



# CEC INTERNATIONAL HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

## 2001/2002 INTERIM RESULTS ANNOUNCEMENT

The Board of Directors (the "Directors") of CEC International Holdings Limited (the "Company") is pleased to announce that the unaudited consolidated income statement of the Company and its subsidiaries (collectively referred to as the "Group") for the three months and six months ended 31st October, 2001 together with unaudited comparative figures for the corresponding period in 2000, and the unaudited consolidated balance sheet of the Group as at 31st October, 2001 together with audited comparative figures as at 30th April, 2001, are as follows:

### CONSOLIDATED INCOME STATEMENT

Notes	Three months ended 31st October, 2001		Six months ended 31st October, 2001	
	2001 HK\$'000 (Unaudited)	2000 HK\$'000 (Unaudited)	2001 HK\$'000 (Unaudited)	2000 HK\$'000 (Unaudited)
Turnover	104,483	97,058	184,253	187,675
Cost of sales	(76,411)	(66,915)	(130,152)	(126,294)
Gross profit	28,072	30,143	54,101	61,381
Distribution and selling expenses	(3,081)	(2,753)	(5,439)	(5,021)
General and administrative expenses	(13,575)	(9,511)	(24,338)	(19,269)
Profit from operations	11,416	17,879	24,324	37,091
Interest income	321	630	759	1,295
Interest expense	(6,154)	(4,592)	(12,923)	(8,392)
Share of profits of jointly controlled entities	16	-	16	-
Profit before taxation	5,599	13,917	12,176	29,994
Taxation	(833)	(1,075)	(1,598)	(2,483)
Profit after taxation but before minority interests	4,766	12,842	10,578	27,511
Minority interests	(36)	81	(101)	-
Profit attributable to shareholders	4,730	12,923	10,477	27,511
Earnings per share				
- Basic	0.74 cents	2.13 cents	1.64 cents	4.56 cents
- Diluted	0.72 cents	1.92 cents	1.60 cents	4.25 cents

### CONSOLIDATED BALANCE SHEET

Notes	As at 31st October, 2001 HK\$'000 (Unaudited)	As at 30th April, 2001 HK\$'000 (Audited)
<b>NON-CURRENT ASSETS</b>		
Property, plant and equipment	465,365	432,417
Intangible asset	2,311	2,844
Investment in jointly controlled entities	250	234
Total non-current assets	467,926	435,495
<b>CURRENT ASSETS</b>		
Inventories	74,714	58,762
Trade receivables	41,050	30,780
Prepayments, deposits and other current assets	12,704	8,071
Pledged bank deposits	50,421	47,387
Cash and other bank deposits	12,647	8,327
Total current assets	191,536	153,327
<b>CURRENT LIABILITIES</b>		
Short-term bank borrowings	(113,588)	(88,803)
Long-term bank loans, current portion	(28,253)	(73,266)
Finance lease obligations, current portion	(35,075)	(33,092)
Trade payables	(36,478)	(23,427)
Bills payable	(6,220)	(11,971)
Accruals and other payables	(15,886)	(13,033)
Dividend payable	(7)	-
Taxation payable	(1,407)	(59)
Total current liabilities	(236,914)	(243,651)
Net current liabilities	(45,378)	(90,324)
Total assets less current liabilities	422,548	345,171
<b>NON-CURRENT LIABILITIES</b>		
Long-term bank loans, non-current portion	(74,874)	(11,252)
Finance lease obligations, non-current portion	(39,422)	(49,145)
Deferred taxation	(13,262)	(13,262)
Total non-current liabilities	(127,558)	(73,659)
MINORITY INTERESTS	-	(5)
Net assets	294,990	271,507
<b>CAPITAL AND RESERVES</b>		
Share capital	66,103	52,803
Reserves	228,887	218,704
Shareholders' equity	294,990	271,507

Notes:

#### 1. Principal accounting policies

The same principal accounting policies and methods of computation are followed in these interim financial statements for the three months and six months ended 31st October, 2001 as compared with the most recent published annual financial statements for the year ended 30th April, 2001.

The Group has adopted a number of new and revised Statements of Standard Accounting Practice ("SSAPs") issued by the Hong Kong Society of Accountants for the first time in the current period. The adoption of these new or revised SSAPs does not have any effect on the current or prior period financial statements except in accordance with the revised SSAP 9 "Events after the balance sheet date", the Group no longer recognises dividends proposed or declared after the balance sheet date as a liability at the balance sheet date.

