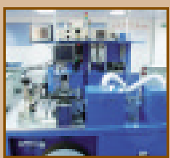
# Chairman's Statement



## Electronic Components Trading Segment

CEC-Smart Good Enterprises Limited ("CEC-Smart Good") and CEC-Unitech Electronics Limited ("CEC-Unitech") are respectively engaged in the distribution of various types of Samsung passive components, and the distribution of semiconductors, kit set of consumer electronic products and other electronic components. Both have contributed revenue for the Group's trading business. However, as a result of the precipitous downturn in worldwide economy, the electronics industry in general experienced a substantial drop in turnover. Many enterprises have to cut production in the wake of inventories accumulation. On the other hand, delays and cancellations of new product launch were not uncommon among market players. This has in turn led to deterioration in operating results of many companies. Both CEC-Smart Good and CEC-Unitech have been adopting a prudent operating philosophy, with emphasis on understanding their customers' positions and needs, and in turn forging closer relationships with them. Coping with the generally weak business environment in the past year, CEC-Smart Good and CEC-Unitech implemented a more cautious credit management policy. To minimise their credit risks, both of them have reshuffled their customer mix towards those who have good credit history.

CEC-Smart Good's and CEC-Unitech's external turnover for the financial year 2001/2002 was HK$21,311,000 and HK$12,843,000, respectively. Together, the segment accounted for 9.4% (2001: 4.4%) of the Group's turnover. On the whole, the electronic components trading segment suffered a fall in gross profit margin from last year's 15.8% to 12.6% in the current year. The segment also incurred an enlarged loss from operations of HK$980,000, up 98.8% as compared to a loss from operations of HK$493,000 in the previous year.

With the electronic components trading business facing increasingly keen competition, resulting in continuous reduction in gross profit margin, deterioration in loss from operations and constant difficulty in achieving cost efficiency targets, the Group has decided to reallocate its resources in its future development. It will concentrate more on developing its core business, expanding its coils manufacturing segment and gradually shrinking its electronic components trading segment.

## Proactive Approach to Strategic Alliances

Since the Company's listing, the Group has been committed to looking for opportunities to establish and reinforce strategic alliances. Currently, the Group has two close strategic partners, both of which are well-known and well-established listed companies in Japan.

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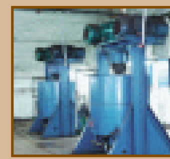


Nittoku Engineering Co., Ltd. ("Nittoku") supplies state-of-the-art technology and advanced equipment for the Group's coils manufacturing segment. On the other hand, Toko Inc. ("Toko"), a leading international coils manufacturer, acts as a secure distribution network for the Group. Adding value to the Group's overall operating cycle, the strategic alliances effectively strengthened the Group's technological, financial, as well as sales and marketing arms, which laid a firm foundation for the Group's future development.

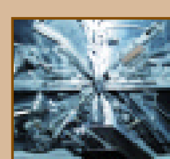
The Group sees great value in the relationship it has built up with the strategic partners. Their confidence in the Group's business and also the electronics industry has been translated into unremittingly strong support for the Group. On 11th September 2001, the Company entered into an agreement with Nittoku for the subscription of 20,588,235 new shares in the Company at a subscription price of HK$0.68 per new share. Nittoku's beneficial interest in the Company's issued share capital was therefore raised from 4.8% to 7.7%. The subscription was completed on 9th October 2001, bringing in net proceeds of HK$13,808,000, which has been applied as general working capital of the Group. Apart from the benefit of additional finance provided by Nittoku, the Group strongly believes that Nittoku's subscription of new shares not only strengthened the partnership, but also evidenced Nittoku's confidence and support in the Group's business and future prospects.

## Enhancement in Capital Structure

On 31st July 2001, the Company announced a scrip dividend scheme, under which shareholders of the Company may elect to receive new fully paid shares in lieu of cash in respect of part or all of the final dividend of HK$0.01 per share (before adjusting for the 2001 Bonus Share Issue) for the year ended 30th April 2001 (the "2001 Final Dividend"). Pursuant to the shareholders' election, a total of 5,548,047 new shares were issued at HK$0.676 per new share in lieu of cash in respect of the 2001 Final Dividend of approximately HK$3,751,000, representing 70.9% of the total 2001 Final Dividend. The Directors considered the popularity of the scrip dividend scheme to be an indication of strong shareholders' confidence in the Group's future prospects.

During the year ended 30th April 2002, 1,050,000 new shares were allotted and issued as a result of the exercise of 4,200,000 units of subscription rights of warrants totalling HK$619,500. The proceeds from the exercise of warrants have been applied as general working capital of the Group. Since the issue of warrants on 3rd July 2000 and up to 30th April 2002, an aggregate of 99,200,000 units of warrants have been exercised, representing 24.8% of the 400,000,000 units of warrants originally issued.

