

Manufacturing Segment

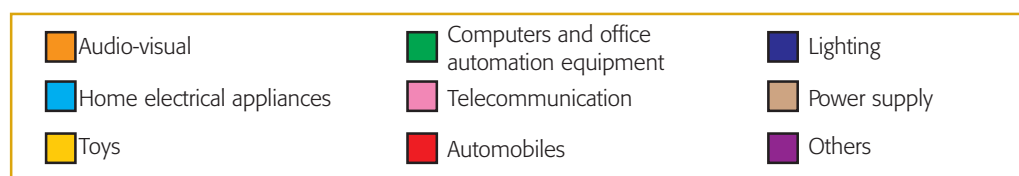
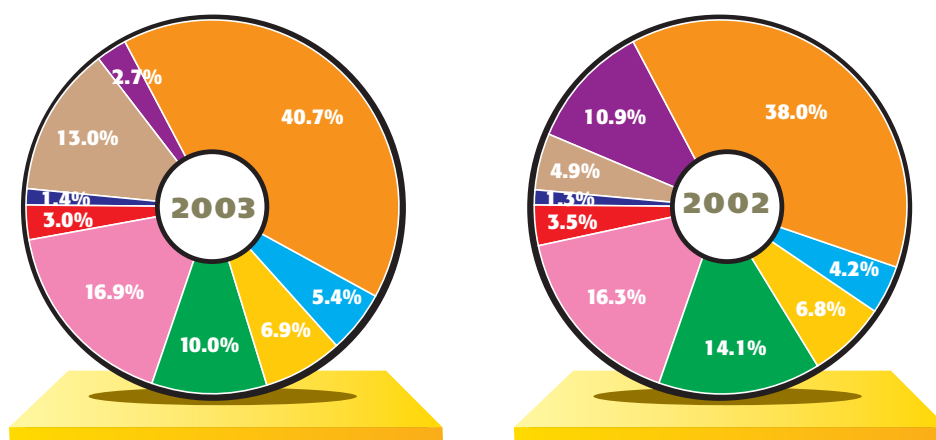
The Group primarily manufactures coils, electrolytic capacitors, and also the principal materials for coils, including ferrite cores (manganese-zinc series, nickel-zinc series and iron powder core series), ceramic components, plastic components, metal components, moulds and packaging materials such as carton boxes and adhesive tapes, etc. The year under review was characterised by a global economic slowdown and fierce market competition. However, the Group was able to maintain its competitiveness in pricing, production cycle and product quality through active investments in vertical integration and production automation over the past few years. Turnover for the manufacturing segment was HK\$391,150,000 (2002: HK\$320,847,000), of which coils manufacturing accounted for HK\$355,879,000 (2002: HK\$287,607,000).

The Group's coils are widely applicable in different electrical and electronic consumer products, including audio-visual, telecommunication and home electrical appliances, toys, computers and information technology products, automobiles, lighting facilities, office equipment and power supply devices, etc. Audio-visual, telecommunication and toys, which are the principal market sectors for the Group's products, accounted for HK\$159,225,000, HK\$65,954,000 and HK\$27,152,000 (2002: HK\$121,762,000, HK\$52,172,000 and HK\$21,838,000), respectively, of the Group's turnover for the year. Since the installation of manganese-zinc ferrite production facilities and the development

of different power supply coils product series, coupled with the support of active marketing efforts, the turnover of power supply devices increased rapidly by 223.3% to HK\$50,940,000 (2002: HK\$15,755,000), accounting for 13.0% (2002: 4.9%) of the turnover in the manufacturing segment. It is expected that the share of power supply devices in the Group's overall turnover will continue to rise. In addition, there was a substantial demand growth for energy-saving lighting products and ballast, in line with the increasing awareness of energy saving and environmental protection. As power supply coils, certain other coils products and electrolytic capacitors are indispensable components in energy-saving lamps, this has aligned with the Group's investment direction in power supply coils, electrolytic capacitors and manganese-zinc ferrite materials. The Group has designated the lighting market as the marketing target for the next and coming financial years.

