

The directors have the pleasure of presenting their annual report together with the audited financial statements of CEC International Holdings Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) for the year ended 30th April 2002.

Principal activities, business and geographical analysis of operations

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, which are generally used in the manufacture of various kinds of electronic and electrical products.

An analysis of the Group’s performance for the year ended 30th April 2002 by business and geographical segment is set out in Note 3 to the financial statements.

Major customers and suppliers

During the year ended 30th April 2002, the five largest suppliers of the Group accounted for approximately 34% of the Group’s total purchases with the largest supplier accounted for approximately 14% of the Group’s total purchases while the five largest customers of the Group accounted for less than 30% of the Group’s total turnover.

Toko, Inc., a company which was beneficially interested in approximately 5.5% of the Company’s share capital as at 30th April 2002, is one of the five largest suppliers of the Group and accounted for approximately 7% of the Group’s total purchases for the year ended 30th April 2002. Save as disclosed above, none of the directors, their associates, or any shareholders (which, to the knowledge of the directors owned more than 5% of the Company’s share capital) had a beneficial interest in the Group’s five largest suppliers.

Results and appropriations

Details of the Group’s results for the year ended 30th April 2002 are set out in the consolidated income statement on page 33 of this annual report.

No dividend was declared in respect of the year ended 30th April 2002.

Share capital and warrants

Movements in share capital and details of the warrants of the Company are set out in Notes 24 and 26, respectively, to the financial statements.

Share options

On 26th October 1999 (the “Adoption Date”), the sole shareholder of the Company adopted a share option scheme (the “Scheme”), which was designed to provide incentives to the participants although no such purpose was mentioned in the terms of the Scheme.

The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) amended the requirements for Chapter 17 under the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”) in relation to share option schemes, which came into effect on 1st September 2001.

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The major terms of the Scheme are summarised as follows:

1. The participants of the Scheme include any employees or executives (including any executive directors) of the Company or any of its subsidiaries (but excluding the independent non-executive directors of the Company).
2. The maximum number of shares of the Company in respect of which options might be granted under the Scheme and/or under any other share option schemes of the Company must not exceed 10% of the issued share capital of the Company from time to time, excluding for this purpose any shares which have been duly allotted and issued upon exercise of options granted pursuant to the Scheme (the "Maximum Number"). As at 15th August 2002, the date of this annual report, a total of 20,994,105 shares, representing approximately 3% of the issued share capital of the Company, are available for issue under the Scheme.
3. The maximum number of shares of the Company in respect of which options might be granted to a participant, when aggregated with shares issued and issuable under any option granted to the same participant under the Scheme, must not exceed 25% of the Maximum Number under the Scheme from time to time.
4. Any option may be exercised in whole or in part within a period which is determined and notified by the board of directors of the Company or a duly authorised committee thereof (the "Board") as stated in the offer letter of the grant, which shall be in any event no later than 10 years from the Adoption Date, subject to the provisions for early termination in accordance with the terms of the Scheme.
5. There is no general requirement in respect of the minimum period for which an option must be held before it can be exercised in the terms of the Scheme, but the Board may determine at its discretion such vesting period when making an offer of option.
6. The acceptance of an option, if accepted, must be made not more than 40 days after the date of the offer of the option with a non-refundable payment of HK\$1.00 from the grantee to the Company. The full amount of the subscription price for shares must be paid upon exercise of an option.
7. The subscription price per share in respect of an option is determined by the Board and will not be less than the higher of:
 - (i) a price not less than 80% of the average closing price of the shares of the Company for the 5 trading days immediately preceding the date of offer of the option; and
 - (ii) the nominal value of the share.
8. The Scheme is valid and effective for a period of 10 years commencing on the Adoption Date.

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As a transitional arrangement applicable to the Scheme, the Company must comply with the new requirements of the Listing Rules. The new requirements make some provisions of the Scheme no longer applicable. Accordingly, the directors of the Company will propose an ordinary resolution relating to the termination of the Scheme and the adoption of a new share option scheme with rules in compliance with the revised Listing Rules at the forthcoming annual general meeting of the Company to seek approval from the Company's shareholders.

