

NOTES TO FINANCIAL STATEMENTS

30 June 2001

1. CORPORATE INFORMATION

The Company was incorporated in Bermuda on 21 April 1989 as Elec & Eltek (Bermuda) Company Limited as an exempt company with limited liability. Its registered office is located at Cedar House, 41 Cedar Avenue, Hamilton HM12, Bermuda. On 22 December 1992, the name of the Company was changed to Elec & Eltek International Holdings Limited.

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

2. IMPACT OF A REVISED STATEMENT OF STANDARD ACCOUNTING PRACTICE ("SSAP")

The revised SSAP 14, "Leases", has been adopted for the first time in the preparation of the current year's consolidated financial statements. The revised SSAP 14 prescribes the appropriate accounting policies and disclosures to apply in relation to finance and operating leases. The principal impact of the revised SSAP 14 on the preparation of these financial statements is that all future minimum lease payments under non-cancellable operating leases have been disclosed in the supporting notes to the financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the remeasurement of certain equity investments, as further explained below.

(b) Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 30 June 2001. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Subsidiaries

A subsidiary is a company in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors.

Interests in subsidiaries are stated at cost unless, in the opinion of the directors, there have been permanent diminutions in values, when they are written down to values determined by the directors. Details of the Company's principal subsidiaries are set out in note 14 to the financial statements.

(d) Associates

An associate is a company, not being a subsidiary, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Details of the Group's associates are set out in note 15 to the financial statements.

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's investments in associates are stated in the consolidated balance sheet at the Group's share of net assets, other than goodwill recorded in the associates' own financial statements, less any provisions for impairment in values, other than those considered to be temporary in nature, deemed necessary by the directors.

The results of associates are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's interests in associates are stated at cost less any provisions for impairment in values, other than those considered to be temporary in nature, deemed necessary by the directors.

(e) Jointly-controlled entity

A jointly-controlled entity is a joint venture which involves the establishment of a separate entity in which the Group and other parties have an interest. A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Jointly-controlled entity (continued)

The Group's share of the post-acquisition results and reserves of jointly-controlled entities is included in the consolidated profit and loss account and consolidated reserves, respectively. Where the profit sharing ratio is different to the Group's equity interests, the share of post-acquisition results of the jointly-controlled entities is determined based on the agreed profit sharing ratio. The Group's interests in jointly-controlled entities are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting less any provisions for impairment in values, other than those considered to be temporary in nature, deemed necessary by the directors.

(f) Goodwill

Goodwill arising on the consolidation of subsidiaries and/or on the acquisition of associates and jointly-controlled entities represents the excess purchase consideration paid over the fair values ascribed to the net underlying assets acquired and is eliminated against the Group's reserves in the year in which it arises. Upon disposal of an interest in a subsidiary, associate or jointly-controlled entity, the relevant portion of the attributable goodwill previously eliminated against reserves at the time of the acquisition is released from the Group's reserves to the profit and loss account.

(g) Fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to the working condition and location for its intended use. Expenditure incurred after the asset has been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can clearly be demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the asset, the expenditure is capitalised as an additional cost of that asset.

Depreciation is calculated on the straight-line basis to write off the cost of each asset over its estimated useful economic life. The principal annual rates used for this purpose are as follows:

Freehold buildings	5%
Plant and machinery:	
Electrical	20.0%
Mechanical	14.3%
Furniture and office equipment	20.0%
Motor vehicles	14.3%–20.0%

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Fixed assets and depreciation (continued)

No depreciation is provided on freehold land.

Leasehold land and buildings situated in Hong Kong are amortised and depreciated, respectively, at the rate of 2% per annum or on the straight-line basis over the unexpired lease terms, whichever is greater. Leasehold land and buildings situated in mainland China are depreciated over the lease terms.

Improvements to leasehold properties are amortised at the rate of 20% per annum on cost or on the straight-line basis over the unexpired terms of the leases on the individual premises, whichever is greater.

No depreciation is provided in respect of construction in progress until such time as the relevant assets are completed and put into use.

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying value of the relevant asset.

(h) Intangible assets

Intangible assets comprise technical know-how acquired from third parties and are stated at their purchase cost less accumulated amortisation unless, in the opinion of the directors, there have been permanent diminutions in values, when they are written down to values determined by the directors.

Amortisation is calculated on the straight-line basis to write off the cost of each intangible asset over its estimated useful economic life of 5 years.

(i) Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rentals applicable to such operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Other investments

Investments in equity securities/bonds held for trading purposes are stated at their fair values on the basis of their quoted market prices at the balance sheet date on an individual investment basis. The unrealised gains or losses arising from changes in the fair value of a security/bond are credited or charged to the profit and loss account in the period in which they arise.

