



2002 - 2003

*Interim Report*



*CEDAR BASE ELECTRONIC (GROUP) LIMITED*  
(Incorporated in the Cayman Islands with limited liability)

The board of directors (the “Board”) of Cedar Base Electronic (Group) Limited (the “Company”) is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively the “Group”) for the six months ended 30 September 2002, together with the comparative figures for the corresponding period in 2001, as follows:

## CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

		Six months ended 30 September	
		2002 (unaudited) HK\$'000	2001 (unaudited) HK\$'000
	Notes		
Turnover	2	101,859	111,218
Cost of sales		<u>(96,229)</u>	<u>(118,688)</u>
Gross profit/(loss)		5,630	(7,470)
Other revenue		622	1,722
Selling and distribution costs		(6,326)	(7,800)
Administrative expenses		(14,800)	(12,758)
Other operating expenses		<u>(1,804)</u>	<u>(6,408)</u>
LOSS FROM OPERATING ACTIVITIES	3	(16,678)	(32,714)
Finance costs		(923)	(4,319)
Share of results of associates		151	(2,921)
LOSS BEFORE TAX		(17,450)	(39,954)
Tax	4	1,687	–
LOSS BEFORE MINORITY INTERESTS		(15,763)	(39,954)
Minority interests		674	1,085
NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		<u>(15,089)</u>	<u>(38,869)</u>
LOSS PER SHARE	5		
Basic		<u>HK(0.83) cent</u>	<u>HK(5.18) cents</u>
Diluted		<u>N/A</u>	<u>N/A</u>

## 2 CONDENSED CONSOLIDATED BALANCE SHEET

		As at	
	30 September		31 March
	2002		2002
	(unaudited)		(audited)
Notes	HK\$'000		HK\$'000
<b>NON-CURRENT ASSETS</b>			
Fixed assets	127,293		127,651
Interests in associates	27,711		27,560
Deposit paid for other investment	25,000		–
Goodwill	6,676		7,630
	<u>186,680</u>		<u>162,841</u>
<b>CURRENT ASSETS</b>			
Inventories	88,516		81,865
Trade receivables	54,138	6	53,968
Properties held for sale	4,600		–
Prepayments, deposits and other receivables	28,612		26,361
Tax recoverable	189		–
Pledged time deposits	1,000		1,000
Cash and cash equivalents	3,309		34,303
	<u>180,364</u>		<u>197,497</u>
<b>CURRENT LIABILITIES</b>			
Trade and bills payables	20,850	7	22,831
Tax payable	12,048		12,855
Accrued liabilities and other payables	4,313		16,737
Bank overdrafts, secured	1,396		1,073
Trust receipt loans, secured	3,095		2,344
Bank loans, secured	2,543		4,062
Current portion of mortgage loans, secured	4,000		925
Current portion of finance lease payables	2,884		3,432
	<u>51,129</u>		<u>64,259</u>
<b>NET CURRENT ASSETS</b>	<u>129,235</u>		<u>133,238</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>	<u>315,915</u>		<u>296,079</u>

## CONDENSED CONSOLIDATED BALANCE SHEET (Continued)

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		As at	
		30 September	31 March
		2002	2002
		(unaudited)	(audited)
	Notes	HK\$'000	HK\$'000
NON-CURRENT LIABILITIES			
Non-current portion of bank loans, secured		4,600	5,250
Non-current portion of mortgage loans, secured		3,563	7,020
Non-current portion of finance lease payables		842	1,799
Deferred tax		2,520	2,520
		<u>11,525</u>	<u>16,589</u>
MINORITY INTERESTS			
		<u>1,713</u>	<u>2,387</u>
		<u>302,677</u>	<u>277,103</u>
CAPITAL AND RESERVES			
Issued capital	8	306,255	131,252
Reserves		(3,578)	145,851
		<u>302,677</u>	<u>277,103</u>

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## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Six months ended 30 September	
	2002 (unaudited) HK\$'000	2001 (unaudited) HK\$'000
Net cash outflow from operating activities	(15,551)	(40,567)
Net cash outflow from investing activities	(51,450)	(31,523)
Net cash inflow from financing activities	<u>35,684</u>	<u>80,476</u>
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	(31,317)	8,386
Cash and cash equivalents at beginning of period	<u>33,230</u>	<u>(523)</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u><b>1,913</b></u>	<u>7,863</u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	3,309	14,832
Bank overdrafts, secured	<u>(1,396)</u>	<u>(6,969)</u>
	<u><b>1,913</b></u>	<u>7,863</u>

