



CEC INTERNATIONAL HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

2002/2003 THIRD QUARTER 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 nine months ended 31st January 2003 together with unaudited comparative figures for the corresponding period in 2002, and the unaudited consolidated balance sheet of the Group as at 31st January 2003 together with audited comparative figures as at 30th April 2002, are as follows:

CONSOLIDATED INCOME STATEMENT

| | Notes | Three months ended | | Nine months ended | |
|---|-------|--------------------|-------------|-------------------|-------------|
| | | 31st January | | 31st January | |
| | | 2003 | 2002 | 2003 | 2002 |
| | | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| | | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) |
| Turnover | 2 | 93,225 | 91,988 | 341,184 | 276,241 |
| Cost of sales | | (70,710) | (69,863) | (264,078) | (200,015) |
| Gross profit | | 22,515 | 22,125 | 77,106 | 76,226 |
| Distribution and selling expenses | | (3,307) | (2,440) | (11,242) | (7,879) |
| General and administrative expenses | | (14,483) | (11,883) | (45,575) | (36,221) |
| Profit from operations | 2 | 4,725 | 7,802 | 20,289 | 32,126 |
| Interest income | | 61 | 152 | 296 | 911 |
| Interest expense | | (4,752) | (4,828) | (14,182) | (17,751) |
| Share of profits less losses of jointly controlled entities | | 175 | (11) | 140 | 5 |
| Profit before taxation | 3 | 209 | 3,115 | 6,543 | 15,291 |
| Taxation | 4 | (193) | (795) | (1,233) | (2,393) |
| Profit after taxation but before minority interests | | 16 | 2,320 | 5,310 | 12,898 |
| Minority interests | | - | - | - | (101) |
| Profit attributable to shareholders | | 16 | 2,320 | 5,310 | 12,797 |
| Earnings per share | 6 | | | | |
| - Basic | | 0.002 cent | 0.351 cent | 0.771 cent | 1.983 cents |
| - Diluted | | 0.002 cent | 0.351 cent | 0.771 cent | 1.970 cents |

CONSOLIDATED BALANCE SHEET

| | Notes | As at 31st January 2003 HK\$'000 (Unaudited) | As at 30th April 2002 HK\$'000 (Audited) |
|--|-------|---|---|
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | 7 | 460,081 | 489,012 |
| Intangible asset | | 978 | 1,778 |
| Investment in associates | | 10,318 | — |
| Investment in jointly controlled entities | | — | 872 |
| Total non-current assets | | <u>471,377</u> | <u>491,662</u> |
| CURRENT ASSETS | | | |
| Inventories | | 95,888 | 70,321 |
| Trade receivables | 8 | 68,491 | 42,000 |
| Prepayments, deposits and other current assets | | 16,926 | 10,227 |
| Investment | | 7,800 | 7,370 |
| Pledged bank deposits | | 24,946 | 35,847 |
| Cash and other bank deposits | | 12,956 | 9,587 |
| Total current assets | | <u>227,007</u> | <u>175,352</u> |
| CURRENT LIABILITIES | | | |
| Short-term bank borrowings | | (134,294) | (89,030) |
| Long-term bank loans, current portion | | (42,996) | (44,798) |
| Finance lease obligations, current portion | | (16,711) | (14,552) |
| Trade payables | 9 | (41,490) | (41,596) |
| Bills payable | | (7,912) | (2,390) |
| Accruals and other payables | | (15,437) | (13,874) |
| Taxation payable | | (940) | (122) |
| Total current liabilities | | <u>(259,780)</u> | <u>(206,362)</u> |
| Net current liabilities | | <u>(32,773)</u> | <u>(31,010)</u> |
| Total assets less current liabilities | | <u>438,604</u> | <u>460,652</u> |
| NON-CURRENT LIABILITIES | | | |
| Long-term bank loans, non-current portion | | (103,611) | (134,649) |
| Finance lease obligations, non-current portion | | (10,731) | (17,060) |
| Deferred taxation | | (14,937) | (14,937) |
| Total non-current liabilities | | <u>(129,279)</u> | <u>(166,646)</u> |
| Net assets | | <u>309,325</u> | <u>294,006</u> |
| CAPITAL AND RESERVES | | | |
| Share capital | 10 | 69,303 | 66,103 |
| Reserves | 13 | 240,022 | 227,903 |
| Shareholders' equity | | <u>309,325</u> | <u>294,006</u> |

Notes:

1. Principal accounting policies

The same principal accounting policies and methods of computation are followed in the quarterly financial statements for the three months and nine months ended 31st January 2003 as compared with the most recent published annual financial statements for the year ended 30th April 2002.