In respect of the geographical profile of the Group's customers, the Group's major customers have always been electrical and electronic consumer product manufacturers for Japanese brands, and their OEM manufacturers in Hong Kong, Mainland China and Southeast Asia. Supported by intensive product and market development efforts in power supply devices, the Group is taking on more customers from Europe, including the world's largest mobile phone charger manufacturer in Finland and also power supply device manufacturers in Germany. As Mainland China has become "the world's production base", more and more well-known manufacturers of electrical and electronic consumer products from Europe and the United States are setting up plants there, and many of these foreign manufacturers conduct their procurement and fulfillment activities in Mainland China. With the experience of operating in Mainland China for more than two decades, the Group is well-poised to capitalise on this tremendous opportunity. During the period under review, the Group derived a turnover of HK\$52,793,000 from Mainland China (2002: HK\$21,919,000). As a widely recognised domestic supplier among major enterprises, the Group believes that its customer base will be further broadened with more European and American manufacturers.

Analysis of Turnover of Manufacturing Segment by Customers' Industry



While actively developing new markets, the Group is also scaling down and restructuring under-performing branches and offices.

The Group established a branch in Japan in 1999 to facilitate marketing to Japanese customers. As more and more Japanese customers are relocating their technology development and product approval processes from their headquarters in Japan to their production bases in Mainland China and Southeast Asia and also delegating procurement activities entirely to their respective manufacturers, the importance of domestic marketing in Japan is fast diminishing. In fact, the Group's new customers in Japan developed over the past few years were introduced and cultivated primarily through channels in Hong Kong, Mainland China and Southeast Asia. These objective factors had led to a decline in the cost-effectiveness of the branch in Japan. As part of the Group's efforts to achieve better resources management,

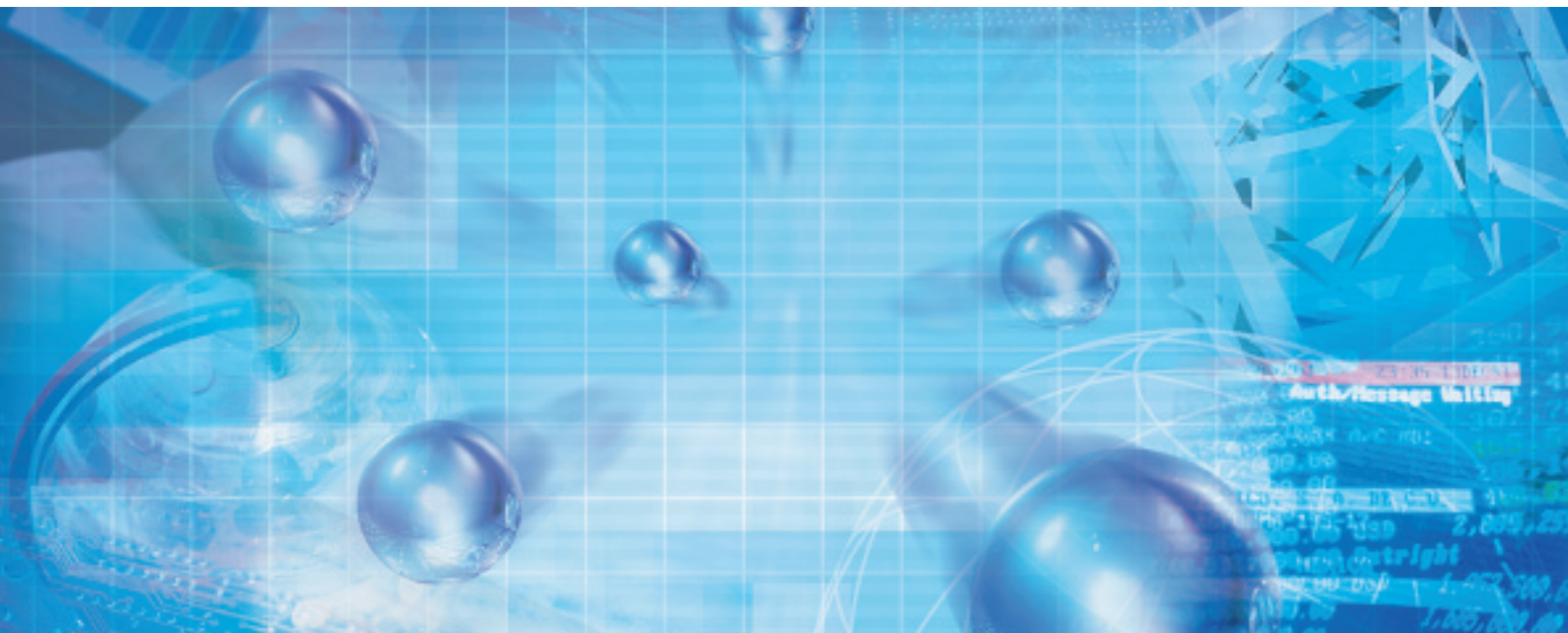
the branch in Japan ceased operation in June 2003. The Group has also commenced the re-deployment of its sales units and resources.

