

NOTES TO FINANCIAL STATEMENTS

30 June 2003

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 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, and the provision of information technology consultancy and software development services. There were no significant changes in the nature of the Group's principal activities during the year.

2. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPs")

The following new and revised SSAPs are effective for the first time for the current year's financial statements:

- SSAP 1 (Revised) : "Presentation of financial statements"
- SSAP 11 (Revised) : "Foreign currency translation"
- SSAP 15 (Revised) : "Cash flow statements"
- SSAP 34 : "Employee benefits"
- SSAP 35 : "Accounting for government grants and disclosure of government assistance"

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

SSAP 1 prescribes the basis for the presentation of financial statements and sets out guidelines for their structure and minimum requirements for the content thereof. The principal impact of the revision of this SSAP is that a consolidated statement of changes in equity is now presented on page 39 of the financial statements in place of the consolidated statement of recognised gains and losses that was previously required and in place of the Group's reserves note.

SSAP 11 prescribes the basis for the translation of foreign currency transactions and financial statements. The adoption of the revised SSAP 11 has had no material effect on the financial statements.

SSAP 15 prescribes the format for the cash flow statement. The principal impact of the revision of this SSAP is that the consolidated cash flow statement now presents cash flows under three headings, cash flows from operating, investing and financing activities, rather than the five headings previously required. In addition, cash flows from overseas subsidiaries arising during the year are now translated to Hong Kong dollars at the exchange rates at the dates of the transactions, or at an approximation thereto, whereas previously they were translated at the exchange rates at the balance sheet date, and the definition of cash equivalents for the purpose of the consolidated cash flow statement has been revised. Further details of these changes and the prior year adjustments that have resulted from them are included in the accounting policies for "Cash and cash equivalents" and "Foreign currencies" in note 3 and in note 27(a) to the financial statements, respectively.

2. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE (“SSAPs”) (continued)

SSAP 34 prescribes the recognition and measurement criteria to apply to employee benefits, together with the required disclosures in respect thereof. The adoption of this SSAP has resulted in no material change to the previously adopted accounting treatments for employee benefits. Disclosures are now required in respect of the Group’s share option schemes, as detailed in note 24 to the financial statements. These share option scheme disclosures are similar to the Listing Rules disclosures previously only included in the Report of the Directors, which are now also included in the notes to the financial statements as a consequence of the SSAP.

SSAP 35 prescribes the accounting treatment and the disclosure requirements for government grants and the disclosure requirements for other forms of government assistance. The adoption of the SSAP has had no material effect on 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.

(b) *Basis of consolidation*

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 30 June 2003. 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.

Minority interests represent the interests of outside shareholders in the results and net assets of the Company’s subsidiaries.

(c) *Subsidiaries*

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company’s profit and loss account to the extent of dividends received and receivable. The Company’s interests in subsidiaries are stated at cost less any impairment losses.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) *Joint venture companies*

A joint venture company is a company set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture company operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture company's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture company is treated as:

- (i) a subsidiary, if the Company has unilateral control, directly or indirectly, over the joint venture company;
- (ii) a jointly-controlled entity, if the Company does not have unilateral control, but has joint control, directly or indirectly, over the joint venture company;
- (iii) an associate, if the Company does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture company's registered capital and is in a position to exercise significant influence over the joint venture company; or
- (iv) a long term investment, if the Company holds, directly or indirectly, less than 20% of the joint venture company's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture company.

(e) *Jointly-controlled entities*

A jointly-controlled entity is a joint venture company which is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

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. 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 impairment losses.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) *Goodwill*

Goodwill arising on the acquisition of subsidiaries represents the excess of the cost of the acquisition over the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life.

SSAP 30 "Business combinations" was adopted as at 1 July 2001. Prior to that date, goodwill arising on acquisitions was eliminated against consolidated reserves in the year of acquisition. On the adoption of SSAP 30, the Group applied the transitional provision of SSAP 30 that permitted such goodwill to remain eliminated against consolidated reserves. Goodwill on acquisitions subsequent to 1 July 2001 is treated according to the SSAP 30 goodwill accounting policy above.

On disposal of subsidiaries, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant reserves, as appropriate. Any attributable goodwill previously eliminated against consolidated reserves at the time of acquisition is written back and included in the calculation of the gain or loss on disposal.

The carrying amount of goodwill, including goodwill remaining eliminated against consolidated reserves, is reviewed annually and written down for impairment when it is considered necessary. A previously recognised impairment loss for goodwill is not reversed unless the impairment loss was caused by a specific external event of an exceptional nature that was not expected to recur, and subsequent external events have occurred which have reversed the effect of that event.

(g) *Impairment of assets*

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) *Impairment of assets (continued)*

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises.

(h) *Fixed assets and depreciation*

Fixed assets, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. 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, except for plant and machinery as further detailed below, 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	5.0%
Furniture and office equipment	20.0%
Motor vehicles	14.3% – 20.0%

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 shorter. Leasehold land and buildings situated in Mainland China are depreciated over the lease terms.

Improvements to leasehold properties are depreciated on the straight-line basis over ten years or the unexpired lease term, whichever is the shorter.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) *Fixed assets and depreciation (continued)*

Depreciation for plant and machinery is 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.

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 amount of the relevant asset.

Construction in progress mainly consists of a building under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of fixed assets when completed and ready for use.

(i) *Intangible assets*

Intangible assets comprise technical know-how acquired from third parties and are stated at their purchase cost less accumulated amortisation and any impairment losses.

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

(j) *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 payable under operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

(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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

On consolidation, the financial statements of overseas subsidiaries and jointly-controlled entities are translated into Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiaries and jointly-controlled entities are translated into Hong Kong dollars at the weighted average exchange rates for the year, and their balance sheets are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. The resulting translation differences are included in the exchange reserve.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

Prior to the adoption of the revised SSAP 15 during the year, as explained in note 2 to the financial statements, the cash flows of overseas subsidiaries were translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. The adoption of the revised SSAP 11 has had no material effect on the financial statements.