2. Turnover and segment 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 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 business segment is as follows:

Turnover

| | Three months ended 31st January | | Nine months ended 31st January | |
|-------------------------------|------------------------------------|------------------|-----------------------------------|------------------|
| | 2003 HK\$'000 | 2002 HK\$'000 | 2003 HK\$'000 | 2002 HK\$'000 |
| Coils manufacturing | 80,091 | 76,059 | 286,927 | 226,180 |
| Capacitors manufacturing | 8,212 | 8,219 | 30,625 | 24,203 |
| Electronic components trading | 4,922 | 7,710 | 23,632 | 25,858 |
| | <u>93,225</u> | <u>91,988</u> | <u>341,184</u> | <u>276,241</u> |

Profit (loss) from operations

| | Three months ended 31st January | | Nine months ended 31st January | |
|-------------------------------|------------------------------------|------------------|-----------------------------------|------------------|
| | 2003 HK\$'000 | 2002 HK\$'000 | 2003 HK\$'000 | 2002 HK\$'000 |
| Coils manufacturing | 4,593 | 8,874 | 20,219 | 30,584 |
| Capacitors manufacturing | 366 | (263) | 1,371 | 2,134 |
| Electronic components trading | (234) | (809) | (1,301) | (592) |
| | <u>4,725</u> | <u>7,802</u> | <u>20,289</u> | <u>32,126</u> |

Analysis of turnover and profit (loss) from operations by geographical segment is as follows:

| | Turnover | | | |
|----------------|--------------------------------------|-----------------|--------------------------|-----------------|
| | Three months ended | | Nine months ended | |
| | 31st January | | 31st January | |
| | 2003 | 2002 | 2003 | 2002 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Hong Kong | 54,611 | 64,985 | 218,982 | 195,168 |
| Mainland China | 10,301 | 6,652 | 30,565 | 16,901 |
| Taiwan | 13,502 | 14,830 | 47,458 | 33,805 |
| Europe | 5,866 | 3,360 | 18,352 | 11,530 |
| Others | 8,945 | 2,161 | 25,827 | 18,837 |
| | <u>93,225</u> | <u>91,988</u> | <u>341,184</u> | <u>276,241</u> |
| | Profit (loss) from operations | | | |
| | Three months ended | | Nine months ended | |
| | 31st January | | 31st January | |
| | 2003 | 2002 | 2003 | 2002 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Hong Kong | 4,070 | 7,314 | 12,486 | 28,004 |
| Mainland China | 705 | 1,038 | 4,123 | 2,668 |
| Taiwan | 224 | 82 | 1,726 | 1,894 |
| Europe | 208 | 540 | 971 | 2,194 |
| Others | (482) | (1,172) | 983 | (2,634) |
| | <u>4,725</u> | <u>7,802</u> | <u>20,289</u> | <u>32,126</u> |

3. Profit before taxation

Profit before taxation in the consolidated income statement is stated after crediting and charging the following:

| | Three months ended | | Nine months ended | |
|--|---------------------------|-----------------|--------------------------|-----------------|
| | 31st January | | 31st January | |
| | 2003 | 2002 | 2003 | 2002 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Crediting – | | | | |
| Interest income from bank deposits | <u>61</u> | <u>152</u> | <u>296</u> | <u>911</u> |
| Charging – | | | | |
| Depreciation of property, plant and equipment | 11,437 | 14,480 | 43,869 | 37,045 |
| Amortisation of intangible asset | 266 | 267 | 800 | 800 |
| Employment costs (including directors' emoluments) | 18,269 | 20,830 | 64,799 | 69,660 |
| Interest expense on | | | | |
| – bank overdrafts and loans wholly repayable within five years | 3,613 | 3,065 | 10,756 | 10,759 |
| – factoring of trade receivables | 554 | 548 | 1,950 | 1,898 |
| – finance leases | 585 | 1,215 | 1,476 | 5,094 |

4. Taxation

Taxation consisted:

| | Three months ended | | Nine months ended | |
|--|---------------------------|-----------------|--------------------------|-----------------|
| | 31st January | | 31st January | |
| | 2003 | 2002 | 2003 | 2002 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Company and subsidiaries | | | | |
| Current taxation – | | | | |
| – Hong Kong profits tax | 248 | 736 | 756 | 2,084 |
| – Mainland China enterprise income tax | (55) | 59 | 477 | 309 |
| Deferred taxation – Hong Kong profits tax | – | – | – | – |
| | <u>193</u> | <u>795</u> | <u>1,233</u> | <u>2,393</u> |
| Associates and jointly controlled entities | | | | |
| Current taxation – Hong Kong profits tax | – | – | – | – |
| | <u>193</u> | <u>795</u> | <u>1,233</u> | <u>2,393</u> |

The Company is exempted from taxation in Bermuda until 2016. Hong Kong profits tax has been provided at the rate of 17.5% (2002: 16%) on the estimated assessable profit arising in or derived from Hong Kong.

