Elec & Eltek 依利安達
Elec & Eltek International Holdings Limited
*(Incorporated in Bermuda with limited liability)*

# INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 31 DECEMBER 2002

The board of directors (the "Board") of Elec & Eltek International Holdings Limited (the "Company") is pleased to announce the unaudited condensed consolidated profit and loss account of the Company and its subsidiaries (the "Group") for the six months ended 31 December 2002:

## CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

| | Notes | Six months ended 31 December **2002** *(unaudited)* *HK$'000* | 2001 *(unaudited)* *HK$'000* |
|---|---|---|---|
| **TURNOVER** | 2 | **1,087,871** | 1,149,969 |
| Cost of sales | | **(847,493)** | (914,740) |
| Gross profit | | **240,378** | 235,229 |
| Other revenue | | **374** | 3,125 |
| Selling and distribution costs | | **(37,308)** | (30,778) |
| Administrative expenses | | **(99,068)** | (98,606) |
| Other operating expenses | | **(9,060)** | (17,923) |
| **PROFIT FROM OPERATING ACTIVITIES** | | **95,316** | 91,047 |
| Finance costs | | **(11,203)** | (16,061) |
| Share of loss of a jointly-controlled entity | | **(254)** | (431) |
| **PROFIT BEFORE TAX** | 3 | **83,859** | 74,555 |
| Tax | 4 | **(5,018)** | (6,188) |
| **PROFIT BEFORE MINORITY INTERESTS** | | **78,841** | 68,367 |
| Minority interests | | **(46,617)** | (51,995) |
| **NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS** | | **32,224** | 16,372 |
| **DIVIDENDS** | 5 | | |
| Proposed interim dividend | | **17,627** | 11,751 |
| | | ***(HK cents)*** | *(HK cents)* |
| **EARNINGS PER SHARE** | 6 | | |
| Basic | | **2.74** | 1.39 |
| Diluted | | **2.74** | 1.39 |

## MOVEMENT TO/(FROM) RESERVES

| | Six months ended 31 December **2002** *HK$'000* | 2001 *HK$'000* |
|---|---|---|
| Retained profits at beginning of the period | **447,977** | 428,122 |
| Net profit attributable to shareholders | **32,224** | 16,372 |
| Proposed interim dividend | **(17,627)** | (11,751) |
| Goodwill released upon deemed disposal of interests in subsidiaries | **92** | 1,598 |
| At 31 December 2002 | **462,666** | 434,341 |

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 1. SIGNIFICANT ACCOUNTING POLICIES

### (a) Basis of preparation

These unaudited condensed consolidated interim financial statements of the Group have been prepared in accordance with the applicable disclosure requirements of Appendix 16 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and with Hong Kong Statement of Standard Accounting Practice ("SSAP") No. 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants.

### (b) Adoption of new and revised SSAPs

The accounting policies and basis of presentation used in the preparation of these condensed interim financial statements are the same as those used in the Group's audited financial statements for the year ended 30 June 2002, except for the following new/revised SSAPs which are effective and have been adopted for the first time in the preparation of the current period's condensed consolidated financial statements:

SSAP 1 (Revised): "Presentation of financial statements"
SSAP 11 (Revised): "Foreign currency translation"
SSAP 15 (Revised): "Cash flow statements"
SSAP 25 (Revised): "Interim financial reporting"
SSAP 34: "Employee benefits"

The adoption of the revised SSAP Nos. 1, 11, 15, 25 and 34 has no significant impact on the financial results. The detail impact on presentation of the financial statements will be explained in the interim report.

## 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 ("Magnetic") and information technology ("IT").

The business and geographical segments of the operations of the Group are as follows:

