



**David So Cheung Sing**  
*Chairman and Chief Managing Director*

## RESULTS

The Group's performance in the second half of the current financial year ended 30 June 2002 (the "financial year 2002") was better than the first half of the current financial year. As mentioned in the annual report for the last financial year ended 30 June 2001 (the "financial year 2001"), the Group had anticipated prolonged sluggish market condition which has affected our overall performance in the current financial year.

The total turnover of the Group for the financial year 2002 was HK\$2,223.7 million. The Group's turnover for the current financial year cannot be directly compared with the Group's turnover for the last financial year. In contrast of a full consolidation of the Printed Circuit Boards ("PCB") Business in the Group's results for the whole current financial year, the Company consolidated the PCB Business only for a 16 days' period in the last financial year. The change in the accounting treatment was due to the Company's acquisition of a majority interest in Elec & Eltek International Company Limited ("EEICL", formerly an associate of the Company) which is responsible for the PCB Business of the Group upon completion of a partial takeover on 15 June 2001.

Operating profit of the Group in the financial year 2002 was HK\$207.9 million, as compared with loss of HK\$43.9 million for the last financial year. The net profit attributable to the shareholders was HK\$47.5 million, a drop of HK\$57.8 million (54.9%).

Basic earnings per share for the financial year 2002 stood at 4.04 Hong Kong cents, compared with 8.98 Hong Kong cents for the financial year 2001.



## FINAL DIVIDENDS

The Group proposes a final dividend of 1.5 Hong Kong cents (2001: 2.0 Hong Kong cents) per share for the financial year ended 30 June 2002. Together with the interim dividend of 1.0 Hong Kong cent (2001: 3.0 Hong Kong cents) per share, a total of 2.5 Hong Kong cents per share will be distributed for the financial year 2002. The final dividend, if approved at the forthcoming Annual General Meeting, will be payable to shareholders whose names appear on the Registers of Members at the close of business on 12 November 2002.

Dividend warrants, if approved, will be sent to shareholders on or about 29 November 2002. The Registers of Members will be closed from 11 November 2002 to 12 November 2002, 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 4:00pm on 8 November 2002.

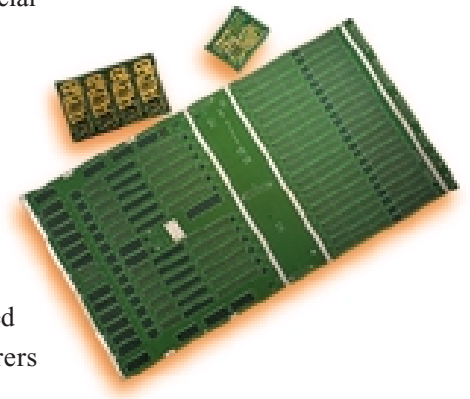
## BUSINESS REVIEW

### *Printed Circuit Boards*

Turnover and pre-tax operating profits of the Printed Circuit Boards ("PCB") Business for the financial year 2002 amounted to HK\$1,904.2 million and HK\$220.8 million respectively, representing a decrease of 28.2% and 52.9% over HK\$2,653.4 million and HK\$483.2 million recorded in the last financial year.

As a result of the global slowdown in the electronics industry and keener competition, the Group faced downward price pressure. This has caused decline in the operating profit margin and profitability.

January and February 2002 were slow months for demand for PCB products following the seasonal peak of the 4th quarter of 2001. Demands for PCBs started to improve in March and April 2002 when Original Equipment Manufacturers ("OEMs") projected higher sales.



# Chairman's Letter



Unfortunately, despite the more optimistic projections by OEMs, the overall demand for electronic products remained low which had resulted in the build-up of inventory in March and April 2002. As a consequence, excessive build-up could only be gradually consumed in May and June 2002. This inventory adjustment had slowed down the demand in the last two months of the current financial year.

From the global point of view, the PCB market has only stabilised as compared to the previous years. The Group's sales volume in square footage had grown by 9.4% in the second half as compared to the first half of the current financial year. However, excessive world PCB production capacity resulted in continual erosion of PCB prices. Weighted average prices of the Group's PCB products had dropped by 15.7% over the first half of the current financial year. As a result, overall turnover in the second half of the current financial year was lower by 6.5% as compared to the first half.