(k) Inventories

Inventories comprise raw materials, work in progress and finished goods relating to the manufacture of printed circuit boards, liquid crystal displays, magnetic and other electronic products and are stated at the lower of cost and net realisable value after making due allowance for any obsolete or slow-moving items. Cost in respect of printed circuit boards is determined on the first-in, first-out basis and for all inventories other than printed circuit boards is determined on the weighted average basis. In the case of finished goods and work in progress, cost comprises direct materials, direct labour and an appropriate portion of manufacturing overheads. Net realisable value is based on estimated selling prices less any further costs expected to be incurred to completion and disposal.

(l) Deferred tax

Deferred tax is provided, using the liability method, on all significant timing differences to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt.

(m) Foreign currencies

Foreign currency transactions are recorded at the applicable rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable rates of exchange ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the results of subsidiaries and associates denominated in foreign currencies are translated into Hong Kong dollars at the applicable rates of exchange arising during the financial year. The net assets of such overseas subsidiaries and associates are translated into Hong Kong dollars at the applicable rates of exchange ruling at the balance sheet date. The resulting translation differences are included in the exchange reserve.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Retirement benefits scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the Scheme. The Scheme became effective from 1 December 2000. Contributions are made based on a percentage of the employees' basic salaries or of the relevant income, subject to the statutory maximum amount, and are charged to the profit and loss account as they become payable in accordance with the rules of the Scheme. The assets of the Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the Scheme except for the Group's employer voluntary contributions, which are refunded to the Group when an employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the Scheme.

Prior to the Scheme being effective, the Group operated a defined contribution retirement benefits scheme for those employees who were eligible to participate in the scheme. This scheme operated in a similar way to the Mandatory Provident Fund retirement benefits scheme, except that when an employee left the scheme prior to his/her interests in the Group's employee contributions vesting fully, the ongoing contributions payable by the Group were reduced by the relevant amount of forfeited contributions. With effect from 1 December 2000, no further contributions were made to this scheme but the assets of this scheme are still held separately from those of the Group and of the Scheme in an independently administered fund, until the relevant employees leave the Group when the relevant assets will be returned to the employees.

(o) Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (i) on the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (ii) information technology consultancy and software development services fee income, in the period in which the services are rendered;
- (iii) interest income, on a time proportion basis, taking into account the principal outstanding and the effective interest rates applicable; and
- (iv) dividend income, when the shareholders' right to receive payment is established.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party, or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

(q) Cash equivalents

For the purpose of the consolidated cash flow statement, cash equivalents represent short term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance. For the purpose of the balance sheet classification, cash equivalents represent assets similar in nature to cash, which are not restricted as to use.

4. TURNOVER AND REVENUE

Turnover represents the net invoiced value of sales during the year, after allowances for returns and trade discounts, information technology consultancy and software development services fee income, but excludes intra-group transactions. An analysis of the Group's revenue is as follows:

	Group	
	2001 HK\$'000	2000 HK\$'000
Turnover	401,303	220,065
Other revenue:		
Interest income	4,971	9,427
Other income	5,991	9,428
	10,962	18,855
Total revenue for the year	412,265	238,920

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5. LOSS FROM OPERATING ACTIVITIES

The Group's loss from operating activities is arrived at after charging/(crediting):

	Group	
	2001 HK\$'000	2000 HK\$'000
Depreciation	37,610	26,887
Amortisation of intangible assets	33	—
Operating lease rentals in respect of land and buildings	6,888	4,488
Auditors' remuneration	919	720
Staff costs (including directors' remuneration, note 7):		
Wages and salaries	107,284	69,834
Pension scheme contributions	1,824	1,044
Less: Forfeited contributions	(77)	(112)
Net pension contributions	1,747	932
Total staff costs	109,031	70,766
Exchange losses, net	827	678
Loss on disposal of fixed assets	182	147
Unrealised holding loss on other investments	—	2,209
Gain on disposal of other investments	(4,731)	(657)

6. FINANCE COSTS

	Group	
	2001 HK\$'000	2000 HK\$'000
Interest on bank loans, overdrafts and other borrowings wholly repayable within five years	11,386	6,039

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7. DIRECTORS' REMUNERATION AND REMUNERATION OF THE FIVE HIGHEST PAID EMPLOYEES

Directors' remuneration disclosed pursuant to the Listing Rules and Section 161 of the Companies Ordinance is as follows:

	Group	
	2001 HK\$'000	2000 HK\$'000
Fees:		
Executive directors	374	360
Independent non-executive directors	480	480
	854	840
Other emoluments:		
Salaries, allowances and benefits-in-kind	5,460	4,952
Performance-related bonuses	4,899	2,423
Pension scheme contributions	256	248
	10,615	7,623
Total directors' remuneration	11,469	8,463

There were no other emoluments payable to the independent non-executive directors during the year (2000: Nil).

