

Corporate Profile

公司簡介

CEC為一家增長迅速之優質電子元件生產商，以設計及生產各類線圈、鐵氧體材料、電感、變壓器、電源濾波器及電容器等為主。本集團始創於一九七九年，經過多年來不斷發展蛻變，至今已成為一大型國際供應商，客戶來自不同行業，包括電訊及資訊科技設備、數據網絡及電壓轉換技術、辦公室自動化設備、影音產品，以及家居電器及電子產品等。

CEC於電子業經驗豐富且競爭力強，不但在中國內地及新加坡設有龐大之生產設施作後盾，其研究與開發部門、銷售與推廣隊伍、客戶服務與地區辦事處，以及技術支援中心更遍佈香港、中國內地、台灣、新加坡及印度。

CEC於一九九九年十一月在香港聯合交易所有限公司上市，其宗旨為透過與客戶作緊密及積極之接觸，以快捷有效之方式提供最能滿足其需求之產品，從而提高股東之投資價值。CEC之主要財務目標為將財政資源投資於增長前景理想之市場，為股東帶來最高之長期投資回報。

線圈、變壓器、電感及電容器等電子元件是生產高科技先進產品時不可或缺之元件，倘若沒有上述產品，人類將無法享受手提電話、互聯網、電子產品及電器之智能安全及舒適裝置等帶來之方便。CEC所生產之多項產品將繼續為未來電子世界之發展作出貢獻。

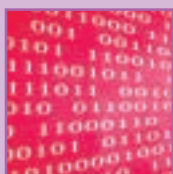
CEC is a dynamically growing producer of quality electronic components that specialises in the design and manufacture of a wide range of coils, ferrite materials, inductors, transformers, line filters and capacitors. Founded in 1979, it has been evolving to become one of the major international suppliers to a multiple of industry segments, including telecommunication and information technology equipment, data networking and power conversion applications, office automation equipment, audio and visual products, home electrical and electronic appliances.

Backed by the strong manufacturing facilities based in Mainland China and Singapore, CEC is an experienced and competitive player in the electronics arena, with established research and development, sales and marketing, customer services and regional offices, and technical support centers in Hong Kong, Mainland China, Taiwan, Singapore and India.

Listed on The Stock Exchange of Hong Kong Limited since November 1999, CEC's goal is to maximize its shareholders' value through working closely and actively with its customers, in an efficient and effective manner, to supply the products that suit their needs most. CEC's principal financial objective is to generate maximum long-term return on shareholders' investment by investing in markets that offer superior growth prospects.

Without such electronic components as coils, transformers, inductors and capacitors, etc, there would be no high-tech advances such as mobile phones and the Internet, and no intelligent safety and comfort applications for electronic and electrical appliances. With the continual technological revolution, CEC's wide range of products will continue to play its part to shape the future of the electronic world.

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Corporate Information

DIRECTORS

Executive Directors

Mr. Lam Wai Chun (*Chairman*)

Ms. Tang Fung Kwan

(*Deputy Chairman and
Managing Director*)

Mr. Huang Kong

(*Deputy Managing Director*)

Mr. Law Hoo Shan

Independent Non-executive Directors

Mr. Au Son Yiu

Mr. Lee Wing Kwan, Denis

Mr. Tang Tin Sek

AUDIT COMMITTEE

Mr. Tang Tin Sek (*Chairman*)

Mr. Au Son Yiu

Mr. Lee Wing Kwan, Denis

COMPANY SECRETARY

Ms. Li Lai Sheung *ACIS*

AUDITORS

PricewaterhouseCoopers

Certified Public Accountants

LEGAL ADVISERS

F. Zimmern & Co

Richards Butler

Appleby Spurling Hunter

PRINCIPAL BANKERS

China Construction Bank

CITIC Ka Wah Bank Limited

Dah Sing Bank Limited

DBS Bank (Hong Kong) Limited

Hang Seng Bank Limited

Industrial and Commercial Bank
of China

Standard Chartered Bank

The Hongkong and Shanghai

Banking Corporation Limited

REGISTERED OFFICE

Canon's Court

22 Victoria Street

Hamilton HM 12

Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

2nd Floor

Hing Win Factory Building

110 How Ming Street

Kwun Tong, Kowloon

Hong Kong

SHARE REGISTRARS AND TRANSFER OFFICES

Bermuda Principal Share Registrar

Butterfield Fund Services

(Bermuda) Limited

Rosebank Centre

11 Bermudiana Road

Pembroke

Bermuda

Hong Kong Branch Share Registrar

Computershare Hong Kong

Investor Services Limited

Rooms 1901-5, 19th Floor

Hopewell Centre

183 Queen's Road East

Hong Kong

Web: <http://www.ceccoils.com>

<http://www.0759.com>

<http://www.irasia.com/>

listco/hk/cecint

E-mail: info@ceccoils.com

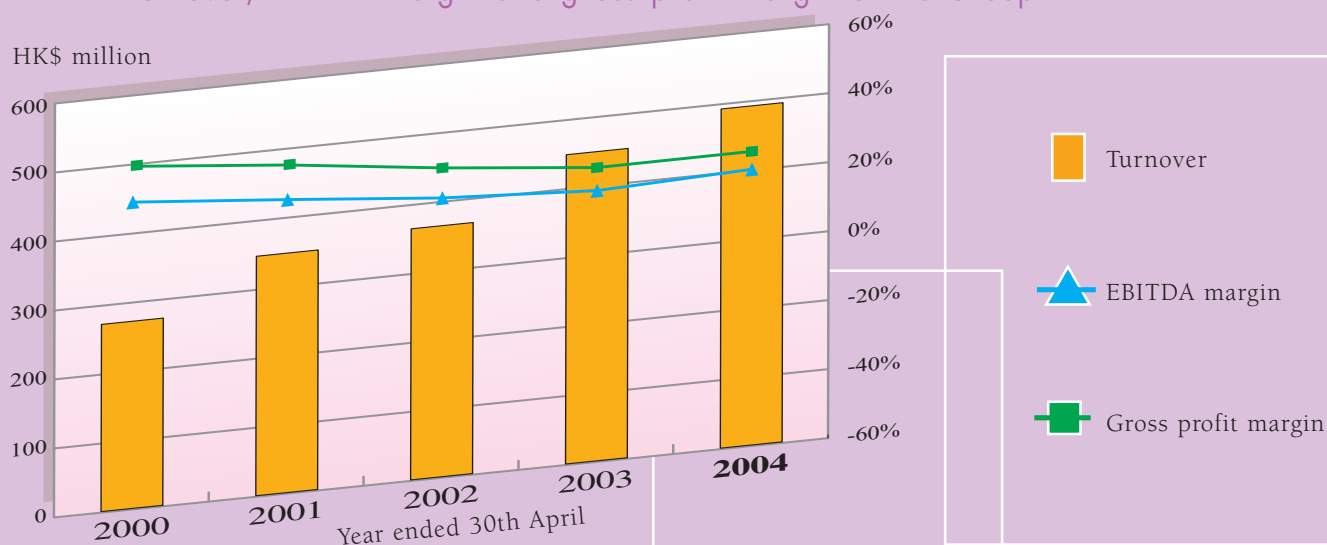
Listed on The Stock Exchange of

Hong Kong Limited

Stock Code: 0759

Financial Highlights

Turnover, EBITDA margin and gross profit margin of the Group



As at 30th April /
Year ended 30th April

	2004 HK\$'000	2003 HK\$'000 (restated)	% Change
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Turnover	491,663	448,155	+9.7
Profit/(loss) attributable to shareholders	15,857	(5,159)	N/A
Total assets	707,439	698,001	+1.4
Net tangible assets	313,762	297,251	+5.6
Per Share Data			
Basic earnings/(loss) per share (HK cents)	2.29	(0.75)	N/A
Net tangible assets per share (HK cents)	45.3	42.9	+5.6
Financial Ratios			
Gross profit margin (%)	25.1	25.0	+0.1
EBITDA margin (%)	19.9	18.4	+1.5
Current ratio	0.83	0.80	+3.8
Interest coverage ratio	5.73	4.60	+24.6
Gearing ratio	0.89	1.03	-13.6

Definitions

Basic earnings/(loss) per share	$\frac{\text{Profit/(loss) attributable to shareholders}}{\text{Weighted average number of shares}}$
Net tangible assets per share	$\frac{\text{Net tangible assets}}{\text{Number of shares as at end of year}}$
Gross profit margin (%)	$\frac{\text{Gross profit} \times 100\%}{\text{Turnover}}$

EBITDA margin (%)	$\frac{\text{Operating profit plus depreciation, amortisation and impairment loss on intangible assets} \times 100\%}{\text{Turnover}}$
Current ratio	$\frac{\text{Current assets}}{\text{Current liabilities}}$
Interest coverage ratio	$\frac{\text{Operating profit plus depreciation, amortisation and impairment loss on intangible assets}}{\text{Interest expense less interest income}}$
Gearing ratio	$\frac{\text{Total borrowings}}{\text{Shareholders' equity}}$

Five-Year Financial Summary

The following is a summary of the published results and of the assets and liabilities of CEC International Holdings Limited and its subsidiaries (collectively referred to as the “Group”) for the last five financial years prepared on the basis set out in the note below.

