Elec & Eltek 依利安達

Elec & Eltek International Holdings Limited

(Incorporated in Bermuda with limited liability)

(Stock Code: 33)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 30 JUNE 2004

The Board of directors (the "Board") of Elec & Eltek International Holdings Limited (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 30 June 2004 :

CONSOLIDATED PROFIT AND LOSS ACCOUNT

		Year ended 30 June	
		2004	2003
		(audited)	*(audited)*
	Notes	***HK$'000***	*HK$'000*
			(Restated)
TURNOVER	*2*	**3,214,067**	2,257,713
Cost of sales		**(2,474,629)**	(1,805,892)
Gross profit		**739,438**	451,821
Other revenue		**1,287**	635
Selling and distribution costs		**(146,436)**	(128,087)
Administrative expenses		**(212,103)**	(161,095)
Other operating expenses		**(16,898)**	(23,114)
PROFIT FROM OPERATING ACTIVITIES		**365,288**	140,160
Finance costs		**(21,716)**	(23,024)
Share of losses of jointly-controlled entities		**(1,154)**	(788)
PROFIT BEFORE TAX	*3*	**342,418**	116,348
Tax	*4*	**(26,291)**	(10,623)
PROFIT BEFORE MINORITY INTERESTS		**316,127**	105,725
Minority interests		**(171,111)**	(68,240)
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		**145,016**	37,485
DIVIDENDS	*5*		
Interim		**19,181**	17,627
Adjustments to dividends payable in prior years as a result of options exercised during the year		**40**	–
Proposed final		**29,219**	17,904
		48,440	35,531
		(HK cents)	*(HK cents)*
EARNINGS PER SHARE	*6*		
Basic		**12.10**	3.19
Diluted		**12.01**	3.18

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

(a) Adoption of a revised Statement of Standard Accounting Practice ("SSAP")

SSAP 12 (Revised) is effective for the current financial year.

SSAP 12 (Revised) principally prescribes the accounting treatment and disclosures for deferred tax. In prior years, a deferred tax liability was provided using the income statement liability method on all significant timing differences to the extent it was probable that the liability would crystallise in the foreseeable future. A deferred tax asset was not recognised until its realisation was assured beyond reasonable doubt. SSAP 12 (Revised) requires the adoption of the balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy resulting from the adoption of SSAP 12 (Revised) has been applied retrospectively.

This change in accounting policy has resulted in an increase in the Group's deferred tax liability as at 30 June 2004 and 2003 by HK$27.4 million and HK$26.8 million, respectively, and the recognition of deferred tax asset as at 30 June 2004 and 2003 of HK$16.5 million and HK$13.8 million, respectively. As a consequence, the consolidated net profits attributable to shareholders for the years ended 30 June 2004 and 2003 have been increased and decreased by HK$1.1 million and HK$1.3 million, respectively, and the consolidated retained profits at 1 July 2003 and 2002 have been reduced by HK$7.9 million and HK$6.6 million, respectively.

(b) Change in accounting estimate relating to depreciation of plant and machinery

With effect from 1 July 2003, the straight-line depreciation method was implemented for the Group's plant and machinery. Previously, depreciation for plant and machinery was calculated on the unit-of-production method to write-off the cost of items of plant and machinery over the expected useful lives of either five or seven years. The unit-of-production method determines the depreciation of items of plant and machinery based on their actual utilisation. Utilisation is measured by comparing actual output against the expected total output as determined by the assets' optimum capacity over their estimated useful lives. Full utilisation is assumed unless an asset's utilisation falls below its optimal production capacity.

Apart from the change in the depreciation method as mentioned above, the economic useful lives of the plant and machinery of the Group's printed circuit boards ("PCB") business were reviewed and extended from 5 or 7 years to 10 years with effect from 1 July 2003 following an independent professional appraisal. The adoption of a 10-year period is considered by the directors to be in line with current industry practice. The changes in depreciation method and useful lives have been applied prospectively, commencing with the current year. Had the depreciation method for plant and machinery remained unchanged from the previous year, the depreciation charge in respect of plant and machinery for the current year would have increased by approximately HK$57.7 million, which is attributable solely to the PCB manufacturing subsidiaries. The change in depreciation method for plant and machinery has had no significant impact on the depreciation charge for other Group companies.

2. SEGMENT INFORMATION

The Group engages in the businesses of manufacture and sale of electronic components, including double-sided and multi-layered printed circuit boards ("PCB"), liquid crystal displays ("LCD") and magnetic products ("Magnetic").

