



CEC

CORPORATE INFORMATION

DIRECTORS*Executive Directors*

Mr. Lam Wai Chun

*(Chairman and Managing Director)*Mr. Saito Misao *(Deputy Chairman)*

Ms. Tang Fung Kwan

Mr. Lam Wing Kin, Sunny

*(Retired on 26th September 2002)**Non-executive Director*

Mr. Tang Tin Sek

Independent Non-executive Directors

Mr. Au Son Yiu

Mr. Lee Wing Kwan, Denis

AUDIT COMMITTEE

Mr. Au Son Yiu

Mr. Lee Wing Kwan, Denis

Mr. Tang Tin Sek

COMPANY SECRETARYMs. Li Lai Sheung *ACIS***AUDITORS**

PricewaterhouseCoopers

*Certified Public Accountants***LEGAL ADVISERS**

F. Zimmern & Co

Richards Butler

Appleby Spurling & Kempe

PRINCIPAL BANKERS

China Construction Bank

CITIC Ka Wah Bank Limited

Dah Sing Bank Limited

Dao Heng Bank Limited

Hang Seng Bank Limited

Standard Chartered Bank

The Hongkong and Shanghai Banking
Corporation Limited**REGISTERED OFFICE**

Cedar House

41 Cedar Avenue

Hamilton HM 12

Bermuda

HEAD OFFICE AND PRINCIPAL**PLACE OF BUSINESS**

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Kowloon

Hong Kong

SHARE REGISTRARS AND**TRANSFER OFFICES***Bermuda Principal Share Registrar*

Butterfield Fund Services (Bermuda) Limited

Rosebank Centre

11 Bermudiana Road

Pembroke

Bermuda

Hong Kong Branch Share Registrar

Computershare Hong Kong Investor

Services Limited

Rooms 1901-5, 19th Floor

Hopewell Centre

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Listed on The Stock Exchange of Hong Kong Limited

Stock Code: 0759 (shares)

0337 (warrants)

ION-PLATING TECHNIQUE AND HARD COATING

(Written by Professor Yuan Zhen Hai, Technical Consultant of Coils Electronic Co., Limited)

Ion-plating technique combines the technique of glow-discharge or arc-discharge of a gas, plasma technique and vacuum evaporation plating technique. The special feature of ion-plating technique is to use the bombardment of ions to interfere the plating process. By making use of the activity of plasmas and the bombardment effect and energy exchange between ions and their substrates, interfaces and the growing films, compounds can be brought into existence under a temperature much lower than that conditioned by traditional thermodynamics, while the density of the films and the adhesion between films/substrates are enhanced as well as the organisation, structure and properties of films are improved.

Ion-plating technique has been extensively applied in the preparation of hard coatings, with cathodic arc deposition and magnetron sputtering as the two mainstream techniques. Other techniques such as thermal arc ion-plating and hole cathodic ion-plating have their special features as well. In recent years, new techniques have been emerging from time to time. For example, unbalance magnetron sputtering with high ionic density, intermediate frequency double target magnetron sputtering for the deposition of media films, superimposed pulse bias technique in low deposition temperature, filtering arc deposition for eliminating macro-particles, various combinations of ion-plating techniques, various combinations of ion sources and ion-plating techniques, etc. have provided more advanced means for the development and production of innovative and advanced hard surface coating.

Ion-plating hard surface coating consists of two categories: the first is a super-hard coating for wear-resisting tools; the other a protective coating for decorative purposes.

Super-hard coating is principally applied on the surface of cutting tools, die equipment and wear-resisting parts as a protective coating. Series of this films include coatings of TiN, ZrN, TiAlN, TiC, TiCN, CrN, diamond-like carbon (DLC), carbon-nitrogen (CN_x), etc., all with hardness over Hv2200. In addition, there are series of nano multi-layer films with the super-hardening effect of nano multi-layer structure, such as TiN/AlN, TiN/TiAlN, TiN/W₂N, TiCN/TiN, etc., all with hardness over Hv4000. Recently, there are some solid friction-reducing films emerged, for example, W-C:H, WC-C, MoS₂, DLC, etc. They are deposited on the top layer of some super-hard coatings to become composite multi-layer films, thus providing the function of wear-resisting and friction-reducing. Substrates being deposited include high speed steel, die steel, carbide and high-quality alloy-steel. Products being coated include drill bits, milling cutters, broaches, taps, scissors, moulds, plastic-injected moulds, magnetic powder compacting moulds, plunger dies, forcers, wear-resisting particles for mobiles, medical devices, etc. Coating can enhance the wear-resisting ability of the coated article, lengthen its service life, reduce cost and, at the same time, increase efficiency.

In addition to utilising the coating's wear-resistant and corrosion-resistant functions, decorative protective coating has taken advantage of its special feature, which is the adjustable colour with metallic lustre. Its principal films series include the following: TiN, ZrN, TiN+Au, ZrN+Au, etc. with the colour of gold; CrN and stainless steel with the colour of silver; TiC, TiC+i:C, TiAlNC, DLC, etc. with the colour of black; and TiAlN, TiCN, ZrCN, TiAlCN, Ti-O-C-N, etc. with different colours such as brown, purple, blue and green. Substrates being deposited include stainless steel, yellow copper, zinc alloy, glass, ceramic, etc. Decorative coating products include watch accessories, pen

accessories, cutlery, sanitary ware, kitchen ware, metal furniture, hardware products, lighting ware, building hardware, sports equipment, ceramic and glass products, etc. By now, this technique has been extensively applied in various industries.

I would like to particularly emphasise on the development of ion-films in DLC coating, which may open up a new territory in the future. In addition to the application as stated above, DLC is also a decorative coating for first-class watches (in black and with a high degree of hardness and wear-resistance) and is the friction-reducing and corrosion-resisting coating for a famous brand name razors. DLC is also a protective coating for high-quality film heads for magnetic record. When applied to the diaphragm of loudspeakers, DLC coating can increase acoustic high-frequency response and improve voicing, so it has been adopted by famous hi-fi products in Japan and the USA. The writer is currently managing the industrialisation of this project in Mainland China.