(n) *Employee benefits*

Paid leave carried forward

The Group provides paid annual leave to its employees under their employment contracts on a yearly basis. Under certain circumstances, such leave which remains untaken as at the balance sheet date is permitted to be carried forward and utilised by the respective employees in the following year. An accrual is made at the balance sheet date for the expected future cost of such paid leave earned during the year by the employees and carried forward.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)*(n) Employee benefits (continued)**Employment Ordinance long service payments*

Certain of the Group's employees have completed the required number of years of service to the Group in order to be eligible for long service payments under the Hong Kong Employment Ordinance in the event of the termination of their employment. The Group is liable to make such payments in the event that such a termination of employment meets the circumstances specified in the Employment Ordinance.

A contingent liability is disclosed in respect of possible future long service payments to employees under the Employment Ordinance. A provision has not been recognised in respect of such possible payments, as it is not considered probable that the situation will result in a material future outflow of resources from the Group.

Pension schemes

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. 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.

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute 8% to 20% of their payroll costs to the central pension scheme. Subsidiaries in Singapore and Thailand are required to contribute 16% and 5% of their payroll costs to their defined contribution retirement benefits schemes, respectively.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) *Employee benefits (continued)*

Share option scheme

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The financial impact of share options granted under the share option scheme is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

(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) from 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 rate applicable; and
- (iv) dividend income, when the shareholders' right to receive payment has been established.

(p) *Borrowing costs*

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. Where funds have been borrowed generally, and used for the purpose of obtaining qualifying assets, a capitalisation rate ranging between 3% and 12% has been applied to the expenditure on the individual assets.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) *Dividends*

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the capital and reserves section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

(r) *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.

(s) *Cash and cash equivalents*

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

Prior to the adoption of the revised SSAP 15 during the year, as explained in note 2 to the financial statements, cash equivalents in the consolidated cash flow statement also included advances from banks repayable within three months from the date of the advance, in addition to bank overdrafts. This change in definition has resulted in a prior year adjustment relating to trust receipt loans, further details of which are included in note 27(a) to the financial statements.

For the purpose of the balance sheet, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

4. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments. Summary details of the business segments are as follows:

- (a) the printed circuits boards ("PCB") segment engages in the manufacture and sale of double-sided and multi-layered PCBs mainly for use in the communication/networking sector including the mobile products, computers and peripherals sectors, the automotive sector and other electronic products;
- (b) the liquid crystal displays ("LCD") segment engages in the manufacture and sale of various LCDs and LCD modules and accessories, mainly for use in telecommunications, automotive, multi-media and electrical appliances;
- (c) the magnetic products ("Magnetic") segment engages in the manufacture and sale of magnetic products, including transformers, converters, power products and noise filters used in telecommunications, broadband access and local area networks;
- (d) the information technology ("IT") segment provides information technology consultancy and software development services; and
- (e) the corporate and other segment includes unallocated general corporate income and expense items.

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

Inter-segment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

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4. SEGMENT INFORMATION (continued)

(a) Business segments

The following tables present revenue, profit and certain assets, liability and expenditure information for the Group's business segments.

Year ended 30 June 2003

Group	PCB HK\$'000	LCD HK\$'000	Magnetic HK\$'000	IT HK\$'000	Corporate and Other HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
Segment revenue:							
Sales to external customers	1,910,990	239,508	106,861	354	-	-	2,257,713
Inter-segment sales	-	-	-	-	-	-	-
Other revenue	-	-	-	-	3,833	(3,833)	-
Total	1,910,990	239,508	106,861	354	3,833	(3,833)	2,257,713
Segment results	142,743	25,497	11,181	(5,514)	(34,018)	-	139,889
Interest income							635
Unallocated expenses							(364)
Profit from operating activities							140,160
Finance costs							(23,024)
Share of losses of jointly-controlled entities	-	-	-	(547)	(241)	-	(788)
Profit before tax							116,348
Tax							(8,146)
Profit before minority interests							108,202
Minority interests							(69,434)
Net profit from ordinary activities attributable to shareholders							38,768
Segment assets/(liabilities)	2,684,579	223,757	53,471	1,236	(42,972)	-	2,920,071
Interests in jointly-controlled entities	-	-	-	9,044	376	-	9,420
Bank overdrafts included in segment assets	259	7,433	-	-	71,240	-	78,932
Unallocated assets							1,600
Total assets							3,010,023
Segment liabilities	486,993	60,667	17,759	822	14,527	-	580,768
Bank overdrafts included in segment assets	259	7,433	-	-	71,240	-	78,932
Unallocated liabilities							727,400
Total liabilities							1,387,100
Other segment information:							
Capital expenditure	166,101	23,375	4,312	9	1,659	-	195,456
Depreciation and amortisation	192,324	17,269	3,887	4	680	-	214,164
Provision/(write-back of provision) for obsolete inventories	(560)	801	1,437	-	-	-	1,678
Provision/(write-back of provision) for doubtful debts	11,918	(178)	(617)	-	-	-	11,123
Loss on disposal of fixed assets	988	-	1	-	1	-	990
Loss on deemed disposal of interests in subsidiaries	364	-	-	-	-	-	364
Write back of provision for management bonus	-	-	-	-	-	-	-
Impairment of fixed assets	-	-	-	-	-	-	-

4. SEGMENT INFORMATION (continued)

(a) Business segments (continued)