**Business Segments:**

| | Six months ended 31 December | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2002 | | | | | | 2001 | | | | | |
| | PCB *HK$'000* | LCD *HK$'000* | Magnetic *HK$'000* | IT *HK$'000* | Corporate and other *HK$'000* | Group *HK$'000* | PCB *HK$'000* | LCD *HK$'000* | Magnetic *HK$'000* | IT *HK$'000* | Corporate and other *HK$'000* | Group *HK$'000* |
| SEGMENT REVENUE | 917,202 | 121,946 | 48,461 | 262 | - | 1,087,871 | 990,549 | 114,205 | 45,071 | 144 | - | 1,149,969 |
| SEGMENT RESULTS | 93,450 | 16,962 | 5,377 | (2,671) | (18,011) | 95,107 | 113,206 | (5,446) | (1,546) | (5,118) | (8,188) | 92,908 |
| Interest income | 342 | 26 | 1 | - | 5 | 374 | 498 | 31 | 18 | - | 57 | 604 |
| Unallocated expenses | | | | | | (165) | | | | | | (2,465) |
| Profit from operating activities | | | | | | 95,316 | | | | | | 91,047 |
| Finance costs | | | | | | (11,203) | | | | | | (16,061) |
| Share of results of a jointly-controlled entity | - | - | - | (254) | - | (254) | - | - | - | (431) | - | (431) |
| Profit before tax | | | | | | 83,859 | | | | | | 74,555 |
| Tax | | | | | | (5,018) | | | | | | (6,188) |
| Profit before minority interests | | | | | | 78,841 | | | | | | 68,,367 |
| Minority interests | | | | | | (46,617) | | | | | | (51,995) |
| Net profit from ordinary activities attributable to shareholders | | | | | | 32,224 | | | | | | 16,372 |

**Geographical Segments:**

| | Six months ended 31 December 2002 HK$'000 | 2001 HK$'000 |
|---|---|---|
| **Segment revenue, customer based** | | |
| Asia | **776,024** | 695,071 |
| Europe | **208,497** | 257,482 |
| America | **93,638** | 185,769 |
| Other | **9,712** | 11,647 |
| | **1,087,871** | 1,149,969 |

Contribution to profit from operations by geographical segments has not been presented as the contribution to profit from operations in each geographical segments 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):

| | Six months ended 31 December 2002 HK$'000 | 2001 HK$'000 |
|---|---|---|
| Depreciation of fixed assets | **104,847*** | 143,859 |
| Amortisation of intangible assets | **399** | 384 |
| Loss on disposal of fixed assets | **555** | 774 |
| Interest on bank loans, overdrafts and other borrowings wholly repayable within five years | **11,846** | 19,119 |
| Less: amount capitalised | **(643)** | (3,058) |
| Net interest expense | **11,203** | 16,061 |
| Exchange gains, net | **(51)** | (994) |
| Interest income | **(374)** | (604) |
| Provision/(write back of provision) for obsolete inventories | **5,022** | (15,879) |
| Provision/(write back of provision) for doubtful debts | **134** | (10,373) |
| Write back of provision for management bonus | **–** | (15,275) |
| Loss on deemed disposal of interests in subsidiaries | **165** | 2,465 |
| Severance payments for PCB business | **2,866** | 12,378 |
| Restructuring expenses of LCD business | **–** | 12,568 |

* *Refer to paragraph 8 on the Management Discussion and Analysis*

## 4. TAX

| | Six months ended 31 December 2002 HK$'000 | 2001 HK$'000 |
|---|---|---|
| Current year's provision for tax: | | |
| The People's Republic of China | | |
| Mainland | **2,525** | 8,087 |
| Hong Kong | **2,605** | – |
| Overseas | **314** | – |
| Prior year overprovision-Hong Kong | **–** | (830) |
| Deferred tax credit | **(426)** | (1,069) |
| Tax charge for the period | **5,018** | 6,188 |

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

## 5. DIVIDENDS

| | Six months ended 31 December 2002 HK$'000 | 2001 HK$'000 |
|---|---|---|
| Proposed interim dividend of 1.5 HK cents (2001:1.0 HK cent) per ordinary share | **17,627** | 11,751 |

## 6. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the consolidated net profit attributable to shareholders for the period of HK$32,224,000 (2001: HK$16,372,000) and the weighted average of 1,175,062,408 (2001:1,175,062,408) ordinary shares in issue during the period.

The calculation of diluted earnings per share is based on the adjusted consolidated net profit attributable to shareholders for the period of HK$32,217,000 (2001: HK$16,290,000) and the weighted average of 1,175,062,408(2001:1,175,062,408) ordinary shares outstanding during the period, 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 period of HK$32,224,000 (2001: HK$16,372,000) less the dilution in the results of a subsidiary by HK$7,000 (2001: HK$82,000) arising from the deemed exercise of all of the outstanding employee share options of that subsidiary.

## INTERIM DIVIDEND

The Board announced to pay an interim dividend of 1.5 HK cents (2001: 1.0 HK cent) per share in respect of the six months ended 31 December 2002 to shareholders whose names appear on the Registers of Members on 21 March 2003. Dividend warrants will be sent to shareholders on or about 28 March 2003.