There is a wide range of products using the technique of ion-plating in different industries. This technique is changing rapidly and this industry is developing prosperously. Moreover, ion-plating technique is a technique free from pollution. Therefore, the industrialisation of ion-plating has a lot of peculiarities worth the investors' concern.

Introduction of the Writer:

Yuan Zhen Hai, male; born in December 1939 and a native of Dongguan City, Guangdong Province. Professor Yuan was a postgraduate of the Department of Engineering Physics, Qing Hua University, Mainland China (1967). He is now a Senior Engineer (with the equivalent level as a professor) of the Centre of Material Surface of Guangzhou Nonferrous Metal Research Institute, and concurrently the vice supervisor of National Technique Standardisation Committee for Coating of Metal and Non-metal, committee member of the Consultant Committee of the Chinese Vacuum Society, and director of the standing committee of Guangdong Vacuum Society. Professor Yuan has been engaged in the research and development of material science and engineering for over 30 years, and has mainly devoted in the research and development of ion-plating technique and hard coating in the last decade. He has successfully achieved many breakthroughs in projects on the national, departmental, provincial, and municipal levels, and has researched and developed coatings of TiN, TiC, TiAlN, TiCN, DLC, CNx, etc., and their relevant application which in return earned for him the Science and Technology Improvement Award granted by the departmental, provincial, and municipal authorities seven times. Professor Yuan had also published over twenty academic papers in Mainland China and overseas, and participated in the editing of the significant reference book – “A Design Handbook of Modern Surface Engineering” (現代表面工程設計手冊) (by National Defense Publishing House, 2000). Professor Yuan joined the Group as a Technical Consultant in May 2000. His expertise in ion-plating technique and hard coating has made a significant contribution to the research and development of various types of moulds (such as moulds for ferrite materials, plastics and metals) required in the Group's production cycles and its product quality. He has been playing a very important role in the Group's business development.

2002/2003 FIRST QUARTER RESULTS

The Board of Directors (the “Directors”) of CEC International Holdings Limited (the “Company”) is pleased to present the unaudited consolidated financial statements of the Company and its subsidiaries (collectively referred to as the “Group”) for the three months ended 31st July 2002 as follows:

CONSOLIDATED INCOME STATEMENT

	Notes	Three months ended 31st July	
		2002 HK\$'000 (Unaudited)	2001 HK\$'000 (Unaudited)
Turnover	2	115,364	79,770
Cost of sales		(94,568)	(53,741)
Gross profit		20,796	26,029
Distribution and selling expenses		(3,073)	(2,358)
General and administrative expenses		(8,939)	(10,763)
Profit from operations	2	8,784	12,908
Interest income		125	438
Interest expense		(4,953)	(6,769)
Share of profits less losses of jointly controlled entities		(18)	–
Profit before taxation	3	3,938	6,577
Taxation	4	(739)	(765)
Profit after taxation but before minority interests		3,199	5,812
Minority interests		–	(65)
Profit attributable to shareholders		3,199	5,747
Earnings per share	6		
– Basic		0.47 cent	0.91 cent
– Diluted		0.47 cent	0.88 cent

CONSOLIDATED BALANCE SHEET

	Notes	As at 31st July 2002 HK\$'000 (Unaudited)	As at 30th April 2002 HK\$'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	7	481,162	489,012
Intangible asset		1,511	1,778
Investment in jointly controlled entities		9,174	872
Total non-current assets		491,847	491,662
CURRENT ASSETS			
Inventories		77,402	70,321
Trade receivables	8	67,050	42,000
Prepayments, deposits and other current assets		11,147	10,227
Investment		7,370	7,370
Pledged bank deposits		35,947	35,847
Cash and other bank deposits		9,602	9,587
Total current assets		208,518	175,352
CURRENT LIABILITIES			
Short-term bank borrowings		(107,584)	(89,030)
Long-term bank loans, current portion		(44,865)	(44,798)
Finance lease obligations, current portion		(15,640)	(14,552)
Trade payables	9	(46,694)	(41,596)
Bills payable		(5,860)	(2,390)
Accruals and other payables		(18,010)	(13,874)
Taxation payable		(564)	(122)
Total current liabilities		(239,217)	(206,362)
Net current liabilities		(30,699)	(31,010)
Total assets less current liabilities		461,148	460,652
NON-CURRENT LIABILITIES			
Long-term bank loans, non-current portion		(123,407)	(134,649)
Finance lease obligations, non-current portion		(17,148)	(17,060)
Deferred taxation		(14,937)	(14,937)
Total non-current liabilities		(155,492)	(166,646)
Net assets		305,656	294,006
CAPITAL AND RESERVES			
Share capital	10	69,303	66,103
Reserves	13	236,353	227,903
Shareholders' equity		305,656	294,006

CONSOLIDATED CASH FLOW STATEMENT

	Three months ended 31st July	
	2002 HK\$'000 (Unaudited)	2001 HK\$'000 (Unaudited)
Cash flows from operating activities		
Profit before taxation	3,938	6,577
Interest income	(125)	(438)
Interest expense	4,953	6,769
Depreciation of property, plant and equipment	14,492	10,599
Amortisation of intangible asset	267	267
Net loss on disposal of property, plant and equipment	87	1
Share of profits less losses of jointly controlled entities	18	–
Increase in inventories	(7,081)	(14,802)
Increase in trade receivables	(25,050)	(4,812)
Increase in prepayments, deposits and other current assets	(920)	(2,533)
Increase in trade payables	5,098	6,484
Increase (Decrease) in bills payable	3,470	(10,266)
Increase in accruals and other payables	4,136	271
Hong Kong profits tax refunded	–	5
Mainland China enterprise income tax paid	(297)	(179)
	2,986	(2,057)
Cash flows from investing activities		
Additions to property, plant and equipment	(832)	(18,592)
Proceeds from disposal of property, plant and equipment	85	–
Increase in pledged bank deposits	(100)	(415)
Interest received	125	438
	(722)	(18,569)
Cash flows from financing activities		
Interest paid	(4,953)	(6,769)
New long-term bank loans	–	18,734
Repayment of long-term bank loans	(11,175)	(5,474)
Repayment of capital element of finance lease obligations	(4,325)	(10,673)
	(20,453)	(4,182)
Translation adjustments	(350)	(11)
Decrease in cash and cash equivalents	(18,539)	(24,819)
Cash and cash equivalents, beginning of period	(79,443)	(80,476)
Cash and cash equivalents, end of period	(97,982)	(105,295)