Year ended 30 June 2002

Group	PCB HK\$'000	LCD HK\$'000 (Restated)	Magnetic HK\$'000	IT HK\$'000	Corporate and Other HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000 (Restated)
Segment revenue:							
Sales to external customers	1,904,242	216,394	102,562	456	-	-	2,223,654
Inter-segment sales	-	-	-	1,145	-	(1,145)	-
Other revenue	-	-	279	-	4,964	(4,531)	712
Total	1,904,242	216,394	102,841	1,601	4,964	(5,676)	2,224,366
Segment results	220,775	12,288	6,162	(11,562)	(18,178)	-	209,485
Interest income							1,191
Unallocated expenses							(2,813)
Profit from operating activities							207,863
Finance costs							(23,339)
Share of losses of jointly-controlled entities	-	-	-	(904)	-	-	(904)
Profit before tax							183,620
Tax							(30,329)
Profit before minority interest							153,291
Minority interests							(105,819)
Net profit from ordinary activities attributable to shareholders							47,472
Segment assets/(liabilities)	2,504,674	198,833	52,108	1,024	(640)	-	2,755,999
Interests in jointly-controlled entities	-	-	-	9,651	-	-	9,651
Bank overdrafts included in segment assets	278	-	-	-	28,283	-	28,561
Unallocated assets							1,570
Total assets							2,795,781
Segment liabilities	367,978	40,800	15,444	287	15,545	-	440,054
Bank overdrafts included in segment assets	278	-	-	-	28,283	-	28,561
Unallocated liabilities							684,674
Total liabilities							1,153,289
Other segment information:							
Capital expenditure	175,340	5,075	2,255	107	478	-	183,255
Depreciation and amortisation	217,698	17,579	4,034	542	498	-	240,351
Provision/(write-back of provision) for obsolete inventories	(6,558)	4,291	1,076	-	-	-	(1,191)
Provision/(write-back of provision) for doubtful debts	(8,368)	4,841	2,103	-	-	-	(1,424)
Loss on disposal of fixed assets	234	600	36	1,713	4	-	2,587
Loss on deemed disposal of interests in subsidiaries	2,813	-	-	-	-	-	2,813
Write back of provision for management bonus	(15,274)	-	-	-	-	-	(15,274)
Impairment of fixed assets	-	-	-	959	-	-	959

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4. SEGMENT INFORMATION (continued)

(b) Geographical segments

The following table presents revenue and certain asset and expenditure information for the Group's geographical segments.

Year ended 30 June 2003

Group			Mainland		North & Central			Other	Consolidated
	Hong Kong	Singapore	China	Malaysia	Thailand	America	Europe	countries	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:									
Sales to external customers	310,364	156,059	511,607	381,777	70,267	162,624	483,680	181,335	2,257,713
Other geographical information:									
Segment assets	777,971	3,433	1,805,587	506	338,075	3,919	-	-	2,929,491
Bank overdrafts included in segment assets	78,673	-	-	-	259	-	-	-	78,932
Unallocated assets									1,600
									3,010,023
Capital expenditure	4,560	104	126,266	-	64,483	43	-	-	195,456

4. SEGMENT INFORMATION (continued)

(b) Geographical segments (continued)

Year ended 30 June 2002

Group	Hong Kong	Singapore	Mainland China	Malaysia	North & Central Thailand	America	Europe	Other countries	Consolidated
	HK\$'000 (Restated)	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000 (Restated)
Segment revenue:									
Sales to external customers	276,199	175,206	249,293	502,876	62,888	321,198	492,052	143,942	2,223,654
Other geographical information:									
Segment assets	732,581	4,953	1,732,870	-	292,980	2,266	-	-	2,765,650
Bank overdrafts included in segment assets	28,455	-	-	-	106	-	-	-	28,561
Unallocated assets									1,570
									2,795,781
Capital expenditure	20,249	142	158,735	-	3,725	404	-	-	183,255

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5. TURNOVER AND REVENUE

Turnover represents the net invoiced value of sales during the year, after allowance for returns and trade discounts, and 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	
	2003 HK\$'000	2002 HK\$'000
Turnover:		
Sales of goods	2,257,359	2,223,198
Service fee income	354	456
	2,257,713	2,223,654
Other revenue:		
Interest income	635	1,191
Other	–	712
	635	1,903
	2,258,348	2,225,557

6. PROFIT FROM OPERATING ACTIVITIES

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

	<i>Notes</i>	Group	
		2003	2002
		HK\$'000	HK\$'000
Depreciation	13	213,265	239,586
Amortisation of intangible assets*	14	899	765
Minimum lease payments under operating leases in respect of land and buildings		10,463	12,951
Auditors' remuneration		3,004	2,623
Staff costs (including directors' remuneration, note 8):			
Wages and salaries		354,875	345,587
Pension scheme contributions		16,937	14,483
Less: Forfeited contributions		(328)	(562)
Net pension contributions		16,609	13,921
Total staff costs		371,484	359,508
Provision/(write back of provision) for obsolete inventories		1,678	(1,191)
Provision/(write back of provision) for doubtful debts		11,123	(1,424)
Impairment of fixed assets**		–	959
Loss on disposal of fixed assets		990	2,587
Loss on deemed disposal of interests in subsidiaries		364	2,813
Write back of provision for management bonus		–	(15,274)
Exchange gains, net		(1,117)	(1,239)

* The amortisation of intangible assets for the year is included in "Cost of sales" on the face of the consolidated profit and loss account.

** The impairment of fixed assets in the prior year was included in "Other operating expenses" on the face of the consolidated profit and loss account.

