

CHAIRMAN'S LETTER

“Leading Elec & Eltek to its next new height of success is my goal and challenge – one that I take on with great relish.”

Mr. Thomas Tang Koon Yiu
Chairman and Managing Director



It gives me great pleasure and honour to communicate with all of you, our trusted partners, stakeholders and supporters, for the first time as Chairman and Managing Director of Elec & Eltek International Holdings Limited.

When I joined the Group in March, the world's headlines were dominated by the US-Iraq conflict and the SARS outbreak in our region.

And today, with the SARS impact behind us and with the US economy gradually recovering, we are seeing encouraging signs of the general economy in the region picking up. This is a good news for the manufacturing sector in Asia and indeed for the Elec & Eltek Group as well.

My previous role at the Hong Kong Productivity Council and experience with other multinational and Hong Kong industrial companies have given me the needed insights to appreciate the strength of manufacturing leaders such as Elec & Eltek and the Group's ability to excel as demonstrated over and again for 30 years.

Elec & Eltek has become a much trusted and valued brand in the electronics industry, synonymous with reliable electronic products and services. Its founders Mr. David So Cheung Sing, Mr. Marcus Tsang Ming Pui and Mr. Wilson Tam Kam Ho have earned rightly great respect and recognition in the industry. On behalf of the Board and the Company, I would like to extend the most sincere gratitude for their long and devoted efforts made to the Group.

As an insider now, I have come to appreciate, being part and parcel of the Group's success, the significance of the unrelenting support all these years from our partners, customers, suppliers and employees worldwide.

Besides its famous founders, the Group's senior management team comprising Mr. Johnny Ng Ho Kin and Mr. Canice Chung Tai Keung, among others, have built and led an efficient operation and nurtured a corporate culture that values partnership and mutual benefits. Elec & Eltek's far-reaching global marketing network and cost-effective manufacturing operations continue to ensure that the Group is superbly placed to benefit from its ideal position of operating both inside and, as a bridge, with the world's largest emerging economy: China. As the global supply chain continues to look to China for its market and out-sourcing solutions, Elec & Eltek's exemplary track record and experience will help assure a substantial share of benefits from this trend for the Group and its partners.

From my vantage point, the Group's future looks brighter than ever. That is not to say we should be complacent and rest on our laurels. On the contrary, with a strong cashflow, our dedicated and committed employees worldwide, and above all, the continuous support from all our partners, I can see Elec & Eltek capitalizing and growing on the vast opportunities in the electronic component businesses in our hinterland and the world at large.

Leading Elec & Eltek to its next new height of success is my goal and challenge - one that I take on with great relish.

RESULTS

The consumer spending confidence level world-wide had remained low throughout the financial year 2003 due to the continued weak world economy, especially in the US and the Europe. The outbreak of SARS in the first quarter of calendar year 2003 had halted a wide spectrum of business activities in Hong Kong, Taiwan, China, Singapore and Canada during that period, thus hurting and further delaying the economic recovery and growth in these regions.

Despite the overall adverse economic climates, the Group's total turnover for the financial year ended 30 June 2003 (the "financial year 2003") was HK\$2,257.7 million and had attained a slight increase of HK\$34.0 million or 1.5 % over the turnover of HK\$2,223.7 million reported in the last financial year ended 30 June 2002 (the "financial year 2002").

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The Group's operating profit in the financial year 2003 was HK\$140.2 million as compared with HK\$207.9 million for the last financial year. The net profit attributable to the shareholders was HK\$38.8 million, a decrease of HK\$8.7 million or 18.3% from the last financial year.

Basic earnings per share for the financial year 2003 stood at 3.30 Hong Kong cents, compared with 4.04 Hong Kong cents for the financial year 2002.

FINAL DIVIDEND

The Group proposes a final dividend of 1.5 Hong Kong cents (2002: 1.5 Hong Kong cents) per share for the financial year ended 30 June 2003. Together with the interim dividend of 1.5 Hong Kong cents (2002: 1.0 Hong Kong cent) per share, a total of 3.0 Hong Kong cents per share will be distributed for the financial year 2003. 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 3 November 2003.

Dividend warrants, if approved, will be sent to shareholders on or about 21 November 2003. The Registers of Members will be closed from 31 October 2003 to 3 November 2003, both dates inclusive. In order to qualify for the final dividend, transfers accompanied by the relevant share certificates, must be lodged with the Company's Share Registrars in Hong Kong, Computershare Hong Kong Investor Services Limited, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:00 p.m. on 30 October 2003.

BUSINESS REVIEW

Printed Circuit Boards ("PCB")

Turnover and pre-tax operating profits of the PCB Business for the financial year 2003 amounted to HK\$1,911.0 million and HK\$142.7 million respectively. Despite the sales maintained in the same level as the last financial year in HK\$1,904.2 million, however, the pre-tax operating profits decreased by HK\$78.1 million or 35.4% from the last financial year.

The performance of our PCB Business was affected by declining demand which resulted from the Iraq war and the outbreak of SARS. Consequently, the financial results of the PCB Business for the current financial year were lower than that of the last financial year.