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Three months ended 31st July	
	2002 HK\$'000 (Unaudited)	2001 HK\$'000 (Unaudited)
Shareholders' equity, beginning of period	294,006	271,507
Translation adjustments	131	100
Net gains not recognised in the consolidated income statement	131	100
Profit attributable to shareholders	3,199	5,747
Issue of new shares	8,320	–
Shareholders' equity, end of period	305,656	277,354

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 ended 31st July 2002 as compared with the most recent published annual financial statements for the year ended 30th April 2002. The quarterly financial statements comply with Statement of Standard Accounting Practice 25 “Interim financial reporting” issued by the Hong Kong Society of Accountants.

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 had no material effect on the Group’s financial statements, except in accordance with the revised SSAP 1 “Presentation of financial statements”, a consolidated statement of changes in shareholders’ equity is presented instead of a consolidated statement of recognised gains and losses, and in accordance with the revised SSAP 15 “Cash flow statements”, the presentation of the consolidated cash flow statement has been amended.

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, 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 business segment is as follows:

	Turnover		Profit (loss) from operations	
	Three months ended		Three months ended	
	31st July		31st July	
	2002	2001	2002	2001
	HK\$’000	HK\$’000	HK\$’000	HK\$’000
Coils manufacturing	95,059	65,106	8,598	11,225
Capacitors manufacturing	8,803	4,754	549	1,286
Power supply devices manufacturing	1,698	–	4	–
Electronic components trading	9,804	9,910	(367)	397
	115,364	79,770	8,784	12,908

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

	Turnover		Profit (loss) from operations	
	Three months ended		Three months ended	
	31st July		31st July	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	81,541	59,202	4,235	11,449
Mainland China	8,427	4,603	2,876	444
Taiwan	13,929	5,766	899	1,037
Europe	4,659	3,312	336	854
Singapore	5,040	4,741	990	120
Others	1,768	2,146	(552)	(996)
	115,364	79,770	8,784	12,908

3. Profit before taxation

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

	Three months ended 31st July	
	2002	2001
	HK\$'000	HK\$'000
Crediting –		
Interest income from bank deposits	125	438
Charging –		
Depreciation of property, plant and equipment	14,492	10,599
Amortisation of intangible asset	267	267
Employment costs (including directors' emoluments)	24,375	23,561
Interest expense on		
– bank overdrafts and loans wholly repayable within five years	3,778	3,821
– factoring of trade receivables	726	662
– finance leases	449	2,286

4. Taxation

Taxation consisted:

	Three months ended 31st July	
	2002	2001
	HK\$'000	HK\$'000
Company and subsidiaries		
Current taxation –		
Hong Kong profits tax	442	586
Mainland China enterprise income tax	297	179
Deferred taxation – Hong Kong profits tax	–	–
	739	765
Jointly controlled entities		
Current taxation – Hong Kong profits tax	–	–
	739	765

The Company is exempted from taxation in Bermuda until 2016. Hong Kong profits tax has been provided at the rate of 16% (2001: 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 three months ended 31st July 2002 (2001: Nil).

6. Earnings per share

The calculation of basic earnings per share for the three months ended 31st July 2002 is based on the profit attributable to shareholders of approximately HK\$3,199,000 (2001: HK\$5,747,000) and on the weighted average number of 681,202,724 (2001: 633,632,530) shares in issue during the period.

The calculation of diluted earnings per share for the three months ended 31st July 2002 is based on the profit attributable to shareholders of approximately HK\$3,199,000 (2001: HK\$5,747,000) and on the weighted average number of 681,202,724 (2001: 651,068,872) 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 2001 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 ended 31st July 2002 to that used in the calculation of diluted earnings per share is as follows:

	Three months ended 31st July	
	2002	2001
Weighted average number of shares used in the calculation of basic earnings per share	681,202,724	633,632,530
Weighted average number of shares assumed to have been issued at no consideration on the deemed exercise of all warrants outstanding during the period	–	17,436,342
Weighted average number of shares used in the calculation of diluted earnings per share	681,202,724	651,068,872

The outstanding share options and warrants during the three months ended 31st July 2002 were anti-dilutive. The outstanding share options during the three months ended 31st July 2001 were anti-dilutive.

7. Property, plant and equipment

During the three months ended 31st July 2002, the additions to property, plant and equipment were approximately HK\$6,334,000 (three months ended 31st July 2001: HK\$29,089,000).

8. Trade receivables

Aging analysis of trade receivables is:

	As at	As at
	31st July 2002	30th April 2002
	HK\$'000	HK\$'000
Current	45,079	27,527
Overdue by 0 – 1 month	13,824	9,937
Overdue by 1 – 2 months	6,422	3,284
Overdue by 2 – 3 months	1,909	842
Overdue by more than 3 months	1,948	2,218
	69,182	43,808
Less: Provision for bad and doubtful debts	(2,132)	(1,808)
	67,050	42,000

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 July 2002 HK\$'000	As at 30th April 2002 HK\$'000
Current	27,682	25,386
Overdue by 0 – 1 month	12,151	7,525
Overdue by 1 – 2 months	3,646	3,112
Overdue by 2 – 3 months	2,020	2,344
Overdue by more than 3 months	1,195	3,229
	46,694	41,596

10. Share capital

Movements in share capital were:

	Three months ended 31st July 2002		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	1,000,000,000	100,000	1,000,000,000	100,000
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	693,028,811	69,303	661,028,811	66,103

11. Share options

Under the share option scheme adopted by the Company on 26th October 1999, 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.