## CLOSURE OF REGISTERS OF MEMBERS

The Registers of Members will be closed from 20 March 2003 to 21 March 2003, both dates inclusive. In order to qualify for the interim 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 4:00 pm on 19 March 2003.

## RESULT

The global business environment remained challenging in the first half of the current financial year 2003 in light of uncertain economic and political climates. In the US and Europe, demands for electronic products and appliances continued to be sluggish. Competition was much keener than that in the second half of the last financial year, due to the prolonged slump market and excessive production capacities. Pressure on selling prices affected operating margin and profit. Despite these unfavourable factors, the total turnover of the Group for the six months ended 31 December 2002 (the "Period") stood at HK$1,087.9 million, a slight decrease of 5.4% or HK$62.1 million as compared with HK$1,150.0 million for the six months ended 31 December 2001 (the "Previous Period").

The net profit from ordinary activities attributable to shareholders for the Period was HK$32.2 million, an increase of HK$15.8 million or 96.3% from HK$16.4 million in the Previous Period. During the Period, both Liquid Crystal Displays ("LCD") and Magnetic Products Businesses achieved promising operating results and contributed to the Group's profit.

Basic earnings per share for the Period was 2.74 HK cents, an increase of 1.35 HK cents or 97.1 % from 1.39 HK cents for the Previous Period.

## BUSINESS REVIEW

### Printed Circuit Boards

Prevailing economic conditions in Asia and in the global market remained challenging at the beginning of the current financial year. The upsurge of business in March and April 2002 proved to be transient and unsustainable. Starting from May 2002, Original Equipment Manufacturers ("OEMs"), Original Design Manufacturers ("ODMs") and Equipment Manufacturing Service Providers ("EMS") had reduced their printed circuit board ("PCB") requirements, as the finished goods inventory remained excessive. This resulted in a slow start for the current financial year, with PCB plant utilization rate averaging at between 60% and 65% in the first quarter of the current financial year.

Turnover of the PCB Business for the Period was approximately HK$917.2 million, a 7.4% decrease over the Previous Period. The pre-tax operating profits of the PCB Business for the Period was HK$93.5 million, a decline of approximately 17.4% from HK$113.2 million for the Previous Period. The results included a HK$2.9 million redundancy payment as part of continuing rationalization of the operation of the PCB Business.

However, the PCB Business started to gradually improve from October 2002 onwards as a result of, firstly, the continuous out-sourcing of PCB requirements from high cost regions, such as North America, Europe and Japan, into China. Secondly, the OEMs, ODMs and EMS have been aggressively relocating their design and manufacturing bases into China following the accession of China into the World Trade Organisation in order to gain an early foothold on China market and more importantly, to enjoy lower labour and local component costs, so as to face keen market competition after the internet bubble burst.

This is particularly relevant to ODMs and EMS in Taiwan as they take advantage of a new government ruling that allow them to manufacture higher-end computer and communication products such as notebooks and network equipment in China. This latest move to liberalise trade and investment between the two regimes took effect in August 2001.

As the Group maintains the largest PCB manufacturing capacities in China, we become a clear beneficiary of this industry trend and the Group's continuous strategy and efforts to grow the China market continue to bear fruit.

Thus, the PCB Business saw an improved utilization rate in the second quarter of the current financial year at around 80% to 85%. In addition to increased PCB demand in China, this was achieved through late seasonal buying that started pushing up orders from October 2002 onwards.

During the Period, average selling prices for PCBs declined by about 6.2%, compared to those in the second half of the last financial year. However, pressure on selling prices eased towards the end of the Period.

Compared to the Previous Period, the sales grew by around 9% in the 2-layer and 4-layer products, as we made gains in the automotive, consumer and computer sectors but recorded fewer orders for 6-layer and 8-layer products due to depressed business conditions in the communication sector. Sales in the 10-layer and above products grew around 5% largely from newly-developed higher-end computer products and backplane business, when compared to the second half of the last financial year.

As a result of the Group's robust China strategy which leverages on the China's economic growth, PCB shipments to Asia for the Period stood at HK$630.5 million or 69% of total PCB turnover, against HK$568.9 million or 57% and HK$567.5 million or 61% of total PCB turnover for the first and second half of the last financial year respectively.

In view of emerging business opportunities, the Group restarted the two plants which were temporarily suspended, KaiPing Plant Phase I reopened in October 2002 and Guangzhou Plant Phase IV resumed in December 2002.