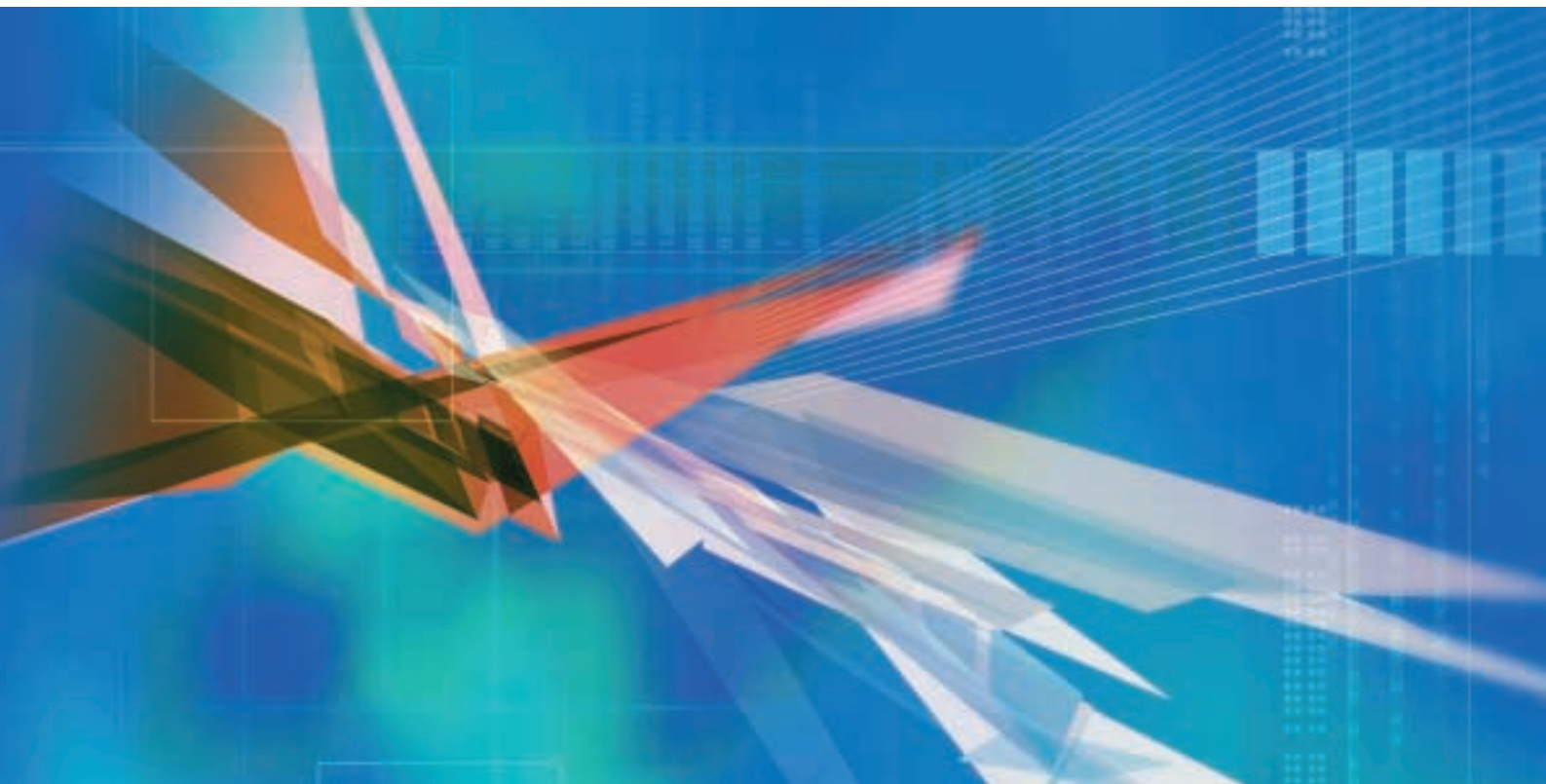
RESULTS

	Year ended 30th April				
	2004 HK\$'000	2003 HK\$'000 (restated)	2002 HK\$'000 (restated)	2001 HK\$'000 (restated)	2000 HK\$'000 (restated)
Turnover	491,663	448,155	363,896	347,004	271,292
Cost of sales	(368,016)	(335,926)	(256,460)	(225,662)	(165,045)
Gross profit	123,647	112,229	107,436	121,342	106,247
Selling and distribution expenses	(11,397)	(13,866)	(12,445)	(11,332)	(10,278)
General and administrative expenses	(72,090)	(69,052)	(63,825)	(57,907)	(40,772)
Impairment loss on intangible assets	–	(8,940)	–	–	–
Other operating expenses	(1,406)	(5,747)	(1,329)	(356)	–
Operating profit	38,754	14,624	29,837	51,747	55,197
Interest income	156	341	1,031	2,422	1,864
Interest expense	(17,240)	(18,223)	(22,295)	(19,499)	(10,367)
Share of profits less losses of associates	(20)	76	–	–	–
Share of profits less losses of jointly controlled entities	–	140	(138)	(2)	–
Profit/(loss) before taxation	21,650	(3,042)	8,435	34,668	46,694
Taxation	(5,854)	(2,017)	(3,184)	(3,805)	(4,860)
Profit/(loss) after taxation but before minority interests	15,796	(5,059)	5,251	30,863	41,834
Minority interests	61	(100)	(101)	–	76
Profit/(loss) attributable to shareholders	15,857	(5,159)	5,150	30,863	41,910
Dividend	3,465	–	–	5,280	11,088

ASSETS AND LIABILITIES

	As at 30th April				
	2004 HK\$'000	2003 HK\$'000 (restated)	2002 HK\$'000 (restated)	2001 HK\$'000 (restated)	2000 HK\$'000 (restated)
Total assets	707,439	698,001	667,014	588,822	368,108
Total liabilities	(393,677)	(400,689)	(375,778)	(321,199)	(165,447)
Minority interests	–	(61)	–	(5)	–
Net assets	313,762	297,251	291,236	267,618	202,661

Management Discussion and Analysis



Dear Shareholders,

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

RESULTS

The following summarises the results of the Group for the year ended 30th April 2004:

- Turnover climbed 9.7% to HK\$491,663,000 (2003: HK\$448,155,000);
- Profit attributable to shareholders was HK\$15,857,000 (2003: loss attributable to shareholders of HK\$5,159,000);
- Basic earnings per share was HK2.29 cents (2003: basic loss per share of HK0.75 cent);
- Proposed final dividend of HK0.5 cent per share (2003: Nil); and
- Net cash inflow from operating activities increased 101% to a record HK\$95,757,000 (2003: HK\$47,690,000).

DIVIDEND

No interim dividend was declared for the year ended 30th April 2004 (2003: Nil).

The Directors have resolved to recommend the payment of a final dividend of HK0.5 cent per share (2003: Nil) for the year ended 30th April 2004 to shareholders whose names appear on the register of members of the Company on 27th September 2004.

Management Discussion and Analysis

The proposed final dividend of HK0.5 cent per share, the payment of which is subject to the approval of the shareholders at the forthcoming Annual General Meeting of the Company to be held on Monday, 27th September 2004, is to be payable on Tuesday, 5th October 2004.

CLOSURE OF REGISTER OF MEMBERS

In order to qualify for the proposed final dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, no later than 4:00 p.m. on Tuesday, 21st September 2004. The register of members of the Company will be closed from Wednesday, 22nd September 2004 to Monday, 27th September 2004, both dates inclusive, during which period no transfer of shares will be effected.

BUSINESS REVIEW

Overview

During the year, the Group reaped the fruits of its investments in the past few years to gradually launch its products to the markets. The enhanced customers' recognition in the Group's power-supply coils products and investments led to a steady increase in the turnover of the Group for the year. With the Group's strategies in curtailing the non-core business and adopting a persistent customer-oriented approach, the Group has been reaping the benefits of its previous investments, and achieved a turnaround to profit for this financial year.

For the year ended 30th April 2004, the Group's turnover increased from HK\$448,155,000 for the same period last year to HK\$491,663,000, up 9.7%, and the Group's gross profit also rose to HK\$123,647,000 from HK\$112,229,000 last year. Earnings before interest, tax, depreciation and amortisation ("EBITDA") was HK\$97,939,000 (2003: HK\$82,280,000). Operating profit was HK\$38,754,000 (2003: HK\$14,624,000), and profit attributable to shareholders was HK\$15,857,000 (2003: loss of HK\$5,159,000).

Management Discussion and Analysis

	Turnover			
	2004		2003	
	HK\$'000	%	HK\$'000	%
Coils manufacturing	430,854	87.6	355,879	79.4
Electronic components trading	28,913	5.9	55,173	12.3
Capacitors manufacturing	15,407	3.2	35,271	7.9
Ferrite powder manufacturing	12,779	2.6	–	0.0
Information technology services	3,499	0.7	1,832	0.4
Other income	211	0.0	–	0.0
	491,663	100.0	448,155	100.0

Business Restructure and Focus on Core Business

During the year, the Group has been focusing on developing its core business as stated in the Company's Annual Report of last year. The Group devoted to enhancing the operating efficiency, shrinking and restructuring under-performing projects, in particular, the further integration of the manganese-zinc ferrite production facilities into the coils manufacturing business providing more room for a profit growth to the Group. This let the Group slacken the hectic pace of business development as previously planned, such as the development of trading business .

Performance of the Group's Business

Coils Manufacturing Segment

During the year, the Group strictly implemented the operating strategy formulated last year to focus on developing its core business – coils manufacturing. The Group's turnover for coil manufacturing segment was HK\$430,854,000 for this financial year (2003: HK\$355,879,000), which was mainly attributable to the Group's continued efforts in actively exploring markets, meeting the customers' needs and developing new coil products.



Management Discussion and Analysis

For the year ended 30th April 2004, the gross profit of the Group's coils manufacturing segment rose by 12.3% as compared with that of last year to HK\$117,925,000 (2003: HK\$105,044,000), while the gross profit margin was 27.4% (2003: 29.5%). The decrease in gross profit margin was due to the soaring prices for raw materials. To enhance the gross profit margin, the Group is actively improving the production workflow and materials utilization.

The Group produces a full range of coil products which are applicable to various types of electronic and electrical consumer products, such as audio-visual, telecommunication, home electrical appliances, toys, computers, office equipment, automobiles, lighting facilities and power-supply devices. The power-supply coils products (mainly switching-mode transformers and line filters), which have been actively developed by the Group in the past few years, reported a substantial growth for the year. The turnover for power-supply customers for the year ended 30th April 2004 was HK\$73,212,000 (2003: HK\$33,305,000) with a rise of 120% as compared with that of last year, which accounted for 17% of the turnover for the coils manufacturing segment. The increment mainly contributed from the cell phone power-supply market.

Having established its base in Mainland China over 20 years, the Group can be benefited from the steady growth in Mainland China in the recent years, which provides a greater potentiality for the



Group to seek reliable customers. In the meantime, an increasing number of overseas customers opt to seek suppliers in Mainland China to furnish their purchases, which directly provides more business opportunities in Mainland China. During the year, the turnover of the Group's coils manufacturing segment in Mainland China registered a significant growth. The Group also has been proactively exploring European markets in the recent years, with a good relationship established with European enterprises which possess renowned brands. The Group has been strengthening the co-operation with them and meeting their requirements on an all-round basis, in particular, the possible setting up its production facilities in the regions as specified by such customers. As a result, a stable growth in the turnover of this segment could be achieved.

Capacitors Manufacturing Segment

During the year under review, the operation of capacitors manufacturing segment suffered from a loss which was due to the inappropriate investment strategies, the lack of in-depth knowledge on the capacitor products which resulted in an incompatible sales strategy, reliance on a single agent and overlooking the direct sales channel. The Group has decided to integrate the capacitors business into the coils segment adopting management style of the Zhongshan plant in operation with a view to achieving better coordination as well as restructuring the operation of the capacitors manufacturing segment.

Management Discussion and Analysis



Ferrite Powder Manufacturing

It was the first time for the Nanjing Project, after the completion of its plant infrastructure and production equipment installation at the end of 2003, recorded a turnover of HK\$12,779,000 for the year ended 30th April 2004 (2003: Nil). Nanjing Guo Zhong Magnetic Material Co., Ltd. (“Nanjing Guo Zhong”), a wholly-owned subsidiary of the Group and the first company of the Group engaging in powder manufacturing independently, is currently working in matching equipment and improving production workflow in order to increase the production output and efficiency. The success of Nanjing Guo Zhong serves as a paradigm and indicator for the development of the Group’s magnetic powder manufacturing business in future. Meanwhile, the business development of Nanjing Guo Zhong and Kunshan CEC-Ferrite Manufacturing Co., Ltd., a wholly-owned subsidiary of the Group, have laid a solid foundation for the Group to develop the business in eastern Mainland China.

