

Chairman's Statement



Dear Shareholders,

On behalf of the Board of Directors (the "Directors") of CEC International Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group"), I am pleased to present the third annual report of the Group since the listing of the Company's shares on The Stock Exchange of Hong Kong Limited on 15th November 1999.



RESULTS

The financial year ended 30th April 2002 was a year full of challenges. Despite the harsh operating environment throughout the year, the Group still managed to achieve a fair growth rate in turnover for the year.



The following summarises the results of the Group for the year ended 30th April 2002:

- Turnover climbed 4.9% from HK\$347,004,000 to HK\$363,896,000;
- Profit attributable to shareholders was HK\$5,973,000, down 80.6% from the previous financial year; and
- Basic earnings per share was 0.92 HK cent, decreased by 81.6% from last year.

DIVIDENDS

No interim dividend was declared in respect of the year ended 30th April 2002 (2001: Nil).

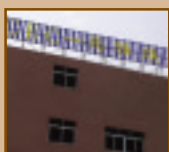
The Directors do not recommend the payment of a final dividend in respect of the year ended 30th April 2002 (2001: 1 HK cent per share (before adjusting for the bonus issue of shares on the

basis of one bonus share for every five shares held by shareholders on 14th September 2001 (the "2001 Bonus Share Issue"))).



CLOSURE OF REGISTER OF MEMBERS

In order to qualify to vote at the annual general meeting, all transfer documents accompanied by the relevant share certificates and, in the case of warrant holders, all duly completed subscription forms accompanied by the relevant warrant certificates and the appropriate subscription monies must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:00 p.m. on 19th September 2002. The register of members of the Company will be closed from 20th



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September 2002 to 26th September 2002, both dates inclusive, during which period no transfer of shares will be effected and no shares will be allotted and issued on the exercise of the subscription rights attaching to the outstanding warrants.

BUSINESS REVIEW

During the year 2001/2002, the global economy remained fragile, reflecting the impact of the US economy's brief encounter with recession during the year and subsequently the terrorist attacks on 11th September 2001. The demand for electronic products reduced, adversely affecting the electronics industry. To maintain sales and competitiveness, many industry players chose to reduce product prices, and often to unreasonable levels. For the Group, however, with our investment in expanding our plant and acquisition of manufacturing facilities last year, our production capacity has been significantly increased, allowing us to increase our turnover at competitive prices even under such a tough economic situation. Our turnover recorded an increase of 4.9% at HK\$363,896,000, reflecting our judicious investment decisions.

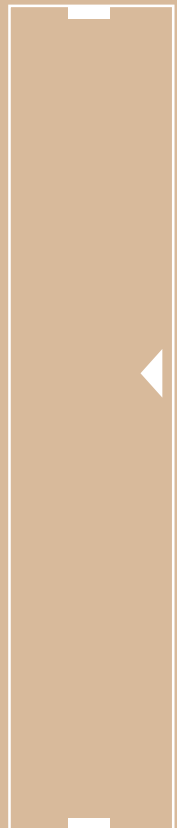
Despite the Group's active pursuit to enhance its capability to cope with the poor economy, it still felt the blow of the stringent economic conditions. The Group's profit attributable to shareholders saw an inevitable decrease from HK\$30,863,000 to HK\$5,973,000. Product prices have dropped tremendously, leading to a substantial decline in gross profit margin from last year's 31.6% to current year's 24.5%. The situation was further worsened by the increase in net interest expense by HK\$4,187,000 over the previous year, owing to the rise in total borrowings during the year.

The Group's performance in the financial year has been affected by the poor market situation. The market, however, began to show signs of reviving near the end of the fourth quarter and the Group's performance is expected to pick up accordingly. The market ruffle has resulted in some smaller-scale electronics manufacturers being expelled, and those who can withstand are the established manufacturers. Leveraging its reputation in the industry and its highly competitive quality products, and exercising active cost control measures, the Group continued to develop quality electronic components and successfully sustained its market position.

The following is an analysis of the performance of the Group's various business streams during the year:

Coils Manufacturing Segment

During the year under review, coils manufacturing remained as the Group's core business, accounting for 80.6% (2001: 89.3%) of the Group's turnover. The turnover for the coils manufacturing segment was HK\$293,122,000, down slightly by 5.4% from the previous year. The drop in turnover was mainly due to the substantial price cuts by 10% to 20% for our products starting from the third quarter. Market prices in general declined to a very unreasonable level. Discounting for the impact of price cuts, the coils manufacturing segment actually has achieved a growth in terms of production output and sales volume, thanks to the Group's persistent effort in expanding the segment.