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7. DIRECTORS' REMUNERATION AND REMUNERATION OF THE FIVE HIGHEST PAID EMPLOYEES (continued)

The remuneration of the directors fell within the following bands:

	Number of directors	
	2001	2000
Nil – HK\$1,000,000	6	5
HK\$1,000,001 – HK\$1,500,000	—	1
HK\$1,500,001 – HK\$2,000,000	—	1
HK\$3,500,001 – HK\$4,000,000	1	—
HK\$4,500,001 – HK\$5,000,000	—	1
HK\$5,500,001 – HK\$6,000,000	1	—
	8	8

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

In a prior year, share options to subscribe for ordinary shares in the Company were granted to certain directors of the Company. No value was included in directors' remuneration in respect of these share options because, in the absence of a readily available market value for options on the Company's shares, the directors were unable to arrive at an accurate assessment of the values of the options granted. No share options to subscribe for ordinary shares in the Company were granted to the directors during the current year.

The five highest paid employees during the year included two (2000: three) directors, details of whose remuneration are set out above. The details of the remuneration of the remaining three (2000: two) non-directors and highest paid employees are as follows:

	Group	
	2001 HK\$'000	2000 HK\$'000
Salaries, allowances and benefits-in-kind	4,443	2,758
Performance related bonuses	—	1,664
Pension scheme contributions	76	49
	4,519	4,471

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7. DIRECTORS' REMUNERATION AND REMUNERATION OF THE FIVE HIGHEST PAID EMPLOYEES (continued)

The remuneration of the non-directors and highest paid employees fell within the following bands:

	Number of employees	
	2001	2000
HK\$1,000,001 to HK\$1,500,000	2	1
HK\$1,500,001 to HK\$2,000,000	1	—
HK\$3,000,001 to HK\$3,500,000	—	1
	3	2

8. TAX

	Group	
	2001 HK\$'000	2000 HK\$'000
Current year's provision for tax:		
The People's Republic of China:		
Hong Kong	202	—
Mainland	942	—
Overseas	13	—
Deferred tax — note 23	133	—
	1,290	—
Share of tax of associates	12,285	9,604
Tax charge for the year	13,575	9,604

Hong Kong profits tax has been provided at the rate of 16% on the estimated assessable profits arising in Hong Kong during the year. In the prior year, no provision for Hong Kong profits tax was made by the Company and its subsidiaries because there were no assessable profits arising in Hong Kong, or there were accumulated losses available to offset against assessable profits for that year. Taxes on profits assessable in other jurisdictions have been calculated at rates of tax prevailing in the jurisdictions in which the Group operates.

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8. TAX (continued)

The share of tax of the associates represents the Group's attributable share of profits tax and deferred tax of the associates. Hong Kong profits tax for the associates has been provided at the rate of 16% (2000: 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 operate.

9. NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders dealt with in the financial statements of the Company is HK\$10,118,000 (2000: net profit of HK\$57,787,000).

10. DIVIDENDS

	Group	
	2001 HK\$'000	2000 HK\$'000
Interim dividend paid of 3.0 cents (2000: 2.0 cents) per ordinary share	29,284	19,533
Proposed final dividend of 2.0 cents (2000: 2.0 cents) per ordinary share	23,501	19,435
Adjustments to dividends payable in prior years as a result of options exercised and shares repurchased during the year	180	3,472
Total dividends — note 25	52,965	42,440

11. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit attributable to shareholders for the year of HK\$105,253,000 (2000: HK\$115,292,000) and the weighted average of 1,172,220,579 (2000: 1,161,323,539) 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\$99,682,000 (2000: HK\$114,843,547) and the weighted average of 1,172,788,828 (2000: 1,165,634,049) ordinary shares outstanding during the year, adjusted for the effects of all dilutive potential shares.

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11. EARNINGS PER SHARE (continued)

The adjusted net profit attributable to shareholders is calculated based on the net profit attributable to shareholders for the year of HK\$105,253,000 (2000: HK\$115,292,000) less the dilution in the results of EEICL attributable to the Group by HK\$5,571,000 (2000: HK\$448,453) arising from the deemed exercise of all of the outstanding employee share options of EEICL.

The weighted average number of shares used in the calculation of diluted earnings per share is based on the weighted average of 1,172,220,579 (2000: 1,161,323,539) shares in issue during the year plus the weighted average of 568,249 (2000: 4,310,510) shares deemed to be issued at no consideration as if all of the Company's outstanding share options had been exercised.

The comparative amounts of the basic and diluted earnings per share have been adjusted for the effect of a one-for-five bonus issue of ordinary shares in the Company during the year, as further described in note 24(c).