Non-core Business

For the year ended 30th April 2004, the Group’s electronic components trading segment recorded a turnover of HK\$28,913,000 (2003: HK\$55,173,000), with a decrease of 47.6% as compared with the same period of last year. The Group has determined to cease the business during the interim of the next financial year. Meanwhile, the information technology segment reported a turnover of HK\$3,499,000 for the current year (2003: HK\$1,832,000), up 91% as compared with that of last year. The Group will hereafter continue to shrink these two non-core businesses.

FINANCIAL REVIEW

Overview

For the year ended 30th April 2004, the Group recorded profit attributable to shareholders of HK\$15,857,000, earnings per share was HK2.29 cents (2003: loss attributable to shareholders of HK\$5,159,000, loss per share was HK0.75 cent).

For the year ended 30th April 2004, the Group did not make any impairment loss on intangible assets, but made a one-off impairment loss on intangible assets amounting to HK\$8,940,000 in 2003.

Management Discussion and Analysis

Financial Management

Funds Surplus and Liabilities

As at 30th April 2004, the Group's aggregate banking facilities granted from banks amounted to HK\$385,620,000 (2003: HK\$539,426,000), of which HK\$67,615,000 was remain unutilised (2003: HK\$222,320,000). Decrease in the aggregate amount of banking facilities was due to the effectiveness on the manganese-zinc ferrite equipment invested by the Group for more than two years. It is believed that the cash inflow generated from operating activities in future will be sufficient to meet the needs for short-term funds.

As at 30th April 2004, the cash and bank deposits (denominated mainly in Hong Kong dollars, United States dollars, Renminbi, Japanese yen, Singapore dollars and New Taiwan dollars) were HK\$49,564,000 (2003: HK\$44,240,000), up 12%. The banking facilities were secured by mortgages on the Group's certain land and buildings, pledges of the Group's bank deposits, investment and machinery, and corporate guarantees provided by the Company and its certain subsidiaries. In addition, the Group is required to meet certain restrictive financial covenants with the major banks. As at 30th April 2004, the Group could comply with such financial ratios, which indicates that the Group's financial position was satisfactory, details of which are as follows:

	2004 HK\$'000	2003 HK\$'000
Banking facilities	385,620	539,426
Utilised banking facilities	(318,005)	(317,106)
Unutilised banking facilities	67,615	222,320
Cash and bank deposits	49,564	44,240



Management Discussion and Analysis

As at 30th April 2004, the Group's total borrowings were HK\$280,273,000 (2003: HK\$306,370,000), down 8.5%, of which HK\$204,376,000 (2003: HK\$205,282,000), down 0.4%, was current, and HK\$75,897,000 (2003: HK\$101,088,000), down 24.9%, was non-current and will be repayable within a period of more than one year but not exceeding five years. The Group's gearing ratio was 0.89 as at 30th April 2004 (2003: 1.03). Furthermore, contingent liabilities as at the same date amounted to HK\$38,052,000 (2003: HK\$25,286,000), up 50.5%, of which HK\$35,568,000 (2003: HK\$25,286,000) was factoring of trade receivables with recourse.

Financial Resources and Capital Structure

The Group's net cash inflow for the year ended 30th April 2004 amounted to HK\$18,368,000 (2003: HK\$1,512,000). The increase was primarily attributable to the substantial increase in the cash inflow from operating activities. During the year, the cash inflow from operating activities was HK\$95,757,000 (2003: HK\$47,690,000), up 101% as compared with that of last year. One of the main financing activities during the year was a three-year transferable term loan facility agreement for an aggregate amount of HK\$165,000,000 made between the Company and a group of banks on 30th April 2003. This facility improved the Group's debt structure and increased cash inflow to a great extent. On the other hand, capital expenditure on fixed assets for the year increased to HK\$55,425,000 (2003: HK\$26,709,000). Such increase included the expenditure on the construction

of a new production plant in Nanjing and the investment on production equipment in Zhongshan plant. Besides, the Group also continued to repay certain balance of bank loans for reducing the Group's net gearing ratios.

Cash Flow Summary

	2004 HK\$'000	2003 HK\$'000
Net cash inflow from operating activities	95,757	47,690
Net cash outflow from investing activities	(45,530)	(17,567)
Net cash outflow from financing activities	(31,449)	(29,554)
Exchange adjustment	(410)	943
Increase in cash and cash equivalents	18,368	1,512

Charges on Assets

As at 30th April 2004, certain assets of the Group with an aggregate carrying value of HK\$69,671,000 (2003: HK\$94,019,000) were pledged to secure banking facilities and finance lease.

Exchange Risks

The Group's business is mainly conducted in Mainland China, Hong Kong and South-east Asia and the major revenue generating currencies and major currencies in purchase commitments primarily denominated in Hong Kong dollars, Renminbi and United States dollars. As such, the management is of the view that it is not necessary for the Group to purchase any foreign exchange futures or options contract to hedge against exchange risks.

The Group's borrowings are mainly settled in Hong Kong dollars, Renminbi and United States dollars. The management believes that there is no substantial exchange risk.

FUTURE PLAN AND PROSPECTS

The management of the Group realises the importance of grasping market opportunities. To achieve this, product quality and environmental protection are also crucial factors, in addition to the Group's high production capacity. Meanwhile, the Group adopts a customer-oriented approach to actively manufacture tailor-made products for meeting the customers' requirements and market demand.

The Group anticipates that by optimizing the capacity of the manganese-zinc ferrite production equipment to manufacture switching-mode transformer, the increase in sales of the transformers is conducive to enhancing the Group's economies of scale which in turn increases the return to shareholders. As the Group has a well-established partnership with several international manufacturers of cell phone chargers for years, the turnover for the power-supply industry to the total turnover of the coils manufacturing segment rose from 9.4% to 17% as compared with that of last year, with a total of 42 million sets of switching-code transformers sold. As such, the Group will continue to implement the existing marketing strategy and to develop brand-new transformers technology and production methods in terms of technology and quality with a view to meeting the ever-changing demand of customers. Regarding the infrastructure, the Group reached an agreement with the local government in Mainland China for purchasing, for the purpose of the Group's development in the coming three years, a land parcel of 35,000 square meters adjoining the Group's main plant in Zhongshan. To maintain the Group's competitiveness, the development plan for the land includes the following areas: (1) constructing a new ferrite core plant to replace the old workshop which has been used for more than 10 years; (2) expanding the usable space of other assembling workshops; and (3) providing space for relocation of the metal and plastic workshops.

Management Discussion and Analysis



In recent years, more and more countries (including the European countries, the United States and Japan) have been adopting more stringent environmental protection standards for the raw materials of electronic products. As such, the Group will obtain accreditation on various environmental protection to meet the customers' development needs. During the year, the Group successfully obtained the accreditation of Green Partner, issued by several Japanese corporations. The Group contemplates to complete the ISO 14001 Environmental Management Standard Accreditation by the end of 2004 and to impose stringent supervision and control on the use of chemicals to conform to the Restriction of Hazardous Substances in Electrical and Electronic Equipment (RoHS), which will be introduced in Europe in July 2006.

CORPORATE DEVELOPMENT AND GOVERNANCE

During the second half of this financial year, the Group gradually relocated certain organisation structure in Hong Kong and daily operation work to its main plant in Zhongshan. Better synchronized operation was achieved at the preliminary stage. Therefore, the Group will continue to adopt the full China-focused operating model as stated in the Third Quarterly Report of this financial year. It is expected that only the finance department and information technology department will still serve in Hong Kong to back up the Group in the coming year.

In addition, to protect the interests of the investors, creditors and shareholders, following the establishment of an internal audit department during the third quarter of this financial year, the Group will continue to improve the professional standard of all the accounting and finance management staff. Meanwhile, the internal audit department will keep on implementing the internal audit plan as scheduled, scrutinizing and reinforcing the Group's internal control and corporate governance.

The "Executive Trainee Program", a crucial investment in human resources in the Group, aims at training and incubating quality university graduates and tertiary students, bringing in new ideas and young talents and thereby developing a new generation of the management. Up to now, the Program, which was launched in November 2003, has been running satisfactorily. The Group will continue putting more resources into the Program to generate the desirable results.

Management Discussion and Analysis

EMPLOYEES AND REMUNERATION POLICY

The Group had approximately 6,500 employees as at 30th April 2004. The remuneration of the employees is determined by reference to market benchmark, individual performance and work experience, subject to review, while bonus entitlement depends on the Group's results and employee's individual performance.

In 2000, the Company granted share options to certain employees of the Group to subscribe the Company's shares.

In conclusion, the Group will adopt a prudent approach in assessing the results and prospects of the next financial year. Leveraging on the huge investment made in the past few years and adopting customer-oriented approach, the Group will further enhance the efficiency of utilization and application rate in respect of the assets to enhance the return to shareholders.

ACKNOWLEDGEMENTS

Finally, on behalf of the Board of Directors, I express my heartfelt gratitude to all shareholders and all investors for their continued support to the Group, and the dedicated staff who contributed to the sustained growth of the Group during the year. I also express my thanks to all customers, suppliers and business partners who supported and trusted the Group during the year.

By Order of the Board
Lam Wai Chun
Chairman

Hong Kong, 16th August 2004

Directors and Senior Management Profile

Executive Directors

Mr. LAM Wai Chun, aged 45, was appointed as an executive director of the Company with effect from 29th September 1999, and the Chairman of the Company with effect from 4th October 1999. Mr. Lam is a founder of the Group and has over 33 years of experience in the coils manufacturing industry. He is responsible for the formulation of the Group's overall business strategies and overseeing corporate management. Mr. Lam is the sole director of Ka Yan China Development (Holding) Company Limited. Mr. Lam is also the brother-in-law of Mr. Law Hoo Shan, an executive director of the Company.

Ms. TANG Fung Kwan, aged 34, was appointed as an executive director of the Company with effect from 29th September 1999, and the Managing Director and Deputy Chairman of the Company with effect from 5th May 2003 and 1st August 2003 respectively. She is responsible for the Group's overall strategic planning, corporate development, sales and marketing as well as formulation of corporate policies. Ms. Tang has been admitted to the degree of Bachelor of Social Sciences with Honours in The University of Hong Kong in 1992 and the degree of International Master of Business Administration in the University of South Australia, Australia, in 1998. She joined the Group in 1993.