Zhongshan Tonichi Ferrite Products Co., Ltd., Zhongshan Coils Metalwork Co., Ltd. and Zhongshan Coils Electronic Co., Ltd., wholly foreign owned enterprises established in Zhongshan, the open coastal area of Mainland China, are subject to Mainland China enterprise income tax at a rate of 24%, while Xiamen Coils Electronic Co., Ltd., a wholly foreign owned enterprise established in Xiamen, a special economic zone in Mainland China, is subject to Mainland China enterprise income tax at a rate of 15%.

For all other companies within the Group, profits tax was provided at tax rates in the respective jurisdictions in which they operate.

5. Dividends

The Directors resolved not to declare any interim dividend in respect of the nine months ended 31st January 2003 (2002: Nil).

6. Earnings per share

The calculation of basic earnings per share for the three months ended 31st January 2003 is based on the profit attributable to shareholders of approximately HK\$16,000 (2002: HK\$2,320,000) and on the weighted average number of 693,028,811 (2002: 661,028,811) shares in issue during the period.

The calculation of basic earnings per share for the nine months ended 31st January 2003 is based on the profit attributable to shareholders of approximately HK\$5,310,000 (2002: HK\$12,797,000) and on the weighted average number of 689,086,782 (2002: 645,174,211) shares in issue during the period.

The calculation of diluted earnings per share for the three months ended 31st January 2003 is based on the profit attributable to shareholders of approximately HK\$16,000 (2002: HK\$2,320,000) and on the weighted average number of 693,028,811 (2002: 661,028,811) 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 nine months ended 31st January 2003 is based on the profit attributable to shareholders of approximately HK\$5,310,000 (2002: HK\$12,797,000) and on the weighted average number of 689,086,782 (2002: 649,576,633) shares, adjusted to reflect the effect of all dilutive potential shares in issue during the period.

A reconciliation of the weighted average number of shares used in the calculation of basic earnings per share for the three months and nine months ended 31st January 2003 to that used in the calculation of diluted earnings per share is as follows:

| | Three months ended | | Nine months ended | |
|--|---------------------------|---------------------------|---------------------------|---------------------------|
| | 2003 | 31st January 2002 | 2003 | 31st January 2002 |
| Weighted average number of shares used in the calculation of basic earnings per share | 693,028,811 | 661,028,811 | 689,086,782 | 645,174,211 |
| Weighted average number of shares assumed to have been issued at no consideration on the deemed exercise of all warrants outstanding during the period | - | - | - | 4,402,422 |
| Weighted average number of shares used in the calculation of diluted earnings per share | <u>693,028,811</u> | <u>661,028,811</u> | <u>689,086,782</u> | <u>649,576,633</u> |

The outstanding share options and warrants during the three months and nine months ended 31st January 2003 were anti-dilutive. The outstanding share options during the three months and nine months ended 31st January 2002 were anti-dilutive. The outstanding warrants during the three months ended 31st January 2002 were anti-dilutive.

7. Property, plant and equipment

During the nine months ended 31st January 2003, the additions to property, plant and equipment were approximately HK\$15,883,000 (nine months ended 31st January 2002: HK\$67,067,000).

8. Trade receivables

Aging analysis of trade receivables is:

| | As at 31st January 2003 HK\$'000 | As at 30th April 2002 HK\$'000 |
|--|--|--------------------------------------|
| Current | 40,387 | 27,527 |
| Overdue by 0 – 1 month | 11,132 | 9,937 |
| Overdue by 1 – 2 months | 7,407 | 3,284 |
| Overdue by 2 – 3 months | 5,562 | 842 |
| Overdue by more than 3 months | 5,997 | 2,218 |
| | <u>70,485</u> | <u>43,808</u> |
| Less: Provision for bad and doubtful debts | (1,994) | (1,808) |
| | <u>68,491</u> | <u>42,000</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 to three months to its trade customers who have good payment records and well-established relationships with the Group.