12. FIXED ASSETS

Group

	1 July 2000	Currency realignment	Additions	Arising on acquisition of interests in subsidiaries	Disposals	30 June 2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost:						
Land and buildings	56,885	34	255	592,864	(943)	649,095
Improvements to leasehold properties	29,345	13	1,835	57,362	—	88,555
Construction in progress	—	—	—	95,084	—	95,084
Plant and machinery	111,104	55	22,608	1,644,007	(747)	1,777,027
Furniture and office equipment	12,312	3	5,819	207,630	(520)	225,244
Motor vehicles	2,765	2	409	15,632	(79)	18,729
	212,411	107	30,926	2,612,579	(2,289)	2,853,734
Accumulated depreciation:						
Land and buildings	3,453	(30)	2,655	137,501	—	143,579
Improvements to leasehold properties	11,281	(10)	4,629	17,824	—	33,724
Plant and machinery	40,763	(261)	26,390	696,286	(678)	762,500
Furniture and office equipment	6,556	(27)	3,360	112,609	(516)	121,982
Motor vehicles	1,870	(1)	576	11,468	(34)	13,879
	63,923	(329)	37,610	975,688	(1,228)	1,075,664
Net book value	148,488					1,778,070

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12. FIXED ASSETS (continued)

The land and buildings at cost included above are held as follows:

	People's Republic of China			Total HK\$'000
	Hong Kong	Mainland	Overseas	
	HK\$'000	HK\$'000	HK\$'000	
Freehold	—	—	165,092	165,092
Medium term leasehold	113,037	370,966	—	484,003
	113,037	370,966	165,092	649,095

13. INTANGIBLE ASSETS

	Group HK'000
Cost:	
Arising on acquisition of interests in subsidiaries and balance at the end of year	3,820
Accumulated amortisation:	
Arising on acquisition of interests in subsidiaries	1,054
Provided during the year	33
Balance at the end of year	1,087
Net book value	2,733

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14. INTERESTS IN SUBSIDIARIES

	Company	
	2001 HK\$'000	2000 HK\$'000
Shares at cost:		
Listed in Singapore	646,393	—
Unlisted	287,232	297,411
	933,625	297,411
Due from subsidiaries	428,654	413,277
Due to subsidiaries	(389,936)	(534)
	972,343	710,154
Provisions for permanent diminutions in values	(392,232)	(297,411)
	580,111	412,743
Market value of listed shares at balance sheet date	1,781,325	—

All balances with subsidiaries are unsecured, interest-free and repayable on demand.

Particulars of the principal subsidiaries are as follows:

Name of company	Place of incorporation/ registration and operations	Nominal value of issued share capital/ paid-up capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Elec & Eltek Display Technology Limited	British Virgin Islands/ Hong Kong	US\$20	—	100	Manufacture and sale of liquid crystal displays ("LCDs")
Elec & Eltek Display Technology (Guangzhou) Company Limited	People's Republic of China [#]	US\$14,700,000	—	98	Manufacture and sale of LCDs

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14. INTERESTS IN SUBSIDIARIES (continued)

Name of company	Place of incorporation/ registration and operations	Nominal value of issued share capital/ paid-up capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
E & E Magnetic Products Limited	British Virgin Islands/ Hong Kong	US\$100,000	—	100	Manufacture and sale of magnetic products
Avatex (Guangzhou) Communication Company Limited	People's Republic of China [@]	US\$5,400,000	—	98	Manufacture of magnetic products
Elec & Eltek Corporate Services Limited	Hong Kong	HK\$2	100	—	Provision of corporate services
Elec & Eltek Computers Limited	Hong Kong	HK\$15,000,000	100	—	Property holding and provision of treasury services
Elec & Eltek Treasury Company Limited	British Virgin Islands/ Hong Kong	HK\$10,000	—	100	Provision of treasury services
Elec & Eltek Technology Investment Limited	British Virgin Islands/ Hong Kong	US\$1	100	—	Investment holding
Elec & Eltek Technology Center (Holdings) Limited	British Virgin Islands/ Hong Kong	HK\$32,000,000	—	95	Promotion of technology
Elec & Eltek e-Business Technology Limited	British Virgin Islands/ Hong Kong	US\$1	—	100	Investment holding

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14. INTERESTS IN SUBSIDIARIES (continued)

Name of company	Place of incorporation/ registration and operations	Nominal value of issued share capital/ paid-up capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Elec & Eltek International Company Limited ("EEICL")*	Singapore	S\$116,001,100	52	—	Investment holding
Elec & Eltek Company Limited*	Hong Kong	HK\$98,123,732	—	52	Trading of printed circuit boards ("PCBs")
Elec & Eltek Multilayer PCB Limited*	Hong Kong	HK\$5,000,000	—	52	Manufacture and distribution of PCBs
Kai Ping Elec & Eltek Company Limited*	People's Republic of China [#]	US\$11,650,000	—	47**	Manufacture and distribution of PCBs
Kaiping Elec & Eltek No.2 Company Limited*	People's Republic of China [#]	US\$12,800,000	—	47**	Manufacture and distribution of PCBs
Kaiping Elec & Eltek No.3 Company Limited*	People's Republic of China [#]	US\$7,827,500	—	47**	Manufacture and distribution of PCBs
Elec & Eltek (Guangzhou) Electronic Company Limited*	People's Republic of China [#]	US\$33,000,000	—	51	Manufacture and distribution of PCBs
Elec & Eltek (Guangzhou) Technology Company Limited*	People's Republic of China [#]	US\$6,000,000	—	51	Research and development, manufacture and distribution of PCBs

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14. INTERESTS IN SUBSIDIARIES (continued)