Mr. HUANG Kong, aged 31, was appointed as an executive director of the Company with effect from 19th December 2002, and the Deputy Managing Director of the Company with effect from 5th May 2003. He is responsible for the management of the Group's information technology and administration functions. Mr. Huang has been admitted to the degree of Bachelor of Engineering with Honours in Information Engineering in The Chinese University of Hong Kong in 1995, and the degree of Master of Business Administration in the University of Science and Technology in 2003. He has over 9 years of experience in information technology management. Mr. Huang joined the Group in December 2002.

Mr. LAW Hoo Shan, aged 44, was appointed as an executive director of the Company with effect from 19th December 2002. He is responsible for the sales and marketing, as well as administrative functions of the Group. Mr. Law has over 19 years of experience in the sales and marketing of coils in Hong Kong and Mainland China. He joined the Group in 1985. Mr. Law is also the brother-in-law of Mr. Lam Wai Chun, the Chairman of the Company.

Independent Non-Executive Directors

Mr. AU Son Yiu, aged 58, was appointed as an independent non-executive director of the Company with effect from 29th September 1999. Mr. Au has extensive experience in the securities industry. He is a consultant to Dao Heng Securities Limited and a member of the Election Committee for the financial services subsector election of the 1998 Legislative Council. He is also an independent non-executive director of several public companies listed on The Stock Exchange of Hong Kong Limited. In addition, Mr. Au was the Ex-Deputy Chairman of Hong Kong Clearing (1992-1994) and Ex-Council member of The Stock Exchange of Hong Kong Limited (1988-1994).

Mr. LEE Wing Kwan, Denis, aged 59, was appointed as an independent non-executive director of the Company with effect from 29th September 1999. Mr. Lee is the immediate past chairman of the Small and Medium Enterprises Committee of the HKSAR Government (1996-2000) and the former council and general committee member of Hong Kong General Chamber of Commerce (1994-2002) and a former member of the Executive Committee of the Hong Kong Coalition of Service Industries. Mr. Lee is now a member of Trade and Industry Board of the HKSAR Government and a member of Hong Kong/Japan Business Co-operation Committee.

Directors and Senior Management Profile

Mr. TANG Tin Sek, aged 45, was appointed as an executive director of the Company with effect from 29th September 1999, and has been re-designated as a non-executive director and an independent non-executive director of the Company with effect from 1st January 2000 and 3rd June 2003 respectively. Mr. Tang is a Certified Public Accountant in Hong Kong and has over 23 years of experience in corporate finance, auditing and financial management. He graduated from The University of Hong Kong with the degree of Bachelor of Science and has been admitted to the degree of Master of Business Administration in The University of Sydney, Australia. Mr. Tang is also a member of the Chartered Association of Certified Accountants in the United Kingdom, a member of the Institute of Chartered Accountants in Australia, a member of the Chinese Institute of Certified Public Accountants in China, and an independent non-executive director of several companies listed on The Stock Exchange of Hong Kong Limited.

SENIOR MANAGEMENT

Head of Major Subsidiaries

Ms. LI Hong, aged 35, is a director and the general manager of Xiamen Coils Electronic Co., Ltd. She joined the Group in 1994.

Ms. POH Po Leng, aged 35, is the assistant general manager of CEC-Coils Singapore Pte Ltd. She joined the Group in 2000.

Mr. SO Hsiu Ming, aged 44, is a senior manager of the Taiwan Branch of Coils Electronic Co., Limited. He joined the Group in 1997.

Mr. JIANG Wenjie, aged 32, is a director of 南京國仲磁性材料製品有限公司 (Nanjing Guo Zhong Magnetic Material Co., Ltd). He joined the Group in 1992.

Mr. TAN Yanchang, aged 57, is a director of Zhongshan Coils Metalwork Co., Ltd. He joined the Group in 1999.

Mr. JIANG Pingyuan, aged 35, is a director of Kunshan CEC-Ferrite Manufacturing Co., Ltd. He joined the Group in 1993.

Mr. YANG Yong, aged 31, is a manager of 重慶高雅科技有限公司 (Chongqing CEC-Technology Limited). He joined the Group in 1994.

Group Consultant

Mr. SAITO Misao, aged 68, is a former executive director and the Deputy Chairman of the Company appointed on 29th September 1999 and 4th October 1999 respectively (resigned both offices on 30th June 2003). He was appointed as a consultant of the Group in July 2003 and responsible for the Group's sales and marketing as well as product development. Mr. Saito has been admitted to the degree of Bachelor of Engineering in Electric Communication in the Tokyo Denki University, Japan in 1958 and has over 40 years of experience in the industry of manufacturing of coils and other electronic components. He has extensive experience in the international markets for coils including Hong Kong and Japan.

Group Management

Ms. HO Wing Yi, aged 30, is the chief accountant of the Group. She is responsible for the Group's financial reporting and corporate finance functions. Ms. Ho has over 7 years of audit experience in an international firm of certified public accountants. She has been admitted to the degree of Bachelor of Accountancy with Honours in the Polytechnic University of Hong Kong in 1996. Ms. Ho is also an associate member of both the Hong Kong Society of Accountants and The Association of Chartered Certified Accountants. Ms. Ho joined the Group in December 2003.

Directors and Senior Management Profile

Ms. FU Shuk Yi, aged 26, is the internal audit manager of the Group. She is responsible for the Group's internal audit functions. Ms. Fu has over 3 years of audit experience in an international firm of certified public accountants. She has been admitted to the degree of Bachelor of Business Administration (Accountancy & Finance) with Honours in the University of Hong Kong in 2000. Ms. Fu is also an associate member of The Association of Chartered Certified Accountants. Ms. Fu joined the Group in December 2003.

Ms. LI Lai Sheung, aged 40, is the company secretary of the Company. She is an associate member of The Institute of Chartered Secretaries and Administrators. Ms. Li joined the Group in October 1999.

Core Management

Mr. XU Wenliang, aged 30, is the senior accounting manager of Coils Electronic (Zhong Shan) Co., Ltd. He is responsible for the financial management functions of the Group's operations at Zhongshan's plant. Mr. Xu has been admitted Bachelor of Economics Degree and Master of Business Administration Degree from Sun Yat-sen University, Guangdong Province, Mainland China, in 1997 and 2004 respectively. He previously served in the State Administration Taxation Office in Mainland China. Mr. Xu has been qualified as a Certified Public Accountant People's Republic of China, Chinese Auditor, International Certified Internal Auditor and a Registered Tax Agent People's Republic of China. He joined the Group in July 2004.

Mr. THATTI Suresh, aged 44, is a director of CEC-Coils Singapore Pte Ltd. He is responsible for the Group's marketing development. He has been admitted to the degree of Bachelor of Science and the degree of Bachelor of Engineering in the Bangalore University, India, in 1979 and 1983 respectively. Mr. Thatti joined the Group in January 1999.

Ms. WEI Yinjie, aged 36, is the senior production manager of Coils Electronic (Zhong Shan) Co., Ltd. She is responsible for the overall production management of the Group's production facilities in Zhongshan, Guangdong Province and has over 20 years of experience in coils manufacturing and inventory management. Ms. Wei joined the Group in 1984.

Mr. RAMAKRISHNA Subbaraya, aged 43, is the production manager of Coils Electronic (Zhong Shan) Co., Ltd. He is responsible for the production management of the Group's high-frequency power-supply products in Zhongshan, Guangdong Province. He has been admitted to the degree of Bachelor of Engineering in Electrical Engineering in the Bangalore University, India, in 1983. Mr. Ramakrishna joined the Group in March 2001.

Ms. LAI Wanru, aged 32, is a director of Coils Electronic Co., Limited. She is responsible for the general procurement, materials control and logistics management for the Group. Ms. Lai has over 14 years of experience in materials procurement, coils manufacturing as well as sales and marketing. She joined the Group in 1990.

Mr. ZHOU Yong, aged 33, is the procurement and logistics manager of Coils Electronic (Zhong Shan) Co., Ltd. He is responsible for general procurement and logistics management of the Group and has over 10 years of experience in procurement, coils design as well as sales and marketing. Mr. Zhou joined the Group in 1993.

Mr. HO Kwok Keung, aged 46, is a former executive director of the Company (appointed on 20th December 2002 and resigned on 14th August 2003) and the senior manager of equipment management department of Coils Electronic (Zhong Shan) Co., Ltd. He is responsible for the general production facilities management and mould development of the Group's production facilities at Zhongshan's plant. He has over 28 years of experience in the electronics and electrical industry. Mr. Ho joined the Group in 1996.

Directors and Senior Management Profile

Mr. ZHANG Suo, aged 33, is the senior manager of the quality assurance department of Coils Electronic (Zhong Shan) Co., Ltd. He is responsible for the overall quality assurance functions of the Group's production facilities in Zhongshan, Guangdong Province. Mr. Zhang has been admitted to the degree of Bachelor of Engineering in Forestry Mechanics in the Beijing Forestry University, Mainland China, in 1992. He joined the Group in 1994.

Core Technical Management

Mr. HE Guogao, aged 38, is the assistant general manager of Coils Electronic (Zhong Shan) Co., Ltd. He is responsible for the overall quality assurance functions of the Group's production facilities in Zhongshan. Mr. He has been admitted to the degree of Bachelor of Engineering in Automation in the Gansu University of Technology, Mainland China, in 1988. He joined the Group in March 2001.

Mr. ZHAO Xiangqun, aged 42, is the senior manager of the calibration laboratory of Coils Electronic (Zhong Shan) Co., Ltd. He is responsible for the management of the calibration laboratory of the Group's plant in Zhongshan, Guangdong Province. Mr. Zhao has been admitted to the degree of Master of Science in Gravitational Physics in the Sun Yat-sen University, Guangdong Province, Mainland China, in 1989. He joined the Group in March 2001.

Mr. CAO Huizhong, aged 34, is the research and development manager of Coils Electronic (Zhong Shan) Co., Ltd. He is responsible for the research and development of coils and transformer products. Mr. Cao graduated from the department of mechanical engineering in the Ningxia Institute of Industry, Mainland China, in 1992. He has over 10 years of experience in research and development of the coils and transformer products. He joined the Group in 1994.

Mr. LIU Kun, aged 28, is the research and development manager of Coils Electronic (Zhong Shan) Co., Ltd. He is responsible for the research and development of coils and transformer products. He has been admitted to the degree of Bachelor of Communication Engineering in South China University of Technology, Mainland China, in 1999. Mr. Liu joined the Group in 2003.

Mr. LIU Jianhui, aged 34, is the research and development manager of Tonichi Ferrite Co., Ltd. He is responsible for the research and development of ferrite material. Mr. Liu has been admitted to the degree of Bachelor of Engineering in Magnetic Physics in the University of Electronic Science and Technology, Mainland China in 1991. He joined the Group in March 1994.