9. Trade payables

Aging analysis of trade payables is:

| | As at 31st January 2003 HK\$'000 | As at 30th April 2002 HK\$'000 |
|-------------------------------|--|--------------------------------------|
| Current | 31,653 | 25,386 |
| Overdue by 0 – 1 month | 2,779 | 7,525 |
| Overdue by 1 – 2 months | 1,440 | 3,112 |
| Overdue by 2 – 3 months | 1,663 | 2,344 |
| Overdue by more than 3 months | 3,955 | 3,229 |
| | <u>41,490</u> | <u>41,596</u> |

10. Share capital

Movements in share capital were:

| | Nine months ended 31st January 2003 | | Year ended 30th April 2002 | |
|---|--|------------------------------|-------------------------------|------------------------------|
| | 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> | <u>1,000,000,000</u> | <u>100,000</u> |
| Issued and fully paid shares of HK\$0.10 each | | | | |
| Beginning of period/year | 661,028,811 | 66,103 | 528,027,108 | 52,803 |
| Issue of shares upon exercise of warrants | - | - | 1,050,000 | 105 |
| Bonus issue | - | - | 105,815,421 | 10,581 |
| Issue of shares pursuant to scrip dividend scheme | - | - | 5,548,047 | 555 |
| Issue of new shares | 32,000,000 | 3,200 | 20,588,235 | 2,059 |
| End of period/year | <u>693,028,811</u> | <u>69,303</u> | <u>661,028,811</u> | <u>66,103</u> |

11. Share options

Under the share option scheme adopted by the Company on 26th October 1999 (the "Old Scheme"), the Directors may grant options to any 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. On 26th September 2002, the Old Scheme was terminated and a new share option scheme (the "New Scheme") was adopted by the Company. No further share options can be offered under the Old Scheme. However, all other respects of the provisions of the Old Scheme shall remain in full force and holders of the share options of the Old Scheme may still exercise such outstanding share options pursuant to their respective expiry dates under the Old Scheme.

The purpose of the New Scheme is to provide full-time employees, including executive directors and non-executive directors of the Company or any of its subsidiaries (including independent non-executive directors of the Company) with the opportunity to acquire proprietary interests in the Company and to encourage them to work towards enhancing the value of the Company and its shares for the benefit of the Company and its shareholders as a whole.

Movements in share options granted under the Old Scheme during the nine months ended 31st January 2003 were as follows:

| Name | Subscription price per share | Beginning of period | Number of shares under options | | End of period |
|--------------------|------------------------------|---------------------|--------------------------------|--------------------------|-------------------|
| | | | Exercised during the period | Lapsed during the period | |
| (i) Directors | | | | | |
| Mr. Lam Wai Chun | HK\$1.02* | 3,527,194 | - | - | 3,527,194 |
| Mr. Saito Misao | HK\$1.02* | 3,527,194 | - | - | 3,527,194 |
| Ms. Tang Fung Kwan | HK\$1.02* | 3,527,194 | - | - | 3,527,194 |
| Mr. Law Hoo Shan | HK\$0.75** | 1,680,000 | - | - | 1,680,000 |
| Mr. Ho Kwok Keung | HK\$0.75** | 780,000 | - | - | 780,000 |
| (ii) Employees | | | | | |
| | HK\$1.02* | 3,527,194 | - | - | 3,527,194 |
| | HK\$0.75** | 32,280,000 | - | (1,080,000) | 31,200,000 |
| | | <u>48,848,776</u> | <u>-</u> | <u>(1,080,000)</u> | <u>47,768,776</u> |

* Such share options were granted on 21st September 2000. The options are exercisable subject to: (a) up to one quarter of the options are exercisable from 22nd September 2002 to 21st September 2003, both dates inclusive, with vesting period commencing from 21st September 2000 to 21st September 2002; (b) up to three-eighths of the options are exercisable from 22nd September 2003 to 21st June 2004, both dates inclusive, with vesting period commencing from 21st September 2000 to 21st September 2003; (c) up to three-eighths of the options are exercisable from 22nd June 2004 to 21st January 2005, both dates inclusive, with vesting period commencing from 21st September 2000 to 21st June 2004. Any options not exercised during each of the exercisable periods will lapse immediately after the relevant exercisable period.

