

# CEC INTERNATIONAL HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

# 2001/2002 FIRST 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 ended 31st July, 2001 together with unaudited comparative figures for the corresponding period in 2000, and the unaudited consolidated balance sheet of the Group as at 31st July, 2001 together with audited comparative figures as at 30th April, 2001, are as follows:

### CONSOLIDATED INCOME STATEMENT

CONSOLIDATED INCOME STATEM	IENT		
		31st	iths ended July,
	Notes	2001 HK\$'000 (Unaudited)	2000 HK\$'000 (Unaudited)
Turnover Cost of sales	2	79,770 (53,741)	90,617 (59,379)
Gross profit		26,029	31,238
Distribution and selling expenses General and administrative expenses		(2,358) (10,763)	(2,268) (9,758)
Profit from operations	2	12,908	19,212
Interest income Interest expense		438 (6,769)	(3,800)
Profit before taxation Taxation	<i>3 4</i>	6,577 (765)	16,077 (1,408)
Profit after taxation but before minority interests Minority interests		5,812 (65)	14,669 (81)
Profit attributable to shareholders		5,747	14,588
Earnings per share - Basic	5	1.09 cents	2.92 cents
– Diluted		1.06 cents	2.82 cents
CONSOLIDATED BALANCE SHEET			
		As at 31st July,	As at 30th April,
	Notes	2001 HK\$'000	2001 HK\$'000
	TVOIES	(Unaudited)	(Audited)
NON-CURRENT ASSETS Property, plant and equipment Intangible asset Investment in jointly controlled entiti	6 es	451,084 2,577 234	432,417 2,844 234
Total non-current assets		453,895	435,495
CURRENT ASSETS			
Inventories Trade receivables	7	73,564 35,592	58,762 30,780
Prepayments, deposits and other current assets		10,599	8,071
Pledged bank deposits  Cash and other bank deposits		47,802 8,959	47,387 8,327
Total current assets		176,516	153,327
		170,510	133,327
CURRENT LIABILITIES Short-term bank borrowings Long-term bank loans, current portior Finance lease obligations,	1	(114,254) (24,428)	(88,803) (73,266)
current portion Trade payables	8	(35,346) (29,911)	(33,092) (23,427)
Bills payable	O	(1,705) (13,268)	(11,971)
Accruals and other payables Proposed final dividend Taxation payable		(13,268) (5,280) (681)	(13,033) (5,280) (59)
Total current liabilities		(224,873)	(248,931)
Net current liabilities		(48,357)	(95,604)
Total assets less current liabilities		405,538	339,891
NON-CURRENT LIABILITIES Long-term bank loans, non-current portion		(73,350)	(11,252)
Finance lease obligations, non-current portion Deferred taxation		(46,782) (13,262)	(49,145) (13,262)
Total non-current liabilities		(133,394)	(73,659)
MINORITY INTERESTS		(70)	(5)
Net assets		272,074	266,227
		2/2,0/7	200,221
CAPITAL AND RESERVES Share capital Reserves Retained profit	9 12	52,803 73,220 146,051	52,803 73,120 140,304
Shareholders' equity		272,074	266,227
Same notates equity		212,014	200,221

# Principal accounting policies

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

# 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 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

	Turn Three mor	ths ended	Profit from ope Three mon 31st	erations ths ended
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Coils	65,106	81,714	11,225	18,723
Capacitors	4,754	5,843	1,286	(45)
Other electronic components	9,910	3,060	397	534
	79,770	90,617	12,908	19,212

Analysis of turnover by geographical location as determined on the basis of the

location where incremandisc is derivered is as follow	Three mor	Three months ended 31st July,		
	2001 HK\$'000	2000 HK\$'000		
Hong Kong Mainland China Taiwan	59,202 4,603 5,766	69,249 5,901 6,025		
Europe Singapore Others	3,312 4,741 2,146	6,148 3,294		
	79,770	90,617		

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.