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7. FINANCE COSTS

	Group	
	2003 HK\$'000	2002 HK\$'000
Interest on bank loans, overdrafts and other borrowings wholly repayable within five years	23,024	33,413
Less: Interest capitalised	–	(10,074)
	23,024	23,339

8. 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	
	2003 HK\$'000	2002 HK\$'000
Fees:		
Executive and non-executive directors	760	534
Independent non-executive directors	895	480
	1,655	1,014
Other emoluments:		
Salaries, allowances and benefits in kind	11,726	11,579
Performance related bonuses	305	304
Pension scheme contributions	564	631
	12,595	12,514
Total directors' remuneration	14,250	13,528

There were no other emoluments payable to the independent non-executive directors during the year (2002: Nil).

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

The number of directors whose remuneration fell within the following bands is as follows:

	Number of directors	
	2003	2002
Nil – HK\$1,000,000	3	2
HK\$1,500,001 – HK\$2,000,000	3	1
HK\$2,000,001 – HK\$2,500,000	–	1
HK\$2,500,001 – HK\$3,000,000	3	3
	9	7

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

During the year, 46,000,000 and 1,400,000 share option were granted by the Company and Elec & Eltek International Company Limited (“EEICL”), respectively, to the directors in respect of their services to the Group, further details of which are set out in note 24 to the financial statements. No value in respect of the share options granted during the year has been charged to the profit and loss account, or is otherwise included in the above directors' remuneration disclosures.

The five highest paid employees during the year included five (2002: four) directors, details of whose remuneration are set out above. The details of the remuneration of the remaining one non-director, highest paid employee in the prior year were as follows:

	Group
	2002
	HK\$'000
Salaries, allowances and benefits in kind	1,773
Performance related bonuses	142
Pension scheme contributions	96
	2,011

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9. TAX

	Group	
	2003 HK\$'000	2002 HK\$'000
Current year's provision for tax:		
The People's Republic of China:		
Hong Kong	3,307	16,181
Mainland	5,465	13,360
Overseas	430	555
Deferred tax – note 22	(1,056)	233
Tax charge for the year	8,146	30,329

Hong Kong profits tax has been provided at the rate of 17.5% (2002: 16.0%) 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.

10. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net profit from ordinary activities attributable to shareholders for the year ended 30 June 2003 dealt with in the financial statements of the Company was HK\$50,216,000 (2002: HK\$52,888,000).

11. DIVIDENDS

	Group	
	2003 HK\$'000	2002 HK\$'000
Interim dividend of 1.5 cents (2002: 1.0 cent) per ordinary share	17,627	11,751
Proposed final dividend of 1.5 cents (2002: 1.5 cents) per ordinary share	17,904	17,626
	35,531	29,377

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

12. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit attributable to shareholders for the year of HK\$38,768,000 (2002: HK\$47,472,000) and the weighted average of 1,175,939,970 (2002: 1,175,062,408) 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\$38,762,000 (2002: HK\$47,364,000) and the weighted average of 1,177,849,014 (2002: 1,175,062,408) 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\$38,768,000 (2002: HK\$47,472,000) less the dilution in the results of EEICL attributable to the Group by HK\$6,000 (2002: HK\$108,000) arising from the deemed exercise of all of the outstanding share options of EEICL.

The weighted average number of ordinary shares used in the calculation of diluted earnings per share is calculated based on the weighted average of 1,175,939,970 (2002: 1,175,062,408) ordinary shares in issue during the year plus the weighted average of 1,909,044 (2002: Nil) ordinary shares deemed to be issued at no consideration as if all of the Company's outstanding share options have been exercised.

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13. FIXED ASSETS

Group

	1 July 2002 HK\$'000	Currency realignment HK\$'000	Additions HK\$'000	Disposals HK\$'000	Reclassi- fications HK\$'000	30 June 2003 HK\$'000
Cost:						
Land and buildings	604,780	(3,674)	16,739	–	19,388	637,233
Improvements to leasehold properties	152,507	(166)	7,182	(28)	969	160,464
Construction in progress	118,296	(731)	20,518	–	(53,330)	84,753
Plant and machinery	1,863,367	(11,604)	140,721	(25,257)	32,915	2,000,142
Furniture and office equipment	224,747	(624)	7,047	(4,838)	58	226,390
Motor vehicles	17,562	(84)	3,249	(627)	–	20,100
	2,981,259	(16,883)	195,456	(30,750)	–	3,129,082
Accumulated depreciation and impairment:						
Land and buildings	112,570	(707)	17,453	–	–	129,316
Improvements to leasehold properties	84,672	(27)	9,947	(24)	–	94,568
Plant and machinery	914,917	(8,216)	166,429	(24,422)	–	1,048,708
Furniture and office equipment	126,163	(558)	17,597	(4,588)	–	138,614
Motor vehicles	13,262	(66)	1,839	(382)	–	14,653
	1,251,584	(9,574)	213,265	(29,416)	–	1,425,859
Net book value	1,729,675					1,703,223

13. FIXED ASSETS (continued)

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

	People's Republic of China		Overseas HK\$'000	Total HK\$'000
	Hong Kong HK\$'000	Mainland HK\$'000		
Freehold	–	–	176,844	176,844
Medium term leasehold	103,556	356,833	–	460,389
	103,556	356,833	176,844	637,233

14. INTANGIBLE ASSETS

	Group HK\$'000
Cost:	
At beginning of year	3,820
Additions	2,973
Currency realignment	(2)
Balance at end of year	6,791
Accumulated amortisation:	
At beginning of year	1,852
Provided during the year	899
Balance at end of year	2,751
Net book value:	
At 30 June 2003	4,040
At 30 June 2002	1,968

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15. INTERESTS IN SUBSIDIARIES

	Company	
	2003 HK\$'000	2002 HK\$'000
Shares at cost:		
Listed in Singapore	646,393	646,393
Unlisted	287,232	287,232
	933,625	933,625
Due from subsidiaries	428,645	428,645
Due to subsidiaries	(241,127)	(317,679)
	1,121,143	1,044,591
Provisions for impairment	(485,423)	(440,026)
	635,720	604,565
Market value of listed shares at balance sheet date	1,120,371	1,203,233