The following tables present revenue and profit/(loss) information for the Group's business segments, and revenue information for the Group's geographical segements:

Business segments:

	Year ended 30 June 2004						Year ended 30 June 2003					
	PCB *HK$'000*	LCD *HK$'000*	Magnetic *HK$'000*	Corporate & Other *HK$'000*	Eliminations *HK$'000*	Consolidated *HK$'000*	PCB *HK$'000*	LCD *HK$'000*	Magnetic *HK$'000*	Corporate & Other *HK$'000*	Eliminations *HK$'000*	Consolidated *HK$'000* *(Restated)*
Segment revenue:												
Sales to external customers	**2,750,278**	**331,846**	**131,913**	**30**	**-**	**3,214,067**	1,910,990	239,508	106,861	354	-	2,257,713
Other revenue	**-**	**-**	**-**	**3,911**	**(3,911)**	**-**	-	-	-	3,833	(3,833)	-
Total	**2,750,278**	**331,846**	**131,913**	**3,941**	**(3,911)**	**3,214,067**	1,910,990	239,508	106,861	4,187	(3,833)	2,257,713
Segment results	**367,180**	**21,026**	**10,813**	**(35,696)**	**-**	**363,323**	142,743	25,497	11,181	(39,532)	-	139,889
Interest income and unallocated gains						**1,965**						635
Unallocated expenses						**0**						(364)
Profit from operating activities						**365,288**						140,160
Finance costs						**(21,716)**						(23,024)
Share of losses of jointly-controlled entities				**(1,154)**		**(1,154)**				(788)		(788)
Profit before tax						**342,418**						116,348
Tax						**(26,291)**						(10,623)
Profit before minority interests						**316,127**						105,725
Minority interests						**(171,111)**						(68,240)
Net profit from ordinary activities attributable to shareholders						**145,016**						37,485

Geographical segments:

	Year ended 30 June **2004** *HK$'000*	2003 *HK$'000*
Segment revenue, customer based		
The People's Republic of China:		
Hong Kong	**589,302**	310,364
Mainland China	**864,420**	511,607
Singapore	**132,852**	156,059
Malaysia	**412,042**	381,777
Thailand	**90,537**	70,267
Europe	**244,854**	483,680
North and Central America	**627,037**	162,624
Other countries	**253,023**	181,335
	3,214,067	2,257,713

3. PROFIT BEFORE TAX

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

	Year ended 30 June	
	2004	2003
	HK$'000	*HK$'000*
Depreciation	**199,509**	213,265
Amortisation of intangible assets	**1,199**	899
Loss on disposal of fixed assets	**1,480**	990
Interest on bank loans, overdrafts and other borrowings wholly repayable within five years	**24,800**	23,024
Less: interest capitalised	**(3,084)**	–
Net interest expense	**21,716**	23,024
Exchange gains, net	**(342)**	(1,117)
Provision for obsolete inventories	**2,640**	1,678
Provision for doubtful debts	**9,272**	11,123
Loss/(gain) on deemed disposal of interests in subsidiaries	**(818)**	364

4. TAX

	Year ended 30 June	
	2004	2003
	HK$'000	*HK$'000*
		(Restated)
Current year's provision for tax:		
The People's Republic of China:		
Hong Kong	**1,660**	3,307
Mainland China	**23,628**	5,465
Overseas	**522**	430
Deferred tax	**481**	1,421
Total tax charge for the year	**26,291**	10,623

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 17.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable in other jurisdictions have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

5. DIVIDENDS

	Year ended 30 June	
	2004	2003
	HK$'000	*HK$'000*
Interim dividend of 1.6 HK Cents (2003: 1.5 HK Cents) per ordinary share	**19,181**	17,627
Adjustments to dividends payable in prior years as a result of options exercised during the year	**40**	–
Proposed final dividend of 2.4 HK Cents (2003: 1.5 HK Cents) per ordinary share	**29,219**	17,904
	48,440	35,531

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

6. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit attributable to shareholders for the year of HK$145,016,000 (2003 – restated : HK$37,485,000) and the weighted average of 1,198,155,714 (2003: 1,175,939,970) ordinary shares in issue during the year.

The calculation of diluted earnings per share is based on the adjusted net profit attributable to shareholders for the year of HK$145,016,000 (2003 – restated : HK$37,479,000) and the weighted average of 1,207,457,948 (2003: 1,177,849,014) ordinary shares outstanding during the year, adjusted for the effects of all dilutive potential shares.