The office in Shanghai was combined into the subsidiary in Kunshan in May 2002, to further improve the operating structure and to consolidate production, technology and sales under one roof. The Group has put a freeze on the plant building plan in Qingdao and will only be reviewed again when a comprehensive and precise evaluation of the market potential and risk exposure is completed.

In keeping abreast of technological innovation, the Group has been actively developing coils products of different categories and functionalities from its core business platform to meet diversified market demands. For example, anti-electromagnetic interference filter has already become a major product of the Group. As more and more countries have imposed increasingly stringent environmental standards for electromagnetic wave, more electronic products have to be certified by the local electromagnetic wave environmental protection authorities. Therefore, the Group's anti-electromagnetic interference filters have been widely applied on electrical and electronic products. During the year under review, the Group succeeded in the development of several high-current anti-electromagnetic interference filters for use in relatively high-power consumption electronic products, such as washing machines, refrigerators, air-conditioners and other large electrical home appliances, facilitating the Group's successful inroads into the manufacturers' market for these electrical products.

The Group is pursuing vertical integration to further enhance its competitiveness in manufacturing coils through the lowering of production cost and more effective control on product quality. It has invested in the production of raw materials for coils products. Since 2000, the Group has successfully developed manganese-zinc ferrite core product that is already extensively used in the power supply devices manufactured by the Group. During the year under review, the Group further gained the state-of-the-art manganese-zinc ferrite technology and access to raw materials manufacturers in Europe through a cooperation project with LG.Philips Displays in Nanjing, Mainland China. The Group can apply this ferrite technology on the manufacturing of power supply coils, thus further broadening the Group's competitive strengths with enhanced production efficiency and cost control. Characterised by higher saturation flux density (B_s) and higher initial permeability (μ_i), manganese-zinc ferrite is commonly applied in transformers for telecommunication, data transmission, energy-saving products and power supply switches. The more promising of which include transformers for backlight power supply devices and energy-saving products.





Demand for liquid crystal display (LCD) monitors that are commonly used in personal digital assistants (PDAs), laptop computers, mobile handsets, digital cameras, digital camcorders and computer monitors is tremendous. To capitalise on this market niche, the Group took the initiative to launch a series of transformers for backlight power supply devices as its fundamental raw material – manganese-zinc ferrite – had been successfully developed. This transformer series has already attained customer approval.

Electronic and electrical power technology is another major energy-saving platform. Through the use of electronic frequency converters and the high-efficiency fluorescent lights with the latest fluorescent powder, energy saving can be as high as 80%. The use of switching mode power supply of this technology can also save 30-60% energy compared with traditional mode power supply. It is estimated that when electronic and electrical power technology is fully implemented, Mainland China can save 40 billion kilowatt-hours of electricity each year. The development potential of electronic frequency converters, switching mode power supply devices and their core raw material manganese-zinc ferrite are such substantial that it has further reinforced the Group's focus on investing, developing and manufacturing manganese-zinc ferrite materials.

Resources deployment for core manufacturing segment:

	2003 HK\$'000	2002 HK\$'000	% change
Market development and promotion	5,676	5,004	13.4%
Research and development	6,641	6,162	7.8%
Manufacturing facilities	21,121	92,075	(77.1%)
Human resources training	914	497	83.9%
Information technology	3,834	3,989	(3.9%)

The above was written by:

Tang Fung Kwan
Deputy Chairman and Managing Director

Chiu Chan, Charles
Law Hoo Shan
Executive Directors

Trading Segment

The market for electronic components trading remained competitive for the year ended 30th April 2003. During the year under review, the electronic components trading segment recorded a turnover of HK\$55,173,000 (2002: HK\$43,049,000), up 28.2% compared with the previous year, and accounting for 12.3% (2002: 11.8%) of the Group's turnover. Price-cutting pressures among agents in a bid to maintain their own competitiveness have put a squeeze on profitability.

Gross profit margin derived from the electronic components trading segment shrank from 11.0% for the year ended 30th April 2002 to 6.0% for the year ended 30th April 2003. An operating loss of HK\$1,392,000 (2002: HK\$542,000) was recorded. The operating loss has increased by HK\$850,000, and the segment has also diluted the Group's overall gross profit margin.