Name of company	Place of incorporation/ registration and operations	Nominal value of issued share capital/ paid-up capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Guangzhou Elec & Eltek Microvia Technology Limited*	People's Republic of China [@]	US\$12,800,000	—	51	Manufacture and distribution of PCBs
Guangzhou Elec & Eltek High Density Interconnect Technology No.1 Company Limited*	People's Republic of China [@]	US\$8,750,000	—	51	Manufacture and distribution of PCBs
Nanjing Elec & Eltek Electronic Co., Ltd.*	People's Republic of China [#]	US\$5,108,000	—	39**	Manufacture and distribution of PCBs
Elec & Eltek (Thailand) Limited*	Thailand	Baht780,000,000	—	52	Manufacture and distribution of PCBs
Pacific Insulating Material (Thailand) Limited*	Thailand	Baht650,000,000	—	52	Manufacture and distribution of PCB related materials
Shenzhen Pacific Insulating Material Co., Ltd.*	People's Republic of China [#]	RMB67,491,458	—	49**	Manufacture and trading of copper clad laminate
PIC Corporate Services Limited*	Hong Kong	HK\$10,000	—	52	Trading of copper clad laminate
Elec & Eltek International Limited*	Hong Kong	HK\$150,000	—	52	Provision of marketing and corporate services

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14. INTERESTS IN SUBSIDIARIES (continued)

Name of company	Place of incorporation/ registration and operations	Nominal value of issued share capital/ paid-up capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Elec & Eltek Technology Research & Marketing Pte Ltd.*	Singapore	S\$2	—	52	Technology research and marketing

* On 26 April 2001, the directors of the Company announced that the Company intended to make a voluntary conditional cash partial offer ("the Partial Offer") to acquire 2 out of every 10 shares in EEICL held by independent shareholders. The Partial Offer became unconditional on 15 June 2001 and the Company acquired a total of 16,268,359 shares in EEICL, thereby increasing its equity interest in EEICL from 44% to 52% at that date. EEICL and its subsidiaries have therefore been accounted for as subsidiaries thereafter.

** These companies are subsidiaries of EEICL and, accordingly, are accounted for as subsidiaries of the Group by virtue of control over those entities.

Registered as an equity joint venture under the law of the People's Republic of China.

@ Registered as a cooperative joint venture under the law of the People's Republic of China.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

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15. INTERESTS IN ASSOCIATES

	Group		Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Shares listed in Singapore, at cost	—	—	—	230,597
Share of net assets, other than goodwill	—	616,432	—	—
Elimination of unrealised gain on intra-group transactions in prior years to the extent of the Group's interests	—	(41,152)	—	—
	—	575,280	—	230,597
Market value of listed shares at balance sheet date	—	967,817	—	967,817

As described in note 14 to the financial statements, the Company's equity interest in EEICL increased during the year from 44% to 52%. Consequently, EEICL and its subsidiaries have been accounted for as subsidiaries of the Group thereafter. The Group's investments in other associates were all disposed of at no material gain or loss during the year.

Notes to Financial Statements

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15. INTERESTS IN ASSOCIATES (continued)

In the prior year, included in the Group's share of the net assets of its associates was the share of net assets of EEICL which, in the opinion of the directors, was material in the context of the Group's financial statements. On 15 June 2001, EEICL ceased to be an associate of the Company and became a subsidiary thereafter. Details of the net assets and the results of EEICL and its subsidiaries as at 30 June 2001 and 30 June 2000, and for the years then ended, are as follows:

	Group	
	2001 HK\$'000	2000 HK\$'000
Non-current assets	1,682,339	1,326,622
Current assets	977,445	1,055,754
Current liabilities	(806,234)	(835,406)
Non-current liabilities	(67,430)	(145,290)
	1,786,120	1,401,680
Share of net assets, other than goodwill, attributable to the Group at 30 June	—	616,432
Elimination of unrealised gain on intra-group transactions in prior years to the extent of the Group's interests	—	(41,152)
Net assets attributable to the Group	—	575,280
Turnover	2,653,444	2,209,907
Profit before tax	468,001	379,504
Profit before tax attributable to the Group for the period from 1 July 2000 to 15 June 2001/year ended 30 June 2000	186,197	155,522

Notes to Financial Statements

30 June 2001

16. INTEREST IN A JOINTLY-CONTROLLED ENTITY

	Group	
	2001 HK\$'000	2000 HK\$'000
Share of net assets	10,499	—

Details of the indirectly held jointly-controlled entity are as follows:

Name of company	Business structure	Place of registration and operations	Percentage of ownership interest	voting power	profit sharing	Principal activity
Beijing Yilaida Information Technology Company Limited ("Yilaida")	Equity joint venture	People's Republic of China	57	57	57	Promotion of information technology

Under the joint venture agreement of Yilaida, the joint venture partners have joint control over the entity's daily operating and financial decisions.