Mr. HUANG Guoxiang, aged 34, is the quality assurance manager of 南京國仲磁性材料製品有限公司 (Nanjing Guo Zhong Magnetic Material Co., Ltd). He is responsible for the research and quality inspection functions for magnetic materials. Mr. Huang has been admitted to the degree of Bachelor of Engineering in Magnetic Physics in the University of Electronic Science and Technology of China, in 1992. He joined the Group in 1994.

Mr. YU Xin, aged 30, is the head of technology of 重慶高雅科技有限公司 (Chongqing CEC-Technology Limited). He is responsible for leading the software technology development in Chongqing, Mainland China. Mr. Yu has been admitted to a degree of Bachelor of Engineering in the Tsinghua University, Mainland China, in 1996. He joined the Group in 2002.

Mr. HO Man Lee, aged 24, is the senior analyst programmer of the Group. He is responsible for the Group's information system development and maintenance. Mr. Ho has been admitted to the degree of Bachelor of Computer Science with Honours in The University of Science and Technology, Hong Kong in 2001. He joined the Group in August 2001.

Report of the Directors

The directors submit their report together with the audited accounts for the year ended 30th April 2004.

Principal activities and geographical analysis of operations

The Company is an investment holding company. Its subsidiaries are principally engaged in (i) design, development, manufacture and sale of a wide range of coils, capacitors and other electronic components, which are generally used in the manufacture of various kinds of electronic and electrical products; (ii) manufacture and sale of ferrite powder which is a major raw material for production of display tubes; and (iii) provision of information technology services.

An analysis of the Group's performance for the year by business and geographical segment is set out in note 4 to the accounts.

Results and appropriations

The results of the Group for the year are set out in the consolidated income statement on page 36.

No interim dividend was declared for the year ended 30th April 2004 (2003: Nil). The directors recommended, subject to the approval of the shareholders at the forthcoming Annual General Meeting, the payment of a final dividend of HK0.5 cent per share (2003: Nil), totalling HK\$3,465,000 for the year ended 30th April 2004 payable on 5th October 2004 to shareholders whose names appear on the register of members of the Company on 27th September 2004.

Reserves

Movements in the reserves of the Group and of the Company during the year are set out in note 27 to the accounts.

Donations

Charitable and other donations made by the Group during the year amounted to approximately HK\$220,000 (2003: HK\$375,000).

Fixed assets

Details of the movements in fixed assets of the Group during the year are set out in note 13 to the accounts.

Share capital and warrants

Details of the movements in share capital and warrants of the Company are set out in notes 26 and 28, respectively, to the accounts.

Distributable reserves

As at 30th April 2004, the Company's contributed surplus of approximately HK\$131,338,000 (2003: HK\$131,338,000) (subject to provisions under the Companies Act 1981 of Bermuda (as amended)) and retained profits of approximately HK\$20,166,000 (2003: HK\$2,995,000) were available for distribution to the Company's shareholders.

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.

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 2004.

Share options

At the annual general meeting of the Company held on 26th September 2002, the shareholders of the Company approved the adoption of a new share option scheme (the "New Scheme") and the termination of the share option scheme adopted by the Company on 26th October 1999 (the "Old Scheme").

The Old Scheme

The Old Scheme was designed to provide incentives to the participants although no such purpose was mentioned in the terms of the Old Scheme. The major terms of the Old Scheme are summarised as follows:

1. The participants of the Old 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 Old 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.
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 Old Scheme, must not exceed 25% of the maximum number of shares under the Old 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 (the "Board") when making an offer of option and in any event shall not be later than 10 years from the date of adoption of the Old Scheme.
5. Unless otherwise determined by the Board in its absolute discretion, there is no general requirement in respect of the minimum period for which an option must be held before it can be exercised.
6. The acceptance of an option, if accepted, must be made not more than 40 days after the date of offer of the option with a non-refundable payment of HK\$1.00 as consideration for the grant of the option from the grantee to the Company. The full amount of the subscription price for shares must be paid upon exercise of an option.

Report of the Directors

The Old Scheme (Continued)

7. The subscription price per share in respect of an option shall not be less than the higher of:
- a price not less than 80% of the average closing price of the Company's shares quoted on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") for the 5 trading days immediately preceding the date of offer of the option; and
 - the nominal value of the Company's share.
8. As the Old Scheme was terminated on 26th September 2002, no further options can be offered under the Old Scheme. However, in all other respects the provisions of the Old Scheme shall remain in full force and all outstanding options granted under the Old Scheme prior to such termination shall continue to be valid and exercisable pursuant to the Old Scheme until their respective expiry dates.

Movements in share options granted under the Old Scheme during the year are as follows:

Date of grant	Vesting period	Exercisable period	Subscription price per share	Number of shares under options			
				Beginning of year	Exercised during the year	Lapsed during the year	End of year
<i>(i) Directors</i>							
<i>Mr. Lam Wai Chun</i>							
21st September 2000	21st September 2000 to 21st September 2002	22nd September 2002 to 21st September 2003	HK\$1.02	881,798	-	(881,798)	-
21st September 2000	21st September 2000 to 21st September 2003	22nd September 2003 to 21st June 2004	HK\$1.02	1,322,698	-	-	1,322,698
21st September 2000	21st September 2000 to 21st June 2004	22nd June 2004 to 21st January 2005	HK\$1.02	1,322,698	-	-	1,322,698
				3,527,194	-	(881,798)	2,645,396
<i>Mr. Saito Misao (resigned on 30th June 2003)</i>							
21st September 2000	21st September 2000 to 21st September 2002	22nd September 2002 to 21st September 2003	HK\$1.02	881,798	-	(881,798)	-
21st September 2000	21st September 2000 to 21st September 2003	22nd September 2003 to 21st June 2004	HK\$1.02	1,322,698	-	(1,322,698)	-
21st September 2000	21st September 2000 to 21st June 2004	22nd June 2004 to 21st January 2005	HK\$1.02	1,322,698	-	(1,322,698)	-
				3,527,194	-	(3,527,194)	-

The Old Scheme (Continued)

Date of grant	Vesting period	Exercisable period	Subscription price per share	Number of shares under options			
				Beginning of year	Exercised during the year	Lapsed during the year	End of year
<i>(i) Directors</i>							
<i>Ms. Tang Fung Kwan</i>							
21st September 2000	21st September 2000 to 21st September 2002	22nd September 2002 to 21st September 2003	HK\$1.02	881,798	-	(881,798)	-
21st September 2000	21st September 2000 to 21st September 2003	22nd September 2003 to 21st June 2004	HK\$1.02	1,322,698	-	-	1,322,698
21st September 2000	21st September 2000 to 21st June 2004	22nd June 2004 to 21st January 2005	HK\$1.02	1,322,698	-	-	1,322,698
				3,527,194	-	(881,798)	2,645,396
<i>Mr Law Hoo Shan</i>							
1st November 2000	1st November 2000 to 31st October 2002	1st November 2002 to 31st October 2003	HK\$0.75	420,000	-	(420,000)	-
1st November 2000	1st November 2000 to 31st October 2003	1st November 2003 to 31st July 2004	HK\$0.75	630,000	-	-	630,000
1st November 2000	1st November 2000 to 31st July 2004	1st August 2004 to 28th February 2005	HK\$0.75	630,000	-	-	630,000
				1,680,000	-	(420,000)	1,260,000
<i>Mr Ho Kwok Keung (resigned on 14th August 2003)</i>							
1st November 2000	1st November 2000 to 31st October 2002	1st November 2002 to 31st October 2003	HK\$0.75	195,000	-	(195,000)	-
1st November 2000	1st November 2000 to 31st October 2003	1st November 2003 to 31st July 2004	HK\$0.75	292,500	-	-	292,500
1st November 2000	1st November 2000 to 31st July 2004	1st August 2004 to 28th February 2005	HK\$0.75	292,500	-	-	292,500
				780,000	-	(195,000)	585,000

Report of the Directors

The Old Scheme (Continued)

Date of grant	Vesting period	Exercisable period	Subscription price per share	Number of shares under options			
				Beginning of year	Exercised during the year	Lapsed during the year	End of year
(ii) Employees							
21st September 2000	21st September 2000 to 21st September 2002	22nd September 2002 to 21st September 2003	HK\$1.02	881,798	-	(881,798)	-
21st September 2000	21st September 2000 to 21st September 2003	22nd September 2003 to 21st June 2004	HK\$1.02	1,322,698	-	-	1,322,698
21st September 2000	21st September 2000 to 21st June 2004	22nd June 2004 to 21st January 2005	HK\$1.02	1,322,698	-	-	1,322,698
				3,527,194	-	(881,798)	2,645,396
1st November 2000	1st November 2000 to 31st October 2002	1st November 2002 to 31st October 2003	HK\$0.75	7,800,000	-	(7,800,000)	-
1st November 2000	1st November 2000 to 31st October 2003	1st November 2003 to 31st July 2004	HK\$0.75	11,700,000	-	(2,880,000)	8,820,000
1st November 2000	1st November 2000 to 31st July 2004	1st August 2004 to 28th February 2005	HK\$0.75	11,700,000	-	(2,880,000)	8,820,000
				31,200,000	-	(13,560,000)	17,640,000
				47,768,776	-	(20,347,588)	27,421,188

The New Scheme

The major terms of the New Scheme are summarised as follows:

1. The purpose of the New Scheme is to provide participants with the opportunity to acquire proprietary interest in the Company and to encourage participants to work towards enhancing the value of the Company and its shares for the benefit of the Company and its shareholders as a whole.
2. The participants include:
 - (i) any full-time employees of the Company or its subsidiary, including executive directors; and
 - (ii) any non-executive directors of the Company or its subsidiary, including independent non-executive directors of the Company.

The New Scheme (Continued)

3. The total number of shares available for issue upon exercise of all options to be granted under the New Scheme and other share option schemes of the Company must not in aggregate exceed 10% of the issued share capital of the Company as at the date of approval of the New Scheme and such limit may be refreshed by the shareholders of the Company in general meeting. The overall limit on the number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the New Scheme and any other share option schemes of the Company must not exceed 30% of the shares of the Company in issue from time to time. The total number of shares available for issue under the New Scheme as at 16th August 2004, the date of this annual report, was 69,302,881, representing approximately 10% of the issued share capital of the Company.
4. The total number of shares issued and to be issued upon exercise of the options granted and to be granted to each participant (including exercised, cancelled and outstanding options) in any twelve-month period up to the date of grant must not exceed 1% of the Company's shares in issue. Any further grant of options in excess of this limit is subject to separate shareholders' approval in general meeting of the Company in advance.

Any grant of options to a substantial shareholder or an independent non-executive director of the Company, or any of their respective associates, which would result in the shares issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) to such person in the twelve-month period up to and including the date of such grant, in aggregate exceed 0.1% of the shares of the Company in issue and with an aggregate value in excess of HK\$5 million (based on the closing price of the Company's shares at the date of each grant), is subject to the prior approval by the shareholders of the Company in general meeting.