Utilization rate of the Group's PCB production capacity in the second half of the current financial year remained in the range of 70% to 75%. However, the production at two of the Group's thirteen manufacturing plants continues to be suspended.

Lower sales to the computer and computer peripherals sectors (50.1% of turnover) were recorded in the second half of the current financial year as compared to the volume sold in the first half (53.7% of turnover). Sales of PCB to the communication sector had stabilized in the second half over the first half and accounted for 35.5% of turnover in the current financial year as against 44.7% in the last financial year.

Demand from the consumer and automotive sectors remain strong. Sales for these two sectors amounted to 12.6% of turnover for the current financial year as compared with 8.6% of turnover for the last financial year.

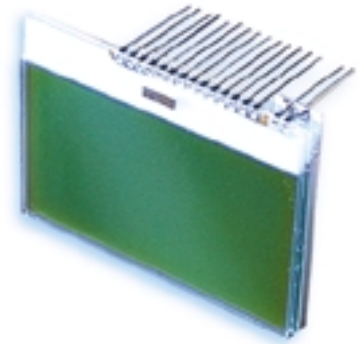
Due to the increase in sales volume to the consumer sector, the Group's layer count mix on 2 and 4-layers grew from 49.2% of turnover in the last financial year to 51.4% of turnover of the current financial year.



The Group's Nanjing Plant, which was set up to cater for the PRC market, achieved a 54.4% of higher sales when compared with the last financial year.

### Liquid Crystal Displays

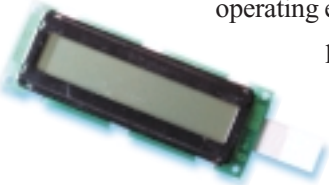
In the financial year 2002, turnover of the Liquid Crystal Displays ("LCD") Business amounted to HK\$216.4 million, representing an increase of HK\$16.4 million or 8.2% over the HK\$200.0 million turnover recorded in the financial year 2001. The increase in turnover was mainly contributed by increase in sales of modules and chip on glass during the financial year under review.



Operating profit and operating margin of the LCD Business for the second half of the current financial year were HK\$18.2 million and 17.8% respectively.

Operating profit and operating margin of the LCD Business for the current financial year were HK\$12.3 million and 5.7% respectively. Operating profit for the current financial year includes a one-time charge of HK\$11.7 million for the restructuring exercise of the LCD Business including the closure of our low-end capacity in Dongguan in the first half of the current financial year. Excluding this one-time charge, operating profit for the current financial year was HK\$24.0 million as compared to the operating loss of HK\$28.0 million for the last financial year.

During the financial year under review, the LCD industry had faced price-cut pressure resulting from the prolonged sluggish world economy. Our dedicated sales team had been devoted to strengthen our well-established sales network, which had resulted in broadening of our customer base and alleviating negative effects brought forward by the unfavourable market condition. The restructuring exercise of the LCD Business had brought along positive improvement in operating efficiency as well as better product mix, which in turn enhanced competitiveness of the Group's products and improved operating margins and service quality.





## *Magnetic Products*

The Magnetic Products Business, which mainly services the telecommunication, networking and computer industries, has also been adversely affected by the global economic slowdown since 2001. Selling prices erosion has continued due to the stagnant demands and keener competitions.

During the financial year 2002, turnover of the Magnetic Products Business was able to attain HK\$102.6 million, representing an increase of HK\$18.7 million or 22.3% over turnover of HK\$83.9 million for the financial year 2001. This result was attributed to improving responding time of our design team to new products and better operating efficiency which helped to expand our market share in this obscure global economic climate.

Operating profit of the Magnetic Products Business during the current financial year amounted to HK\$6.2 million as compared with HK\$3.0 million for the last financial year.

A new line of magnetic integrated connectors had successfully been developed and marketed during the financial year under review. Shipments of these new products had been made since March 2002.