#### 2. Turnover and segmental information

The Company is an investment holding company. Its subsidiaries are principally engaged in the design, development, manufacture and sale of a wide range of coils, capacitors, power supply devices and other electronic components. The Group's products are generally used in the manufacture of various kinds of electronic and electrical products.

Analysis of turnover and profit (loss) from operations by product category is as follows:

	Turnover			
	Three months ended 31st October, 2001		Six months ended 31st October, 2001	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Coils	83,090	88,901	148,196	170,615
Capacitors	11,230	5,715	15,984	11,558
Power supply devices	1,925	-	1,925	-
Other electronic components	8,238	2,442	18,148	5,502
	104,483	97,058	184,253	187,675
<b>Profit (loss) from operations</b>				
	Three months ended 31st October, 2001		Six months ended 31st October, 2001	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Coils	10,474	18,839	21,699	37,562
Capacitors	1,111	(585)	2,397	(630)
Power supply devices	11	-	11	-
Other electronic components	(180)	(375)	217	159
	11,416	17,879	24,324	37,091

Analysis of turnover by geographical location as determined on the basis of the location where merchandise is delivered is as follows:

	Three months ended 31st October, 2001		Six months ended 31st October, 2001	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Hong Kong	70,981	79,267	130,183	148,516
Mainland China	5,646	5,710	10,249	11,611
Taiwan	13,209	1,954	18,975	7,979
Singapore	4,996	3,440	9,737	6,734
Europe	4,858	5,500	8,170	11,648
Others	4,793	1,187	6,939	1,187
	104,483	97,058	184,253	187,675

No analysis of profit (loss) from operations by geographical location is presented as it is generally in line with the distribution of turnover as set out above.

#### 3. Profit before taxation

Profit before taxation in the consolidated income statement is determined after charging or crediting the following items:

	Three months ended 31st October, 2001		Six months ended 31st October, 2001	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
After charging -				
Depreciation of property, plant and equipment	11,966	7,714	22,565	15,220
Amortisation of intangible asset	266	-	533	-
Staff costs (including directors' emoluments)	25,269	24,213	48,830	48,092
Interest expense on				
- bank overdrafts and loans wholly repayable within five years	3,873	1,870	7,694	3,137
- factoring of trade receivables	688	1,059	1,350	2,073
- finance leases	1,593	1,663	3,879	3,182
After crediting -				
Interest income from bank deposits	321	630	759	1,295
	321	630	759	1,295

#### 4. Taxation

Taxation comprises:

	Three months ended 31st October, 2001		Six months ended 31st October, 2001	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Current taxation -				
Hong Kong profits tax	762	1,030	1,348	2,330
- current year				
Mainland China enterprise income tax	71	45	250	153
- current year				
	833	1,075	1,598	2,483

The Company is exempted from taxation in Bermuda until 2016. Hong Kong profits tax has been provided at the rate of 16% (2000: 16%) on the estimated assessable profit arising in or derived from Hong Kong during the period. Mainland China enterprise income tax has been provided at the applicable rate relating to the profit of a subsidiary of the Company established in Zhongshan, Mainland China.

#### 5. Dividends

The Directors resolved not to declare any interim dividend in respect of the six months ended 31st October, 2001 (2000: Nil).

#### 6. Earnings per share

The calculation of basic earnings per share for the three months ended 31st October, 2001 is based on the profit attributable to shareholders of approximately HK\$4,730,000 (2000: HK\$12,923,000) and on the weighted average number of 640,861,292 (2000: 605,610,442) shares in issue during the period.

The calculation of basic earnings per share for the six months ended 31st October, 2001 is based on the profit attributable to shareholders of approximately HK\$10,477,000 (2000: HK\$27,511,000) and on the weighted average number of 637,246,911 (2000: 602,805,221) shares in issue during the period.

The calculation of diluted earnings per share for the three months ended 31st October, 2001 is based on the profit attributable to shareholders of approximately HK\$4,730,000 (2000: HK\$12,923,000) and on the weighted average number of 658,002,000 (2000: 674,167,458) shares, adjusted to reflect the effect of all dilutive potential shares in issue during the period.

The calculation of diluted earnings per share for the six months ended 31st October, 2001 is based on the profit attributable to shareholders of approximately HK\$10,477,000 (2000: HK\$27,511,000) and on the weighted average number of 654,683,317 (2000: 647,623,853) shares, adjusted to reflect the effect of all dilutive potential shares in issue during the period.