**Liquid Crystal Displays**

Turnover of the LCD Business for the Period was HK$121.9 million, an increase of HK$7.7 million or 6.7% from HK$114.2 million for the Previous Period. The increase in turnover came mainly from growth in sales of modules and chip-on-glass ("COG") products, amounting to HK$21.0 million for the Period against HK$9.5 million for the Previous Period.

Operating profit of the LCD Business for the Period was HK$17.0 million, a significant turnaround from the loss of HK$5.4 million for the Previous Period. Loss for the Previous Period included HK$12.6 million restructuring costs for the closure of the Dongguan Plant. Operating margin for the Period was 13.9% as compared with 6.3%, if excluding the restructuring costs, for the Previous Period. Improved operating profit was made possible by the increase in sales of high-end LCD products with higher profit margin produced by the Huangpu Plant, and the reduction of fixed overhead costs since the closure of the Dongguan Plant.

Due to the global excessive production capacity and the sluggish demand, average selling prices of LCD products dropped by about 9% during the Period when compared with prices a year ago. However, with technology advancement and improvement in production skills, our marketing and sales team was able to shift from low-end to high-end market segments which offer better profit margins. Production and sales of high-end STN/HTN products for the Period increased by about half from the Previous Period.

**Magnetic Products**

Turnover of the Magnetic Products Business for the Period was HK$48.5 million, a 7.5% or HK$3.4 million increase from HK$45.1 million for the Previous Period. Operating result for the Period was a profit of HK$5.4 million, a turnaround from HK$1.5 million loss for the Previous Period.

A stagnant global electronics market and keen competition put downward price pressure for magnetic products. However, the negative impact was alleviated by our successful cost reduction program involving material cost savings and process improvements to maintain price competitiveness.

By providing the best value support to our customers, the Magnetic Products Business was able to gain market share from competitors and to sustain growth in turnover and operating profits during the period under review. The Magnetic Products Business was nominated preferred supplier by some of our major multinational customers, thus paving the way for continuous growth in future.

Customers responded positively to the new range of magnetic integrated connectors launched in the second half of the last financial year which had brought in volume production orders. In addition, development of custom-designed electronic modules for telecommunication infrastructure also started in the period under review.

**Information Technology**

During the Period, the Information Technology ("IT") Business continued to focus on the development of web-based enterprise software for customers in manufacturing industries and internally, for companies within the Group.

During the Period, Beijing Yilaida Information Technology Limited ("Yilaida"), the IT Business's joint venture investment in China, continued to provide consultancy services for a number of local and overseas customers. The information portal " www.chinacomponents.com.cn" developed by Yilaida grew in popularity since its inception in August 2002. The portal continued to provide valuable and up-to-date information for buyers and sellers of electronic components around the world.

**FUTURE PROSPECTS**

The Group is cautiously optimistic that the US economy is showing realistic signs of stability, although the possible war with Iraq may create short-term uncertainties or at least dampen efforts to revive the global economy. This predicates a cautious approach by businesses across sectors, as they continue to deal with managing high business costs. The Group's existing strategy first implemented some ten years ago, of investing in and building a quality manufacturing presence in China has proven to be right. This has helped the Group in weathering the current difficulties such as selling price erosion and will also help us in positioning the Group for future growth.

**Printed Circuit Boards**

Further consolidation of PCB manufacturing activities is expected to continue in the coming years in high-cost regions as more and more manufacturers shift to low-cost regions like China.

The Group will deploy even more resources in immediate and medium terms in order to maximize gains from the opportunities and growth in demand for PCBs brought on by investments of OEMs, ODMs and EMS in China in the past two years, and from the out-sourcing of high value-added PCB manufacturing by OEMs, ODMs and EMS from high-cost regions to qualified producers with both capability and capacity in cost-effective regions like China.

The Group is beginning to see positive results from these two fronts, with new business orders translating into a capacity utilization of around 78% to 83% at the beginning of the second half of the current financial year, even after the end of seasonal demand. The Group is confident that our focus on these areas will gradually offset adverse impact of uncertainties in the world economy.

The Group is also taking proactive steps to improve and upgrade the manufacturing operations. Investments in good quality PCB machines that became available as production facilities in high-cost regions closed down will improve our PCB production capabilities, optimize existing manufacturing and critical processes, and reduce bottlenecks in the plants.