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During the year under review, the plant expansion in Zhongshan has been completed as scheduled, with an expanded gross floor area of 53,797 sq. m. Installed with additional advanced and precise facilities, the expanded plant significantly increased the Group's production capacity for coils. For the year ended 30th April 2002, the Group has devoted HK\$101,807,000 (2001: HK\$216,247,000) to the addition of property, plant and equipment for the coils manufacturing segment. As such, there has been a 48.5% jump in depreciation of property, plant and equipment from last year's HK\$33,739,000 to HK\$50,088,000 in the current year. Owing to the price cuts and increase in depreciation, the segment's gross profit margin fell from previous year's 34.1% to current year's 27.6%. Profit from operations also suffered a drop of 40.3% from HK\$51,908,000 last year to HK\$30,983,000 this year.

On the other hand, the persistent efforts of the Group's research and development team bore fruit with the commencement of operations of the new production line for manganese-zinc series ferrite core products in the second quarter of the financial year, effectively improving the Group's product competitiveness. Equipped with the sophisticated and automated production facilities, the Group is now able to produce the best quality electronic components, with the manganese-zinc series ferrite core products and line filters enjoying strong support from electronics manufacturers, whose quality consciousness is more and more stringent nowadays. As the electronics industry undergoes drastic technological revolution, the long-term demand for quality electronic components will keep growing continuously. The Group believes the demand for its manganese-zinc series ferrite core products will rise correspondingly and bring in reasonable returns in future.

As new technologies are introduced every day, information technology is advancing at rocketing speed and the market competition for innovative products gets keener and keener. The requirement for electronic components from electronics manufacturers has also seen significant changes as they strive to adjust to the drastic technological changes. By the end of the fourth quarter of the financial year, the market has shown fresh signs of recovery. With all this in mind and the determination to meet the market's needs, the Group has taken a proactive approach throughout the year to facing the challenges ahead by actively expanding and strengthening its investment in property, plant and equipment. The Group is fully confident of its prevalence in the competitive electronics industry.

Capacitors Manufacturing Segment

CEC-ECAP Limited ("CEC-ECAP"), formed in March 2000, has been dedicating to the design, development, manufacture and sale of a wide range of high-quality aluminum electrolytic capacitors with high temperature endurance. Its factory premise is located in Dongguan, Guangdong Province.



For the year under review, the capacitors manufacturing segment attained a turnover of HK\$33,240,000, with a 51.8% growth from last year's HK\$21,899,000, accounting for 9.1% (2001: 6.3%) of the Group's turnover. The gross profit margin was 8.2% (2001: 6.6%). However, owing to the climbing distribution and selling expenses as well as general and administrative expenses arising from the expansion, CEC-ECAP incurred a loss from operations of HK\$368,000 (2001: profit from operations of HK\$332,000) for the year under review. To cater for the growth in turnover, CEC-ECAP has invested HK\$1,094,000 (2001: HK\$5,331,000) during the year in the acquisition of machinery and equipment, resulting in a 119.3% jump in depreciation of property, plant and equipment from the previous year.

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Despite the harsh market environment, as a manufacturer of electronic components, CEC-ECAP has been adhering to its operating principles of exercising careful cost control while maintaining high product quality. CEC-ECAP has started to effectively put in check its human resources and material costs. It will also keep up its efforts in product research and development in future to meet the market demand and strive for more satisfactory operating results and growth prospects for the Group.

Power Supply Devices Manufacturing Segment

Starting from the second quarter of the year under review, CEC-Electric Co., Limited ("CEC-Electric") successfully transformed from a trader of electronic components to a manufacturer of power supply devices. Turnover was recorded at HK\$3,380,000, accounting for 0.9% of the Group's turnover, with a gross profit margin of 35.7%. It achieved a profit from operations of HK\$202,000.

CEC-Electric's factory premise is located in Dongguan, Guangdong Province. For the year ended 30th April 2002, it has invested HK\$1,018,000 in machinery and equipment. CEC-Electric's product series include AC/DC power converters, battery chargers, power transformers, linear adaptors and switching power supply, etc. All such products are, in fact, indispensable components in many categories of electronic products. Therefore, CEC-Electric's products are widely applied in telecommunication and information technology equipment, office automation equipment, home electrical appliances, toys, audio and visual products, etc. Its major markets include Hong Kong, Mainland China, Southeast Asia, Europe, North America, Australia and New Zealand, etc. With the introduction of new business development initiatives, CEC-Electric's customer base is rising steadily. It has also commenced business negotiations with large-scale potential customers. The efforts of CEC-Electric to gather market and product intelligence are also expected to bring substantial contribution to its own and the Group's future development.