As the products traded are not manufactured by the Group, control over operation, cost, delivery and inventory is rather limited. In certain cases, efforts to push sales had led to price pressure, making the trading segment of mediocre profitability even more difficult.

In respect of sales in a depressed market environment, a majority of customers requested price discounts and longer payment terms, thus making prudent credit risk management more important than ever. Trading business normally requires substantial capital deployment for safety-inventory warehousing, where any mishaps in control and planning management will pose a strain on working capital.

The Group started to commence trading of electronic components in 2001 as part of its diversification strategy. Over the past three years, profit margin for this trading segment had been on a constant decline, from 15.8% in 2001 to 6.0% in 2003. Return from the Group's additional resources and capital investment of this segment had been lower than that of the Group's core business. Having reviewed the opportunity cost and operating risks, the Group adjusted its diversification strategy and restructured the trading segment to scale down projects of high risk and low return, and focus on more lucrative businesses.

The above was written by:

Lam Wing Kin, Sunny

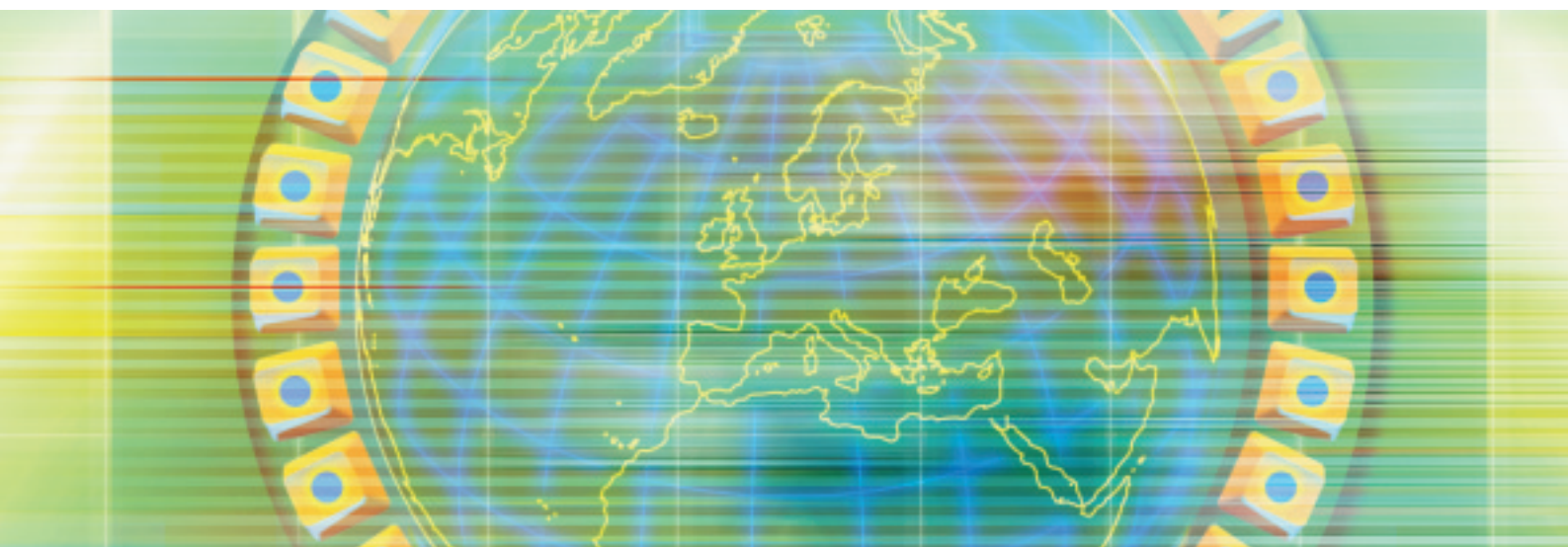
Executive Director

Information Technology Segment

For the first time, the Group recorded turnover from the information technology segment in this financial year. This was mainly due to the completion of acquisition of 51% equity interest of Sun-iOMS Technology Holdings Limited ("Sun-iOMS") by CEC-Technology by way of subscription of new shares in Sun-iOMS at a total consideration of HK\$255,000 on 5th March 2003. The consolidated turnover of Sun-iOMS was HK\$1,832,000, accounting for 0.4% of the Group's turnover. The operating profit for the period from 5th March 2003 to 30th April 2003 was HK\$205,000. The gross profit for the whole information technology segment was HK\$847,000, with a gross profit margin of 46.2%. As at 30th April 2003, Sun-iOMS's balance in contract-on-hand amounted to HK\$1,784,000. It will continue to expand its customer base to achieve economies of scale, and as at 30th June 2003, a balance of payment was basically achieved.