### Profit before taxation

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

	Three months ended 31st July,		
	2001 HK\$'000	2000 HK\$'000	
After charging -			
Depreciation of property, plant and equipment Amortisation of intangible asset	10,599 267	7,506	
Staff costs (including directors' emoluments) Interest expense on	23,561	23,879	
<ul> <li>bank overdrafts and loans wholly repayable</li> </ul>			
within five years	3,821	1,267	
<ul> <li>factoring of trade receivables</li> </ul>	662	1,014	
- finance leases	2,286	1,519	
After crediting – Interest income from bank deposits	438	665	

Taxation comprises:		
		nths ended July,
	2001	2000
	HK\$'000	HK\$'000
Current taxation -		
Hong Kong profits tax  – current year	586	1,300
Mainland China enterprise income tax  – current year	179	108
	765	1,408

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.

The calculation of basic earnings per share for the three months ended 31st July, 2001 is based on the profit attributable to shareholders of approximately HK\$5,747,000 (2000: HK\$14,588,000) and on the weighted average number of 528,027,108 (2000: 500,000,000) shares in issue during the period.

The calculation of diluted earnings per share for the three months ended 31st July, 2001 is based on the profit attributable to shareholders of approximately HK\$5,747,000 (2000: HK\$14,588,000) and on the weighted average number of 542,557,393 (2000: 517,546,817) 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 ended 31st July, 2000 have been adjusted to reflect the bonus issue of shares on the basis of three bonus shares for every two shares held by shareholders on 17th August, 2000.

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

	Three months ended 31st July, 2001 200		
Weighted average number of shares used in the calculation of basic earnings per share	528,027,108	500,000,000	
Weighted average number of shares assumed to have been issued at no consideration on the deemed exercise of all warrants outstanding during the period	14,530,285	17,546,817	
Weighted average number of shares used in the calculation of diluted earnings per share	542,557,393	517,546,817	
The outstanding share options during the three	months ended 3	1st July, 2001	

were anti-dilutive.

### Property, plant and equipment

During the three months ended 31st July, 2001, the additions of property, plant and equipment were approximately HK\$29,089,000 (three months ended 31st July, 2000: HK\$23,733,000).

### Trade receivables

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

	As at 31st July, 2001 <i>HK</i> \$'000	As at 30th April, 2001 HK\$'000
Current Overdue by 0 – 1 month Overdue by 1 – 2 months Overdue by 2 – 3 months Overdue by more than 3 months	20,507 7,455 3,302 4,126 5,012	20,707 6,559 4,250 1,010 2,869
Less: Provision for bad and doubtful debts	40,402 (4,810) 35,592	35,395 (4,615) 30,780

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.

### Trade payables

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

	As at 31st July, 2001 <i>HK\$</i> *000	As at 30th April, 2001 <i>HK</i> \$'000
Current Overdue by 0 – 1 month Overdue by 1 – 2 months Overdue by 2 – 3 months Overdue by 2 – 3 months Overdue by more than 3 months	20,145 3,643 1,813 516 3,794	12,212 4,432 1,665 257 4,861
	29,911	23,427

### Share capital

in share capital are:

	Three mon 31st Jul Number of shares		Year of 30th Ap Number of shares	ended ril, 2001 Nominal value HK\$'000
Authorised shares of HK\$0.10 each Beginning and end of period/year	1,000,000,000	100,000	1,000,000,000	100,000
ssued and fully paid shares of HK\$0.10 each Beginning of period/year Bonus issue Issue of shares pursuant to scrip dividend scheme Issue of shares upon exercise of warrants	528,027,108 - - -	52,803 - -	200,000,000 300,000,000 4,277,108 23,750,000	20,000 30,000 428 2,375
End of period/year	528,027,108	52,803	528,027,108	52,803

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 three months ended 31st July, 2001 are as follows:

	Subscription	Beginning	Number of share Granted during Ex		Lapsed during		
Date of grant	price per share	of period	the period	the period	the period	End of period	
21st September, 2000 1st November, 2000	HK\$1.22* HK\$0.90**	11,795,864 35,400,000			(1,550,000)	11,795,864 33,850,000	
	=	47,195,864			(1,550,000)	45,645,864	

Such share options are exercisable from 22nd September, 2002 to 21st January, 2005, both dates inclusive.