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share premium (Unaudited) HK\$'000	Statutory reserve (Unaudited) HK\$'000	Enterprise development fund (Unaudited) HK\$'000	Exchange fluctuation reserve (Unaudited) HK\$'000	Goodwill reserve (Unaudited) HK\$'000	Capital reserve (Unaudited) HK\$'000	Retained profits (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
At 1 April 2002	113,204	599	600	(99)	(16,081)	340	47,288	145,851
Share issue expenses	(3,087)	-	-	-	-	-	-	(3,087)
Issue of bonus shares	(110,117)	-	-	-	-	-	(21,136)	(131,253)
Net loss for the period	-	-	-	-	-	-	(15,089)	(15,089)

### As at 30

September 2002	-	599	600	(99)	(16,081)	340	11,063	(3,578)
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	Share premium (Unaudited) HK\$'000	Statutory reserve (Unaudited) HK\$'000	Enterprise development fund (Unaudited) HK\$'000	Exchange fluctuation reserve (Unaudited) HK\$'000	Goodwill reserve (Unaudited) HK\$'000	Capital reserve (Unaudited) HK\$'000	Retained profits (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
At 1 April 2001	73,525	599	600	(99)	(28,550)	340	110,683	157,098
Issue of shares	43,021	-	-	-	-	-	-	43,021
Share issue expenses	(1,099)	-	-	-	-	-	-	(1,099)
Net loss for the period	-	-	-	-	-	-	(38,869)	(38,869)

### As at 30

September 2001	115,447	599	600	(99)	(28,550)	340	71,814	160,151
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Notes:

### 1. Basis of presentation and accounting policies

These unaudited condensed consolidated interim financial statements of the Group have been prepared in accordance with Hong Kong Statement of Standard Accounting Practice ("SSAP") No. 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants and Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). The basis of presentation and accounting policies used in the preparation of these interim financial statements are consistent with those used in the Group's audited financial statements for the year ended 31 March 2002, except that the following new/revised SSAPs have been adopted for the first time in the preparation of the current period condensed consolidated financial statements:

- SSAP 1 (Revised) "Presentation of Financial Statements"
- SSAP 15 (Revised) "Cash Flow Statements"
- SSAP 34 "Employee Benefits"

A summary of their major effects is as follows:

SSAP 1 (Revised) prescribes the basis for the presentation of financial statements and sets out guidelines for their structure and minimum requirements for the contents thereof. The main revision to this SSAP is to change the requirements from presenting a statement of recognised gains and losses to a statement of changes in equity. The unaudited condensed consolidated statement of changes in equity for the current interim period and the comparative figures have been presented in accordance with the revised SSAP.

SSAP 15 (Revised) prescribes the provision of information about the historical changes in cash and cash equivalents by means of a cash flow statement which classifies cash flows during the period into operating, investing and financing activities. The unaudited condensed consolidated cash flow statement for the current interim period and the comparative figures have been presented in accordance with the revised SSAP.

SSAP 34 prescribes the accounting treatment and disclosures for employee benefits. This SSAP has had an impact on these unaudited condensed consolidated financial statements.

## 2. Segment information

### (a) Business segments

The following table presents revenue and result for the Group's business segments:

	LCD-based electronic products		Electronic components		Eliminations		Consolidated	
	Six months ended		Six months ended		Six months ended		Six months ended	
	30 September		30 September		30 September		30 September	
	2002 (Unaudited)	2001 (Unaudited)	2002 (Unaudited)	2001 (Unaudited)	2002 (Unaudited)	2001 (Unaudited)	2002 (Unaudited)	2001 (Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:								
Sales to external customers	98,556	108,030	3,303	3,188	-	-	101,859	111,218
Intersegment sales	-	-	3,869	3,433	(3,869)	(3,433)	-	-
Other revenue	384	1,217	-	-	-	-	384	1,217
<b>Total</b>	<b>98,940</b>	<b>109,247</b>	<b>7,172</b>	<b>6,621</b>	<b>(3,869)</b>	<b>(3,433)</b>	<b>102,243</b>	<b>112,435</b>
Segment results	(16,539)	(35,829)	670	3,017	-	-	(15,869)	(32,812)
Interest income							238	505
Unallocated expenses							(1,047)	(407)
Loss from operating activities							(16,678)	(32,714)
Finance costs							(923)	(4,319)
Share of results of associates							151	(2,921)
Loss before tax							(17,450)	(39,954)
Tax							1,687	-
Loss before minority interests							(15,763)	(39,954)
Minority interests							674	1,085
Net loss from ordinary activities attributable to shareholders							(15,089)	(38,869)