Movements in share options during the year are as follows:

Name	Date of grant	Exercisable period	Subscription price per share	Number of shares under options				End of year
				Beginning of year	Adjustment for bonus issue ***	Exercised during the year	Lapsed during the year	
(i) Directors								
Mr. Lam Wai Chun	21st September 2000	22nd September 2002 to 21st January 2005 *	HK\$1.02 *	2,948,966	578,228	-	-	3,527,194
Ms. Tang Fung Kwan	21st September 2000	22nd September 2002 to 21st January 2005 *	HK\$1.02 *	2,948,966	578,228	-	-	3,527,194
Mr. Saito Misao	21st September 2000	22nd September 2002 to 21st January 2005 *	HK\$1.02 *	2,948,966	578,228	-	-	3,527,194
Ms. Hu Yan Huan (resigned on 18th March 2002)	21st September 2000	22nd September 2002 to 21st January 2005 *	HK\$1.02 *	2,948,966	578,228	-	-	3,527,194
(ii) Employees	1st November 2000	1st November 2002 to 28th February 2005 **	HK\$0.75**	35,400,000	6,680,000	-	(7,340,000)	34,740,000
				47,195,864	8,992,912	-	(7,340,000)	48,848,776

* 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. The subscription price was adjusted from HK\$1.22 per share to HK\$1.02 per share with effect from 15th September 2001 for the bonus issue.

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- ** 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; (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. The subscription price was adjusted from HK\$0.90 per share to HK\$0.75 per share with effect from 15th September 2001 for the bonus issue.
- *** The adjustment for number of shares under options was made 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.

Save as disclosed above, at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable any of the Company's directors or members of its management to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Reserves

Movements in reserves of the Group and of the Company during the year are set out in Note 27 to the financial statements.

Distributable reserves

As at 30th April 2002, the Company's reserves of approximately HK\$131,338,000 (2001: HK\$131,338,000) (subject to provisions under the Companies Act 1981 of Bermuda (as amended)) and retained profits of approximately HK\$3,621,000 (2001: HK\$4,576,000) were available for distribution to the Company's 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 year ended 30th April 2002.

Pre-emptive rights

There is no provision for pre-emptive rights under the Company's Bye-laws and the laws in Bermuda which would oblige the Company to offer new shares on a pro-rata basis to the existing shareholders.

Property, plant and equipment

Movements in property, plant and equipment of the Group during the year are set out in Note 11 to the financial statements.

Subsidiaries

Particulars of the Company's subsidiaries are set out in Note 13 to the financial statements.

Borrowings

Particulars of borrowings as at 30th April 2002 are set out in Notes 19, 20 and 21 to the financial statements.

Commitments and contingent liabilities

Details of commitments and contingent liabilities as at 30th April 2002 are set out in Note 29 to the financial statements.

Charitable donations

During the year, the Group made charitable donations of approximately HK\$156,000 (2001: HK\$78,000).

Subsequent events

Details of a significant subsequent event are set out in Note 33 to the financial statements.

Pension schemes

Particulars of the Group's pension schemes are set out in Note 30 to the financial statements.

Directors and directors' service contracts

The directors who held office during the year and up to the date of this report are:

Executive directors

Mr. Lam Wai Chun	<i>(Chairman and Managing Director)</i>
Mr. Saito Misao	<i>(Deputy Chairman)</i>
Ms. Tang Fung Kwan	
Mr. Lam Wing Kin, Sunny	<i>(Appointed on 27th September 2001)</i>
Mr. Iwata Kenji	<i>(Retired on 14th September 2001)</i>
Ms. Hu Yan Huan	<i>(Resigned on 18th March 2002)</i>

Non-executive director

Mr. Tang Tin Sek

Independent non-executive directors

Mr. Au Son Yiu
Mr. Lee Wing Kwan, Denis

In accordance with Bye-law 87 of the Company's Bye-laws, Mr. Tang Tin Sek will retire by rotation at the forthcoming annual general meeting of the Company. Mr. Tang Tin Sek will, being eligible, offer himself for re-election.