- The Directors decided to make a one-off full provision for impairment loss on the goodwill in Good Signal in the year under review. It was intended that, through this investment, the Group would be in a position to seize opportunities arising from the new economy of information technology through an indirect 12.5% interest in the registered capital of Shanghai Signking. However, the Group considered that the performance and business growth of this acquired project had been below expectation and substantially behind the original valuation and a provision for impairment loss was necessary. This investment experience has inspired the Group to adopt a different approach towards its information technology business. The Group now recognises that it must thoroughly assess the market



- trend and potential risk of all new businesses, and evaluate their respective potential synergy and opportunity cost, so as to achieve a better control over the selection of information technology development and the deployment of resources. The positive impact of this new approach has already been reflected in the Sun-iOMS's improving operating results.

- Internally, the Group will continue to apply information technology to strengthen internal management system, increase operating efficiency, empower business analysis and upgrade information management. Currently, the Group does not have any plan to commercialise the software products developed by CEC-Technology at this stage.

The above was written by:

Huang Kong

Deputy Managing Director

Changes in Financial Resources

With the confidence and support from our principal banks, the Group always has sufficient banking facilities for long-term development and operation. On 30th April 2003, the Company entered into a three-year transferable term loan facility agreement for an aggregate amount of HK\$165,000,000 with a group of banks. HK\$75,000,000 of the facility will be applied to prepay all of the Company's outstanding indebtedness under a HK\$100,000,000 term loan and revolving credit facility agreement dated 31st January 2002. The remaining balance of HK\$90,000,000 will be used to finance the development of the new plant in Nanjing and as the Group's general working capital. The full amount of the facility has been drawn down in one lump sum in May 2003. This facility has helped strengthen the Group's operating capital and consolidate its financing structure.

As at 30th April 2003, the Group's aggregate banking facilities from banks and financial institutions expanded to HK\$539,426,000 (2002: HK\$391,747,000), of which HK\$222,320,000 (2002: HK\$68,786,000) remained unutilised. The Group had cash and bank deposits of HK\$44,240,000 (2002: HK\$45,434,000), denominated mainly in Hong Kong dollars, United States dollars, Renminbi, Japanese yen, Singapore dollars and New Taiwan dollars. 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 also required to meet certain restrictive financial covenants with the major financing 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 bills payable and 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 in August 2002.

	2003 HK\$'000	2002 HK\$'000
Banking facilities	539,426	391,747
Utilised banking facilities	(317,106)	(322,961)
Unutilised banking facilities	222,320	68,786
Cash and bank deposits	44,240	45,434

	Financial covenants with major banks	2003	Compliance with financial covenants
Net tangible assets	Above HK\$290,000,000	HK\$300,259,000	Complied
Current ratio	Above 0.70	0.80	Complied
Interest coverage ratio	Above 3.50 times	4.60 times	Complied
Net gearing ratio (1)*	Below 1.05	0.96	Complied
Net gearing ratio (2)#	Below 0.85	0.85	Complied

The Group's total borrowings as at 30th April 2003 were HK\$306,370,000 (2002: HK\$300,089,000), of which HK\$205,282,000 (2002: HK\$148,380,000) was current and HK\$101,088,000 (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. Contingent liabilities as at the same date amounted to HK\$25,286,000 (2002: HK\$36,823,000), of which HK\$25,286,000 (2002: HK\$36,618,000) was factoring of trade receivables with recourse.

	2003 HK\$'000	2002 HK\$'000	Interest rate
Current borrowings	205,282	148,380	H or P
Non-current borrowings	101,088	151,709	H or P
Total borrowings	306,370	300,089	H or P
Factoring of trade receivables with recourse	25,286	36,618	P

H Hong Kong Interbank Offered Rate ("HIBOR") plus competitive margins
 P Prime rate/Prime rate plus competitive margins

The declining interest rates in Hong Kong have led to a significant drop in the Group's interest expense and interest income for the year ended 30th April 2003 with a net interest expense of HK\$17,882,000 (2002: HK\$21,264,000), representing a saving of 15.9% compared with the previous year. The interest coverage ratio rose to 4.60 times (2002: 3.85 times).