** Such share options were granted on 1st November 2000. The options are exercisable subject to: (a) up to one quarter of the options are exercisable from 1st November 2002 to 31st October 2003, both dates inclusive, with vesting period commencing from 1st November 2000 to 31st October 2002; (b) up to three-eighths of the options are exercisable from 1st November 2003 to 31st July 2004, both dates inclusive, with vesting period commencing from 1st November 2000 to 31st October 2003; and (c) up to three-eighths of the options are exercisable from 1st August 2004 to 28th February 2005, both dates inclusive, with vesting period commencing from 1st November 2000 to 31st July 2004. Any options not exercised during each of the exercisable periods will lapse immediately after the relevant exercisable period.

During the nine months ended 31st January 2003, no share option has been granted under the New Scheme.

12. Warrants

As at 31st January 2003, the Company had outstanding warrants of 300,800,000 units (as at 30th April 2002: 300,800,000 units), exercisable at any time from 3rd July 2000 to 30th September 2003, both dates inclusive. These warrants entitled the warrant holders to subscribe for 90,546,938 shares in the Company at HK\$0.49 per share (subject to adjustment).

13. Reserves and proposed final dividends

Movements were:

| | Share premium HK\$'000 | Capital reserve HK\$'000 | Subscription right reserve HK\$'000 | Property revaluation reserve HK\$'000 | Cumulative translation adjustments HK\$'000 | Retained profits HK\$'000 | Total HK\$'000 | Proposed final dividends HK\$'000 |
|--|---------------------------|-----------------------------|--|--|--|------------------------------|-------------------|--------------------------------------|
| As at 1st May 2001 | 24,490 | 13,934 | 17,454 | 17,476 | (234) | 140,304 | 213,424 | 5,280 |
| Bonus issue | (10,581) | - | - | - | - | - | (10,581) | - |
| Premium arising from issue of shares pursuant to the scrip dividend scheme | 3,196 | - | - | - | - | - | 3,196 | - |
| Proceeds from exercise of warrants | 514 | - | - | - | - | - | 514 | - |
| Premium arising from issue of shares on exercise of warrants | 240 | - | (240) | - | - | - | - | - |
| Premium arising from issue of new shares | 11,941 | - | - | - | - | - | 11,941 | - |
| Share issue expense | (239) | - | - | - | - | - | (239) | - |
| Surplus on revaluation of properties | - | - | - | 3,590 | - | - | 3,590 | - |
| Profit attributable to shareholders | - | - | - | - | - | 5,973 | 5,973 | - |
| Dividends paid | - | - | - | - | - | - | - | (3,751) |
| - scrip dividends | - | - | - | - | - | (11) | (11) | (1,529) |
| - cash dividends | - | - | - | - | - | - | - | - |
| Translation adjustments | - | - | - | - | 96 | - | 96 | - |
| As at 30th April 2002 | <u>29,561</u> | <u>13,934</u> | <u>17,214</u> | <u>21,066</u> | <u>(138)</u> | <u>146,266</u> | <u>227,903</u> | - |
| Premium arising from issue of new shares | 5,120 | - | - | - | - | - | 5,120 | - |
| Share issue expense | (3) | - | - | - | - | - | (3) | - |
| Profit attributable to shareholders | - | - | - | - | - | 5,310 | 5,310 | - |
| Translation adjustments | - | - | - | - | 1,692 | - | 1,692 | - |
| As at 31st January 2003 | <u>34,678</u> | <u>13,934</u> | <u>17,214</u> | <u>21,066</u> | <u>1,554</u> | <u>151,576</u> | <u>240,022</u> | - |

14. Contingent liabilities

Contingent liabilities not provided for in the financial statements are:

| | As at 31st January 2003 HK\$'000 | As at 30th April 2002 HK\$'000 |
|--|--|--------------------------------------|
| Discounted bills with recourse | 1,013 | 205 |
| Factoring of trade receivables with recourse | 24,182 | 36,618 |
| | <u>25,195</u> | <u>36,823</u> |

15. Comparative figures

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

The above was prepared by:
Cheung Man Ho
Financial Controller

BUSINESS REVIEW

The Board of Directors hereby announces that for the nine months ended 31st January 2003, the Group recorded a turnover of HK\$341,184,000 (2002: HK\$276,241,000), representing an increase of 23.5% as compared to the same period in the previous year, and a gross profit margin of 22.6% (2002: 27.6%), representing a decrease of 5.0% as compared to the same period in the previous year. The profit attributable to shareholders recorded in the period was HK\$5,310,000 (2002: HK\$12,797,000). The drop in profit attributable to shareholders was mainly due to the substantial depreciation in property, plant and equipment, which amounted to HK\$43,869,000 (2002: HK\$37,045,000), up 18.4% from the corresponding period in the previous year.