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## (b) Geographical segments

The following table presents revenue and result for the Group's geographical segments:

Segment	Asia		Europe		North and South America		Others		Consolidated	
	Six months ended		Six months ended		Six months ended		Six months ended		Six months ended	
	30 September		30 September		30 September		30 September		30 September	
	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001
(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
revenue:										
Sales to external customers	36,130	32,198	10,803	56,724	49,564	17,128	5,362	5,168	101,859	111,218
Segment results	(5,926)	(13,023)	(1,168)	(11,835)	(7,742)	(5,756)	(1,033)	(2,198)	(15,869)	(32,812)

## 3. Loss from operating activities

Loss from operating activities is arrived at after charging/(crediting):

	Six months ended	
	2002	2001
	(unaudited)	(unaudited)
	HK\$'000	HK\$'000
Depreciation	19,352	17,381
Provision for inventories	—	7,505
Provision for doubtful debts	—	5,135
Amortisation of goodwill	954	238
	<u>          </u>	<u>          </u>
Interest income	(238)	(505)
	<u>          </u>	<u>          </u>

#### 4. Tax

No provision for Hong Kong profits tax has been made for the Group because it had no assessable profits during the current period (2001: nil). The Group did not have any assessable profits in respect of subsidiaries of the Company in the PRC and overseas during the period (2001: nil).

#### 5. Loss per share

The calculation of basic loss per share is based on the net loss from ordinary activities attributable to shareholders for the period of HK\$15,089,000 (2001: HK\$38,869,000) and the weighted average of 1,828,926,885 (2001: 750,319,918) ordinary shares in issue during the period.

There were no dilutive potential ordinary shares as at 30 September 2002 and 2001, and accordingly, the diluted loss per share was not applicable.

#### 6. Trade receivables

An analysis of the ageing of the Group's trade receivables is as follows:

	As at	
	30 September 2002 (unaudited) HK\$'000	31 March 2002 (audited) HK\$'000
Current to 90 days	25,670	27,315
91 to 180 days	25,725	23,918
Over 181 days	2,743	2,735
	54,138	53,968

The credit terms granted to customers, which depend mainly on financial strengths and repayment history of individual customers, do not normally exceed 120 days.

## 7. Trade and bills payables

An analysis of the ageing of the Group's trade and bills payable is as follows:

	30 September 2002 (unaudited) HK\$'000	As at 31 March 2002 (audited) HK\$'000
Current to 90 days	11,180	10,948
91 to 180 days	6,089	10,230
Over 181 days	3,581	1,653
	<u>20,850</u>	<u>22,831</u>

## 8. Share capital

	30 September 2002 (unaudited) HK\$'000	As at 31 March 2002 (audited) HK\$'000
Authorised:		
10,000,000,000 (31 March 2002: 2,000,000,000) ordinary shares of HK\$0.10 (31 March 2002: HK\$0.10) each (note 1)	<u>1,000,000</u>	<u>200,000</u>
Issued and fully paid:		
3,062,556,000 (31 March 2002: 1,312,524,000) ordinary shares of HK\$0.10 (31 March 2002: HK\$0.10) each	<u>306,255</u>	<u>131,252</u>

Note:

- (1) Pursuant to the Company's press announcement dated 17 June 2002, the Company proposed to increase its authorised share capital from 2,000,000,000 ordinary shares to 10,000,000,000 ordinary shares and to alter the articles of association of the Company to allow a distribution to the shareholders on a non pro-rata basis. The proposed increase in the authorised share capital of the Company and the proposed alteration to the articles of association were approved by the shareholders at the extraordinary general meeting held on 22 July 2002.

*Movements during the period*

	<b>Number of issued shares (unaudited) '000</b>	<b>Amount (unaudited) HK\$'000</b>
At beginning of period	1,312,524	131,252
Issue of shares by way of an open offer ("Offer Shares") (note 1)	437,508	43,751
Bonus share issued to the first registered holders of the Offer Shares (note 1)	1,312,524	131,252
As at 30 September 2002	<u>3,062,556</u>	<u>306,255</u>

Note:

- (1) The Company raised approximately HK\$43.8 million, before expenses, by the issuance of 437,508,000 new ordinary shares of HK\$0.10 each by way of an open offer at a price of HK\$0.10 per Offer Share. The Company allotted one Offer Share for every three existing shares held by the qualifying shareholders on 22 July 2002. The allotment was completed on 8 August 2002.

The Company also issued 1,312,524,000 bonus shares to the first registered holders of the Offer shares on the basis of three bonus shares for every Offer Share taken up on 8 August 2002.