Movements in share options during the three months ended 31st July 2002 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
(ii) Employees					
	HK\$ 1.02 *	3,527,194	–	–	3,527,194
	HK\$ 0.75**	34,740,000	–	(540,000)	34,200,000
		48,848,776	–	(540,000)	48,308,776

* 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.

12. Warrants

As at 31st July 2002, 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	-	-	-	-	-	-	-	(3,751)
- cash dividends	-	-	-	-	-	(11)	(11)	(1,529)
Translation adjustments	-	-	-	-	96	-	96	-
As at 30th April 2002	29,561	13,934	17,214	21,066	(138)	146,266	227,903	-
Premium arising from issue of new shares	5,120	-	-	-	-	-	5,120	-
Profit attributable to shareholders	-	-	-	-	-	3,199	3,199	-
Translation adjustments	-	-	-	-	131	-	131	-
As at 31st July 2002	34,681	13,934	17,214	21,066	(7)	149,465	236,353	-

14. Contingent liabilities

Contingent liabilities not provided for in the financial statements are:

	As at 31st July 2002 HK\$'000	As at 30th April 2002 HK\$'000
Discounted bills with recourse	–	205
Factoring of trade receivables with recourse	35,190	36,618
	<u>35,190</u>	<u>36,823</u>

BUSINESS REVIEW

During the first quarter of the financial year 2002/2003, the global economy remained difficult, but the market started showing signs of stabilisation. Given the Group's established foundations and operating philosophy, the Group achieved a growth in turnover of 44.6% for the three months ended 31st July 2002 and reached HK\$115,364,000 (2001: HK\$79,770,000). The rise in turnover shows that the market is returning to stability, and that the demand for electronic components is gradually picking up. However, the competition was still very fierce during the period. Electronic components suppliers in general faced substantial pressure on product prices, which still remained at an extremely unreasonable level. This has pushed down the Group's gross profit margin from 32.6% for the first quarter of last year to 18.0% for the first quarter of the current year. The Group's profit attributable to shareholders saw an inevitable, and prominent, decrease from HK\$5,747,000 for the first quarter of last year to HK\$3,199,000 for the first quarter of the current year. Under the current difficult electronic components market, which is in a knockout stage, the Group was still able to keep profitable and out-perform many other market players.

Coils Manufacturing Segment

For the three months ended 31st July 2002, the Group's core business segment, coils manufacturing, accounted for 82.4% (2001: 81.6%) of the Group's turnover, and reached HK\$95,059,000 (2001: HK\$65,106,000), up 46.0% from the corresponding period in the previous year. However, the Group's bid to raise the coils manufacturing segment's productivity through the additions of property, plant and equipment last year has driven up the segment's depreciation from HK\$10,480,000 for the first quarter of last year by 36.0% to HK\$14,249,000 for the first quarter of the current year. Due to the substantial price cuts by 10% to 20% starting from the third quarter of the previous year and the increase in depreciation, the coils manufacturing segment suffered a decline in gross profit margin from 34.8% for the first quarter of last year to 19.1% for the first quarter of the current year. Profit from operations fell 23.4% from HK\$11,225,000 for the first quarter of last year to HK\$8,598,000 for the first quarter of the current year. Nevertheless, discounting the impact of product price cuts, the Group's coils manufacturing segment actually has achieved an outstanding growth in terms of both production output and sales volume, thanks to the Group's persistent effort in expanding the coils manufacturing segment. Equipped with its strong coils production capability, the Group is well positioned to capture the business opportunities due to emerge once the market fully recovers.

For the first quarter of the current year, the Group recorded a 83.1% growth in turnover to the market in Mainland China, accounting for 7.3% (2001: 5.8%) of the Group's turnover. There is no doubt that there are enormous potentials for business growth in Mainland China. In view of this, the Group has taken an aggressive approach to strategic investments in Mainland China during the first quarter of the current year, by preparing the establishment of new subsidiaries in major developed cities, such as Chongqing, Qingdao, Kunshan and Zhuhai. These strategic investments not only rounded out its comprehensive sales network, but also enabled the Group to stay closer to customers, understand their product requirements better and respond more promptly to their needs. The climb in the Group's business in Mainland China was simply a reflection that the Group was on the right track in developing its business in the country.

The Group is also committed to developing the market in Europe, with the active exploration of new and valued customers. Given that the Group's electronic components were competitive in respect of electromagnetic compatibility ("EMC"), the Group widely received favourable responses from the demanding European manufacturers. During the first quarter of the current year, the Group received steadily growing orders from a leading mobile phone manufacturer in Europe for a major component in its mobile phone chargers, contributing to the 40.7% growth in turnover to the European market, which accounted for 4.0% (2001: 4.2%) of the Group's turnover. This has laid a firm foundation for the Group's further penetration in the European market.

To strengthen its sales force even further, the Group capitalised on the rich experience and improving cost competitiveness of Hong Kong's sales and marketing pool during the first quarter of the current year. The Group has expanded the sales and marketing team of CEC-Coils Hong Kong Co., Limited, making the Group's internal specialisation more rational.

Capacitors Manufacturing Segment

For the three months ended 31st July 2002, the capacitors manufacturing segment attained a turnover of HK\$8,803,000, with a 85.2% growth from the HK\$4,754,000 in the corresponding quarter last year, accounting for 7.6% (2001: 6.0%) of the Group's turnover. However, owing to the climbing production costs, distribution and selling expenses as well as general and administrative expenses, the gross profit margin decreased to 12.9% (2001: 35.2%). The segment also suffered a 57.3% drop in profit from operations to HK\$549,000 (2001: HK\$1,286,000). The growth in turnover of the capacitors manufacturing segment indicated that there are still rooms for further development in the capacitors market. CEC-ECAP Limited will keep implementing controls on its operating costs in order to strive for more satisfactory results in the future.