	2003 HK\$'000	2002 HK\$'000
Interest income	341	1,031
Interest expense	(18,223)	(22,295)
Net interest expense	(17,882)	(21,264)
Interest coverage ratio	4.60 times	3.85 times

The Group's net cash inflow for the year ended 30th April 2003 was HK\$1,512,000 (2002: net cash outflow of HK\$7,035,000) with a net cash outflow from financing activities of HK\$29,554,000 (2002: net cash inflow of HK\$14,441,000). This was primarily attributable to a significant reduction in new long-term bank loans to HK\$7,000,000 (2002: HK\$134,117,000) during the year. However, as the Company entered into a three-year transferable term loan facility agreement for an aggregate amount of HK\$165,000,000 with a group of banks on 30th April 2003, this facility will help improve the Group's debt structure and increase cash inflow. In addition, infrastructure development for the Group's coils manufacturing segment was nearer to completion in this financial year as compared with the previous year, resulting in a sharp decrease in capital expenditure on fixed assets to HK\$26,709,000 (2002: HK\$103,923,000). Apart from certain auxiliary manufacturing

facilities and the construction of a new plant in Nanjing, the Group will maintain its capital investment at a low level.

Cash flow summary

	2003	2002
	HK\$'000	HK\$'000
Net cash inflow from operating activities	47,690	66,242
Net cash outflow from investing activities	(17,567)	(87,740)
Net cash (outflow)/inflow from financing activities	(29,554)	14,441
Translation adjustments	943	22
Increase/(decrease) in cash and cash equivalents	<u>1,512</u>	<u>(7,035)</u>

With the significant reduction in the Group's capital expenditure during the year under review, the Group will continue to adopt prudent control on cash flows. Indicators on the Group's liquidity performance such as trade receivables turnover, inventories turnover and trade payables turnover were sustained at similar levels of last year – 74 days, 84 days and 51 days, respectively, as at 30th April 2003 (2002: 70 days, 92 days, 46 days).

	2003	2002
Trade receivables turnover (before factoring)/days	74	70
Inventories turnover/days	84	92
Trade payables turnover/days	51	46
Current ratio	0.80	0.85
Quick ratio	0.50	0.51
Net gearing ratio (1)*	0.96	1.01
Net gearing ratio (2)#	0.85	0.85

* The ratio of (total borrowings plus bills payable and contingent liabilities less total cash and bank deposits) over (net tangible assets less proposed final dividends)

The ratio of (total borrowings plus bills payable less total cash and bank deposits and investment) over (net tangible assets less proposed final dividends)

The Group's net gearing ratio was also on a decline. As at 30th April 2003, the Group's net gearing ratio (1) and net gearing ratio (2) were 0.96 and 0.85 (2002: 1.01 and 0.85), respectively, reflecting the Group's stringent approach towards the application of capital and credit facilities.

The above was written by:

Cheung Ming Yat

Manager, Capital Management Department

FUTURE PLANS AND PROSPECTS

The Group anticipates that the electronic industry will continue to be fiercely competitive. Nevertheless, the Group's comprehensive industrial infrastructure, product quality and cost structure established over the years will help sustain its market competitiveness. The Group will continue to devote its resources and commitment to the development of its core business – the manufacturing of coils and related raw materials such as manganese-zinc ferrite core materials. As this only entails certain auxiliary production facilities and accessories, the Group can maintain its capital expenditure at a relatively low level and at the same time launch new product series and increase production output in the coming year. The Group will also put a stronger emphasis on the development and marketing of manufactured products, especially power supply devices and to customers in Europe and the United States. It is expected that the Group will attain a satisfactory business growth.

In respect of new investments, in January 2003, the Group entered into a sales agreement with LG.Philips Displays for the Group to supply ready-to-press ferrite powder for LG.Philips Displays' deflection yoke cores, an important part in the manufacturing of display tubes. According to the agreement, the Group plans to set up a new plant in Nanjing to produce ready-to-press ferrite powder – a core project for the next financial year – and then sell the ready-to-press ferrite powder produced to Nanjing Fei Jin Magnetic Products Co., Ltd., a subsidiary of LG.Philips Displays.