17. OTHER INVESTMENTS

	Group	
	2001 HK\$'000	2000 HK\$'000
Listed bonds, at market value:		
Luxemburg	—	39,229
United Kingdom	—	22,782
	—	62,011

Notes to Financial Statements

30 June 2001

18. INVENTORIES

	Group	
	2001 HK\$'000	2000 HK\$'000
Raw materials	175,663	37,575
Work in progress	75,368	5,244
Finished goods	66,464	11,962
	317,495	54,781

The amount of inventories carried at net realisable value included in the above is HK\$40,666,000 (2000: HK\$78,000).

19. TRADE RECEIVABLES

An aged analysis of trade receivables at the balance sheet date, prepared based on the invoice due dates, is as follows:

	Group	
	2001 HK\$'000	2000 HK\$'000
Within credit period	412,665	33,837
Overdue 1 – 30 days	58,739	13,527
Overdue 31 – 60 days	23,814	10,547
Overdue 61 – 90 days	25,949	5,832
Overdue more than 90 days	11,959	1,996
	533,126	65,739

The Group operates a credit control policy and allows an average credit period of 30–90 days to its trade customers who satisfy credit evaluation. Each customer has a maximum credit limit. To maintain control over its outstanding receivables, the Group has a credit control department to minimise credit risk. Overdue balances are regularly reviewed by senior management.

Notes to Financial Statements

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20. CASH AND CASH EQUIVALENTS

	Group		Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Cash and bank balances	176,089	16,140	25,923	7,214
Time deposits	41,499	10,402	—	5,201
	217,588	26,542	25,923	12,415

21. TRADE AND BILLS PAYABLES

An aged analysis of accounts payable at the balance sheet date, prepared based on the invoice dates, is as follows:

	Group	
	2001 HK\$'000	2000 HK\$'000
Less than 30 days	184,803	19,304
31 – 60 days	67,181	14,645
61 – 90 days	43,954	10,649
Over 90 days	62,905	1,945
	358,843	46,543

22. BANKING FACILITIES

	Group	
	2001 HK\$'000	2000 HK\$'000
Trust receipt and export loans	34,807	21,984
Bank overdrafts	65,300	84,485
Bank loans	725,026	—
	825,133	106,469

Notes to Financial Statements

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22. BANKING FACILITIES (continued)

The bank loans, overdrafts and other borrowings are all unsecured and repayable as follows:

	Group	
	2001 HK\$'000	2000 HK\$'000
Within one year:		
Trust receipt and export loans	34,807	21,984
Bank overdrafts	65,300	84,485
Bank loans	263,825	—
	329,125	84,485
In the second year:		
Bank loans	134,666	—
In the third to fifth years, inclusive:		
Bank loans	326,535	—
	825,133	106,469
Portion classified as current liabilities	(363,932)	(106,469)
Long term portion	461,201	—

23. DEFERRED TAX

	Group	
	2001 HK\$'000	2000 HK\$'000
Arising on acquisition of interests in subsidiaries	12,109	—
Charge for the year — note 8	133	—
At balance sheet date	12,242	—

Notes to Financial Statements

30 June 2001

23. DEFERRED TAX (continued)

The principal components of the Group's provision for deferred tax and the net deferred tax asset position not recognised in the financial statements, calculated at 16% (2000: 16%) on the cumulative timing differences at the balance sheet date, are as follows:

	Provided		Not provided	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Accelerated depreciation allowances	(12,242)	—	(2,903)	(4,146)
Tax losses available for future relief	—	—	46,157	43,307
Deferred tax assets/(liabilities)	(12,242)	—	43,254	39,161

24. SHARE CAPITAL

	Number of ordinary shares of HK\$0.10 each	HK\$'000
<i>Authorised:</i>		
At beginning and end of year	2,500,000,000	250,000
<i>Issued and fully paid:</i>		
At beginning of year	971,763,674	97,176
Shares issued on exercise of share options (a)	9,200,000	920
Shares repurchased and cancelled during the year (b)	(1,745,000)	(174)
Bonus issue of shares (c)	195,843,734	19,584
At balance sheet date	1,175,062,408	117,506

During the year, the following movements in share capital were recorded:

- (a) Pursuant to the exercise of share options granted to certain employees and directors, the Company allotted and issued 9,200,000 new ordinary shares of HK\$0.10 each at a price of HK\$0.838 each for a total cash consideration, net of expenses, of HK\$7,545,000.

Notes to Financial Statements

30 June 2001

24. SHARE CAPITAL (continued)

- (b) During the year, the Company also repurchased a total of 1,745,000 of its shares on The Stock Exchange of Hong Kong Limited, all of which were cancelled, as follows:

Month/year	Number of shares	Price per share		Total price, including expenses paid HK\$'000
		Highest HK\$	Lowest HK\$	
September 2000	1,745,000	0.95	0.85	1,605

The premium paid on the redemption of the shares has been charged to the share premium account of the Company in accordance with the provisions of the Bermuda Companies Act 1981 (as amended). An amount equivalent to the par value of the shares cancelled has been transferred from retained profits of the Company to a capital redemption reserve.