# 11. Warrants

WATTAINS
As at 31st July, 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\$44,987,500 at a subscription price of HK\$0.59 per new share (subject to

Movements of reserves are:

		Th	ree months end	ed 31st July, 2 Property	001 Cumulative		30th April, 2001
	Share premium HK\$'000	Capital reserve HK\$'000		revaluation reserve HK\$'000	translation adjustments HK\$'000	Total HK\$'000	Total HK\$'000
Beginning of period/year	24,490	13,934	17,454	17,476	(234)	73,120	61,790
Proceeds from issue of warrants	_	_	_	_	-		25,000
Warrant issuance expenses	-	-	-	-	-	-	(2,109)
Bonus issue	-	-	-	-	-	-	(30,000)
Premium arising from issue of shares pursuant to scrip dividend scheme	_	_	_	_	_	_	7,177
Proceeds from exercise of warrant	ts -	-	-	_	_	_	11,637
Share issuance expenses	_	_	_	_	_	_	(178)
Translation adjustments					100	100	(197)
End of period/year	24,490	13,934	17,454	17,476	(134)	73,220	73,120

### 13. Contingent liabilities

Contingent liabilities not provided for in the financial statements are:

	As at 31st July, 2001 <i>HK</i> \$'000	As at 30th April, 2001 HK\$'000
Discounted bills with recourse Factoring of trade receivables with recourse	325 30,947	1,402 30,415
	31,272	31,817

## 14. Comparative figures

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

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

Such share options are exercisable from 1st November, 2002 to 28th February, 2005, both dates inclusive.

### BUSINESS REVIEW

The business environment for the Group's financial year 2001/2002 is full of challenges and difficulties. On top of the Group's controversial development blueprint, the market environment was both depressed and uncertain, creating the challenging first quarter for the Group. During the same period last year, both the markets for electronics and high-technology products were booming, stimulating substantial demand for electronic components. For the current year, however, the market situation was totally reversed with the global economic slowdown and the flood of negative news from the world's leading electronics manufacturers. Despite the unfavourable market environment, however, for the three months ended 31st July, 2001, the Group recorded a turnover of approximately HK\$79,770,000, showing only a moderate decrease of 12.0% when compared to the same period last year. Even more positively, the Group has sustained its gross profit margin at a satisfactory level of 32.6%. The results have demonstrated the Group's ability to maintain its competitive edge despite the adverse market conditions.

In the past financial year, the Group grasped emerging market opportunities, enjoying relatively low costs in the construction of new factory blocks and investment in the automation of production facilities, with total capital expenditure amounting to more than HK\$200 million. With the support of its major financing banks, the Group continued to finance its capital expenditure by its well-adopted asset-based financing methods, which were proved to be both effective and practical. As such, interest expense was pushed up by 78.1% to approximately HK\$6,769,000. The investments have also led to a 41.2% increase in depreciation of property, plant and equipment to approximately HK\$10,599,000. This has caused the profit attributable to shareholders to decrease from approximately HK\$14,588,000 to approximately HK\$5,747,000.

The Group is, however, fully committed to the above initiatives, which will be implemented according to the original plans. The Group istrongly believes that these initiatives are essential and vital to building a more promising future. The Group is therefore expected to gain market share rapidly and will be able to fulfill the market demands better once the market stabilises, further reinforcing its status in the market.

# Active Preparation for the Production of Series of Manganese-Zinc Ferrite Core Products

Active Preparation for the Production of Series of Manganese-Zinc Ferrite Core Products
During the previous financial year, the Group began the installation of automated production facilities and the
construction of new factory blocks fitted with sophisticated machinery, which have reached the completion stage.
During the period under review, the production line for the series of manganese-zinc ferrite core products
commenced trial production and has begun operations in the second quarter of this financial year. With the rapid
technological advancement, the demand for quality electronic components has been soaring. The Group expects
the manganese-zinc series products to fulfill the demands of manufacturers of high-tech products for top quality
electronic components. The manganese-zinc series products also enjoy a higher expected gross profit margin of
40%, compared to 30% for usual coil products. With the high demand for manganese-zinc series products, the
Group believes that these products will generate satisfactory returns.

Building on its research achievements and production experience, the Group has been continuously developing new formulae and innovative products during the period under review, striving for further breakthroughs in the quality and variety of its products to satisfy the demands of the electronics industry.