5. The period within which an option may be exercised will be determined and notified by the Board at the time of grant, but in any event shall not exceed 10 years from the date of grant.
6. Unless otherwise determined by the Board in its absolute discretion, there is no general requirement in respect of the minimum period for which an option must be held before it can be exercised.
7. The acceptance of an option, if accepted, must be made within 28 days from the date of offer of the option with a non-refundable payment of HK\$1.00 as consideration for the grant of the option from the grantee to the Company. The full amount of the subscription price for shares must be paid upon exercise of an option.
8. The subscription price per share in respect of an option shall not be less than the highest of:
 - (a) the closing price of the Company's share as stated in the daily quotations sheet issued by the Stock Exchange on the date of grant;
 - (b) the average closing price of the Company's share as stated in the daily quotations sheets issued by the Stock Exchange for the 5 business days immediately preceding the date of grant; and
 - (c) the nominal value of the Company's share on the date of grant.

Report of the Directors

The New Scheme (Continued)

9. The New Scheme is valid and effective for a period of 10 years commencing on its date of adoption until 25th September 2012.

During the year ended 30th April 2004, no option was granted under the New Scheme.

Directors

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

Executive directors

Mr. Lam Wai Chun	<i>(Chairman)</i>
Ms. Tang Fung Kwan	<i>(Deputy Chairman and Managing Director)</i>
Mr. Huang Kong	<i>(Deputy Managing Director)</i>
Mr. Law Hoo Shan	
Mr. Saito Misao	<i>(resigned on 30th June 2003)</i>
Mr. Ho Kwok Keung	<i>(resigned on 14th August 2003)</i>
Mr. Chiu Chan, Charles	<i>(resigned on 21st January 2004)</i>
Mr. Lam Wing Kin, Sunny	<i>(resigned on 21st February 2004)</i>

Independent non-executive directors

Mr. Tang Tin Sek*
Mr. Au Son Yiu
Mr. Lee Wing Kwan, Denis

- * Re-designated from a non-executive director to an independent non-executive director with effect from 3rd June 2003

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

Biographical details of directors and senior management

Brief biographical details of directors and senior management are set out on pages 16 to 19 of this annual report.

Directors' services contracts

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 Ms. Tang Fung Kwan, Mr. Huang Kong and Mr. Law Hoo Shan, entered into a service agreement with the Company on 14th August 2003 for a term of two years, each commencing on 1st May 2003 until terminated by either party giving to the other a prior notice of three months in writing (or such other period as the parties may agree in writing from time to time, but in any event not more than three months) before its expiration.

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 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.

Interests of directors and chief executives in securities

As at 30th April 2004, the interests and short positions of the directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers were as follows:

(a) Shares of the Company

	Number of shares of HK\$0.10 each					Total interests	Percentage of issued share capital
	Family interests	Personal interests (Note 2)	Corporate interests (Note 3)	Trusts and similar interests (Note 3)	Other interests		
Mr. Lam Wai Chun	404,008,996 (Note 3)	5,332,000	404,008,996 (Note 3)	404,008,996 (Note 3)	-	409,340,996 (Note 3)	59.07%
Ms. Tang Fung Kwan	-	3,502,611	-	-	-	3,502,611	0.51%
Mr. Law Hoo Shan	-	546,751	-	-	-	546,751	0.08%
Mr. Au Son Yiu	-	2,700,000	-	-	-	2,700,000	0.39%
Mr. Tang Tin Sek	-	502,000	-	-	-	502,000	0.07%

Notes:

- All the above interests in the shares of the Company were long positions. These interests need to be aggregated with those set out in sub-paragraph (b) below (if applicable) to give the total interests of the relevant directors of the Company.
- Personal interests were interests held by the relevant directors as beneficial owners.
- The 404,008,996 shares were held by and registered in the name of Ka Yan China Development (Holding) Company Limited, a wholly-owned subsidiary of Ka Yan China Investments Limited. The entire issued share capital of Ka Yan China Development (Holding) Company Limited was ultimately held by HSBC International Trustee Limited as trustee of a discretionary trust, namely Ka Yan China Family Trust (the "Trust"). The beneficiaries under the Trust were Mr. Lam Wai Chun's spouse, Ms. Law Ching Yee, and his children who were under the age of 18 years. By virtue of his being a founder of the Trust, Mr. Lam Wai Chun was deemed to be interested in all the shares held by Ka Yan China Development (Holding) Company Limited for the purpose of the SFO. The 404,008,996 shares in the family interests, corporate interests and trusts and similar interests related to the same block of shares in the Company and duplicated each other. Accordingly, the figure of 409,340,996 shares in the total interests column for Mr. Lam Wai Chun was arrived at after eliminating the duplications.

Report of the Directors

Interests of directors and chief executives in securities (Continued)

(b) Underlying shares pursuant to equity derivatives of the Company

As at 30th April 2004, the following directors of the Company had beneficial interests in the outstanding share options granted under the Old Scheme entitling them to subscribe for shares of the Company, the interest of which were long positions:

Date of grant	Vesting period	Exercisable period	Subscription price per share	Number of shares under options			End of year
				Beginning of year	Exercised during the year	Lapsed during the year	
<i>Mr. Lam Wai Chun</i>							
21st September 2000	21st September 2000 to 21st September 2002	22nd September 2002 to 21st September 2003	HK\$1.02	881,798	-	(881,798)	-
21st September 2000	21st September 2000 to 21st September 2003	22nd September 2003 to 21st June 2004	HK\$1.02	1,322,698	-	-	1,322,698
21st September 2000	21st September 2000 to 21st June 2004	22nd June 2004 to 21st January 2005	HK\$1.02	1,322,698	-	-	1,322,698
				3,527,194	-	(881,798)	2,645,396
<i>Ms. Tang Fung Kwan</i>							
21st September 2000	21st September 2000 to 21st September 2002	22nd September 2002 to 21st September 2003	HK\$1.02	881,798	-	(881,798)	-
21st September 2000	21st September 2000 to 21st September 2003	22nd September 2003 to 21st June 2004	HK\$1.02	1,322,698	-	-	1,322,698
21st September 2000	21st September 2000 to 21st June 2004	22nd June 2004 to 21st January 2005	HK\$1.02	1,322,698	-	-	1,322,698
				3,527,194	-	(881,798)	2,645,396
<i>Mr. Law Hoo Shan</i>							
1st November 2000	1st November 2000 to 31st October 2002	1st November 2002 to 31st October 2003	HK\$0.75	420,000	-	(420,000)	-
1st November 2000	1st November 2000 to 31st October 2003	1st November 2003 to 31st July 2004	HK\$0.75	630,000	-	-	630,000
1st November 2000	1st November 2000 to 31st July 2004	1st August 2004 to 28th February 2005	HK\$0.75	630,000	-	-	630,000
				1,680,000	-	(420,000)	1,260,000

Interests of directors and chief executives in securities (Continued)

(c) Shares of associated corporation(s) of the Company

Coils Electronic Co., Limited

Name of director	Number of non-voting deferred shares of HK\$1.00 each				Percentage of issued non-voting deferred shares
	Personal interests	Corporate interests	Family interests	Total interests	
Mr. Lam Wai Chun (Notes 4 and 5)	7,500,000	6,000,000	500,000	14,000,000	100%

Notes:

- Mr. Lam Wai Chun held 7,500,000 non-voting deferred shares of HK\$1.00 each, representing approximately 53.57% of the 14,000,000 non-voting deferred shares of HK\$1.00 each issued by Coils Electronic Co., Limited, in which Coils International Holdings Limited, a direct wholly-owned subsidiary of the Company, held 100% of the issued ordinary share capital.
- 6,000,000 non-voting deferred shares of HK\$1.00 each were held by Ka Yan China Development (Holding) Company Limited and 500,000 non-voting deferred shares of HK\$1.00 each were held by Ms. Law Ching Yee respectively 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 these shares under the SFO by virtue of, in the case of shares held by Ka Yan China Development (Holding) Company Limited, the reasons set out in Note 3 to sub-paragraph (a) 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.
- All the above interests in the non-voting deferred shares of Coils Electronic Co., Limited held by Mr. Lam Wai Chun were long positions.
- Mr. Lam Wai Chun held shares in certain subsidiaries as trustee for their holding companies.

Save as disclosed above, as at 30th April 2004, none of the directors or chief executives of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required to be entered in the register kept by the Company pursuant to section 352 of SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

Report of the Directors

Directors' rights to acquire shares or debentures

Save as disclosed above, at no time during the year ended 30th April 2004 was the Company or any of its associated corporations (within the meaning of Part XV the SFO) 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 debentures of, the Company or any other body corporate.

Interests of shareholders discloseable under the SFO

As at 30th April 2004, according to the register kept by the Company under Section 336 of the SFO, other than the directors or chief executives of the Company, the following persons had an interests or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

(a) Shares of the Company

Substantial shareholders (as defined in the Listing Rules)

Name	Number of shares held				Percentage of issued share capital
	Family interests	Corporate interests	Trusts and similar interests	Beneficial owner	
Ms. Law Ching Yee	409,340,996 (Note 2)	-	-	-	59.07%
Ka Yan China Development (Holding) Company Limited	-	-	-	404,008,996 (Notes 2 and 3)	58.30%
Ka Yan China Investments Limited	-	404,008,996 (Notes 2 and 3)	-	-	58.30%
HSBC International Trustee Limited	-	-	404,008,996 (Notes 3 and 4)	-	58.30%

Interests of shareholders discloseable under the SFO (Continued)

(a) Shares of the Company (Continued)

Other persons as recorded in the register kept by the Company pursuant to section 336 of the SFO

Name	Number of shares held				Percentage of issued share capital
	Family interests	Corporate interests	Trusts and similar interests	Beneficial owner	
Nittoku Engineering Co., Ltd.	-	-	-	51,093,983	7.37%
Toko, Inc.	-	-	-	36,785,402	5.31%

Notes:

- All the above interests in shares of the Company held by the above-named shareholders were long positions.
- The 404,008,996 shares were held by and registered in the name of Ka Yan China Development (Holding) Company Limited, a wholly-owned subsidiary of Ka Yan China Investments Limited. The entire issued share capital of Ka Yan China Development (Holding) Company Limited was ultimately held by the Trust. The beneficiaries under the Trust were Mr. Lam Wai Chun's spouse, Ms. Law Ching Yee, and his children who were under the age of 18 years. By virtue of Mr Lam Wai Chun being a founder of the Trust, Ms Law Ching Yee was deemed to be interested in all the shares and equity derivatives held by her spouse for the purpose of the SFO.