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\$100,000	–	100	Sale of liquid crystal displays ("LCDs")
Elec & Eltek Display Technology (Guangzhou) Company Limited	Mainland China #	US\$14,700,000	–	98	Manufacture and sale of LCDs

15. 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	Mainland 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
Elec & Eltek International Company Limited (“EEICL”)	Singapore	S\$116,850,718	52	–	Investment holding

15. 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 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	Mainland China #	US\$11,650,000	–	47*	Manufacture and distribution of PCBs
Kaiping Elec & Eltek No.2 Company Limited	Mainland China #	US\$15,250,000	–	47*	Manufacture and distribution of PCBs
Kaiping Elec & Eltek No.3 Company Limited	Mainland China #	US\$30,550,000	–	47*	Manufacture and distribution of PCBs
Elec & Eltek (Guangzhou) Electronic Company Limited	Mainland China @	US\$35,730,000	–	51	Manufacture and distribution of PCBs
Elec & Eltek (Guangzhou) Technology Company Limited	Mainland China @	US\$6,000,000	–	51	Research and development, manufacture and distribution of PCBs
Guangzhou Elec & Eltek Microvia Technology Limited	Mainland China @	US\$12,800,000	–	51	Manufacture and distribution of PCBs
Guangzhou Elec & Eltek High Density Interconnect Technology No. 1 Company Limited	Mainland China @	US\$13,150,000	–	51	Manufacture and distribution of PCBs

15. 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	
Nanjing Elec & Eltek Electronic Co., Ltd.	Mainland China #	US\$8,752,000	–	38*	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 raw materials
Shenzhen Pacific Insulating Material Co., Ltd.	Mainland China #	RMB67,491,458	–	48*	Manufacture and distribution of PCB raw materials
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
Elec & Eltek Technology Research & Marketing Pte Ltd.	Singapore	S\$2	–	52	Technology research and marketing

* 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 co-operative 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.

16. INTERESTS IN JOINTLY-CONTROLLED ENTITIES

	Group	
	2003 HK\$'000	2002 HK\$'000
Share of net assets	9,318	9,651
Due from a jointly-controlled entity	102	–
	9,420	9,651

The amount due from a jointly-controlled entity is unsecured, interest-free and has no fixed terms of repayment.

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

Name of company	Business structure	Place of registration and operations	ownership interest	Percentage of voting power		profit sharing	Principal activities
Beijing Yilaida Information Technology Company Limited ("Yilaida")*	Equity joint venture	Mainland China	57	57	#	57	Promotion of information technology
Guangzhou Express Logistics Limited*	Equity joint venture	Mainland China	49	49		49	Provision for logistics services

* Not audited by Ernst & Young Hong Kong or other Ernst & Young Global member firms.

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

17. INVENTORIES

	Group	
	2003 HK\$'000	2002 HK\$'000
Raw materials	146,624	135,843
Work in progress	78,596	59,858
Finished goods	37,223	46,679
	262,443	242,380

The amount of inventories carried at net realisable value included in the above is HK\$14,833,000 (2002: HK\$15,891,000).

18. TRADE RECEIVABLES

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

	Group	
	2003 HK\$'000	2002 HK\$'000
Within credit period	526,140	467,793
Overdue 1-30 days	91,866	72,087
Overdue 31-60 days	40,323	25,755
Overdue 61-90 days	16,704	10,680
Overdue more than 90 days	16,237	6,679
	691,270	582,994

The Group operates a credit control policy and allows an average credit period of 30 to 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 set up credit control departments to minimise credit risk. Overdue balances are regularly reviewed by senior management.

19. CASH AND CASH EQUIVALENTS

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Cash and bank balances	164,147	127,633	1,562	874
Time deposits	39,905	5,896	–	–
	204,052	133,529	1,562	874

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi (“RMB”) and Baht (“THB”) amounted to HK\$49,408,000 (2002: HK\$56,885,000) and HK\$5,516,000 (2002: HK\$5,208,000), respectively. The RMB and THB are not freely convertible into other currencies. However, under Mainland China’s Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations and Thailand’s foreign exchange regulations, respectively, the Group is permitted to exchange RMB and THB for other currencies through banks authorised to conduct foreign exchange business.

20. TRADE AND BILLS PAYABLE

An aged analysis of trade and bills payable at the balance sheet date, based on the invoice date, is as follows:

	Group	
	2003 HK\$'000	2002 HK\$'000
Less than 30 days	191,865	131,193
31-60 days	90,653	87,537
61-90 days	77,018	56,378
Over 90 days	101,417	41,790
	460,953	316,898

21. BANKING FACILITIES

	Group	
	2003 HK\$'000	2002 HK\$'000
Trust receipt and export loans	7,879	4,199
Bank overdrafts	78,932	28,561
Bank loans	701,838	650,232
	788,649	682,992

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

	Group	
	2003 HK\$'000	2002 HK\$'000
Within one year:		
Trust receipt loans and export loans	7,879	4,199
Bank overdrafts	78,932	28,561
Bank loans	383,134	218,900
	462,066	247,461
In the second year:		
Bank loans	213,399	172,100
In the third to fifth years, inclusive:		
Bank loans	105,305	259,232
	788,649	682,992
Portion classified as current liabilities	(469,945)	(251,660)
Long term portion	318,704	431,332

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22. DEFERRED TAX

	Group	
	2003 HK\$'000	2002 HK\$'000
Balance at beginning of year	12,498	12,242
Charge for the year – note 9	(1,056)	233
Exchange realignment	–	23
At balance sheet date	11,442	12,498

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 17.5% (2002: 16.0%) on the cumulative timing differences at the balance sheet date, are as follows:

	Provided		Not provided	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Accelerated depreciation allowances	(11,442)	(12,498)	(2,858)	(9,016)
Tax losses available for future relief	–	–	74,341	43,833
Deferred tax assets/(liabilities)	(11,442)	(12,498)	71,483	34,817

The Company had no unprovided deferred tax at the balance sheet date (2002: Nil).