## *Information Technology*

During the current financial year, the Information Technology ("IT") Business continued to focus on development of web-based enterprise software for the manufacturing industry. The development of Supply Chain Management ("SCM") software had made notable progress according to the Group's planning. The IT Business had completed the development of an e-procurement system which is a web-based software tailor-made for the PCB industry. Supported by potential demand from other industries, the IT Business would modify the e-procurement system to make it applicable to other industries as well.

Beijing Yilaida Information Technology Limited ("Yilaida"), a joint venture investment project in China with the China National Electronics Components & Equipment Corporation, had launched its new information portal in the second half of the current financial year in



collaboration with the China Electronic Components Association. The number of visitors browsing the portal has been increasing steadily as reflected by the increasing amount of enquiries received via the Internet. Yilaida continued to provide services to customers in the PRC as well as in overseas countries.



In the financial year under review, net spendings on the IT Business was HK\$11.6 million and was reduced from HK\$15.7 million incurred for the last financial year.

## FUTURE PROSPECTS

The Group expects the overall business environment to remain challenging in the new financial year in view of the continuing uncertainty in the US and European markets.

### *Printed Circuit Boards*

The Group believes that the PCB industry in high-cost countries such as North America, Europe and Japan will further consolidate. Larger manufacturers with excessive capacity in high production cost countries and PCB shops in a weaker financial position will gradually fade out from the industry.

However, PCB production capacity in China is expected to grow further as more business opportunities will be opened to multi-national companies after China's accession to the World Trade Organisation as well as pricing pressure with regard to end products and components will encourage overseas manufacturers to shift their manufacturing bases or to source their components in China. The Group with its significant presence in China is positioned to benefit from this.



Management will monitor such business developments in the China market and will decide when to invest in plant and machinery for the new Huangpu East plant. The Group remains optimistic in the medium and long term future in view of our position as the world's 14th ranking independent PCB manufacturer and the largest PCB output manufacturer in China in 2001 (source: NT Information Ltd.). The Group is ready to further expand its customer base and strengthen its



market position in the emerging China market. It is also on course in obtaining the necessary qualifications from new customers.

Provided that the economies in the US and Europe gradually improve in the coming quarters and new customers' qualifications are received on schedule, the Directors expect improvements in the PCB Business results for the new financial year.

## *Liquid Crystal Displays*

Market demand for LCDs and module products by office automation, multimedia, audio / visual and automotive sectors remains stable. Our experienced sales team will seek to actively extend their reach to the US and European markets for more value-added businesses from multinational companies. The Group will invest to upgrade the already automated and advanced Huangpu production plant in order to further enhance its production capability to meet the increasing market needs. We will keep on strengthening our research and development activities of more high-end and value-added products which will generate higher profit margin for the Group.

The LCD Business has turned around its operating results during the financial year under review and its continuous contribution to the Group's profit is expected.



## *Magnetic Products*

The soft market condition in communication and network industries is expected to persist at least in the new financial year. However, by expansion of our marketing and sales networks and introduction of new products, in particular the new series of magnetic integrated connectors, into the market, the Magnetic Products Business, committing to its long-term direction to continuous technological advancement and improvement of service quality, will further be realized as a valued magnetic component supplier to the world class manufacturers.



Barring from unforeseen circumstances, the Directors anticipate improvement in operating result of the Magnetic Products Business for the new financial year.

### *Information Technology*

Despite the hindered economic condition, the IT Business will continue making cautious moves in allocating resources for the development of web-based enterprise software for the market. The Group remains positive regarding the future prospect of the IT market. The Group's profound industry experience, coupled with its expertise in information technology, will definitely help build a solid foundation for the future development of the IT Business.

### **APPRECIATION**

This year is the 30th anniversary of the Elec & Eltek Group. On behalf of the Board, I would like to express my most heartfelt appreciation to all the staff, business partners and shareholders of the Group. Without the loyalty and expertise of our staff, we can never keep on progressing and cope with any difficulties that emerge along the road when we move on. Without the support and understanding from our business partners, we would not have developed as successfully as we are nowadays. Without the support from our shareholders, we would not have such impetus to improve ourselves every day in these past years.



**David So Cheung Sing**  
*Chairman and Chief Managing Director*

17 September 2002