Barring unforeseen circumstances, the Directors believe the worst is behind us and the result of the PCB Business is expected to be better in the second half than that in the first half of the current financial year.

**Liquid Crystal Displays**

The LCD market faces ongoing price pressure as demand continues to be weak at best. Nevertheless, with persistent efforts and focus on research and development, the Group is confident that growth will continue, in particular through sales increase in modules and COG products.

As part of our strategic plan, the Huangpu Plant has further upgraded the LCD process equipment gearing for the production of high-end products at effective yield rates. This, coupled with our ongoing cost reduction program, gives the LCD Business added strength in overcoming difficulties of a highly competitive market.

**Magnetic Products**

To further strengthen the Magnetic Products Business, the Group will ensure services of the highest quality are delivered to customers in developing and supporting various ranges of discrete magnetic components. With our continuing joint efforts with our world-class customers on developing magnetic integrated connectors, this line of products will contribute significantly to the revenue stream in future.

In addition, the development of custom-designed electronic modules will help to broaden our customer base and further boost the revenue of the Magnetic Products Business. With continuous improvement in automation and optimization of manufacturing capacities, our products will satisfy most if not all of the challenging requirements in different market segments, from volume consumer items to high-end telecommunication products.

**Information Technology**

Despite the sluggish economic climate, the need for web-based software products remains. The IT Business will continue to focus on the development of industry-specific software solutions and consultancy services. The IT Business believes that its ability to fulfill customers' needs by providing an entire range of software solutions as well as its substantial expertise is its main competitive advantage.

The healthy economy in China delivers opportunities to Yilaida to serve both local and overseas customers in the electronic components market in collaboration with the China Electronic Component Association.

## CHAIRMAN'S HIGHLIGHT

### Strengthening the Board Structure

Global investors are asking for more information and transparency - in short, corporate governance of the highest standard. The Group has always believed in responsible corporate governance as well as transparency and accountability, as an important commitment to investors and shareholders and makes efforts on further strengthening our corporate governance practice.

Following substantial deliberations and detailed studies by the Board of Directors, the Board has decided to increase the ratio of non-executive directors on the Board and will introduce three new committees: Strategic, Nomination and Remuneration Committees in addition to the existing Audit Committee.

The mandates and responsibilities of the three new Committees are as follows:

**(1) Strategic Committee**

Comprising members of the Board, this Committee's primary function is to assist the Board in reviewing and evaluating issues and proposals that concern overall Group businesses, policies and investment matters. As a result of these reviews, evaluations and deliberations, the Strategic Committee will submit its recommendations to the Board that will serve the best interest of the Group.

**(2) Nomination Committee**

Comprising members of the Board, this Committee's primary responsibilities are to assist the Board in identifying and recruiting Board members and making recommendations to the Board on directors' appointments and dismissals, and to review, appraise, monitor and consider all matters and proposals concerning staffing and people policies of the Group.

**(3) Remuneration Committee**

Comprising members of the Board, this Committee's key role is to assist the Board in reviewing, evaluating and submitting recommendations to the Board on remuneration packages for Board members and senior executives of the Group. It would also be responsible for studying, reviewing, and proposing recommendations on the Group's overall remuneration policies and strategies.

The Group will deploy more human resources in discharging internal audit functions for the existing Audit Committee so that internal control system within the Group would perform more effectively.

In addition, to provide wider market perspectives for the Group a new Advisory Panel will be established with successful business leaders and eminent technology experts of related disciplines as members. This panel of excellence is expected to provide invaluable advice and counsel on the Group's future direction and development.

### Recruiting Talent for Future Success

Over the past three decades, the Group has made great strides from modest beginnings. It went on to become a global electronic component manufacturer and a public listing on the Hong Kong Stock Exchange Limited in 1984, followed by a spin-off of its PCB Business on the Stock Exchange of Singapore in 1994. Its manufacturing presence grew out of Hong Kong to reach key cities in China - Guangzhou, Kaiping, Shenzhen, Nanjing - and Thailand. The Group has successfully developed an impressive customer base in the three continents of America, Europe and Asia, each with its own sales and marketing offices.

The Group's success and achievements would not have been possible without a dedicated workforce that gave their utmost at all levels of the company. Neither would it be possible if not for its close relationship with shareholders, customers and suppliers - one that is founded on trust, partnership, mutual respect and benefit. However, the Group will not rest on its laurels, building on its solid 30-year foundation, it is positioning itself for the next 30 years and beyond.