## Changes in Financial Resources and Gearing



The Group is committed to strengthening its financial position, for it believes that a healthy financial position is constructive to its future growth. The continuing financial support the Group has been enjoying from its principal banks speaks volume of the Group's prospects. On 31st January 2002, the Company successfully entered into a 3-year transferable term loan and revolving credit facility agreement for an aggregate amount of HK$100,000,000 with a group of banks. The facility consists of a term loan for an aggregate amount of HK$60,000,000 to repay then existing bank loans and other indebtedness of the Group, and a revolving credit facility for an aggregate amount of HK$40,000,000 used as general working capital of the Group. The facility was subsequently fully drawn down in February 2002. This agreement benefited the Group with an improved debt profile and enriched operating capital, which will contribute to a healthier financial position for its future development.

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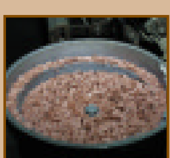
The Group's proactive approach to expansion of plant and production facilities in the previous year has pushed up the net gearing ratio (total borrowings less total cash and bank deposits and investment over net tangible assets less proposed final dividends). Nevertheless, the Group already agreed with its major bank in the second quarter of the year to relax the net gearing ratio limit from 0.60:1 to 0.85:1. As at 30th April 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$300,089,000 (2001: HK$255,558,000), of which HK$151,709,000 (2001: HK$60,397,000) 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 financial year, the Group encountered a 57.4% fall in interest income, which amounted to HK$1,031,000 in current year. On the other hand, due to the increase in total borrowings, the Group's interest expense rose by 14.3% to HK$22,295,000 in the year under review. Total cash and bank deposits and investment, denominated mainly in Hong Kong dollars, United States dollars, Renminbi and New Taiwan dollars, were HK$52,804,000 (2001: HK$55,714,000). The net gearing ratio was 0.85:1 (2001: 0.76:1), complying with the financial covenants as agreed between the Group and the 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, which also complied with the relevant financial covenants.

As at 30th April 2002, the current ratio was 0.85:1 (2001: 0.63:1). Contingent liabilities were HK$36,823,000 (2001: HK$31,817,000), represented mainly by factoring of trade receivables with recourse of HK$36,618,000 (2001: HK$30,415,000) and discounted bills with recourse of HK$205,000 (2001: HK$1,402,000). The Group's authorised and contracted capital commitments for acquisition of machinery and equipment were HK$270,000 (2001: HK$28,038,000).

As at 30th April 2002, the Group's aggregate banking facilities expanded to HK$391,747,000 (2001: HK$302,624,000), of which HK$68,786,000 (2001: HK$65,727,000) 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. 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 subsequent to 30th April 2002.



### Exchange Rate Exposure

For the year under review, the Group has incurred a net exchange loss of HK$1,134,000 (2001: net exchange gain of HK$1,934,000), mainly arising from the fluctuation in the Japanese yen, in which part of the Group's purchases and capital expenditures were denominated. As the Group's sales and purchases were principally denominated in Hong Kong dollars, United States dollars and Renminbi, the Group considered its exchange rate risk to be minimal and adequately managed in this respect.

### Employees and Remuneration Policy

As at 30th April 2002, the Group employed an aggregate of 5,537 (2001: 5,576) full-time employees, located in the various production facilities and offices in Hong Kong, Mainland China, Taiwan, Japan, Singapore and India. Remuneration packages included salary, wages and defined contribution provident funds, etc. Aggregate employment costs (including directors' emoluments) for the year amounted to HK$91,264,000 (2001: HK$87,210,000).

## FUTURE PLANS AND PROSPECTS

Looking to the future, the Group believes that the market is on its way to a rebound. The severe economic downturn has already eliminated some smaller-scale electronics manufacturers. With its strong business foundations, the Group is optimistic that its business will bounce back and head towards a better future. Grasping every arising opportunity, the Group will keep actively expanding and seeking to penetrate both existing markets and markets with promising potential.

### Actively Exploring the Market in Mainland China

Currently, the market in Mainland China contributes only a humble 6.0% (2001: 6.7%) of the Group's turnover. However, it is widely believed that, with China's accession to the World Trade Organisation ("WTO") in December of last year, numerous business opportunities will open up in the country for different industries. To live up to the requirements of its WTO membership, Mainland China will have to relax the restrictions previously imposed on foreign investors. One can expect to see positive development in the country's legal framework and infrastructure, making the investment environment more favourable for foreign investors and in turn making the country's economy ready for a rapid take-off. Mainland China's economic development rides on hard inputs in areas such as infrastructure and technology, complemented by strong market demands. The Group believes that this climate will create huge rooms for its further development.

