

MANAGEMENT DISCUSSION AND ANALYSIS

Segmental information

A table showing the contribution to profit before tax from each of the four business segments and the share of profits of associates and a jointly controlled entity is set out in note 2 to the financial statements. Turnover and profit for the PCB and Magnetic Products Businesses decreased due to economic situation as mentioned above. The LCD Business has benefitted by the restructuring exercise as both profit and turnover improved.

Total interest expenses for the Period increased mainly due to the interest paid on a HK\$400 million loan borrowed to finance the acquisition of additional shares in Elec & Eltek International Company Limited (“EEICL”) under the partial offer on 15 June 2001.

The consolidated profit and loss account for the Previous Period only equity accounted for the proportionate share of the results of EEICL as the Group owned 43.652% equity interest in EEICL. Due to the increase of investment up to 52.15% upon the completion of the partial offer last year, the Group has consolidated the result of the PCB Business this Period.

Operating performance of the PCB Business for the six months ended 31 December:

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
REVENUE		
External sales	990,549	1,477,496
RESULTS		
Profit before interest income	113,206	288,131
Interest income	498	2,402
Profit from operating activities	113,704	290,533
Finance cost	(2,871)	(9,654)
Profit before tax	110,833	280,879
RECONCILIATIONS:		
Profit before tax attributable to the Group for the Period	N/A	122,608
Less: Minority interest and consolidation adjustments	N/A	(9,711)
Share of profits of associates (Note 2)	N/A	112,897

Treasury policy and exposures to fluctuation in interest and exchange rates

In the period under review and for the coming six months, the only significant foreign exchange risk exposure is in the purchase of raw material amounting to about HK\$3 million per month payable in Japanese Yen by the LCD Business. Besides, the Group's long and short-term bank borrowings are also fixed at floating interest rate terms. The Group's treasury policy is to manage foreign exchange transactions exposures by placing hedging measures such as forward contracts to the committed foreign currency-denominated transactions should the market situation turn adverse so as to reduce or eliminate volatility. At 31 December 2001, there was no material off-balance sheet financial instrument outstanding.

Liquidity and financial resources

There is no significant change in the liquidity position of the Group. The ratio of total bank borrowing to shareholders' equity at 31 December 2001 was 1.28 (30 June 2001: 1.27 – restated). At 31 December 2001, the Group had a total of HK\$826.3 million outstanding long and short-term bank borrowings (30 June 2001: HK\$825.1 million) mainly denominated in United States dollars and Hong Kong dollars at commercial floating interest rates. The long-term bank loans have repayment terms ranging from one and half year to five years.

Major acquisition and disposal of subsidiaries and associates

The Group did not make any significant new acquisition or realisation of investments during the Period. However, the Company's percentage equity interest held in EEICL had reduced from 52.15% to 51.84% as caused by the deemed disposal effect resulting from the exercise of EEICL share options by EEICL's employees. The total loss on this deemed disposal was approximately HK\$2.5 million and was included in other operating expenses.

Group assets and future plan for capital assets and sources of funding

There was no significant change in amount of the Group's total net tangible assets. At 31 December 2001, the total net tangible assets of the Group amounted to HK\$641.3 million (30 June 2001: HK\$647.3 million) and was free from any charges. There is no plan for significant future investment in other business. The improvements to existing business facilities will be financed by internally generated funds.

Contingent liabilities

There was no significant contingent liability outstanding at 31 December 2001.

Employment and remuneration policies

At 31 December 2001, the Group had approximately 8,500 (30 June 2001: 9,300) employees worldwide. The slight reduction in number of employees was mainly due to the consolidation of LCD plants. There was no change in the Group's employee remuneration policy, which is structured by reference to market terms and industry practice. Other staff benefits such as option schemes, incentive schemes, bonus and insurance policies also remained the same.