These interests need to be aggregated with those set out in sub-paragraph (b) below to give the total interests of Ms. Law Ching Yee.
- The interests of Ka Yan China Development (Holding) Company Limited and Ka Yan China Investments Limited, the ultimate holding company of the Company were in respect of the same 404,008,996 shares and duplicated each other.
- The 404,008,996 shares in which HSBC International Trustee Limited was interested were the shares referred to in Notes 2 and 3 above.

(b) Underlying shares pursuant to equity derivatives of the Company

Substantial shareholders (as defined in the Listing Rules)

Name	Number of shares pursuant to option granted	
	Family interests	
Ms. Law Ching Yee		2,645,396 (Note 5)

Notes:

- Ms. Law Ching Yee was deemed to be interested in 2,645,396 shares in respect of the outstanding share option granted to her spouse, Mr. Lam Wai Chun under the Old Scheme, the interests of which were long positions. The details of the outstanding share option are set out under the sub-paragraph headed "Underlying shares pursuant to equity derivatives of the Company" in the section headed "Interests of directors and chief executives in securities".

Interests of shareholders discloseable under the SFO (Continued)

Save as disclosed above, the Company had not been notified of any other person (other than a director or a chief executive of the Company) who had an interest (whether direct or indirect) in 5% or more of the shares comprised in the relevant share capital or a short position which were required to be recorded in the register kept by the Company pursuant to section 336 of the SFO as at 30th April 2004.

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.

Major suppliers and customers

During the year ended 30th April 2004, the five largest suppliers of the Group accounted for less than 30% 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.

Disclosure pursuant to rule 13.20 of the Listing Rules

Pursuant to rule 13.20 of the Listing Rules, the details of the Group's trade receivables, which exceeded 8% of the Company's market capitalisation (the percentage ratio as defined under the Listing Rules) as at 30th April 2004 are set out below:

1. The total trade receivables due to the Group from two customers within the Salcomp Group (namely Salcomp OY and Salcomp (Shenzhen) Co. Ltd.) amounted to approximately HK\$9,885,000; and
2. The total trade receivables due to the Group from Nanjing Feijin Magnetic Products Co., Ltd. amounted to approximately HK\$10,603,000.

All of the above-mentioned trade receivables were interest-free, unsecured and with credit periods ranging from 30-90 days, and all of which arose in the ordinary course of business of the Group.

Disclosure pursuant to rule 13.21 of the Listing Rules

In accordance with the disclosure requirements of rule 13.21 of the Listing Rules, the Company makes the following disclosures in relation to the details of the 2002 Agreement (as defined below) and 2003 Agreement (as defined below), which includes conditions relating to specific performance of the controlling shareholder of the Company:

1. On 31st January 2002, the Company entered into a 3-year transferable term loan and revolving credit facility agreement (the "2002 Agreement") for an aggregate amount of HK\$100,000,000 (the "2002 Facility") with Coils Electronic Co., Limited, a wholly-owned subsidiary of the Company, as original guarantor, and a group of banks.
2. On 30th April 2003, the Company entered into a 3-year transferable term loan facility agreement (the "2003 Agreement") for an aggregate amount of HK\$165,000,000 (the "2003 Facility") with Coils Electronic Co., Limited, a wholly-owned subsidiary of the Company, as original guarantor, and a group of banks.

Disclosure pursuant to rule 13.21 of the Listing Rules (Continued)

Under the provisions of the 2002 Agreement and the 2003 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 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.

For 2002 Agreement, if any such event of default occurs, upon a notice served to the Company, (i) the 2002 Facility shall immediately be cancelled; (ii) all amounts accrued and outstanding or owing under the 2002 Facility shall immediately become due and payable; and/or (iii) the 2002 Facility shall immediately become payable on demand.

For 2003 Agreement, if any such event of default occurs, upon a notice served to the Company, (i) the 2003 Facility shall immediately be cancelled; (ii) all amounts accrued and outstanding or owing under the 2003 Facility shall immediately become due and payable; and/or (iii) the 2003 Facility shall immediately become payable on demand.

All the outstanding indebtedness under the 2002 Agreement had been prepaid in May 2003.

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 2004, except that the non-executive director (Mr. Tang Tin Sek who has been re-designated as an independent non-executive director with effect from 3rd June 2003) and independent non-executive directors have not been appointed for a specific term, 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.

Report of the Directors

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 the three independent non-executive directors.

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 accounts for the year ended 30 April 2001. The accounts for the years ended 30th April 2002, 2003, 2004 were 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, 16th August 2004



羅兵咸永道會計師事務所

PricewaterhouseCoopers
22nd Floor Prince's Building
Central Hong Kong

AUDITORS' REPORT TO THE SHAREHOLDERS OF CEC INTERNATIONAL HOLDINGS LIMITED

(incorporated in Bermuda with limited liability)

We have audited the accounts on pages 36 to 79 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

The company's directors are responsible for the preparation of accounts which give a true and fair view. In preparing accounts which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion solely to you, as a body, in accordance with Section 90 of the Companies Act 1981 of Bermuda, and for no other purpose. We do not assume responsibility towards or accept liability to any other person of the contents of this report.

Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the circumstances of the company and the group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the accounts are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the company and the group as at 30th April 2004, and of the group's profit and cash flows for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 16th August 2004

Consolidated Income Statement

For the year ended 30th April 2004

	Note	2004 HK\$'000	2003 HK\$'000 (restated)
Turnover	3	491,663	448,155
Cost of sales		(368,016)	(335,926)
Gross profit		123,647	112,229
Selling and distribution expenses		(11,397)	(13,866)
General and administrative expenses		(72,090)	(69,052)
Impairment loss on intangible assets		–	(8,940)
Other operating expenses		(1,406)	(5,747)
Operating profit	5	38,754	14,624
Interest income	3	156	341
Interest expense	6	(17,240)	(18,223)
Share of profits less losses of associates		(20)	76
Share of profits less losses of jointly controlled entities		–	140
Profit/(loss) before taxation		21,650	(3,042)
Taxation	7	(5,854)	(2,017)
Profit/(loss) after taxation but before minority interests		15,796	(5,059)
Minority interests		61	(100)
Profit/(loss) attributable to shareholders	8	15,857	(5,159)
Dividend	9	3,465	–
Earnings/(loss) per share			
– Basic	10	2.29 cents	(0.75) cent
– Diluted	10	N/A	N/A

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CEC International Holdings Limited
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Balance Sheets

As at 30th April 2004

	Note	Group		Company	
		2004 HK\$'000	2003 HK\$'000 (restated)	2004 HK\$'000	2003 HK\$'000
Non-current assets					
Fixed assets	13	457,213	460,469	–	–
Investment in subsidiaries	14	–	–	367,333	331,965
Investment in associates	15	33	4,193	–	–
Deposit for acquisition of land	16	4,764	–	–	–
Deposit with an associate		–	8,577	–	–
Deferred tax assets	25	–	415	–	–
Total non-current assets		462,010	473,654	367,333	331,965
Current assets					
Inventories	17	83,973	83,756	–	–
Trade receivables	18	92,258	77,680	–	–
Bills receivable		2,181	583	–	–
Prepayments, deposits and other current assets		8,402	9,713	–	–
Investment	19	8,580	7,939	–	–
Tax recoverable		471	436	–	–
Pledged bank deposits	20	25,058	24,983	–	–
Bank balances and cash	20	24,506	19,257	2	3
Total current assets		245,429	224,347	2	3
Current liabilities					
Short-term bank borrowings	21	(198,359)	(190,795)	(55,000)	(20,000)
Trade payables	22	(59,288)	(51,876)	–	–
Bills payable		(2,890)	(660)	–	–
Accruals and other payables		(25,730)	(21,788)	(410)	–
Finance lease obligations, current portion	24	(6,017)	(14,487)	–	–
Taxation payable		(2,420)	(140)	–	–
Total current liabilities		(294,704)	(279,746)	(55,410)	(20,000)
Net current liabilities		(49,275)	(55,399)	(55,408)	(19,997)
Total assets less current liabilities		412,735	418,255	311,925	311,968

Balance Sheets

As at 30th April 2004

	Note	Group		Company	
		2004 HK\$'000	2003 HK\$'000 (restated)	2004 HK\$'000	2003 HK\$'000
Non-current liabilities					
Long-term bank loans, non-current portion	23	(72,926)	(92,862)	(55,000)	(55,000)
Finance lease obligations, non-current portion	24	(2,971)	(8,226)	–	–
Deferred taxation	25	(23,076)	(19,855)	–	–
Total non-current liabilities		(98,973)	(120,943)	(55,000)	(55,000)
Minority interests					
		–	(61)	–	–
Net assets		313,762	297,251	256,925	256,968
Capital and reserves					
Share capital	26	69,303	69,303	69,303	69,303
Reserves					
Proposed final dividend	27	3,465	–	3,465	–
Others	27	240,994	227,948	184,157	187,665
Shareholders' equity		313,762	297,251	256,925	256,968

LAM WAI CHUN
Chairman

TANG FUNG KWAN
Deputy Chairman

Consolidated Statement of Changes in Equity

For the year ended 30th April 2004

	Note	2004 HK\$'000	2003 HK\$'000 (restated)
Total equity, beginning of year, as previously reported		300,259	294,006
Effect of adoption of the revised SSAP 12	27	(3,008)	(2,770)
Total equity, beginning of year, as restated		297,251	291,236
Effect of deferred taxation on property revaluation reserve	27	–	(26)
Exchange differences arising on translation of the accounts of foreign subsidiaries and associates	27	654	1,443
Net gains not recognised in the consolidated income statement		654	1,417
Profit/(loss) attributable to shareholders	27	15,857	(5,159)
Issue of new shares	26	–	3,200
Premium arising from issue of new shares	27	–	6,560
Share issue expense	27	–	(3)
Total equity, end of year		313,762	297,251

Consolidated Cash Flow Statement

For the year ended 30th April 2004

	Note	2004 HK\$'000	2003 HK\$'000 (restated)
Net cash inflow generated from operations	30(a)	95,747	48,421
Hong Kong profits tax paid		(67)	(23)
Hong Kong profits tax refunded		18	68
Mainland China enterprise income tax paid		(301)	(776)
Mainland China enterprise income tax refunded		384	–
Share of taxation attributable to an associate		(24)	–
Net cash inflow from operating activities		95,757	47,690
Investing activities			
Purchase of fixed assets		(38,862)	(17,258)
Disposal of fixed assets		146	176
Purchase of investment properties		(2,291)	–
Disposal of investment properties		480	–
Purchase of subsidiaries, net of cash acquired		–	1
Purchase of additional interest in a jointly controlled entity, net of cash acquired		–	120
Purchase of an associate		–	(4,099)
Interest received		156	341
Increase in deposit for acquisition of land		(4,764)	–
Increase in deposit with an associate		–	(8,577)
Decrease in amount due from jointly controlled entities		–	865
Purchase of investment		(8,580)	–
Disposal of investment		8,260	–
(Increase)/decrease in pledged bank deposits		(75)	10,864
Net cash outflow from investing activities		(45,530)	(17,567)
Financing activities	30(b)		
Share issue expense		–	(3)
New short-term bank borrowings		398,695	307,963
Repayment of short-term bank borrowings		(409,952)	(257,352)
New long-term bank loans		165,000	7,000
Repayment of long-term bank loans		(152,996)	(50,589)
Repayment of capital element of finance lease obligations		(14,956)	(18,350)
Interest paid		(17,240)	(18,223)
Net cash outflow from financing activities		(31,449)	(29,554)
Translation adjustments		(410)	943
Increase in cash and cash equivalents		18,368	1,512
Cash and cash equivalents, beginning of year		(9,271)	(10,783)
Cash and cash equivalents, end of year		9,097	(9,271)
Analysis of cash and cash equivalents:			
Bank balances and cash		24,506	19,257
Bank overdrafts		(15,409)	(28,528)
		9,097	(9,271)

1 Organisation and operations

CEC International Holdings Limited (the “Company”) was incorporated in Bermuda on 10th September 1999 as an exempted company under the Companies Act 1981 of Bermuda (as amended). The Company’s shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited since 15th November 1999.