- (c) Pursuant to an ordinary resolution passed at the special general meeting held on 19 March 2001, the Company issued 195,843,734 bonus shares of HK\$0.10 each to the shareholders of the Company on the basis of 1 bonus share for every 5 shares held by the shareholders whose names appeared on the Register of Members of the Company on 19 March 2001. The bonus shares were issued as fully paid by capitalising the sum of approximately HK\$19,584,000 standing to the credit of the share premium account of the Company.

Share options

Movements in share options during the year were as follows:

	Number of share options
Share options outstanding at beginning of year	9,300,000
Share options exercised during the year	(9,200,000)
Share options cancelled during the year	(100,000)
Share options outstanding at end of year	—

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25. RESERVES

Group

	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
At 1 July 1999	26,961	(62,636)	25,516	6,855	549,729	546,425
Currency translation differences	—	1,261	—	—	—	1,261
Issue of new shares	28,236	—	—	—	—	28,236
Repurchase of shares	(4,363)	—	488	—	(488)	(4,363)
Net profit attributable to shareholders	—	—	—	—	115,292	115,292
Dividends (note 10)	—	—	—	—	(42,440)	(42,440)
Goodwill eliminated on acquisition of interests in a subsidiary	—	—	—	(252)	(21,735)	(21,987)
Transfers from/(to) retained earnings	—	—	—	5,828	(5,828)	—
At 30 June 2000 and 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
Dividends (note 10)	—	—	—	—	(52,965)	(52,965)
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	36,444	(70,796)	26,178	8,562	428,122	428,510
Retained by:						
Company and subsidiaries	36,444	(70,796)	26,178	8,562	430,266	430,654
Jointly-controlled entity	—	—	—	—	(2,144)	(2,144)
At 30 June 2001	36,444	(70,796)	26,178	8,562	428,122	428,510
Retained by:						
Company and subsidiaries	50,834	(54,735)	26,004	—	178,184	200,287
Associates	—	(6,640)	—	12,431	416,346	422,137
At 30 June 2000	50,834	(61,375)	26,004	12,431	594,530	622,424

* Included in this category is a reserve which arises pursuant to the relevant laws and regulations in the People's Republic of China ("PRC") whereby a portion of the profits of the Group's PRC subsidiaries is transferred to a separate reserve which is restricted as to its use. Pursuant to the approval by the board of directors of a PRC subsidiary, an amount of HK\$3,869,000 was transferred from the reserve to retained earnings in the current year. Also included is a statutory reserve required under the Company Law in Thailand.

Notes to Financial Statements

30 June 2001

25. RESERVES (continued)

Company

	Share premium account HK\$'000	Capital redemption reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1 July 1999	26,961	25,516	258,330	310,807
Net profit from ordinary activities attributable to shareholders	—	—	57,787	57,787
Dividends (note 10)	—	—	(42,440)	(42,440)
Issue of new shares	28,236	—	—	28,236
Repurchase of shares	(4,363)	488	(488)	(4,363)
At 30 June 2000 and 1 July 2000	50,834	26,004	273,189	350,027
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 loss from ordinary activities attributable to shareholders	—	—	(10,118)	(10,118)
Dividends (note 10)	—	—	(52,965)	(52,965)
At 30 June 2001	36,444	26,178	209,932	272,554

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26. CONTRIBUTED SURPLUS

	Group		Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
At beginning and end of year	80,490	80,490	239,008	239,008

The contributed surplus of the Company arose from a reorganisation on 21 June 1989. The balance represents the difference between the nominal value of the Company's shares allotted or transferred under a scheme of arrangement and the consolidated shareholders' equity of Elec & Eltek Company Limited and its subsidiaries as at 21 June 1989. Under the Companies Act 1981 of Bermuda (as amended), the Company may make distributions to its members out of the contributed surplus in certain circumstances.

The contributed surplus of the Group arose from the aforementioned reorganisation and represents the difference between the nominal value of the shares and the share premium account of Elec & Eltek Company Limited acquired over the nominal value of the Company's shares allotted or transferred.

Notes to Financial Statements

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27. NOTES TO THE CASH FLOW STATEMENT

(a) Reconciliation of loss from operating activities to net cash outflow from operating activities:

	2001 HK\$'000	2000 HK\$'000
Loss from operating activities	(43,873)	(23,970)
Interest income	(4,971)	(9,427)
Depreciation	37,610	26,887
Amortisation of intangible assets	33	—
Loss on disposal of fixed assets	182	147
Unrealised holding loss on other investments	—	2,209
Gain on disposal of other investments	(4,731)	(657)
Decrease/(increase) in inventories	62,468	(22,402)
Increase in trade receivables	(112,583)	(10,759)
Increase in prepayments, deposits and other receivables	(56,404)	(5,193)
Increase/(decrease) in trade and bills payables	(12,744)	14,218
Increase/(decrease) in other payables and accruals	54,949	(13,407)
Increase/(decrease) in trust receipt and export loans with maturity of more than three months from the date of advance	6,842	(7,512)
Increase in an amount due from an associate	—	44
Net cash outflow from operating activities	(73,222)	(49,822)

Notes to Financial Statements

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27. NOTES TO THE CASH FLOW STATEMENT (continued)

(b) Acquisition of interests in an associate/subsidiaries:

(i) Acquisition of interests in an associate:

In the prior year, the Group acquired additional interests in an associate which gave rise to a net cash outflow of HK\$40,814,000 and goodwill of HK\$21,987,000 which was charged against reserves.