In accordance with Bye-law 86(2) of the Company's Bye-laws, Mr. Lam Wing Kin, Sunny, will hold office until the forthcoming annual general meeting of the Company. Mr. Lam Wing Kin, Sunny, will, being eligible, offer himself for re-election.

Mr. Lam Wai Chun entered into a service agreement with the Company on 27th September 1999 for an initial period of three years commencing on 1st October 1999 and thereafter until terminated by either party giving to the other not less than six months' notice in writing terminating on or after the expiry of the initial term of three years. Each of Mr. Saito Misao and Ms. Tang Fung Kwan entered into a service agreement with the Company on 27th September 1999 for an initial period of two years, each commencing on 1st October 1999, and thereafter until terminated by either party

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giving to the other not less than six months' notice in writing terminating on or after the expiry of the initial term of two years. Mr. Lam Wing Kin, Sunny, entered into a service agreement with the Company on 27th September 2001 for an initial period of two years commencing on 27th September 2001 and thereafter until terminated by either party giving to the other not less than six month's notice in writing terminating on or after the expiry of the initial term of two years.

Save as disclosed above, none of the directors who are proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not terminable by the Company within one year without payment of compensation (other than statutory compensation).

Directors' interests in securities

As at 30th April 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 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 (<i>Note 1</i>)	404,008,996	2,400,000	–
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	–	500,000	1,000,000

Note:

- As at 30th April 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 (<i>Note 4</i>)		
	Personal interests	Family interests	Total
Mr. Lam Wai Chun (<i>Notes 2 and 3</i>)	7,500,000	6,500,000	14,000,000

Notes:

2. 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.
3. 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.
4. 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, 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 30th April 2002, none of the directors of the Company or any of their associates (as defined in 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 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

Under the Scheme, the directors of the Company 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. Details of the Scheme are set out in Note 25 to the financial statements.

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As at 30th April 2002, the directors of the Company had the following personal interests in share options to subscribe for shares in the Company granted under the 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 year 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.

Directors' interests in contracts of significance

No contracts of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which any of the Company's directors had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Substantial shareholders

As at 30th April 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 (<i>Notes 1 and 2</i>)	404,008,996	61.118%
Ka Yan China Investments Limited (<i>Note 2</i>)	404,008,996	61.118%
HSBC Holdings plc (<i>Note 3</i>)	404,008,996	61.118%
HSBC Bank plc (<i>Note 3</i>)	404,008,996	61.118%
Midcorp Limited (<i>Note 3</i>)	404,008,996	61.118%
Griffin International Limited (<i>Note 3</i>)	404,008,996	61.118%
HSBC Europe BV (<i>Note 3</i>)	404,008,996	61.118%
HSBC Europe (Netherlands) BV (<i>Note 3</i>)	404,008,996	61.118%
HSBC International Trustee Limited (<i>Note 3</i>)	404,008,996	61.118%

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 30th April 2002.

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Biographical details of directors and senior management

Brief biographical details of directors and senior management are set out on pages 16 to 20 of this annual report.

Management contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

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.

Details of the Group's non-compliance with certain restrictive financial covenants of the Agreement are set out in Note 31 to the financial statements.

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Code of Best Practice

In the opinion of the directors, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules throughout the year ended 30th April 2002, except that the independent non-executive directors have not been appointed for a specific term, and the non-executive director, whose service agreement expired on 30th September 2001, no longer has a specific term of appointment, 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.

Audit Committee

The Company established an Audit Committee on 30th September 1999 with written terms of reference in compliance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules. The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control of the Group. The Audit Committee presently comprises three non-executive directors, two of them being independent.

Summary financial information

A summary of the Group's financial information for the last five financial years is set out on page 5 of this annual report.

Auditors

Arthur Andersen & Co audited the financial statements of the Company for each of the years ended 30th April 1999, 2000 and 2001. Arthur Andersen & Co resigned as the auditors of the Company in June 2002 and the Company appointed PricewaterhouseCoopers to fill the casual vacancy at a special general meeting held on 12th July 2002. The financial statements for the year ended 30th April 2002 have been audited by PricewaterhouseCoopers who will retire and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting of the Company.

On behalf of the Board,
LAM WAI CHUN
Chairman

Hong Kong, 15th August 2002