As reported in the interim announcement, our PCB production capacity utilisation improved in January and February 2003. However the outbreak of the Iraq war and SARS dampened economic prospects soon after. Because of SARS, some customers even took precautionary measures of migrating part of their PCB sourcing temporarily away from China and Hong Kong to diversify their supply-chain risk. As a result, our PCB production capacity utilisation dropped to between 60% and 65% during April and May 2003.

With the resumption of operations in two plants in China, operating costs in the second half was higher than that of the first half of the current financial year. This, coupled with the low production capacity utilisation rate, led to the low performance of our PCB Business in the second half of the current financial year.

With customer orders gradually picking up towards the end of May and by June 2003, the Group's PCB average utilisation was ramped up to around 90% of the full output capacity.

Despite the improving average utilisation of PCB capacities globally, particularly in China and Taiwan, there continued to be downward pressure on the average selling price ("ASP") of our PCB products during the second half of the current financial year resulting in a further drop of 7.7% from the first half. Overall, ASP in the current financial year has gone down by 20.1%. The ASP of 8-layer and above PCBs dropped more significantly by an average of 15.3% in the second half when compared against the first half of the current financial year. In the current financial year, the ASP of our 8-layer and above PCBs dropped by an average of 26.2% over the last financial year.

The Group's consistent sales development efforts yielded a 17.2% increase in PCB shipment in square footage in the second half over the first half of the current financial year and yielded a 24.4% increase in PCB shipment in square footage in the current financial year over the last financial year. These increases helped to compensate partly the average selling price erosion.

Our PCB turnover in the computer and computer peripheral segment dropped from 47.7% of the total PCB turnover in the first half to 41.4% in the second half of the current financial year. Sales to the communication and networking segment improved from 26.0% of the total PCB turnover in the first half to 29.6% in the second half of the current financial year. Sales to the consumer and automotive segment also increased to 29.0% in the second half of the current financial year from 26.3% in the first half.

On a full year basis, sales to the computer and computer peripheral segment as well as the communication and networking segment fell from 52.0% and 35.4% respectively in the last financial year to 44.4% and 27.9% respectively in the current financial year. In the consumer and automotive segment, however, sales climbed from 12.6% in the last financial year to 27.7% in the current financial year, as the Group was able to benefit from its business development efforts.

The Group also made progress in increasing the percentage of sales of PCBs with 10 layers and above from 11.6% in the last financial year to 15.2% in the current financial year.

Liquid Crystal Displays ("LCD")

In the financial year 2003, the LCD Business had achieved a turnover of HK\$239.5 million, an increase of HK\$23.1 million or 10.7% over the HK\$216.4 million turnover in the financial year 2002. The increase in turnover was mainly contributed by the 100% growth in sales of modules including chip-on-glass (COG) products within the current financial year totalling HK\$46.9 million.

Operating profit and operating margin of the LCD Business for the current financial year was HK\$25.5 million and 10.7% respectively, as compared with HK\$12.3 million and 5.7% for the last financial year respectively.

The LCD Business had overcome another tough year in attaining the operating results for the financial year 2003. During the financial year under review, ASPs on low, medium and high-end LCD products had eroded between 9% to 18% from the ASPs a year ago due to sluggish market demands and excess production capacities. With the increase in production and sales of the higher end and higher profit STN LCDs, together with the doubling of modules and coupled with effective and efficient cost controls in areas of material, logistics, distribution and administration, these concerted efforts benefit both the LCD Business and its valued customers.

Magnetic Products

During the year under review, the Magnetic Products Business had not seen upsurge in demands arising out of new products requirements in the telecommunications, enterprise networking and computer industries which it served. The business climate remained flat in demands. Fierce price competitions due to global weak economy persisted.

The turnover of the Magnetic Products Business for the financial year 2003 was HK\$106.9 million, an increase of HK\$4.3 million or 4.2% over the turnover of HK\$102.6 million for the last financial year. The increased sales in the financial year 2003 was mainly from the shipments of the new line of magnetic integrated connectors which was developed and introduced to the market in the last financial year.

Operating profit and operating margin for the current financial year was HK\$11.2 million and 10.5% respectively as compared with HK\$6.2 million and 6.0% of the last financial year respectively.

As mentioned above, fierce competitions enhanced severe price erosions. During the financial year 2003, average selling price of magnetic components had been slashed down by almost 25%.

Amidst the sluggish market conditions in the current financial year, the Magnetic Products Business was able to improve its operating profits by HK\$5.0 million or 80.7% from the last financial year. This was primarily due to its efforts in increasing its market share and stringent cost controls in all areas. The volume of shipments in the financial year 2003 increased by approximately 38% over the last financial year.

Information Technology ("IT")

During the current financial year, the IT Business mainly concentrated on producing web-based software for internal companies in order to enhance the efficiency and effectiveness of their existing operations.

Beijing Yilaida Information Technology Company Limited ("Yilaida"), the IT Business's joint venture investment in China, has launched another new portal for the China's mobile phone industry. It provides up-to-date information of the China mobile phone market and facilitates mobile phone manufacturers to purchase the necessary accessories through the portal. Yilaida also successfully co-organised a mobile phone accessory trade show in Tinjin with The China Electronic Components Association ("CECA"). Yilaida has also provided consultancy services for a number of local and overseas customers during the years.