Power Supply Devices Manufacturing Segment

The turnover of the power supply devices manufacturing segment for the three months ended 31st July 2002 was recorded at HK\$1,698,000 (2001: Nil), accounting for 1.5% of the Group's turnover, with a gross profit margin of 32.7%. The segment achieved a profit from operations of HK\$4,000. The turnover for the three months ended 31st July 2002 represented a 144.3% growth from that for the three months ended 30th April 2002. As the product series of CEC-Electric Co., Limited ("CEC-Electric") are broad and the products are widely applied in telecommunication and information technology equipment, office automation equipment, home electrical appliances, toys, audio and visual products, etc., CEC-Electric's turnover is expected to keep growing steadily.

Electronic Components Trading Segment

The electronic components trading segment recorded a turnover of HK\$9,804,000 (2001: HK\$9,910,000) for the three months ended 31st July 2002, down slightly by 1.1% from the corresponding quarter last year. The segment accounted for 8.5% (2001: 12.4%) of the Group's turnover. Owing to the increasingly keen competition facing the electronic components trading segment, it suffered a fall in gross profit margin from 16.9% in the first quarter of the previous year to 9.9% in the first quarter of the current year. The segment also incurred a loss from operations of HK\$367,000 in the first quarter of the current year, compared to a profit from operations of HK\$397,000 in the first quarter of the previous year. With the deterioration in operating results of the electronic components trading segment and the poor prospects, the Group will reallocate its resources in its future development and concentrate more on developing its core business instead. Starting from October 2002, the Group will cease its trading of semiconductors and kit set of consumer electronic products, but will continue its trading of Samsung passive components only.

Broadening the Source of Revenue

CEC-Technology Limited ("CEC-Technology"), one of the Group's subsidiaries, is the Group's information technology and communication management center. The center's main responsibility is to manage the Group's website "www.0759.com", e-mail system, and to develop the internet version of the enterprise resource planning system. Recently, many enterprises in Mainland China have started to automate their internal management systems. The Group believes that CEC-Technology's software development can also be beneficial to those rapidly developing enterprises in Mainland China, by helping them to streamline their financial and general operations management efficiency.

Recognising the development of CEC-Technology, on 14th May 2002, the Company entered into a conditional agreement with an independent third party for the acquisition of the entire issued share capital of, and the benefit of a loan advanced to, Good Signal Holdings Limited ("Good Signal") by the Company or through its nominated wholly-owned subsidiary for an aggregate consideration of HK\$8,320,000. The consideration for the acquisition, which was completed on 4th June 2002, was satisfied by the issue of 32,000,000 new shares in the Company. Upon completion of the acquisition, the Group indirectly holds 12.5% of the registered capital of 上海圖王科技有限公司 (Shanghai Signking Science & Technology Co., Ltd. (for identification purpose)) ("Shanghai Signking"). Shanghai Signking is principally engaged in software development, sale of software products and system integration. The customers of Shanghai Signking mainly include local government entities and local private enterprises. The Group believes that the acquisition will be conducive to CEC-Technology's further development in the computer software business by taking advantage of the synergy between CEC-Technology and Shanghai Signking, and the possible commercialisation of the software products developed by CEC-Technology.

Changes in Financial Resources and Gearing

As at 31st July 2002, the Group's total borrowings, which were mainly denominated in Hong Kong dollars and partly in United States dollars and Japanese yen, amounted to HK\$308,644,000 (as at 30th April 2002: HK\$300,089,000), of which HK\$140,555,000 (as at 30th April 2002: HK\$151,709,000) was non-current and will be repayable within a period of more than one year but not exceeding five years. Interest expense 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 over the previous financial year, the Group encountered a 71.5% fall in interest

income, which amounted to HK\$125,000 in the three months ended 31st July 2002 (2001: HK\$438,000). On the other hand, interest expense declined by 26.8% to HK\$4,953,000 (2001: HK\$6,769,000). Total cash and bank deposits and investment, denominated mainly in Hong Kong dollars, United States dollars, Renminbi and New Taiwan dollars, were HK\$52,919,000 (as at 30th April 2002: HK\$52,804,000). The net gearing ratio (total borrowings less total cash and bank deposits and investment over net tangible assets less proposed final dividends) was 0.84:1 (as at 30th April 2002: 0.85:1), complying with the financial covenants as agreed between the Group and its major bank. Besides, the net gearing ratio calculated in accordance with the 3-year transferable term loan and revolving credit facility agreement entered into between the Company and a group of banks on 31st January 2002 was 0.99:1 (as at 30th April 2002: 0.99:1), which also complied with the relevant financial covenants.

As at 31st July 2002, the current ratio was 0.87:1 (as at 30th April 2002: 0.85:1). Contingent liabilities were HK\$35,190,000 (as at 30th April 2002: HK\$36,823,000), represented mainly by factoring of trade receivables with recourse of HK\$35,190,000 (as at 30th April 2002: HK\$36,618,000). The Group's authorised and contracted capital commitments for acquisition of machinery and equipment were HK\$6,837,000 (as at 30th April 2002: HK\$270,000).

As at 31st July 2002, the Group's aggregate banking facilities expanded to HK\$432,872,000 (as at 30th April 2002: HK\$391,747,000), of which HK\$102,528,000 (as at 30th April 2002: HK\$68,786,000) remained unutilised. 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. 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 during the three months ended 31st July 2002. The continuing financial support the Group has been enjoying from its principal banks speaks volume of the Group's prospects.

FUTURE PLANS AND PROSPECTS

To conclude, the Group will continue to focus on its core business segment, the coils manufacturing, further enhancing its product competitiveness and establishing a more extensive sales network, all with a view to consolidating the Group's business even further.