LG.Philips Displays is a joint venture between the South Korea-based LG Electronics and the Dutch conglomerate Philips, and is the largest manufacturer of display tubes in the world. For every four television sets and computer monitors in the world, there is one with its display tube manufactured by the LG.Philips Displays. LG.Philips Displays had intended to designate one ready-to-press ferrite powder supplier in Mainland China that could meet its stringent quality requirements and the Group succeeded in becoming the designated cooperation partner of its subsidiary, Nanjing Fei Jin Magnetic Products Co., Ltd., after strict screening and evaluation by LG.Philips Displays' headquarter.

Through technology transfer and new plant investment, and coupled with geographical advantages, the Group will be able to further lower cost, increase competitiveness and expand business scope. The cooperation with LG.Philips Displays also enables the Group to extend its supplier base in Europe and increase the flexibility in sourcing. As the procurement currency will be denominated in United States dollars, this helps minimise foreign exchange risk. This strategic development will help facilitate the internationalisation of the Group.

The total investment outlay for this project is HK\$23,000,000, which will be used primarily for the purchase of equipment and the construction of a production plant. As the Group has already signed a sales agreement with LG.Philips Displays as a sales guarantee, this project is expected to provide the Group with reasonable yields. As at 30th April 2003, the Group has invested HK\$8,577,000 on the Nanjing project. According to the current progress, this project should be completed on schedule and become operational by the end of this year. It is expected that profit from this project will be reflected as soon as the third quarter of the next financial year.

Corporate and Community Relationships

When planning for future development, the Group also places heavy emphasis on cultivating corporate and community relationships. The two most important initiatives of which are human resources enhancement and environmental friendly green campaign.

The Group actively pursues forward-looking human resources policy to complement the policy of the local communities and to build harmonious and sensible labour relationships. Its people-oriented management concept underscores efforts in improving staff quality, recruiting young and competent executives and strengthening employee training. Continuing training programmes are also in place for employees to acquire new skill sets for career advancement. The Group invested HK\$914,000 (2002: HK\$497,000) on staff training for the year ended 30th April 2003, up 83.9%. In line with the Hong Kong SAR Government's promotion of increasing job opportunities among local enterprises, the Group's headquarter in Hong Kong is actively looking for the right talent.

Communication is an essential agenda in the Group. An intranet system has been in place since 2001 as a one-stop platform to facilitate real-time communication between the Group and the staff, and also among departments and across different geographical locations. Staff can also express their views on the intranet to the management, such that the management gets an in-depth understanding of the operation details. The Group's newsletters are also published to promote and cultivate the Group's corporate culture, and to disseminate messages of common concern. For example, during the outbreak of Severe Acute Respiratory Syndrome ("SARS"), the Group supported the anti-SARS campaigns of different local authorities and to educate all staff on personal hygiene and preventive measures.

In Mainland China, the Group fully supports and advocates labour unions to reconcile corporate and employee interests. In 2002, it was awarded the honour of "Advanced Labour Union of Dongfeng, Zhongshan" again. "CEC Labour Union" has a membership of 2,600 people, representing 52.0% of the total labour force at the Zhongshan main factory. The Group continuously supports the sub-division of the Chinese Communist Party in our Zhongshan main factory and encourages staff enrollment.

All measures are directed to the common goal of consolidating and developing the Group's human resources and promoting team spirit, so as to optimise synergy for the benefit of the Group, all staff and the community.

Green Campaign

Environmental protection is an important agenda of the Group. The Group actively promotes green campaign and makes it an essential element of corporate management because an environmentally friendly society is conducive to the development of enterprises.

An effective environmental management system is fundamental to the green campaign. The Group has set the goal to complete the accreditation of ISO 14000 environmental protection management system in the next financial year in order to incorporate the environmental protection concept into its day-to-day business and production activities. The Group will continue to protect and fully optimise the limited resources on Earth, save energy, recycle resources and improve cost effectiveness. The Group has invested HK\$2,810,000 for the green campaign.

The Group believes that employee participation is critical to the success of the environmental protection campaign, and has been conducting educational programmes to turn concept into actual behaviour and driving different subsidiaries to commence more and more continuing activities in the green campaign.

The Group strives to fulfill its responsibility as a good corporate citizen and continues to devote resources into the green campaign to build a better environment for the Group and the community.

The above was written by:

Huang Kong

Deputy Managing Director

Lam Wing Kin, Sunny

Executive Director

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, 14th August 2003