The adjusted net profit attributable to shareholders is calculated based on the net profit attributable to shareholders for the year of HK$145,016,000 (2003 – restated: HK$37,485,000) less the dilution in the results of a subsidiary attributable to the Group by HK$Nil (2003: HK$6,000) arising from the deemed exercise of all of the outstanding share options of that subsidiary.

The weighted average number of ordinary shares used in the calculation of diluted earnings per share is calculated based on the weighted average of 1,198,155,714 (2003: 1,175,939,970) ordinary shares in issue during the year plus the weighted average of 9,302,234 (2003: 1,909,044) ordinary shares deemed to be issued at no consideration as if all of the Company's outstanding share options have been exercised.

CHAIRMAN'S LETTER

Results

The world's electronics industry has recovered with sustained growth under an optimistic atmosphere for the year under review. We are pleased to see that all of the three businesses of Printed Circuit Boards ("PCB"), Liquid Crystal Display ("LCD") and Magnetic Products reported increase in sales during the financial year ended 30 June 2004 ("FY2004"). Consolidated turnover of the Group amounted to HK$3,214.1 million, up 42.4% over the last financial year 2003 ("FY2003").

Profit attributable to shareholders grew by 286.9% to HK$145.0 million.

Basic earnings per share amounted to 12.1 Hong Kong cents, up 279.3%.

FINAL DIVIDEND

The board recommended a final dividend of 2.4 Hong Kong cents (2003: 1.5 Hong Kong cents) per share for the financial year ended 30 June 2004. Together with the interim dividend of 1.6 Hong Kong cents (2003: 1.5 Hong Kong cent) per share, a total of 4.0 Hong Kong cents per share will be distributed for the financial year 2004. 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 October 2004.

Dividend warrants, if approved, will be sent to shareholders on or about 15 October 2004. The Registers of Members will be closed from 8 October 2004 to 12 October 2004, 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 8 October 2004.

BUSINESS REVIEW

Printed Circuit Boards

The revenue of PCB Business for FY2004 was HK$2,750.3 million, HK$839.3 million or 43.9% higher than in FY2003. The operating profit was HK$367.2 million, representing a growth of HK$224.4 million and 157.2% over FY2003.

Starting from the beginning of FY2004, the global economy has been recovering steadily, with the computer sector began in July 2003 and the communication sector follow up in October 2003.

During the year under review, there were usual short-term seasonal adjustments for different industrial sectors. The PCB demand for computer sector adjusted downward during December 2003 through March 2004 after the Christmas season spending was over. The PCB demand for communication sector also started to slow down around April 2004 after a continuous business growth of almost six months.

The ongoing Group's strategy is to strive for equal market participation in each of the three key industrial sectors, namely the computer & computer peripherals, communication, and consumer & automotive. As a result, the PCB Business was able to smooth out short-term seasonal slowdown in each sector through the development of new businesses or by obtaining higher allocation of businesses from other sectors.

Through outsourcing of manufacturing as well as components sourcing in China, the PCB Business was able to enjoy higher growth as compared with other PCB manufacturers in higher cost countries.

Due to the increasing PCB demand in China, our shipments to the PRC had increased from FY2003 HK$489.0 million (25.6% of PCB turnover) to FY2004 HK$818.4 million (29.7% of PCB turnover).

Our PCB backlogs increased that the Book-to-Bill ratio as at 30 June 2004 stood at above 1.01 despite higher shipments with the benefit of capacity expansion.

Although there were short-term adjustments in the communication sector, the supply and demand for PCBs in China region remained relatively balance.

Our PCB average selling prices ("ASPs") for FY2004 were higher than those in FY2003 by around 3.0% due primarily to the improvement in layer count mix following the improvement in the computer, computer peripherals, consumer and automotive sectors and the FY2004 ASP level rebounded back to the Q3 FY2003 ASP level.

For FY2004, our PCB layer count mix had significantly improved due to improvement in communication, notebook and higher-end server businesses. As a result, we gained shares on microvias and 10-layer above PCBs by 3.2% and 6.3% while we lowered our reliance on 2– to 4-layer, 6– and 8-layer count products by around 5.3% and 2.8% and 1.4% respectively.