The comparative weighted average number of shares in issue, basic earnings per share and diluted earnings per share for the three months and six months ended 31st October, 2000 have been adjusted to reflect the bonus issue of shares on the basis of one bonus share for every five shares held by shareholders on 14th September, 2001.

A reconciliation of the weighted average number of shares used in the calculation of basic earnings per share for the three months and six months ended 31st October, 2001 to that used in the calculation of diluted earnings per share is as follows:

	Three months ended 31st October, 2001		Six months ended 31st October, 2001	
	2001	2000	2001	2000
Weighted average number of shares used in the calculation of basic earnings per share	640,861,292	605,610,442	637,246,911	602,805,221
Weighted average number of shares assumed to have been issued at no consideration on the deemed exercise of all warrants outstanding during the period	17,140,708	68,557,016	17,436,406	44,818,632
Weighted average number of shares used in the calculation of diluted earnings per share	658,002,000	674,167,458	654,683,317	647,623,853

The outstanding share options during the three months and six months ended 31st October, 2001 and 2000 were anti-dilutive.

#### 7. Property, plant and equipment

During the six months ended 31st October, 2001, the additions of property, plant and equipment were approximately HK\$55,445,000 (six months ended 31st October, 2000: HK\$86,211,000).

**8. Trade receivables**

The aging analysis of trade receivables as at 31st October, 2001 is as follows:

	As at 31st October, 2001 HK\$'000	As at 30th April, 2001 HK\$'000
Current	23,793	20,707
Overdue by 0 – 1 month	9,427	6,559
Overdue by 1 – 2 months	4,267	4,250
Overdue by 2 – 3 months	2,963	1,010
Overdue by more than 3 months	3,118	2,869
	<u>43,568</u>	<u>35,395</u>
Less: Provision for bad and doubtful debts	<u>(2,518)</u>	<u>(4,615)</u>
	<u>41,050</u>	<u>30,780</u>

Management of the Group performs ongoing credit and collectibility evaluations of each customer. Provisions for potential credit losses are maintained and such losses in aggregate have not exceeded management's estimates. The Group offers an average credit period ranging from one month to three months to its trade customers who have good payment records and well-established relationships with the Group.

**9. Trade payables**

The aging analysis of trade payables as at 31st October, 2001 is as follows:

	As at 31st October, 2001 HK\$'000	As at 30th April, 2001 HK\$'000
Current	21,116	12,212
Overdue by 0 – 1 month	9,265	4,432
Overdue by 1 – 2 months	2,503	1,665
Overdue by 2 – 3 months	477	257
Overdue by more than 3 months	3,117	4,861
	<u>36,478</u>	<u>23,427</u>

**10. Share capital**

Movements in share capital are:

	Six months ended 31st October, 2001		Year ended 30th April, 2001	
	Number of shares	Nominal value HK\$'000	Number of shares	Nominal value HK\$'000
Authorised shares of HK\$0.10 each				
Beginning and end of period/year	<u>1,000,000,000</u>	<u>100,000</u>	1,000,000,000	100,000
Issued and fully paid shares of HK\$0.10 each				
Beginning of period/year	528,027,108	52,803	200,000,000	20,000
Bonus issue	105,815,421	10,581	300,000,000	30,000
Issue of shares pursuant to scrip dividend scheme	5,548,047	555	4,277,108	428
Issue of shares upon exercise of warrants	1,050,000	105	23,750,000	2,375
Issue of new shares	20,588,235	2,059	–	–
	<u>661,028,811</u>	<u>66,103</u>	528,027,108	52,803

**11. Share options**

Under the share option scheme adopted by the Company on 26th October, 1999, the Directors may grant options to any full-time employees or executives of the Company or any of its subsidiaries, including executive directors (but excluding independent non-executive directors of the Company) of the Company or any of its subsidiaries, to subscribe for shares in the Company.

Movements in share options during the six months ended 31st October, 2001 are as follows:

Name of holders	Subscription price per share	Number of shares under options				End of period
		Beginning of period	Adjustment for bonus issue	Exercised during the period	Lapsed during the period	
Directors						
Mr. Lam Wai Chun	HK\$1.02*	2,948,966	578,228	–	–	3,527,194
Mr. Saito Misao	HK\$1.02*	2,948,966	578,228	–	–	3,527,194
Ms. Tang Fung Kwan	HK\$1.02*	2,948,966	578,228	–	–	3,527,194
Ms. Hu Yan Huan	HK\$1.02*	2,948,966	578,228	–	–	3,527,194
Employees of the Group	HK\$0.75**	35,400,000	6,680,000	–	(2,780,000)	39,300,000
		<u>47,195,864</u>	<u>8,992,912</u>	–	(2,780,000)	<u>53,408,776</u>

\* Such share options were granted on 21st September, 2000 and are exercisable from 22nd September, 2002 to 21st January, 2005, both dates inclusive. The subscription price was adjusted from HK\$1.22 per share to HK\$1.02 per share with effect from 15th September, 2001 for the bonus issue.