FUTURE PROSPECTS

As there are signs that the US and the Europe economies have started picking-up, the Group contemplates the overall business environment will turn more positive but remain challenging due to keen regional competition.

PCB

PCB Business in the first quarter of the new financial year tends to be slow, as it coincides with the summer holiday season. However, as a result of the gradually improving the US and the Europe economies, as well as supply chain outsourcing activities moving back into China following the abatement of SARS, the Group saw an upsurge of PCB Business in the last five to six weeks of the first quarter of the new financial year.

In view of the increasing customer demand from late July, the Group was able to reach 100% PCB capacity utilisation and at the same time, expanded its production capacity by buying good quality re-furbished machines. At present the Group's PCB output is running at 665,000 sq. ft. per week and this is expected to go up to 720,000 sq. ft. within six to eight weeks when full installation and test-run of all machinery and equipment are complete. This would be timely as the seasonal surge in demand normally starts in October.

With the improving PCB capacity utilisation in the region, there are signs that ASPs are stabilizing.

The Group's China strategy continues to be affirmed in line with the growing trend of outsourcing by multinational companies into China.

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With improving business sentiment and investor confidence in the electronics sector, coupled with the increasing trend of outsourcing into China, the Group is working towards further expansion in PCB production capacity.

LCD

The LCD Business envisages demand for LCDs and modules products by office automation, multimedia, audio / visual and automotive sectors will maintain a moderate organic growth. Moreover, the China market opens up more business opportunities due to its anticipated economic growth. The LCD Business will focus and stay close with these business opportunities, in addition to serving its core business partners in the other regions of the world at the highest standards.

Demand for value added colour displays ranging from smaller size for portable product applications to larger size for desktop products grows rapidly. To this end, the LCD Business had already started investing on the development of the colour display range of products. It is expected that this new line of products will start to contribute additional profits to the LCD Business in the later part of the financial year 2004.

Magnetic Products

The Magnetic Products Business is ready to overcome another year of tough market conditions in the telecommunications, enterprise networking and computer industries. The Magnetic Products Business will continue ensuring services of the highest quality are delivered to its customers both existing and forthcoming. On the product development front, our engineering group maintains a coherent partnership with our customers' engineering group, delivering time to market cost effective and performance efficient design solutions. Our sales and marketing team will be strengthened further and deeper customer focus. With these in place, the Magnetic Products Business is targeted to serve an enlarged world-class customer base in the financial year 2004.

IT


The IT Business will continue to provide web-based software for the Group and help to sharpen the Group's competitive edges.

Yilaida will continue to provide services to the mainland China and overseas customers through the various portals built and its network with the CECA.

Barring any unforeseen circumstances, the Directors expect the Group's performance to improve in the next financial year.

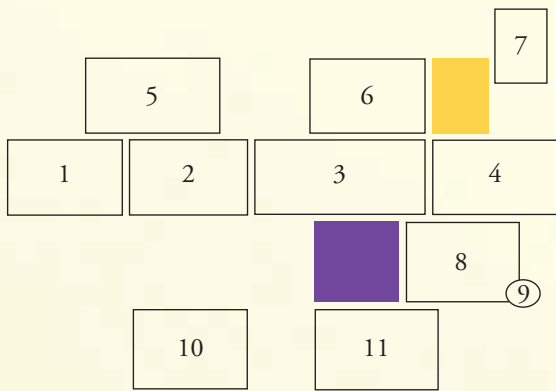
APPRECIATION

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 2003. Let's work together again towards a better financial year 2004.

A handwritten signature in black ink, consisting of a series of loops and a long horizontal stroke extending to the right.

Thomas Tang Koon Yiu
Chairman and Managing Director

Hong Kong
10 September 2003



- 1 Mr. Charles Lee Yip Kwong, Chairman of The Stock Exchange of Hong Kong Limited, at Elec & Eltek 30th Anniversary Charity Banquet in Hong Kong on 6 August 2002
- 2 Celebration to Elec & Eltek's 30th Anniversary at the Banquet
- 3 Exhilarating atmosphere in the Banquet
- 4 Mr. Raymond Or Ching Fai, Chairman of the Campaign Committee of the Community Chest of Hong Kong, received donation from the Elec & Eltek Group and the sponsors
- 5 Elec & Eltek 30th Anniversary Robot Design Contest in the Queen Elizabeth Stadium on 11 and 12 October 2002
- 6 Business and Product Exhibition in Elec & Eltek 30th Anniversary Charity Banquet
- 7 Winner of the Elec & Eltek 30th Anniversary Poster Contest
- 8 Presentation of awards to the champion team of "Speedy King" Robot Contest in Robot Design Contest
- 9 Winning robot of "Speedy King" Robot Contest
- 10 Thrilling racing in "Speedy King" Robot Contest
- 11 Furious combat fighting in "Robot Ultimate Fight" in Robot Design Contest





30TH
ANNIVERSARY
Cherishable
moments in
the year