Further details of the open offer and bonus share issue are set out in a circular and a prospectus to the shareholders of the Company dated 29 June 2002 and 23 July 2002, respectively

### Share options

The Company operated a share option scheme (the "Old Scheme") for the purpose of providing incentives and rewards to eligible participants of the Group. Eligible participants of the Old Scheme include executive directors and other employees of the Group. The Old Scheme was adopted on 22 September 1999 and became effective on 7 October 1999. The exercise price of the share options is determinable by the directors, but may not be less than the higher of (i) the nominal value of the ordinary shares of the Company; and (ii) 80% of the average Stock Exchange closing price of the Company's ordinary shares for the five trading days immediately preceding the date of the offer. The offer of a grant of share options may be accepted within 21 days from the date of the offer, upon payment of a nominal consideration of HK\$1 in total by the grantee. The maximum number of share options permitted to be granted under the Old Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time.

On 23 August 2001, the Stock Exchange announced amendments to Chapter 17 of the Listing Rules in respect of share option scheme, which came into effect on 1 September 2001. In compliance with the amendments to the Listing Rules and the announcement of the Stock Exchange, the directors consider that it is in the interests of the Company to terminate the Old Scheme and to adopt a new share option scheme (the "New Scheme"). An ordinary resolution was passed at the Company's annual general meeting held on 6 September 2002 for the adoption of the New Scheme and the termination of the Old Scheme.

Pursuant to the New Scheme, the directors may, at their discretion, invite any eligible employees, any non-executive directors (including independent non-executive directors), shareholders, suppliers and customers of the Group and any other parties that provides research, development or technological support to the Group to taken up options to subscribe for the shares. The subscription price shall be a price determined by the directors, but shall not be less than the highest of (i) the closing price of the shares on the date of the offer; (ii) the average closing price of the shares for the five trading days immediately preceding the date of the offer; and (iii) the nominal value of the share.

The maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the New Scheme must not exceed 30% of the total issued share capital of the Company from time to time. The total number of shares which may be issued upon exercise of all options to be granted under the New Scheme shall not in aggregate exceed 10% of the total number of shares in issue as at 6 September 2002, the date of passing of the ordinary resolution. The Company may seek approval of the Company's shareholders in general meeting for refreshing the 10% limit under the New Scheme save that the total number of shares which may be issued upon exercise of all options to be granted under the New Scheme under the limit as refreshed shall not exceed 10% of the total number of shares in issue as at the date of approval of the limit.

The total number of shares issued and to be issued upon exercise of the options granted to each participant (including both exercised and outstanding options) in any 12-month period shall not exceed 1% of the total number of shares in issue. Where any further grant of options to a participant would result in the total number of shares issued and to be issued upon exercise of all the options granted and to be granted to such person (including exercised, cancelled and outstanding options) in the 12-month period up to and including the date of such further grant representing in aggregate over 1% of the total number of shares in issue, such further grant must be separately approved by the shareholders of the Company in general meeting with such participant and his associates abstaining from voting.

During the period ended 30 September 2002, no options had been granted or outstanding under the Old Scheme operated by the Group.

No options had been granted to the participants (including the employees of the Group, the suppliers of goods or services and all other participants under the New Scheme) pursuant to the New Scheme for the period from the date of adoption of the New Scheme (i.e. 6 September 2002) to 30 September 2002. Accordingly, no options had been granted to any participant under the New Scheme in excess of the individual limit set out in the Listing Rules (i.e. 1% of the total issued share capital of the Company in any 12-month period).

## 9. Pledge of assets

As at 30 September 2002, the Group's bank borrowings were secured by the following:

- (i) pledge of the Group's time deposits of approximately HK\$1.0 million (31 March 2002: HK\$1.0 million);
- (ii) legal charges on the Group's leasehold land and buildings situated in Hong Kong with an aggregate net book value of approximately HK\$12.1 million (31 March 2002: HK\$15.3 million);

- (iii) legal charges on certain properties owned by two (31 March 2002: two) related parties; and
- (iv) unlimited continuing guarantees executed jointly and severally by Mr. Tong Yiu Lun and Ms. Wu Pik Ying, directors of the Company.

#### **10. Contingent liabilities**

As at 30 September 2002, the Group had bills discounted with recourse of approximately HK\$0.9 million (31 March 2002: HK\$4.0 million).

#### **11. Related party transactions**

As at 30 September 2002, the banking facilities of the Group were supported by the following related parties at nil consideration (note 9):

- (i) legal charges on certain properties owned by two (31 March 2002: two) related parties; and
- (ii) unlimited continuing guarantees executed jointly and severally by Mr. Tong Yiu Lun and Ms. Wu Pik Ying, who are directors of the Company.