In the face of the economic downturn and intense competition in market, the Group adopted a price-cutting strategy to consolidate its market position. During the period, the Group recorded a satisfactory growth in turnover. The fall in product prices resulted in a fall of the gross profit margin of products. However, the Group switched to a stable pricing policy in the second half of the financial year. As such, the gross profit margin for the third quarter was roughly the same as that in the interim. During the period, the Group proactively developed new series of products and strengthened its market penetration, and focused on the development of power supply devices and the markets in Europe and the United States.

The above was written by:

Tang Fung Kwan

Executive Director

Manufacturing Segment

Manufacturing continued to be the Group's core business, accounting for 93.1% (2002: 90.6%) of the Group's turnover. The turnover of coils manufacturing for the nine months ended 31st January 2003 was 26.9% higher than that for the same period last year. The turnover in the Mainland China market accounted for 9.0% (2002: 6.1%) of the Group's turnover for the nine months ended 31st January 2003, up 2.9% from the same period last year.

Although the international markets have not yet fully recovered, with the accession of Mainland China to the World Trade Organisation, many international manufacturers have been induced to invest in setting up production facilities in Mainland China. The domestic manufacturers in Mainland China keep upgrading themselves in order to meet the global challenges. Their required suppliers must be sizable and able to provide them with cost competitive but quality products. The Group has long been well qualified in these respects. As such, the Group's sales team can be more confident in promoting its products and extending its sales network. Meanwhile, the Group exercises tight control on customers' credit management, thus substantially reducing the risk of bad debts.

The Group's products are widely applicable in audio-visual equipment, home electrical appliances, toys, computers and office automation equipment, car accessories and power supply devices, etc. Therefore, the Group is not susceptible to influences from any single industry segment.

In January 2003, the Group invested NT\$9,000,000 to subscribe for 40% of the equity of 連磁科技股份有限公司 (Rentz Technologies Co., Ltd., (for identification purpose)). Rentz Technologies Co., Ltd. is a company incorporated in Taiwan. It is principally engaged in the design, manufacture and sale of ferrite production equipment. The Group believes that the above investment will benefit the Group in its present and future development in ferrite materials.

The above was written by:

Ho Kwok Keung

Chiu Chan, Charles

Law Hoo Shan

Executive Directors

Trading Segment

For the nine months ended 31st January 2003, the market competition of electronic components continued to be keen. During the period, the turnover of electronic components trading segment reduced by 8.6% to HK\$23,632,000 (2002: HK\$25,858,000) as compared to the same period last year, representing 6.9% (2002: 9.4%) of the Group's turnover.

The gross profit margin of electronic components trading segment dwindled from 13.2% for the nine months ended 31st January 2002 to 8.0% for the nine months ended 31st January 2003. During the period, an operating loss of HK\$1,301,000 was recorded as compared to HK\$592,000 for the same period last year.

Against a backdrop of fierce market competition and in order to maintain their competitive edges, electronic components traders have tightened up their inventory control in addition to promotion sales through price reduction. This is because the import price differences make it more difficult for the traders to project their gross profits. Besides, many manufacturers are trying to bypass the intermediate traders by selling to the end-users direct, thus making the role of intermediate traders diminishing in importance.

The above was written by:

Lam Wing Kin, Sunny

Executive Director

Information Technology Business

Following Mainland China's policy to promote industrialisation through information technology enhancement and to reform conventional industries through technology reform, the manufacturing industry in general attaches significant importance to information technology and makes preparatory work for a technology enhancement, which has formed a strong impetus for the recent continual growth of information technology in Mainland China.

Following its investment in 上海圖王科技有限公司 (Shanghai Signking Science & Technology Co., Ltd. (for identification purpose)) in 2002, the Group's wholly-owned subsidiary, CEC-Technology Limited ("CEC-Technology"), which is principally engaged in information technology business, entered into a share subscription agreement with Sun-iOMS Technology Holdings Limited ("Sun-iOMS") and Grandmass ERP Limited ("ERP"), the original sole shareholder of Sun-iOMS, on 1st March 2003 to subscribe for 51% of the entire enlarged issued share capital of Sun-iOMS (the "Subscription"). ERP is a wholly-owned subsidiary of Grandmass Enterprise Solution Limited, which is a company listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited. The Subscription was completed on 5th March 2003.