\*\* Such share options were granted on 1st November, 2000 and are exercisable from 1st November, 2002 to 28th February, 2005, both dates inclusive. The subscription price was adjusted from HK\$0.90 per share to HK\$0.75 per share with effect from 15th September, 2001 for the bonus issue.

**12. Warrants**

As at 31st October, 2001, the outstanding warrants carry the subscription rights of HK\$1.475 for every 10 units of warrants entitling the holders thereof to subscribe in cash for new shares in the Company up to the aggregate amount of HK\$44,368,000 at a subscription price of HK\$0.49 per new share (subject to adjustment).

**13. Reserves**

Movements of reserves are:

	Share premium HK\$'000	Capital reserve HK\$'000	Contributed surplus HK\$'000	Subscription right reserve HK\$'000	Property revaluation reserve HK\$'000	Cumulative translation adjustments HK\$'000	Proposed final dividend HK\$'000	Retained profit HK\$'000	Total HK\$'000
Balance as at 1st May 2000	24,607	13,934	5,810	–	17,476	(37)	10,000	114,721	186,511
Proceeds from issue of warrants	–	–	–	25,000	–	–	–	–	25,000
Warrant issuance expenses	–	–	–	(2,109)	–	–	–	–	(2,109)
Bonus issue	(24,190)	–	(5,810)	–	–	–	–	–	(30,000)
Issue of shares pursuant to scrip dividend scheme	7,177	–	–	–	–	–	(7,605)	–	(428)
Proceeds from exercise of warrants	11,637	–	–	–	–	–	–	–	11,637
Premium arising from issuance of shares on exercise of warrants	5,437	–	–	(5,437)	–	–	–	–	–
Share issuance expenses	(178)	–	–	–	–	–	–	–	(178)
Profit attributable to shareholders	–	–	–	–	–	–	–	30,863	30,863
Dividends paid	–	–	–	–	–	–	(2,395)	–	(2,395)
Proposed final dividend	–	–	–	–	–	–	5,280	(5,280)	–
Translation adjustments	–	–	–	–	–	(197)	–	–	(197)
Balance as at 30th April, 2001	24,490	13,934	–	17,454	17,476	(234)	5,280	140,304	218,704
Bonus issue	(10,581)	–	–	–	–	–	–	–	(10,581)
Issue of shares pursuant to scrip dividend scheme	3,195	–	–	–	–	–	(3,750)	–	(555)
Proceeds from exercise of warrants	515	–	–	–	–	–	–	–	515
Premium arising from issuance of shares on exercise of warrants	240	–	–	(240)	–	–	–	–	–
Premium arising from issue of new shares	11,941	–	–	–	–	–	–	–	11,941
Share issuance expenses	(168)	–	–	–	–	–	–	–	(168)
Profit attributable to shareholders	–	–	–	–	–	–	–	10,477	10,477
Dividends paid *	–	–	–	–	–	–	(1,523)	(11)	(1,534)
Reclassification to current liabilities	–	–	–	–	–	–	(7)	–	(7)
Translation adjustments	–	–	–	–	–	95	–	–	95
Balance as at 31st October, 2001	<u>29,632</u>	<u>13,934</u>	<u>–</u>	<u>17,214</u>	<u>17,476</u>	<u>(139)</u>	<u>–</u>	<u>150,770</u>	<u>228,887</u>

\* During the six months ended 31st October, 2001, the final dividend paid in respect of shares issued upon exercise of warrants prior to the record date (14th September, 2001) for the payment of final dividend for the year ended 30th April, 2001 was approximately HK\$11,000.

**14. Contingent liabilities**

Contingent liabilities not provided for in the financial statements are:

	As at 31st October, 2001 HK\$'000	As at 30th April, 2001 HK\$'000
Discounted bills with recourse	–	1,402
Factoring of trade receivables with recourse	38,573	30,415
Shipping guarantees	663	–
	<u>39,236</u>	<u>31,817</u>

**15. Comparative figures**

Certain comparative figures have been reclassified to conform to the current period's presentation.