#### **12. Comparative amounts**

As further explained in note 1 to the condensed consolidated interim financial statements, due to adoption of certain new and revised SSAPs during the current period, the accounting treatment and presentation of certain items and balances in the condensed consolidated interim financial statements have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been reclassified to conform with the current period's presentation.

## **INTERIM DIVIDEND**

The Board has resolved not to declare an interim dividend for the six months ended 30 September 2002.

## MANAGEMENT DISCUSSION AND ANALYSIS

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### *BUSINESS REVIEW AND PROSPECTS*

During the six months ended 30 September 2002, the Group recorded a net loss from ordinary activities attributable to shareholders of HK\$15.1 million (2001: HK\$38.9 million). Turnover was HK\$101.9 million, representing a decrease of 8.4% as compared to the corresponding period in 2001. Basic loss per share was HK0.83 cents (2001: HK5.18 cents).

The directors view the second half of the year with cautious. There is no clear signal of global economy recovery as there is continuous fear of the terrorism and the war in the Middle East. In face of mounting instability in the global economy, the directors will continue refining existing business, keeping tight control over costs and pursuing new growth areas. Given such uncertain global economic climate, the directors will continue to strive for a healthy balance sheet and low debt ratio.

### *LIQUIDITY AND FINANCIAL RESOURCES*

With an aim to strengthen the Group's liquidity position and reduce future finance costs, the Group has successfully raised approximately HK\$40.7 million, net of issue expenses, by way of an open offer of 437,508,000 Offer Shares. The Group has used the proceeds for reducing the level of Group's bank borrowings and to finance the Group's working capital. The Group has also used part of the proceeds of approximately HK\$20.0 million to finance the payment of a portion of a deposit for an investment during the period.

As at 30 September 2002, the Group had total cash and bank balances (including pledged time deposits) of approximately HK\$4.3 million (31 March 2002: HK\$35.3 million). The gearing ratio, calculated as a percentage of total debts to equity, has decreased from 29.2% as at 31 March 2002 to 20.7% as at 30 September 2002. The management believes that the gearing ratio would further decrease in the second half year.

The management considers the Group's financial position as healthy and believes that the Group has adequate financial resources to meet its cash flow requirements.



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**EMPLOYEES AND REMUNERATION POLICIES**

As at 30 September 2002, the Group had approximately 1,200 full-time employees. Most of them station in the PRC while the remaining in Hong Kong.

The remuneration package of the employees is determined by various factors including the employees' experience and performance, the market condition, industry practice and applicable employment law.

Up to the date of this report, no share option had been granted either under the Old Scheme or the New Scheme.

**DIRECTORS' INTERESTS IN SHARE CAPITAL**

As at 30 September 2002, the interests of the directors in the share capital of the Company or its associated corporations, as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), were as follows:

**(1) THE COMPANY**

<b>Name of director</b>	<b>Nature of interest</b>	<b>Number of shares</b>
Mr. Tong Yiu Lun	Corporate (Note)	653,333,332

Note: These shares were held through Great Wonder Investments Limited, a company incorporated in the British Virgin Islands and beneficially owned by Mr. Tong Yiu Lun.

## (2) ASSOCIATED CORPORATIONS

Name of associated corporations	Name of directors	Nature of interest	Number of non-voting deferred shares
Marine Union Limited	Mr. Tong Yiu Lun	Personal	10,000
Century Hope Limited	Mr. Tong Yiu Lun	Personal	2
Cedar Base Electronic Limited	Mr. Tong Yiu Lun	Personal	500,000

Save as disclosed above, as at 30 September 2002, none of the directors or their associates had any personal, family, corporate or other interest in the issued share capital of the Company or any of its associated corporations, as defined in the SDI Ordinance.

## SUBSTANTIAL SHAREHOLDERS

As at 30 September 2002, the following interests of 10% or more of the share capital of the Company were recorded in the register of interests that was required to be kept by the Company pursuant to Section 16(1) of the SDI Ordinance:

Name	Number of shares held	Percentage
Great Wonder Investments Limited	653,333,332	21.3%

## COMPLIANCE WITH 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 during the current period, except that the independent non-executive directors of the Company were not appointed for specific terms but are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Company's articles of association.

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**PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES**

During the period, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

**AUDIT COMMITTEE**

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal control and financial reporting matters including the review of these unaudited interim financial statements.

On behalf of the Board

**Tong Yiu Lun**

*Chairman*

30 December 2002