Organizations today are focusing more than ever on building and nurturing their human capital. Talent has always been a core competence among successful companies. This is particularly true in the volatile and fast-changing electronics industry. The Group is committed to recruiting the best talent and to strengthening the Board, to ensure that it is ready to tackle new challenges, maximizes opportunities and continues to thrive into the future.

**APPOINTMENT OF NEW INDEPENDENT NON-EXECUTIVE DIRECTOR**

I would like to welcome Mr Shim Hing Choi as the third independent non-executive director of the Company effective 1 March 2003. With his expertise in commercial banking field, I am sure Mr Shim can contribute greatly to the Group.

**MANAGEMENT DISCUSSION AND ANALYSIS**

**(1) Liquidity and financial resources**

The Group continues to maintain its financial strength mainly due to positive cash flow generated from operation during the Period. At 31 December 2002, the shareholders'equity was HK$680.9 million.

**(2) The treasury policies**

The Group adopted conservative treasury policy where foreign currency transaction exposures, mainly trade payable denominated in Japanese Yen, is managed by utilizing forward contracts. At 31 December 2002, about JPY31 million payables was hedged by a three months forward contract.

The Group's bank borrowings are mainly denominated in United States Dollars and Hong Kong Dollars, and carry interest rates with reference to Sinpapore Interbank Offer Rate ("SIBOR") and Hong Kong dollar best lending rates. At 31 December 2002, approximately HK$304.2 million equivalent of the US dollar term loan outstanding was hedged by an arrangement of a US dollar average SIBOR interest rate swap contract. Management is still actively evaluating various other alternative financial instruments on hedging interest rate exposures.

**(3) Significant investments during the period**

During the Period, new capital investment of approximately HK$0.5 million was contributed to a newly established jointly-controlled entity. Furthermore, additional injections to contributed capital amounting to approximately HK$44 million in total were made to three existing PCB plants to increase working capital. Funds were either from internal source or general bank borrowings.

Management plans to make more capital injection to existing plants should future situation require.

**(4) Material acquisitions and disposals of subsidiaries**

The Group has no material acquisitions and disposal of subsidiaries and associates during the Period.

**(5) Employees**

At 31 December 2002, the Group had approximately 9,500 (30 June 2002: 8,700) employees worldwide. Headcount increased mainly due to re-opening of two PCB plants. 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.

**(6) Gearing ratio**

Gearing ratio, as at 31 December 2002, expressed as a percentage of total net bank borrowings to total shareholders'equity improved to less than 1.00, as compared with 1.01 as at 30 June 2002. This was due to net repayment of bank loans during the Period from internally generated funds.

**(7) Contingent liabilities**

The Group has no material contingent liabilities as at 31 December 2002.

**(8) Fixed assets and depreciation**

Decrease in depreciation and amortisation charges in the Period over the Previous Period was primarily due to change in depreciation method from straight line to unit-of-production by the PCB Business amounting to HK$32.1 million which was made in the second half of the last financial year. The change in depreciation method for plant and machinery has had no significant impact on the depreciation charge for other businesses.

The Group's fixed assets are free from charge.

**(9) Proposal for changes in accounting estimates**

Management is considering to further refine the measurement basis for the unit-of-production depreciation methodology in order to improve the transparency of the operational contributions of individual PCB and LCD plants. The proposed refinement will measure the depreciation of each plant and its machinery based on its actual output over the total unit output throughout its assessed service life which will be subject to a periodic technical evaluation.

The new basis will assist in pricing and costing our products more competitively thus improving the Group's agility in responding to a volatile and fast-changing market place.

Management plans to introduce the revised measurement basis in the second half of the current financial year after careful technical assessment and evaluation.

## AUDIT COMMITTEE

The Audit Committee engaged the external auditors to assist the Audit Committee in its review of the interim accounts. The external auditors' review consisted of management enquiries and analytical review procedures, but was neither an audit nor a review under the guidelines of SAS700 issued by the Hong Kong Society of Accountants. On 25 February 2003, the Audit Committee met with the management and the external auditors to review the interim accounts and consider the significant accounting policies, and to discuss with the management about the Group's internal control system.

## 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 interim report, in compliance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules.

## 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 Period.

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

Financial and other information for the Period required by paragraph 46(1) to 46(6) 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, 26 February 2003

Please also refer to the published version of this announcement in South China Morning Post dated on 27-2-2003.