Starting from the previous financial year, the Group has been active in building a more extensive sales network in Mainland China. With the establishment of new representative offices and subsidiaries in Chongqing, Qingdao, Kunshan and Zhuhai, and their coordination with the original sales and marketing arms in Zhongshan, Dongguan, Xiamen and Shanghai, the Group succeeded in achieving outstanding business growth in Mainland China during the first quarter of the current year. Building on this success, the Group will remain committed to this strategy. The Group also recognises that customers from different areas may have different product requirements. Therefore, the Group is

planning the set up of new production facilities in cities like Zhuhai, Kunshan and Qingdao, etc., for the manufacturing of coils and ferrite materials, the core components. This will not only propel the Group's production capabilities and shorten lead-time, but also enable the Group to stay closer to local customers, allowing the Group to respond more quickly to customer needs with the most updated market intelligence, provide the best customer services and drive the Group's sales.

In the meantime, the Group will keep paying extra attention to the development of the European market, broadening its customer base and establishing a sound customer network, in order to speed up the pace of business development in Europe. All these were aimed at fighting for better returns to our shareholders.

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 2002.

DIRECTORS' INTERESTS IN SECURITIES

As at 31st July 2002, the Directors of the Company had the following beneficial interests in the share capital of the Company and its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance")) and in the warrants of the Company as recorded in the register required to be kept by the Company pursuant to Section 29 of the SDI Ordinance or otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Companies:

(a) *The Company*

	Number of shares of HK\$0.10 each		Number of warrants
	Family interests	Personal interests	Personal interests
Mr. Lam Wai Chun (Note 1)	404,008,996	2,460,000	—
Mr. Saito Misao	—	750,493	—
Ms. Tang Fung Kwan	—	3,502,611	—
Mr. Lam Wing Kin, Sunny	—	50,000	480,000
Mr. Au Son Yiu	—	950,000	1,000,000

Notes:

- As at 31st July 2002, Ka Yan China Development (Holding) Company Limited held 404,008,996 shares in the Company. The entire issued share capital of Ka Yan China Development (Holding) Company Limited was ultimately beneficially owned by Ka Yan China Family Trust, the family trust of Mr. Lam Wai Chun. The beneficiaries under this family trust were Mr. Lam Wai Chun's spouse, Ms. Law Ching Yee, and his children who were under the age of 18 years, and accordingly Mr. Lam Wai Chun was deemed under the SDI Ordinance to be interested in all the shares held by Ka Yan China Development (Holding) Company Limited.

(b) *Associated corporation*
Coils Electronic Co., Limited

	Number of non-voting deferred shares of HK\$1.00 each (Note 4)		
	Personal interests	Family interests	Total
Mr. Lam Wai Chun (Notes 2 and 3)	7,500,000	6,500,000	14,000,000

Notes:

- Mr. Lam Wai Chun held 7,500,000 non-voting deferred shares of HK\$1.00 each in Coils Electronic Co., Limited, a wholly-owned subsidiary of the Company, representing approximately 53.57% of the 14,000,000 non-voting deferred shares of HK\$1.00 each in the share capital of Coils Electronic Co., Limited.
- In respect of the 6,000,000 non-voting deferred shares of HK\$1.00 each held by Ka Yan China Development (Holding) Company Limited and the remaining 500,000 non-voting deferred shares of HK\$1.00 each held by Ms. Law Ching Yee in Coils Electronic Co., Limited, representing approximately 42.86% and approximately 3.57% respectively of the 14,000,000 non-voting deferred shares of HK\$1.00 each in the share capital of Coils Electronic Co., Limited, Mr. Lam Wai Chun was deemed to be interested in all those shares under the SDI Ordinance by virtue of, in the case of Ka Yan China Development (Holding) Company Limited, the reasons set out in Note (a)1 above and, in the case of Ms. Law Ching Yee, the fact that Ms. Law Ching Yee is the spouse of Mr. Lam Wai Chun.
- Holders of the non-voting deferred shares have no voting rights, are not entitled to dividends unless the net profit of Coils Electronic Co., Limited exceeds HK\$100,000,000,000,000, and are not entitled to any distributions upon winding up unless a sum of HK\$100,000,000,000,000 has been distributed to the holders of ordinary shares.

Save as disclosed above, as at 31st July 2002, none of the Directors of the Company or any of their associates (as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules")) had any interests in the securities of the Company or its associated corporations (within the meaning of the SDI Ordinance) which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to Section 28 of the SDI Ordinance, or pursuant to the Model Code for Securities Transactions by Directors of Listed Companies or which were required, pursuant to Section 29 of the SDI Ordinance, to be entered in the register referred to therein.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

As at 31st July 2002, the Directors of the Company had the following personal interests in share options to subscribe for shares in the Company granted under the share option scheme, as recorded in the register required to be kept under Section 29 of the SDI Ordinance:

Name	Date of grant	Exercisable period	Subscription price per share	Number of shares under options outstanding
Mr. Lam Wai Chun	21st September 2000	22nd September 2002 to 21st January 2005	HK\$1.02	3,527,194
Mr. Saito Misao	21st September 2000	22nd September 2002 to 21st January 2005	HK\$1.02	3,527,194
Ms. Tang Fung Kwan	21st September 2000	22nd September 2002 to 21st January 2005	HK\$1.02	3,527,194

Save as disclosed above, at no time during the three months ended 31st July 2002 was the Company or any of its associated corporations (within the meaning of the SDI Ordinance) a party to any arrangement to enable the Directors of the Company or any of their associates (as defined in the Listing Rules) to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

As at 31st July 2002, according to the register kept by the Company under Section 16(1) of the SDI Ordinance, other than the Directors of the Company, the following persons were interested or taken or deemed to be interested in 10% or more of the issued share capital of the Company:

Name	Number of issued shares	Percentage holding
Ka Yan China Development (Holding) Company Limited (Notes 1 and 2)	404,008,996	58.296%
Ka Yan China Investments Limited (Note 2)	404,008,996	58.296%
HSBC Holdings plc (Note 3)	404,008,996	58.296%
HSBC Bank plc (Note 3)	404,008,996	58.296%
Midcorp Limited (Note 3)	404,008,996	58.296%
Griffin International Limited (Note 3)	404,008,996	58.296%
HSBC Europe BV (Note 3)	404,008,996	58.296%
HSBC Europe (Netherlands) BV (Note 3)	404,008,996	58.296%
HSBC International Trustee Limited (Note 3)	404,008,996	58.296%

Notes:

1. The 404,008,996 shares were held by Ka Yan China Development (Holding) Company Limited, a wholly-owned subsidiary of Ka Yan China Investments Limited, the entire issued share capital of which was ultimately beneficially owned by Ka Yan China Family Trust, the family trust of Mr. Lam Wai Chun, a director of the Company.
2. The interests of Ka Yan China Development (Holding) Company Limited and Ka Yan China Investments Limited, the ultimate holding company of the Company, in respect of 404,008,996 shares duplicated with each other.
3. The interests of HSBC Holdings plc, HSBC Bank plc, Midcorp Limited, Griffin International Limited, HSBC Europe BV, HSBC Europe (Netherlands) BV and HSBC International Trustee Limited in respect of 404,008,996 shares in the Company duplicated with each other. The 404,008,996 shares in which HSBC International Trustee Limited was interested were the shares referred to in Note 2 above.

Save as disclosed above, the Company had not been notified of any other interests representing 10% or more of the issued share capital of the Company which was required to be recorded under Section 16(1) of the SDI Ordinance as at 31st July 2002.

PRACTICE NOTE 19 OF THE LISTING RULES

In accordance with the disclosure requirements of Practice Note 19 to the Listing Rules, the Company makes the following disclosures in relation to the details of the Agreement (as defined below), which includes conditions relating to specific performance of the controlling shareholder of the Company.

On 31st January 2002, the Company entered into a 3-year transferable term loan and revolving credit facility agreement (the “Agreement”) for an aggregate amount of HK\$100,000,000 (the “Facility”) with a group of banks. The Facility consists of a term loan for an aggregate amount of HK\$60,000,000 and a revolving credit facility for an aggregate amount of HK\$40,000,000.

Under the provisions of the Agreement, it would be an event of default, inter alia, if any of the following events occurs:

1. Mr. Lam Wai Chun (“Mr. Lam”), the Chairman and Managing Director of the Company, and Ka Yan China Development (Holding) Company Limited (“Ka Yan”), the controlling shareholder of the Company, cease to be the beneficial owners, together, of more issued share capital of the Company than any other person (including persons acting in concert); or
2. Mr. Lam and Ka Yan cease to be the beneficial owners, together, of at least 35% of the issued share capital of the Company; or
3. Mr. Lam ceases to be the Chairman of the Company or ceases to be involved actively in the management and business of the Group; or
4. Mr. Lam or Ka Yan sells, transfers, assigns, encumbers or disposes of all or part of their respective beneficial ownership of shares in the Company; or
5. Ka Yan ceases to be wholly and beneficially owned by Ka Yan China Family Trust (the “Trust”), the family trust of Mr. Lam; or
6. Mr. Lam’s immediate family members cease to be the only beneficiaries under the Trust.

If any such event of default occurs, upon a notice served to the Company, (i) the Facility shall immediately be cancelled; (ii) all amounts accrued and outstanding or owing under the Facility shall immediately become due and payable; and/or (iii) the Facility shall immediately become payable on demand.

In addition, 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 during the three months ended 31st July 2002.

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 2002, in compliance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules, 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.

RETIREMENT OF DIRECTOR

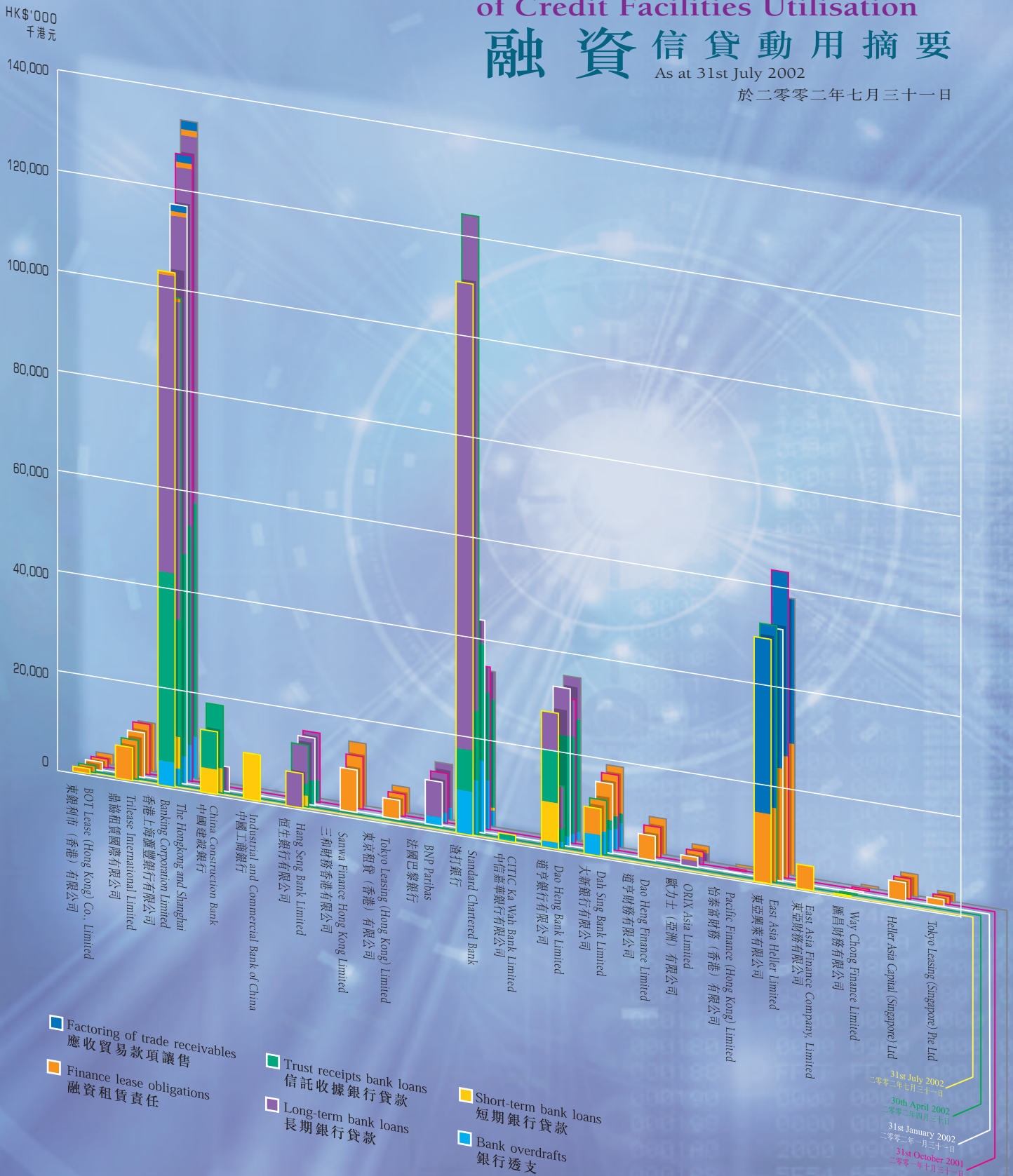
Mr. Lam Wing Kin, Sunny, retired as an Executive Director of the Company with effect from 26th September 2002. The Directors take this opportunity to thank Mr. Lam Wing Kin, Sunny, for his contribution to the Company during his tenure of service.