**BUSINESS REVIEW**

The financial year 2001/2002 has been a year of challenges so far. There have been tremendous and unexpected changes during the period under review. While China's accession to the World Trade Organisation ("WTO") raised hopes for a new economic outlook, yet the terrorist attack in the United States on 11th September has worsened the already adverse market conditions around the world with the United States being further depressed from economic slowdown to recession. This unfavourable market environment created a flood of negative news ranging from staff redundancies and capital expenditure cuts to factory closures and business restructuring. Virtually all electronics manufacturers alike were stricken hard on a global basis in such a difficult economic climate.

Despite the poor market sentiment, the Group recorded a turnover of approximately HK\$184,253,000 and profit attributable to shareholders of approximately HK\$10,477,000 for the six months ended 31st October, 2001 with its solid foundations in the industry, the dedicated efforts of our staff and a highly prudent operating philosophy. Although the turnover and profit attributable to shareholders were down 1.8% and 61.9% respectively from the corresponding period last year, the improvement in business in the second quarter as compared to the first quarter was remarkable, where the second quarter turnover of approximately HK\$104,483,000 was up 31.0% and 7.7% respectively as compared to those for the first quarter this year and the second quarter last year. The Group also maintained its gross profit margin at a high level of approximately 29.4% for the six months ended 31st October, 2001, which reflected our competitiveness even in a harsh market environment.

During the previous financial year 2000/2001, the Group grasped the opportunity to further expand and automate its production facilities at a relatively low cost level, all with a view to paving the way for future business development. The resulting diversity and quality of our products helped the Group to win the support of our long-standing customers and strategic alliance partners. Meanwhile, the staff has been sharing the Group's commitment, striving to broaden its business with cost reduction to maintain reasonable results. With our solid foundations, the Group will be able to capture rising market opportunities when the economy turns around.

**Proactive Approach to Strategic Alliances**

Strategic partners have been playing a key role in the Group's development. Since the Company's listing, two well-known and well-established listed companies in Japan, Nittoku Engineering Co., Ltd. ("Nittoku"), a manufacturer of coil-winding machines, and Toko Inc. ("Toko"), a leading international coils manufacturer, have been increasing their support for the Group, providing the Group with sophisticated manufacturing technologies and extensive distribution networks respectively. The two partners even took a step further to financially support the Group's long-term development. It is therefore one of the Group's priorities to further strengthen these strategic partnerships.

During the period under review, Nittoku once again demonstrated its support for the Group by enlarging its shareholding in the Company from approximately 4.8% to approximately 7.7%. In September 2001, the Group entered into an agreement with Nittoku for the subscription of 20,588,235 new shares in the Company at a subscription price of HK\$0.68 per subscription share, which was completed on 9th October, 2001. The net proceeds from the subscription amounted to approximately HK\$13,832,000 and have been applied as general working capital of the Group. The Group strongly believes that Nittoku's subscription will not only strengthen our cooperative relationship, but also display Nittoku's confidence in the Group's business and future prospects.

**Effective Actions to Control Net Gearing Ratio**

As the Group adopted a proactive approach to expansion of production facilities last year and most of the Group's capital expenditure was financed by borrowings instead of equity financing, the net gearing ratio has been on the increase. Regarding the Group's non-compliance as at 30th April, 2001 with one of the financial covenants imposed by its major bank that the net gearing ratio should not exceed 0.6:1, the Group has taken prompt and effective actions during the period under review. The major bank has already agreed to relax the limit up to 0.85:1. As at 31st October, 2001, the Group's total borrowings amounted to approximately HK\$291,212,000 (as at 30th April, 2001: HK\$255,558,000) whereas total cash and bank deposits rose to approximately HK\$63,068,000 (as at 30th April, 2001: HK\$55,714,000). The Group has effectively checked the net gearing ratio, defined as total borrowings less total cash and bank deposits over net tangible assets, to approximately 0.78:1 (as at 30th April, 2001: 0.76:1), which was in compliance with the financial covenants as agreed between the Group and the major bank.

As at 31st October, 2001, the Group's aggregate banking facilities climbed to approximately HK\$324,431,000 (as at 30th April, 2001: HK\$302,624,000), of which approximately HK\$58,428,000 (as at 30th April, 2001: HK\$65,727,000) remained unutilised.