In view of demands arising from new business developments, the PCB Business had to expand capacity rapidly. We spent around HK$714.8 million in capital expenditure and reached around 760K sq ft of PCB output per week as at 30 June 2004, a jump of 20% when compared to 30 June 2003. Raw material supply was tight, prices moved up further towards the end of FY2004 but throughout the whole year were mitigated by corresponding increases in selling prices.

Liquid Crystal Displays

Our development of LCD monochrome modules in the last two years has started to see results with surge in LCD module shipments during the year under review. LCD module sales grew from less than 20% of FY2003 total LCD sales to more than one-third of our total LCD sales revenue in FY2004.

Despite the recovery in the electronics industry, competition remained keen and we saw continuous price erosions on both flat panel and LCD monochrome modules. In addition, the prices of integrated circuits, a key material of LCD module, went further upward as a result of tight supply following the global economy recovery.

As a result, the turnover of LCD Business for FY2004 reached HK$331.8 million, a surge of 38.5% comparing with HK$239.5 million in FY2003. Operating profit was HK$21.0 million, about 17.6% lower than HK$25.5 million in FY2003.

To penetrate into rapidly expanding colour module market, the Group had in Q4 FY2004 successfully submitted our color STN modules samples to our customers in both the cellular and cordless phone markets.

Magnetic Products

The Magnetic Products Business had also benefited on the electronic industry recovery as well as our strategic product focus on high valued-added magnetic integrated connectors. The turnover of the Magnetic Products Business went up by more than 23.4% from FY2003 of HK$106.9 million to HK$131.9 million in the current financial year.

Selling price of our products continued to erode and the rising labour and operating costs explained the drop in operating profit from FY 2003 HK$11.2 million to FY 2004 HK$10.8 million, a drop of 3.6%.

Information Technology

During the year, the Information Technology ("IT") Business continued to provide IT solution and web-based software services primarily within the Group as well as external customers. Internally, a internal workflow system, Web-ERP systems and Business Intelligence system have been developed and will further be enhanced to network all its production plants and the global offices.

External IT services was principally delivered by Beijing Yilaida Information Technology Company Limited ("Yilaida"), the IT Business's joint venture investment in China.

Future Prospects

Although recent economic indices indicate that the global economy is generally healthy, there are risks of higher oil prices and increase in interest rates which will impact global growth adversely.

PCB

With positive growth in the global PCB demand, coupled with the continuous outsourcing of manufacturing and component sourcing in China, the PCB industry in China region has been projected by PCB industry analyst, (BPA), to have CAAGR (compounded average annual growth rate) of 18% from 2004 to 2007 onwards, as compared with the global CAAGR of around 7.6% projected by the same organization – BPA.

While the PCB Business expects to enjoy the benefits of growth in regional business opportunities, the Group has to face and manage various regional challenges, such as power shortage, increases in people and overhead costs adjusting to economic policies for regulating the over heated economy in China.

After gradually phasing in an additional annual 6 million sq ft PCB capacity in FY2004, we should have the full benefit from this capacity increase in FY2005. The focus in FY2005 will be on expanding inner-layer capacities rather than outer layer capacities in view of more HDI and higher layer count businesses being developed or in stage of mass volume ramp-up. Business in Q1 FY2005 is normally slower due to the effect of summer vacation, however the bookings up to the present are still holding well.

Raw material supply is expected to remain cyclical and prices will further trend upward in the short term of 3 to 6 months. However, the new raw material capacity increase arising from mass volume production in around late Q2 FY2005 will stabilize prices by Q3 FY 2005.

LCD

Due to the increasing applications of LCD display in various electronics products, our strategy to deploy more efforts in developing the growing LCD module market will continue. In line with the enormous small to medium size LCD module business opportunities as well as to position the Group to more higher valued added products, we will expect to see expanding businesses from both monochrome LCD modules and color STN modules.

We also expect the supply of module materials including integrated circuits will improve and be more balanced so that the raw material prices will become more stable in the financial year ahead.

With above efforts and strategy in place, we expect that the LCD Business will deliver good results in the next financial year following the module business growth in communication and automotive markets.

Magnetic Products

The Group has strong marketing practice and global sale network in developing custom design and high value magnetic products such as magnetic integrated connector and magnetic module products for application in communication market. Target key customers have already approved our product samples with new volume business to kick off in FY2005.

As global economy continues to improve, we expect the results of the Magnetic Products Business will improve in FY2005.

IT

Knowledge management and corporate effectiveness have in recent years demanded for much greater support in the IT services. As a result, the Group has decided to rationalise the IT Business from external to internal. This new business direction is a natural migration and will yield a greater achievement from its IT resources in terms of overall performance.