Capitalising on the Group's comprehensive knowledge of the manufacturing industry, its extensive sales network, and its rich experience in management system application, together with the advanced software technology and product development experience of Grandmass Enterprise Solution Limited, Sun-iOMS plans to develop new software products and solutions with all its capabilities, and to use the Hong Kong market as a foot hold to win patronage from Hong Kong funded enterprises in the Pearl River Delta of the Guangdong Province. As at 15th March 2003, the balance of the contract-on-hand of Sun-iOMS amounted to HK\$2,588,000.

The Group will continue to deploy CEC-Technology as the flagship in its development of information technology to proactively strengthen the Group's internal resources planning system, intranet system and communication platform. The principal objectives are to increase the efficiency of the Group's operating system and the pooling of knowledge resources. Currently, the Group does not have any plan to commercialise this portion of its operation.

The above was written by:

Huang Kong

Executive Director

Changes in Financial Resources

The operating cash flows of the Group during the period recorded a fall as compared to the corresponding period last year. This was mainly attributable to an increase of turnover, which resulted in an increase of trade receivables and inventories for the period. However, as the Group has all along been making efforts on the collection of trade receivables and its production management, the number of days in the trade receivables collection period and inventory turnover period remained to be stable. The Group believes that its operating cash flows will gradually increase in the future. On the other hand, cash inflow of investment businesses was mainly attributable to the Group's infrastructure business which was near completion. Except certain ancillary production equipment, the Group's capital investment is expected to remain at a low level.

| | Nine months ended 31st January | |
|--|-----------------------------------|------------------|
| | 2003 HK\$'000 | 2002 HK\$'000 |
| Cash inflow from operating activities | 12,536 | 35,094 |
| Cash inflow (outflow) from investing activities | 3,915 | (50,851) |
| Decrease in cash and cash equivalents | 41,895 | 30,060 |
| Capital expenditure | 15,883 | 67,067 |
| Trade receivables turnover (before factoring)/days | 67 | 61 |
| Inventories turnover/days | 85 | 88 |

Total cash and bank deposits and investment of the Group were denominated mainly in Hong Kong dollars, United States dollars, Renminbi, Japanese yen, Singapore dollars and New Taiwan dollars. Borrowings include both short-term (bank overdrafts, trade finances and revolving loans) and long-term (finance lease obligations and long-term bank loans), which were denominated mainly in Hong Kong dollars and partly in United States dollars, Japanese yen and euro. Besides, factoring of trade receivables with recourse was HK\$24,182,000 (as at 30th April 2002: HK\$36,618,000).

| | As at 31st January 2003 HK\$'000 | As at 30th April 2002 HK\$'000 |
|---|--|--------------------------------------|
| | Cash and other bank deposits | 12,956 |
| Pledged bank deposits | 24,946 | 35,847 |
| Investment | 7,800 | 7,370 |
| Total cash and bank deposits and investment | <u>45,702</u> | <u>52,804</u> |

| | As at 31st January 2003 HK\$'000 | As at 30th April 2002 HK\$'000 |
|--|--|--------------------------------------|
| | Short-term bank borrowings | 134,294 |
| Long-term bank loans, current portion | 42,996 | 44,798 |
| Finance lease obligations, current portion | 16,711 | 14,552 |
| Long-term bank loans, non-current portion | 103,611 | 134,649 |
| Finance lease obligations, non-current portion | 10,731 | 17,060 |
| Total borrowings | <u>308,343</u> | <u>300,089</u> |

| | As at 31st January 2003 HK\$'000 | As at 30th April 2002 HK\$'000 |
|-------------------------------|--|--------------------------------------|
| | Banking facilities | 364,408 |
| Utilised banking facilities | (319,038) | (322,961) |
| Unutilised banking facilities | <u>45,370</u> | <u>68,786</u> |

The banking facilities were secured by mortgages over certain of the Group's land and buildings, pledges of bank deposits, investment, inventories and machinery, as well as corporate guarantees provided by the Company and certain of its subsidiaries.

Interest expense on the Group's borrowings was levied on Hong Kong dollar prime or Hong Kong Interbank Offered Rate ("HIBOR") basis with competitive margins. Owing to the decreasing trend in interest rates in Hong Kong, the Group enjoyed considerable savings in interest expense during the nine months ended 31st January 2003.

| | Nine months ended 31st January | | Decrease |
|----------------------|-----------------------------------|------------------|----------|
| | 2003 HK\$'000 | 2002 HK\$'000 | |
| Interest income | 296 | 911 | 67.5% |
| Interest expense | (14,182) | (17,751) | 20.1% |
| Net interest expense | <u>(13,886)</u> | <u>(16,840)</u> | 17.5% |