23. SHARE CAPITAL**Shares**

	2003 HK\$'000	2002 HK\$'000
Authorised:		
2,500,000,000 (2002: 2,500,000,000) ordinary shares of HK\$0.10 each	250,000	250,000
Issued and fully paid:		
1,193,612,408 (2002: 1,175,062,408) ordinary shares of HK\$0.10 each	119,361	117,506

During the year, the subscription rights attaching to 18,550,000 share options were exercised at the subscription price of HK\$0.91 per share (note 24), resulting in the issue of 18,550,000 shares of HK\$0.10 each for a total cash consideration, before expenses, of HK\$16,881,000.

Movements in the Company's issued ordinary share capital are summarised as follows:

	Number of shares in issue	Issued share capital HK\$'000	Share premium account HK\$'000	Total HK\$'000
At 1 July 2001, 30 June 2002 and 1 July 2002	1,175,062,408	117,506	36,444	153,950
Share options exercised	18,550,000	1,855	15,026	16,881
At 30 June 2003	1,193,612,408	119,361	51,470	170,831

Share options

Details of the Company's share option scheme and the share options issued under the scheme are included in note 24 to the financial statements.

24. EMPLOYEES' SHARE OPTION SCHEMES

SSAP 34 was adopted during the year, as explained in note 2 and under the heading "Employee benefits" in note 3 to the financial statements. As a result, the following detailed disclosures relating to the Group's employees' share option schemes are now included in the notes to the financial statements. In the prior year, these disclosures were included in the Report of the Directors, as their disclosure is also a requirement of the Listing Rules.

(a) Employees' share option scheme of the Company

On 29 October 2001, the Company adopted the existing employees' share option scheme (the "Scheme") under which the directors may, at their discretion, at any time during a period of five years from the date of adoption, offer options to full-time employees, executive directors and non-executive directors of the Company or any of its subsidiaries or associated companies to subscribe for the shares of the Company according to the terms of the Scheme. The Scheme is implemented for the purpose of attracting, retaining and motivating talented employees to strive towards long-term performance targets set by the Company and the Group. The Scheme became effective on 29 October 2001 and, unless otherwise cancelled or amended, will remain in force for five years from that date.

Pursuant to the Scheme, the maximum number of shares upon which options may be granted when aggregated with those granted under any other share option scheme of the Company in issue may not exceed 117,506,240 shares, representing 9.84% of the issued share capital of the Company as at 30 June 2003. The maximum entitlement for any one participant is that the shares issued and issuable upon exercise of options granted in any 12 month period may not exceed 1% of the Company's share capital in issue.

The subscription price for a share in respect of an option is determined by the directors at their absolute discretion and is the highest of (i) the closing price of the shares as stated in the daily quotation sheets of The Stock Exchange of Hong Kong Limited ("Stock Exchange") on the date of offer; (ii) the average of the closing prices of the shares as stated in the above daily quotation sheets for the five business days immediately preceding the date of offer; and (iii) the nominal value of a share.

The exercise period of an option is determined and notified by the directors to each participant and commences not earlier than six months and expires not later than ten years from the date of grant of that option. The option may be accepted within 28 days from the date of offer upon payment of HK\$1.00 as nominal consideration by the participant.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

24. EMPLOYEES' SHARE OPTION SCHEMES (continued)

(a) *Employees' share option scheme of the Company (continued)*

The following share options were outstanding under the Scheme during the year:

Category of participant (In aggregate)	Number of outstanding share options				At 30 June 2003	Date of grant*	Exercise period	Exercise price** HK\$	Closing price	Weighted average closing price
	At 1 July 2002	Granted during the year	Exercised during the year	Lapsed during the year					immediately preceding the date of grant*** HK\$	immediately preceding the date of exercise**** HK\$
Directors	-	35,000,000	(10,000,000)	-	25,000,000	30 July 2002	30 Jan 2003 to 29 July 2004	0.91	0.88	1.16
	-	5,500,000	-	-	5,500,000	7 May 2003	7 May 2005 to 6 May 2006	1.13	1.13	-
	-	5,500,000	-	-	5,500,000	7 May 2003	7 May 2006 to 6 May 2007	1.13	1.13	-
Sub-total	-	46,000,000	(10,000,000)	-	36,000,000					
Other employees	-	15,000,000	(8,550,000)	(290,000)	6,160,000	30 July 2002	30 Jan 2003 to 29 July 2004	0.91	0.88	1.16
Total	-	61,000,000	(18,550,000)	(290,000)	42,160,000					

* The vesting period of the share options is from the date of the grant until the commencement of the exercise period.

** The exercise price of the share options is subject to adjustment in the case of rights issue or bonus issue, or other similar changes in the Company's share capital.

*** The price of the Company's shares disclosed is the Stock Exchange closing price on the trading day immediately prior to the date of grant of the share options.

**** The price of the Company's shares disclosed is the Stock Exchange weighted average closing prices on the trading days immediately prior to the date of exercise over all of the exercises of share options within the disclosure category.

The exercise of 18,550,000 share options during the year resulted in the issue of 18,550,000 ordinary shares of the Company and new share capital of HK\$1,855,000 and share premium of HK\$15,026,000 (before issue expenses), as detailed in note 23 to the financial statements.

24. EMPLOYEES' SHARE OPTION SCHEMES (continued)*(a) Employees' share option scheme of the Company (continued)*

At the balance sheet date, the Company had 42,160,000 share options outstanding under the Scheme. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 42,160,000 additional ordinary shares of the Company and additional share capital of HK\$4,216,000 and share premium of HK\$36,570,000 (before issue expenses).