The Group will further explore into various component sourcing business opportunities in view of continuous global trend in outsourcing electronics components into China.

Barring any unforeseen circumstances, the Directors expect the Group's performance is expected to further improve in the coming financial year over FY2004.

APPRECIATION

On behalf of the Board of Directors, I would like to extend our sincere appreciation to all our employees as well as shareholders for their loyalty, commitment and contributions to the Group in getting through these extremely tough business environment in the financial year 2004. Let's work together again towards a better financial year 2005.

MANAGEMENT DISCUSSION AND ANALYSIS

Shareholders' equity

The Group shareholder's equity continued to increase. At 30 June 2004, shareholders' equity was HK$816.8 million (2003-restated: HK$684.3 million), an increase of 19.4% over last year mainly due to profits earned during the year

Group's liquidity and financial resources

The Group's bank borrowings are mainly denominated in Hong Kong and US dollars. At 30 June 2004, 56.1% (30 June 2003: 59.6%) of the Group's bank borrowings was repayable within one year, 43.9% (30 June 2003: 40.4%) was repayable between two to five years. Bank borrowings are unsecured and negotiated on floating interest rates. At 30 June 2004, the Group has arranged an average SIBOR interest rate swap contract to cover 6.0% or

HK$54.6 million balance and fixed interest rate contract to cover another 12.0% or HK$109.2 million of the total bank loans so as to reduce interest rate exposure.

Share Capital

During the year, 23,850,000 shares were issued at exercise price of HK$0.91 under employees share option scheme. As a result, share premium account had increased by HK$19.3 million.

Material acquisition and disposal of subsidiary

The Group has no material acquisition and disposal of subsidiary during the year.

Employees

At 30 June 2004, the Group had approximately 14,600 employees. (30 June 2003: 10,400) The Group continues to offer competitive remuneration packages in line with the industry practice. Employee benefits such as insurance, medical scheme, year-end bonus, discretionary bonus, share option scheme were also granted to certain eligible staffs. The Group has strengthened internal staff communication and upgrading of management skill by organising regular communication meetings, training, top management forum and by publishing of corporate newsletter.

Group's assets

The ongoing replacement of machinery and the increased capacity to cope with increase in turnover has given rise to the increase in investment in machinery. The Group had an addition to fixed assets of HK$731.1 million during the year. (2003: HK$195.5 million). The Group will continue to expand its production capacity and look for new investment opportunities. These will be financed by internally generated cash flows and banking facilities.

The Group's assets were free from charge.

Gearing ratio

At 30 June 2004, the Group's gearing ratio, calculated as the net bank borrowings (total bank borrowings net of cash) over shareholders equity and minority interest was 44.4% (2003: 36.3%).

Foreign exchange fluctuation exposures and hedges

The revenue of the Group were mainly denominated in US dollars. The trade payables were also mainly denominated in US dollars, Hong Kong dollars and Renminbi. The trade payables denominated in Japanese Yen were hedged by entering forward exchange contracts. At 30 June 2004, total Japanese forward exchange contract outstanding were JPY228.1 million (30 June 2003: JPY94.8 million).

Contingent liabilities

The Group had no material contingent liabilities at 30 June 2004.

The Company had contingent liabilities of unlimited guarantees given to banks in connection with facilities granted to subsidiaries.

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 7 February 2004 to review the interim financial statements of the Group and on 14 August 2004 to review the financial statements of the Group for the financial year ended 30 June 2004. The Committee comprises three independent non-executive directors, namely, Mr Peter LEE Yip Wah, Mr Eugene LEE and Mr Kenneth SHIM Hing Choi.

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 2004 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.

As at the date of this announcement, the Directors of Elec & Eltek International Holdings Limited comprise two Executive Directors, namely, Mr Thomas Tang Koon Yiu and Mr Canice Chung Tai Keung, four Non-executive Directors, namely, Mr David So Cheung Sing, Mr Marcus Tsang Ming Pui, Mr Wilson Tam Kam Ho and Mr Johnny Ng Ho Kin, and three Independent Non-executive Directors, namely, Mr Peter Lee Yip Wah, Mr Eugene Lee and Mr Kenneth Shim Hing Choi.

By Order of the Board
Thomas Tang Koon Yiu
Chairman

Hong Kong, 23 August 2004

Please also refer to the published version of this announcement in South China Morning Post dated 24 August 2004.