(ii) Acquisition of interests in subsidiaries:

	2001 HK\$'000	2000 HK\$'000
Net assets acquired:		
Fixed assets	1,636,891	—
Intangible assets	2,766	—
Bank balances, deposits and cash	181,080	—
Inventories	325,182	—
Trade receivables	354,804	—
Prepayments, deposits, and other receivables	75,409	—
Trade and bills payables	(325,044)	—
Tax payable	(15,008)	—
Other payables and accruals	(106,563)	—
Interest-bearing bank and other borrowings	(212,021)	—
Bank overdrafts	(10,218)	—
Long term bank loans	(55,188)	—
Deferred tax	(12,109)	—
Minority interests	(951,446)	—
	888,535	—
Goodwill	222,350	—
	1,110,885	—
Satisfied by:		
Cash	415,796	—
Reclassification of interests in associates to interests in subsidiaries	695,089	—
	1,110,885	—

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27. NOTES TO THE CASH FLOW STATEMENT (continued)

(b) Acquisition of interests in an associate/subsidiaries (continued):

(ii) Acquisition of interests in subsidiaries (continued):

Analysis of the net outflow of cash and cash equivalents in respect of the acquisition of interests in subsidiaries:

	2001 HK\$'000	2000 HK\$'000
Cash consideration	(415,796)	—
Cash and bank balances acquired	181,080	—
Bank overdrafts acquired	(10,218)	—
Net outflow of cash and cash equivalents in respect of the acquisition	(244,934)	—

The subsidiaries acquired during the year contributed HK\$20,515,000 to the Group's net operating cash flows, paid HK\$643,000 in respect of the net returns on investments and servicing of finance, paid HK\$5,520,000 in respect of investing activities, but had no significant impact in respect of tax and financing activities.

The subsidiary acquired during the year contributed HK\$116,315,000 to turnover and HK\$19,225,000 to the consolidated profit before minority interests for the year.

Notes to Financial Statements

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27. NOTES TO THE CASH FLOW STATEMENT (continued)

(c) Analysis of changes in financing during the year:

	Share capital (including share premium) HK\$'000	Bank loans* HK\$'000	Minority interests HK\$'000
Balance at 1 July 1999	122,455	—	—
Net cash inflow from financing activities	25,555	—	—
Balance at 30 June 2000 and 1 July 2000	148,010	—	—
Net cash inflow from financing activities	5,940	457,817	1,600
Arising on acquisition of interests in subsidiaries	—	267,209	951,446
Share of profit for the year	—	—	9,700
Proposed dividend to minority shareholders	—	—	(60,105)
Currency realignment, net	—	—	(327)
Balance at 30 June 2001	153,950	725,026	902,314

* Excluding bank overdrafts, trust receipt loans and export loans.

(d) Analysis of the balances of cash and cash equivalents:

	2001 HK\$'000	2000 HK\$'000
Cash and bank balances	176,089	16,140
Time deposits	41,499	10,402
Bank overdrafts	(65,300)	(84,485)
Trust receipt loans with maturity within three months from the date of advance	(5,981)	—
	146,307	(57,943)

Notes to Financial Statements

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28. COMMITMENTS

	Group	
	2001 HK\$'000	2000 HK\$'000
Capital commitments:		
Contracted for	55,725	85,541
Authorised, but not contracted for	5,136	—
	60,861	85,541

Capital commitments at the balance sheet date included contracted for commitments of HK\$55,540,000 (2000: HK\$1,261,000), and commitments authorised, but not contracted for, of HK\$5,136,000 (2000: Nil) in relation to the acquisition of property, plant and equipment.

	Group	
	2001 HK\$'000	2000 HK\$'000
Future minimum lease payments under non-cancellable operating leases in respect of land and buildings for each of the following periods:		
Not later than one year	9,235	3,213
Later than one year and not later than five years	6,119	528
	15,354	3,741

At the balance sheet date, the Company had no commitments (2000: Nil).

29. CONTINGENT LIABILITY

At the balance sheet date, the Company had a contingent liability in respect of an unlimited guarantee given to a bank for general banking facilities granted to subsidiaries.

30. COMPARATIVE AMOUNTS

As further explained in note 2 to the financial statements, due to the adoption of the revised SSAP 14 during the current year, all future minimum lease payments under non-cancellable operating leases have been disclosed to comply with the new requirements. Accordingly, the comparative amounts have been restated to conform with the current year's presentation.

31. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 10 September 2001.