The Group has all along made efforts to control its liquidity level. As at 31st January 2003, its liquidity was similar to that as at 30th April 2002.

| | As at 31st January 2003 | As at 30th April 2002 |
|--------------------|----------------------------|--------------------------|
| | Current ratio | 0.87 |
| Quick ratio | 0.50 | 0.51 |
| Net gearing ratio* | 0.97 | 0.99 |

* (Total borrowings plus contingent liabilities and bills payable less total cash and bank deposits and investment) over (net tangible assets less proposed final dividends and revaluation surplus arising after 31st January 2002)

| | Nine months ended 31st January | |
|-----------------|-----------------------------------|------|
| | 2003 | 2002 |
| Interest cover# | 4.68 | 4.16 |

(Profit from operations plus depreciation and amortisation) over (interest expense less interest income)

The Group is required to comply with certain restrictive financial covenants imposed by the banks. The financial covenants include, among other things, the maintenance of the following specific financial ratios: (1) the net gearing ratio, defined by the relevant bank as total borrowings plus contingent liabilities less total cash and bank deposits and investment over net tangible assets less proposed final dividends, shall not exceed 0.85:1; and (2) the amount of capital expenditures, as defined by the relevant banks, for the year ended 30th April 2002 shall not exceed HK\$70,000,000. The Group did not fulfill these two financial covenants as at 30th April 2002, but obtained waivers from the relevant banks in respect of such non-compliance in August 2002.

The above was written by:

Cheung Ming Yat

Manager, Capital Management Department

FUTURE PLANS AND PROSPECTS

Looking ahead, it is expected that the performance of the Group's manufacturing segment, which is the core business of the three major business segments of the Group, will keep growing. Although the economy is recovering, it is still moving in a slow pace. The market is dominated by uncertain factors, which have brought about some negative impacts on the electronic products market. Fortunately, more overseas manufacturers are setting up factories in Mainland China. The Group has maintained its position as a major supplier of electronic components in this depressing economic climate because the Group has a solid foundation and cautious investment strategies coupled with stringent cost and quality control.

In the coming year, the turnover of power supply devices is expected to show considerable growth. With the growing awareness of environmental protection and energy saving, all kinds of electronic products have put emphasis on switching mode power supplies. The Group has recently received orders from an American producer of police accessories for this kind of switching mode power supplies. The major components such as capacitors, inductors, line filters and transformers are produced by the Group, which have competitive advantages in terms of quality, delivery timeliness and prices. The Group will position this as a stepping stone for further development in this market segment.

As expected in the previous quarter, the Group's efforts in expanding its market share in Europe have borne fruit. It is estimated that the Group will achieve even higher market share in Europe. The Group has also signed an agency agreement with a sizable Australian accessories wholesaler to distribute the Group's transformers in Australia. The Australian company has already obtained the SSA safety approval certificates of the products for the Group. As a second step, the Group is planning to launch its coils products in the Australian market.

Regarding plans on establishing new production facilities, in view of the increase in orders, the Group has decided to set up a new factory in Nanjing to increase productivity. The new factory is expected to start operating by the end of 2003. Not only can this project bring in reasonable and stable return to the Group, the Group will also be benefited in terms of management and technical skills and will be better known in the industry through the increase in orders.

As for internal plans, the Group's Zhongshan factory will start its ISO14000 quality certification process this year. The certification can confirm that the Group's product quality and manufacture craftsmanship have reached international level as well as the Group's efforts and commitments in caring for the environment. The Group's other factories will follow the same goal so as to enhance the Group's competitiveness. It is also the Group's plan to merge its Singapore production lines for chip inductors into its head factory in Zhongshan in the next financial year so as to better adjust its production in accordance with customers' demand.

Besides the manufacturing segment, after careful analysis of the prospects of its trading segment, the Group has decided to clear its current inventories within a short period of time, and has planned to close all non-core trading businesses before the end of the second quarter in the next financial year. The Group's information technology business will operate in accordance with each subsidiary's established plans. No special development project is being planned for the moment.

The Group anticipates the market situation in the next quarter continues to be difficult, so the Group will carry on with its effective operation and promotion strategies. With its solid foundation and goal to maintain the break-even level, the Group expects it will sail safely in the next quarter to bring reasonable returns to its shareholders.

The above was written by:

Ho Kwok Keung; Chiu Chan, Charles; Lam Wing Kin, Sunny; Huang Kong

Executive Directors

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 nine months ended 31st January 2003.

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 nine months ended 31st January 2003, 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 non-executive director and 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, 20th March 2003