(b) Employees' share option scheme of EEICL

On 12 November 2002, EEICL adopted its existing employees' share option scheme (the "2002 EEICL Scheme") under which the committee authorised by EEICL's directors (the "Committee") may, at its discretion, at any time during a period of five years from the date of adoption offer options to full-time employees and directors of EEICL and its subsidiaries, the Company and its subsidiaries, or an associated company of EEICL to subscribe for the shares of EEICL ("EEICL Shares") according to the terms of the 2002 EEICL Scheme. The 2002 EEICL Scheme has been implemented for the purpose of attracting, retaining and motivating talented directors and employees to strive towards long-term performance targets and allowing the participants to enjoy the results of the Company. The 2002 EEICL Scheme became effective on 12 November 2002 and, unless otherwise cancelled or amended, will remain in force for five years from that date.

Pursuant to the 2002 EEICL Scheme, the maximum number of EEICL Shares upon which options may be issued upon exercise of all options to be granted under the 2002 EEICL Scheme and any other option schemes of EEICL shall not in aggregate exceed 14,602,539 shares, representing 9.997% of the total number of EEICL Shares in issue as at 30 June 2003. The total number of EEICL Shares issued and to be issued upon exercise of the options granted to each participant (including both exercised and outstanding options) in any 12 month period must not exceed 1% of the total number of EEICL Shares in issue from time to time.

The exercise period of an option is determined and notified by the Committee to each participant. Options in respect of which the subscription price for an EEICL Share is fixed at the higher of (i) the average of the closing prices of EEICL Shares for the last five market days immediately preceding the relevant date of grant or (ii) the nominal value of EEICL Shares (the "Subscription Price"), will have an option period commencing on a date not earlier than the first anniversary date and ending on a date not later than five years after the date of grant. The Committee has the discretion to grant options with up to a 20% discount to the Subscription Price subject to a more remote exercise period commencing on a date not earlier than the second anniversary date and ending on a date not later than five years after the date of grant. Options may be accepted within 30 days from the date of offer upon payment of S\$1.00 as nominal consideration by the participant.

Upon adoption of the 2002 EEICL Scheme, the previous employees' share option schemes (collectively the "Previous EEICL Schemes") was terminated by the directors of EEICL simultaneously.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

24. EMPLOYEES' SHARE OPTION SCHEMES (continued)

(b) Employees' share option scheme of EEICL (continued)

The following share options were outstanding under the 2002 EEICL Scheme and the Previous EEICL Schemes during the year:

Category of participant (In aggregate)	At 1 July 2002	Number of outstanding share options			At 30 June 2003	Date of grant#	Exercise period	Exercise price## US\$	Closing price immediately preceding the date of grant### US\$	Weighted average closing price immediately preceding the date of exercise#### US\$
		Granted during the year	Exercised during the year	Lapsed during the year						
Directors	255,600	-	-	(255,600)	-	9 Apr 1998	10 Apr 1999 to 8 Apr 2003	4.83	-	-
	276,000	-	-	-	276,000	19 Apr 1999	20 Apr 2000 to 18 Apr 2004	3.10	-	-
	-	700,000	-	-	700,000	7 May 2003	8 May 2005 to 6 May 2006	1.45	1.86	-
	-	700,000	-	-	700,000	7 May 2003	8 May 2006 to 6 May 2007	1.45	1.86	-
Sub-total	531,600	1,400,000	-	(255,600)	1,676,000					
Other employees	544,800	-	-	(544,800)	-	9 Apr 1998	10 Apr 1999 to 8 Apr 2003	4.83	-	-
	650,400	-	-	(93,600)	556,800	19 Apr 1999	20 Apr 2000 to 18 Apr 2004	3.10	-	-
	89,500	-	(88,000)	(1,100)	400	25 May 2000	26 May 2001 to 24 May 2005	1.31	-	1.94
Sub-total	1,284,700	-	(88,000)	(639,500)	557,200					
Total	1,816,300	1,400,000	(88,000)	(895,100)	2,233,200					

The vesting period of the share options is from the date of the grant until the commencement of the exercise period.

The exercise price of the share options is subject to adjustment in the case of rights issue or bonus issue, or other similar changes in EEICL's share capital.

The price of EEICL's shares disclosed is the closing price on Singapore Exchange Securities Trading Limited (the "Singapore Exchange") on the trading day immediately prior to the date of grant of the share options.

The price of EEICL's shares disclosed is the Singapore Exchange weighted average closing prices on the trading days immediately prior to the date of exercise over all of the exercises of share options within the disclosure category.

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25. RESERVES*(a) Group*

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 39 of the financial statements.

Included in the category "Statutory and other reserves" is a reserve which arises pursuant to the relevant laws and regulations in Mainland China whereby a portion of the profits of the Group's subsidiaries registered in Mainland China is transferred to a separate reserve which is restricted as to its use. Pursuant to the approval by the board of directors of a subsidiary registered in Mainland China, an amount of HK\$283,000 (2002: Nil) was transferred from retained profits during the year. Also included is a statutory reserve required under the company law of Thailand.

As detailed in note 3 to the financial statements, on the adoption of SSAP 30, the Group applied the transitional provisions of SSAP 30 that permitted goodwill in respect of acquisitions which occurred prior to 1 July 2001, to remain eliminated against consolidated reserves.