With that in mind, the Group has started implementing strategic plans to tap the business opportunities arising in Mainland China. In November 2001, the Group established a new

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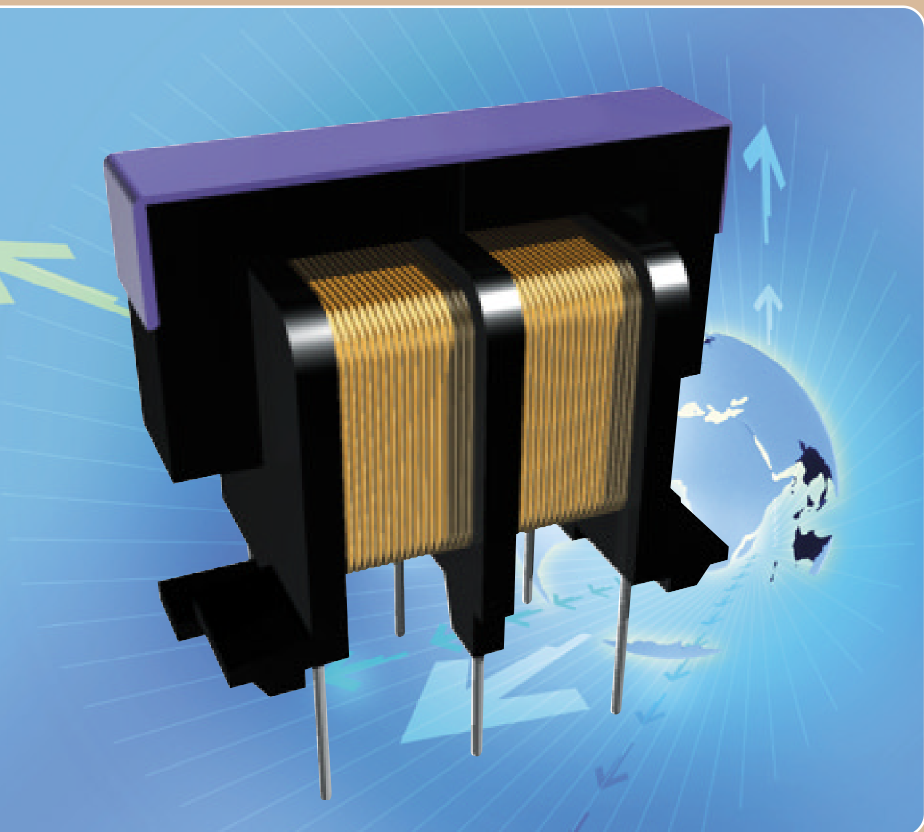
representative office in Chongqing, marking the laying of the cornerstone for its sales liaison service. The Group also frequently participated in electronics trade exhibitions held in Mainland China during the year. To further develop our sales services in Mainland China, we will consider setting up new production facilities and/or representative offices in major cities along the country's coastline such as Shanghai, Zhuhai and Qingdao, etc. The initiatives will allow the Group to benefit from the economical but quality human resources pool in Mainland China and also shorten significantly the lead-time for delivery on top of being there for local customers. Being right there in the market, the Group will also be able to more effectively gather information about potential customers, learn more about their needs, and hence, allowing the Group to better cater for their requirements and in turn boost the Group's sales and marketing.

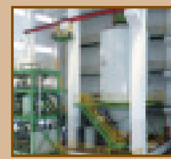


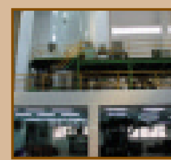
## Expanding the Market Share in Europe

Despite the weak global economy throughout the past year, the Group still achieved a 6.5% growth in turnover to the European market, which accounted for 4.6% (2001: 4.6%) of the Group's turnover. Looking ahead, the demand for electronic components in Europe is expected to rise following a rapid economic recovery and the appreciation of European euro. European manufacturers are particularly demanding in terms of quality and functionality in electronic components. The Group's products, such as toroidal transformers, line filters and anti-electromagnetic interference filters are well equipped with electromagnetic compatibility ("EMC"), which can effectively reduce interference in the transmission of signals in AV products and telecommunication products. With such enhancement as miniaturisation in design, the Group's quality products are highly competitive in the European market, where the needs of different electronics manufacturers in respect of designs and functions will be well catered for. This will effectively help the Group to further escalate its share and presence in the European market.

## Broadening the Source of Revenue

To effect improvement in internal management efficiency and lower administration cost, the Group positioned CEC-Technology Limited ("CEC-Technology") as the Group's information technology and communication management center in 2000. 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 Shanghai Signking Science & Technology Co., Ltd. ("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.

### Conclusion

On the whole, with the market showing signs of an economic rebound as it stepped into the second half of 2002, the Group believes that the market prices of electronic components will resume to a comparatively tolerable level. With its expanded production facilities and rich experience, the Group will be able to grasp market opportunities, broaden its market share and keep up its advancement.

## APPRECIATION

Finally, the Group relishes the contribution made by all staff to the smooth implementation of the Group's business strategies. On behalf of the Board of Directors, I would like to take this opportunity to express my deepest gratitude to all employees for their precious contributions, which enabled the Group to overcome market difficulties and grasp potential opportunities. I would also like to express appreciations to our customers, suppliers and business partners for their continued supports for the Group during the year under review.

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

Hong Kong, 15th August 2002