**Commencement of Production of Manganese-Zinc Series Ferrite Core Products**

With the installation of automated and sophisticated production facilities in the previous year, the production line for manganese-zinc series ferrite core products commenced operations in the second quarter of the financial year. The new facilities have substantially boosted the Group's production capacity.

Thanks to the high quality, the launch of manganese-zinc series ferrite core products, line filters and transformers manufactured in the newly installed state-of-the-art production facilities have been strongly welcomed by manufacturers of electronic products with rising quality consciousness. With the drastic technological revolution in the electronics industry, the demand for quality electronic components is being driven up continuously, which will be stimulated further when the global economy recovers. The Group is well positioned to cater for this trend with the efficient expansion of production capacity in Zhongshan. As such, the Group believes that the manganese-zinc series ferrite core products will bring in reasonable returns in the future and broaden the sphere for long-term development.

**FUTURE PLANS AND PROSPECTS**

Despite the existing slack global economic environment, China's accession to the WTO is expected to inject new impetus to the markets by creating a pool of business opportunities for both Chinese and foreign enterprises. At the same time, the economy and society are rapidly transforming into a knowledge-based one. Accompanying with this trend are the advancement in information technology networks and signs of growth potential for quality electronic products. With this in mind, the Group will definitely keep up its initiatives to sharpen the competitive edge, striving for breakthroughs amidst the various challenges ahead.

**Creation of New Economic Outlook by China's Accession to the WTO**

China's accession to the WTO was already approved in November 2001. As a member of the WTO, restrictions previously imposed on foreign trade and economic cooperation are going to be loosened in stages. Meanwhile, to achieve mutual benefits and advancement among member states of the WTO, China's legal framework on economic affairs is also subject to international trade negotiations and conventions. There are general expectations among the markets that these changes will attract foreign capital inflows into China and fuel further economic growth. On the other hand, China will have to face more fierce competition on an international dimension. It is therefore imperative for China to introduce multi-faceted reforms, particularly in respect of human resources, knowledge and technology. With regard to technological development, electronic products will play an indispensable role in sustaining those advances. The demand for quality electronic products in China is expected to mushroom in response to the need for enhancing international competitive edges and speeding up the development of society and the economy. The accession to the WTO will bring more employment opportunities in China, which will uplift the population's consumption power. Consumer demand for hi-tech information technology products will therefore be boosted in this information technology age. In view of these positive changes brought about by China's accession to the WTO, the Group believes that the demand for electronic products both inside and outside China will be accelerated. This will not only create a new market outlook for the electronics industry but also bring the Group flourishing opportunities.

**Strengthening Research and Development, Capturing New Opportunities**

Customers' concerns have always been the Group's top priority. With our increasing effort on research and development, market expansion and quality assurance, our products have won the trust and support of our customers.

For the long-term interests of the Group, we will sustain our efforts to strengthen the research and development capability and explore new markets. The Group believes that the keys to successful market exploration include the following: (1) care about the different needs of customers, providing them with tailor-made electronic components; the Group will continue to upgrade the research and development team to ensure that we will be able to formulate solutions tailored to the needs of different customers; (2) be sensitive to technological trends and stay ahead of the market: the Group's research and development team will keep focusing on the world's latest technological advancements to further broaden the product portfolio and work towards breakthroughs in the manganese-zinc series ferrite core products and others; (3) explore and grasp every business opportunity: apart from the markets in Hong Kong, Mainland China and Japan, the Group is actively developing the European market as well, where the Group has already won an agreement with one of the world's leading mobile phone manufacturers based in Europe to supply it with high-power major electronic components for its chargers on a long-term basis. This cooperation plan is expected to bring reasonable returns to the Group under the current unfavourable economic environment.

On the whole, the Group expects the market environment will remain depressed at least for the next half year, a time of traditional slack season for the electronics industry, which will be expected to have an impact on the Group's performance. Nevertheless, with shareholders' and customers' interests as our major focus, the Group will pay extra attention to cost control and staff quality, broadening the product portfolio and exploring new markets. In brief, we are making every effort to sharpen the Group's competitive edge and further consolidate its position in the market.

**PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES**

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 31st October, 2001.

**CODE OF BEST PRACTICE**

None of the Directors is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the six months ended 31st October, 2001, in compliance with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, except that the independent non-executive directors have not been appointed for a specific term but are subject to retirement by rotation and re-election at the annual general meetings of the Company in accordance with the Company's Bye-laws.

By Order of the Board  
**Lam Wai Chun**  
Chairman

Hong Kong, 17th December, 2001