The amount of the goodwill remaining in consolidated reserves as at 30 June 2003, arising from the acquisition of subsidiaries prior to 1 July 2001, is as follows:

Group

	Goodwill eliminated against consolidated retained profits HK\$'000
Cost:	
At beginning of year	290,758
Deemed disposal of interests in subsidiaries	(157)
At 30 June 2003	290,601
Accumulated impairment:	
At beginning of year and at 30 June 2003	26,026
Net amount:	
At 30 June 2003	264,575
At 30 June 2002	264,732

25. RESERVES (continued)

(b) Company

	<i>Notes</i>	Share premium account HK\$'000	Capital redemption reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1 July 2001		36,444	26,178	144,949	207,571
Net profit from ordinary activities attributable to shareholders		–	–	52,888	52,888
Interim 2002 dividend	11	–	–	(11,751)	(11,751)
Proposed final 2002 dividend	11	–	–	(17,626)	(17,626)
At 30 June 2002 and 1 July 2002		36,444	26,178	168,460	231,082
Issue of shares on exercise of share options	23	15,026	–	–	15,026
Net profit from ordinary activities attributable to shareholders		–	–	50,216	50,216
Interim 2003 dividend	11	–	–	(17,627)	(17,627)
Proposed final 2003 dividend	11	–	–	(17,904)	(17,904)
At 30 June 2003		51,470	26,178	183,145	260,793

26. CONTRIBUTED SURPLUS

(a) Group

The contributed surplus of the Group arose from a reorganisation on 21 June 1989 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.

(b) Company

The contributed surplus of the Company arose from the reorganisation referred to in note 26(a). 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.

27. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Prior year adjustments

SSAP 15 (Revised) was adopted during the current year, as detailed in note 2 to the financial statements, which has resulted in a change to the layout of the consolidated cash flow statement. The consolidated cash flow statement is now presented under three headings: cash flows from operating activities, investing activities and financing activities. Previously five headings were used, comprising the three headings listed above, together with cash flows from returns on investments and servicing of finance and from taxes paid. The significant reclassifications resulting from the change in presentation are that taxes paid, interest received and interest paid are now included in cash flows from operating activities and dividends paid are now included in cash flows from financing activities. The presentation of the 2002 comparative consolidated cash flow statement has been changed to accord with the new layout.

Also, the definition of “cash equivalents” under the revised SSAP 15 has been revised from that under the previous SSAP 15, as explained under the heading “Cash and cash equivalents” in note 3 to the financial statements. This has resulted in trust receipt loans no longer qualifying as cash equivalents. The amount of cash equivalents in the consolidated cash flow statement at 30 June 2002 has been adjusted to remove trust receipt loans amounting to HK\$3,648,000, previously included at that date. The year’s movement in trust receipt loans is now included in cash flows from financing activities and the comparative cash flow statement has been changed accordingly.

(b) Disposal of a subsidiary

	2003 HK\$'000	2002 HK\$'000
Net assets disposal of:		
Fixed assets	–	4
Prepayments, deposits and other receivables	–	4,559
Other payables and accruals	–	(2,932)
Release of exchange reserve	–	(133)
	–	1,498
Satisfied by:		
Cash	–	1,498

The results of the subsidiary disposed of in the year ended 30 June 2002 had no significant impact on the Group’s consolidated turnover or profit before minority interests for that year.

28. COMMITMENTS

	Group	
	2003 HK\$'000	2002 HK\$'000
Capital commitments:		
Contracted, but not provided for	42,088	34,666
Authorised, but not contracted for	–	19,078
	42,088	53,744
Contracted, but not provided for, capital contributions payable to:		
A jointly-controlled entity	2,916	3,430
Subsidiaries	421,741	280,215
	466,745	337,389

	Group	
	2003 HK\$'000	2002 HK\$'000
Future guaranteed profit payment to minority shareholders pursuant to joint venture agreements	19,878	22,849

Capital commitments at the balance sheet date included contracted for commitments of HK\$42,088,000 (2002: HK\$34,666,000) in relation to the acquisition of property, plant and equipment. In the prior year, commitments authorised, but not contracted for, in this regard amounted to HK\$19,078,000.

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to five years.

At 30 June 2003, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2003 HK\$'000	2002 HK\$'000
Within one year	5,333	6,934
In the second to fifth years, inclusive	3,320	3,599
	8,653	10,533

At the balance sheet date, the Company had no commitments (2002: Nil).

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29. CONTINGENT LIABILITIES

- (a) 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. At the balance sheet date, these banking facilities were utilised by the subsidiaries to the extent of approximately HK\$411 million (2002: HK\$434 million).
- (b) The Group has a contingent liability in respect of possible future long service payments to employees under the Hong Kong Employment Ordinance, with a maximum possible amount of HK\$2,602,000 as at 30 June 2003, as further explained under the heading "Employee benefits" in note 3 to the financial statements. The contingent liability has arisen because, at the balance sheet date, a number of current employees have achieved the required number of years of service to the Group in order to be eligible for long service payments under the Employment Ordinance if their employment is terminated under certain circumstances. A provision has not been recognised in respect of such possible payments, as it is not considered probable that the situation will result in a material future outflow of resources from the Group.

30. RELATED PARTY TRANSACTIONS

The Group had the following material transactions with related parties during the year:

	Group	
	2003 HK\$'000	2002 HK\$'000
Purchases of raw materials from a substantial shareholder	14,703	125
Subcontracting fees paid to a substantial shareholder	1,603	–

The considerations for the above transactions were determined by reference to the prevailing market price for the relevant types of transaction.

31. POST BALANCE SHEET EVENT

On 14 August 2003, the Group contributed a further US\$2,500,000 (approximately HK\$19,495,000) of capital in Elec & Eltek (Guangzhou) Electronic Company Limited for the purpose of additional working capital.

32. COMPARATIVE AMOUNTS

As further explained in note 2 to the financial statements, due to the adoption of certain new and revised SSAPs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain prior year adjustments have been made and certain comparative amounts have been reclassified to conform with the current year's presentation.

33. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 10 September 2003.