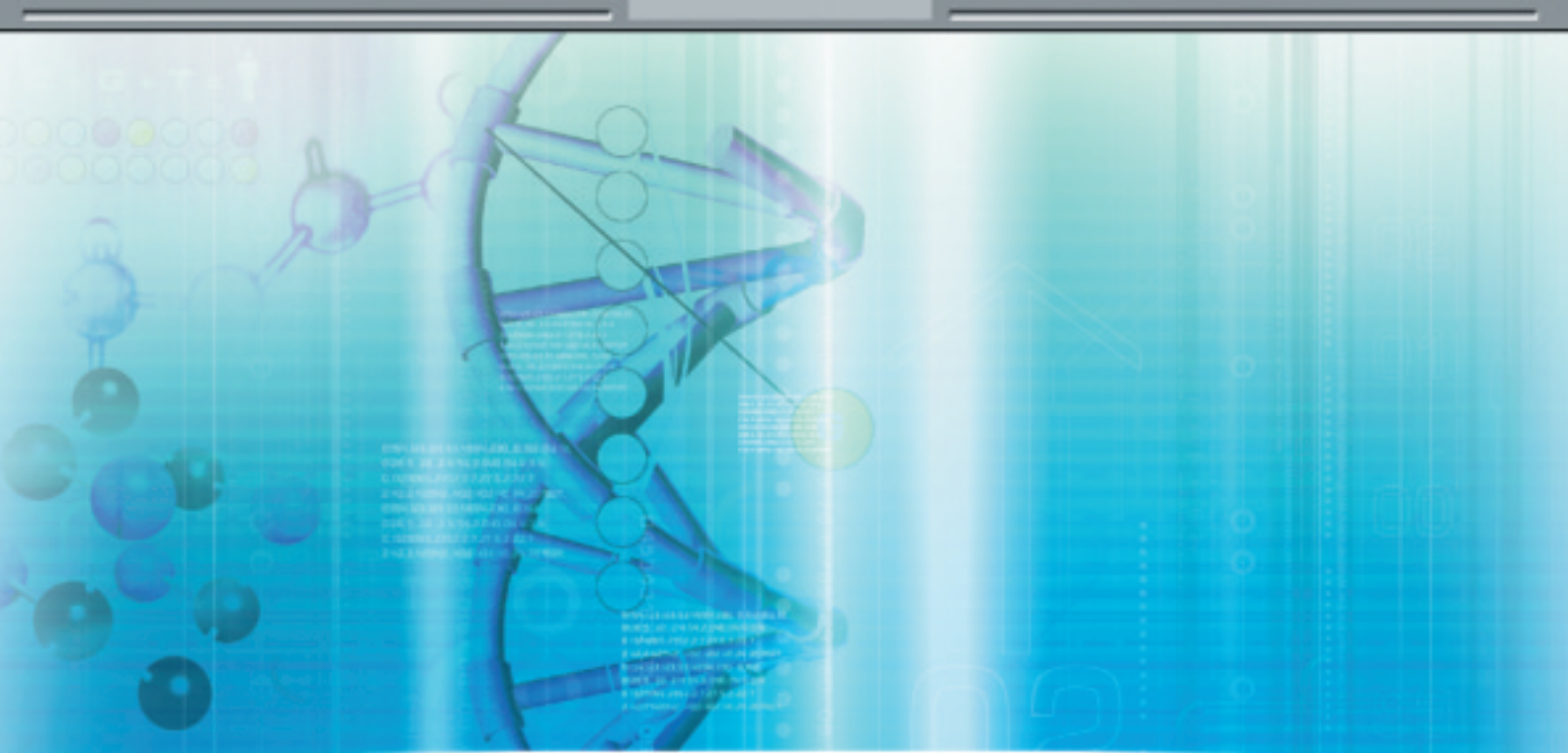
By Order of the Board
Lam Wai Chun
Chairman

Summary of Credit Facilities Utilisation

融資信貸動用摘要

As at 31st July 2002
於二零零二年七月三十一日





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