### **Financial Position**

**Financial Position**As at 31st July, 2001, total borrowings amounted to approximately HK\$294,160,000 (as at 30th April, 2001: HK\$255,558,000). Total cash and bank deposits increased to approximately HK\$56,761,000 (as at 30th April, 2001: HK\$55,714,000). The net gearing ratio, defined as total borrowings less total cash and bank deposits over net tangible assets, was approximately 88.1% (as at 30th April, 2001: 75.9%). With regard to the Group's incompliance 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, in August 2001, the Group has obtained the bank's approval for its net gearing ratio up to 0.85:1. Together with the net proceeds of approximately HK\$13,800,000 from the subscription for new shares announced on 11th September, 2001 (please see below for details), the Group has every confidence that it will effectively bring the net gearing ratio to below 0.85:1 in the near future.

As most of the Group's capital expenditure was financed by borrowings instead of equity financing, this has resulted in the Group's higher net gearing ratio. Despite this, the Directors considered the Group's overall financial position to be healthy. As at 31st July, 2001, the Group's aggregate banking facilities increased to approximately HK\$308,536,000 (as at 30th April, 2001: HK\$302,624,000), of which approximately HK\$56,944,000 (as at 30th April, 2001: HK\$65,727,000) was not yet utilised.

### FUTURE PLANS AND PROSPECTS

Entering the 21st century, the world has been transforming into a knowledge-based economy. Global information and communication networks are therefore more important than ever. In spite of the worldwide economic slowdown, the accession of China into the World Trade Organisation ("WTO") will be a key growth-driver for electronic components arising from the information and communication technology revolution. We are therefore cautiously optimistic for the future and are preparing for sustainable development so as to bring better returns to our shareholders. The Group's future plans and prospects are elaborated as follows:

Broadening Customer Base and Diversifying Product Mix
Besides effective cost control, the Group is actively broadening its customer base. The Group has maintained an excellent product portfolio including different types of coils, inductors, transformers, line filters and electrolytic capacitors, etc. These products are widely applied in telecommunication and information technology equipment, data transmission and network products, audio and visual appliances, home electrical and electronic appliances. Together with its top product quality, the Group has won a broad customer base.

Although electronics manufacturers, especially those in Europe, are focusing more on production cost and product quality, the Group considers this to be an ideal opportunity for business exploitation. Over the years, the Group has been adopting efficient and effective production methods, producing quality products at the lowest possible cost, to capture a higher market share. Meanwhile, the Group is negotiating with a well-known mobile phone manufacturer in Europe to supply high-power major electronic components for its chargers on a long-term basis. The Group expects this move to bring in reasonable returns.

## Strengthening Strategic Partnerships

In addition to effective cost management and a broad customer base, a well-established supply chain and widespread distribution network also contributed to the success of the Group.

Currently, the Group has two strategic partners, Nittoku Engineering Co., Ltd. ("Nittoku"), a manufacturer of coil-winding machines, and Toko Inc. ("Toko"), a leading international coils manufacturer. Both are well-known and well-established listed companies in Japan.

Since the Company's listing in November 1999, Nittoku has been supporting the Group unremittingly, displaying total confidence in the Group's business with full action and support. On 11th September, 2001, the Company entered into a conditional 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. Nittoku's beneficial interest in the Company's issued share capital will be increased from approximately 4.78% to approximately 7.77%. The net proceeds from the subscription will be approximately HK\$13,800,000, which is intended to be used as general working capital of the Group.

Adding value to the Group's operating cycle, Nittoku supplies the latest technology and advanced equipment for the Group's upstream production, while Toko provides a widespread distribution network for the Group's downstream sales and marketing. These strategic alliances have effectively enhanced the Group's competitiveness, forming strong foundations for the Group's technical, sales and marketing arms. The Group will further strengthen these strategic partnerships to create ongoing win-win solutions and broaden its future development.

# Staff Sharing the Group's Commitment - One Vision, One Heart

In view of the difficult and challenging business environment as well as the depressed and uncertain market, the staff at every level of Coils Electronic Co., Limited initiated an overall reduction in their salaries ranging from 7% to 20%. This move reflects the tremendous support from our staff for the Group's efforts to streamline operating costs and was followed by similar actions by most of the Directors and other subsidiaries. The Directors strongly believe that, with all staff sharing a common goal with committed hearts, the Group will certainly overcome the difficult and challenging time ahead.

# 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 three months ended 31st July, 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 three months ended 31st July, 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.

APPOINTMENT OF DIRECTOR Mr. Lam Wing Kin, Sunny, has been appointed as an Executive Director of the Company with effect from 27th September, 2001.

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