Group's LCD Business and is hedged by three-months foreign exchange forward contracts.

## **Contingent liabilities**

The Group has no significant contingent liabilities as at the balance sheet date.

## **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 22 February 2002 to review the interim financial statements of the Group and on 14 September 2002 to review the financial statements of the Group for the financial year ended 30 June 2002.

## **CORPORATE GOVERNANCE**

None of the Directors is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the accounting period covered by the annual report, in compliance with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

## **PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SHARES**

Neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares during the year.

## **PUBLICATION OF DETAILED ANNUAL RESULTS ON THE STOCK EXCHANGE'S WEBSITE**

Financial and other information for the financial year 2002 required by paragraph 45(1) to 45(3) of Appendix 16 of the Listing Rules will be published on the Stock Exchange's website in due course. This announcement can also be accessed on the website: <http://www.eleceltek.com>.

By Order of the Board  
**David So Cheung Sing**  
*Chairman*

Hong Kong, 17 September 2002

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## **NOTICE OF ANNUAL GENERAL MEETING**

NOTICE IS HEREBY GIVEN that the Annual General Meeting of shareholders of the Company will be held at West Room, 23/F., Mandarin Oriental Hong Kong, 5 Connaught Road, Central, Hong Kong on 12 November 2002, Tuesday, at 12:00 noon for the following purposes: -

1. To receive and consider the audited Financial Statements and the Reports of the Directors and Auditors for the year ended 30 June 2002;
2. To declare a final dividend;

3. To re-elect Directors and to fix the Directors' fees; and
4. To re-appoint Auditors for the ensuing year and to authorise the Directors to fix their remuneration.

By Order of the Board  
**Monica Tso Hon Yuk**  
*Company Secretary*

Dated 17 September 2002

*Notes:*

- (a) A member of the Company entitled to attend and vote at the above meeting is entitled to appoint one or more proxies to attend and vote instead of him. A proxy need not be a member of the Company.
- (b) To be valid, a form of proxy together with any power of attorney or other authority (if any) under which it is signed or a notarially certified copy of such power or authority must be deposited at the Company's principal office, Unit B10, 3/F Merit Industrial Centre, 94 Tokwawan Road, Kowloon, Hong Kong not less than 48 hours before the time fixed for holding the meeting or any adjourned meeting.
- (c) The Registers of Members of the Company will be closed from 11 November 2002, Monday to 12 November 2002, Tuesday, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the proposed final dividends, all transfers accompanied by the relevant share certificates must be lodged with the Company's Share Registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:00 p.m. on 8 November 2002, Friday.

Please also refer to the published version of this announcement in South China Morning Post.