The Company is an investment holding company. Its subsidiaries are principally engaged in (i) design, development, manufacture and sale of a wide range of coils, capacitors and other electronic components, which are generally used in the manufacture of various kinds of electronic and electrical products; (ii) manufacture and sale of ferrite powder which is a major raw material for production of display tubes; and (iii) provision of information technology services.

2 Principal accounting policies

The principal accounting policies adopted in the preparation of the accounts are set out below:

(a) Basis of preparation

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants (“HKSA”). They have been prepared under the historical cost convention except that investment properties and investment held as current asset are stated at fair value and certain land and buildings are stated at valuations.

In the current year, the Group adopted the revised Statement of Standard Accounting Practice Number 12 “Income Taxes” (“SSAP 12”) issued by the HKSA which is effective for accounting periods commencing on or after 1st January 2003.

The changes to the Group’s accounting policies and the effect of adopting the revised SSAP 12 are set out below:

(b) Group accounting

(i) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 30th April.

Subsidiaries are those entities in which the Company, directly or indirectly, controls more than one half the voting power; has the power to govern the financial and operating policies; to appoint or remove the majority of the members of the board of directors; or to cast majority of votes at the meetings of the board of directors.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

2 Principal accounting policies (Continued)

(b) Group accounting (Continued)

(i) Consolidation (Continued)

Gain or loss on disposal of a subsidiary represents the difference between the sales proceeds and the Group's share of its net assets together with any unamortised goodwill or negative goodwill and which was not previously charged or recognised in the consolidated income statement.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

In the Company's balance sheet, investments in subsidiaries are stated at cost less accumulated impairment losses. Results of the subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(ii) Jointly controlled entities

A jointly controlled entity is a contractual agreement whereby the Group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity.

The consolidated income statement includes the Group's share of the results of jointly controlled entities for the year, and the consolidated balance sheet includes the Group's share of the net assets of the jointly controlled entities and goodwill/negative goodwill (net of accumulated amortisation) on acquisition.

(iii) Associates

An associate is a company, not being a subsidiary or a jointly controlled entity, in which an equity interest is held for the long-term and significant influence is exercised in its management.

The consolidated income statement includes the Group's share of the results of associates for the year, and the consolidated balance sheet includes the Group's share of the net assets of the associates and goodwill/negative goodwill (net of accumulated amortisation) on acquisition.

In the Company's balance sheet, investment in associates is stated at cost less accumulated impairment losses. Results of associates are accounted for by the Company on the basis of dividends received and receivable.

Equity accounting is discontinued when the carrying amount of the investment in an associate reaches zero, unless the Group has incurred obligations or guaranteed obligations in respect of the associate.

2 Principal accounting policies (Continued)

(b) Group accounting (Continued)

(iv) Translation of foreign currencies

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the income statement.

The balance sheets of subsidiaries, jointly controlled entities and associates expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the income statements are translated at an average rate. Exchange differences are dealt with as movement in reserves. Upon disposal of a foreign entity, the related accumulative exchange differences are included in the consolidated income statement as part of the gain or loss on disposal.

(c) Intangible assets

(i) Goodwill/negative goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary/jointly controlled entity/associate at the date of acquisition.

Goodwill on acquisitions is included in intangible assets and is amortised using the straight-line method over its estimated useful life of five years.

Negative goodwill represents the excess of the fair value of the Group's share of the net assets acquired over the cost of acquisition. Negative goodwill is presented in the same balance sheet classification as goodwill. To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the Group's plan for the acquisition and can be measured reliably, but which do not represent identifiable liabilities at the date of acquisition, that portion of negative goodwill is recognised in the income statement when the future losses and expenses are recognised. Any remaining negative goodwill, not exceeding the fair values of the non-monetary assets acquired, is recognised in the income statement over the remaining weighted average useful life of those assets of five years; negative goodwill in excess of the fair values of those non-monetary assets is recognised in the income statement immediately.

(ii) Distribution right

Expenditure on acquired non-exclusive distribution right is capitalised and amortised using the straight-line method over its useful life of three years. Where appropriate, provision is made for any impairment in value.

2 Principal accounting policies (Continued)

(c) Intangible assets (Continued)

(iii) *Research and development costs*

Research costs are expensed as incurred. Costs incurred on development projects relating to the design and testing of new or improved products are recognised as an intangible asset where the technical feasibility and intention of completing the product under development has been demonstrated and the resources are available to do so, costs are identifiable and there is an ability to sell or use the asset that will generate probable future economic benefits. Such development costs are recognised as an asset and amortised on a straight-line basis over a period of not more than five years to reflect the pattern in which the related economic benefits are recognised. Development costs that do not meet the above criteria are expensed as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

All research and development costs for the years ended 30th April 2003 and 2004 have been expensed as no expenditure met the criteria for deferral.

(iv) *Impairment of intangible assets*

Where an indication of impairment exists, the carrying amount of any intangible asset, including goodwill previously written off against reserves, is assessed and written down immediately to its recoverable amount.

(d) Fixed assets

(i) *Investment properties*

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties are included in the balance sheet at their open market value on the basis of an annual valuation by qualified valuers. Increases in valuation are credited to the investment properties revaluation reserve. Decreases in valuation are first set off against increases on earlier valuations on a portfolio basis and thereafter are debited to operating profit. Any subsequent increases are credited to operating profit up to the amount previously debited.

Upon the disposal of investment properties, the relevant portion of the revaluation reserve realised in respect of previous valuations is released from the investment properties revaluation reserve to the income statement.

Investment properties are not depreciated except where the unexpired term of the lease is 20 years or less in which case depreciation is provided on the carrying amount over the remaining term of the lease.

2 Principal accounting policies (Continued)

(d) Fixed assets (Continued)

(ii) Land and buildings

Land and buildings other than investment properties are stated at valuation less accumulated depreciation and accumulated impairment losses. Independent valuations are performed periodically. The valuations are on an open market basis related to individual properties and separate values are not attributed to land and buildings. In the intervening years, the directors review the carrying value of the land and buildings and adjustment is made where they consider that there has been a material change. Increases in valuation are credited to the revaluation reserve. Decreases in valuation are first offset against increases on earlier valuations in respect of the same property and are thereafter debited to operating profit. Any subsequent increases are credited to operating profit up to the amount previously debited.

(iii) Construction-in-progress

Construction-in-progress is machinery under construction. The amount is stated at cost which includes development and construction expenditure incurred and other direct costs attributable to the construction.

(iv) Other fixed assets

Other fixed assets, comprising machinery, furniture and equipment and motor vehicles are stated at cost less accumulated depreciation and accumulated impairment losses.

(v) Depreciation

Leasehold land is depreciated over the period of the lease while other fixed assets are depreciated at rates sufficient to write off their costs less accumulated impairment losses over their estimated useful lives on a straight-line basis. The principal annual rates are as follows:

Buildings	2.5%
Machinery	10%
Furniture and equipment	16.7% to 25%
Motor vehicles	16.7% to 30%

The plant components are depreciated over the period to overhaul. Major costs incurred in restoring the plant components to its normal working condition to allow continued use of the overall asset are capitalised and depreciated over the period to the next overhaul.

Improvements are capitalised and depreciated over their expected useful lives to the Group.

2 Principal accounting policies (Continued)

(d) Fixed assets (Continued)

(vi) *Impairment and gain or loss on sale*

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that fixed assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the income statement except where the asset is carried at valuation and the impairment loss does not exceed the revaluation surplus for that same asset, in which case it is treated as a revaluation decrease.

Gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the income statement. Any revaluation reserve balance remaining attributable to the relevant asset is transferred to retained profits and is shown as a movement in reserves.

(e) Assets under leases

(i) *Finance leases*

Leases that substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as finance leases. Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased assets or the present value of the minimum lease payments. Each lease payment is allocated between the capital element and finance charges so as to achieve a constant rate on the capital balances outstanding. The corresponding rental obligations, net of finance charges, are included in liabilities. The finance charges are charged to the income statement over the lease periods.

Assets held under finance leases are depreciated over the shorter of their estimated useful lives or the lease periods.

(ii) *Operating leases*

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the income statement on a straight-line basis over the lease periods.

(f) Investment

Investment classified as current asset is carried at fair value, which generally approximates the quoted market value. At each balance sheet date, the net unrealised gains or losses arising from the changes in fair value of the investment are recognised in the income statement. Profits or losses on disposal of the investment, representing the difference between the net sales proceeds and the carrying amount, are recognised in the income statement as they arise.

2 Principal accounting policies (Continued)

(g) Inventories

Inventories comprise stocks and work in progress and are stated at the lower of cost and net realisable value. Cost, calculated on the first-in, first-out basis, comprises materials, direct labour and an appropriate portion of all production overhead expenditures. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

(h) Accounts receivable

Provision is made against accounts receivable to the extent they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision.

(i) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purpose of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks, cash investments with maturity of three months or less from date of investment and bank overdrafts.

(j) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

(k) Employee benefits

(i) *Employee leave entitlements*

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(ii) *Pension obligations*

The Group operates a number of defined contribution plans throughout the world, the assets of which are generally held in separate trustee-administered funds. The pension plans are generally funded by payments from employees and by the relevant group companies.

The Group's contributions to the defined contribution retirement scheme are expensed as incurred and are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions.

2 Principal accounting policies (Continued)

(l) Deferred taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries, jointly controlled entities and associates, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

In prior years, deferred taxation was accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset was expected to be payable or recoverable in the foreseeable future. The adoption of the revised SSAP 12 represents a change in accounting policy, which has been applied retrospectively so that the comparatives presented have been restated to conform to the changed policy.

As detailed in Note 27 to the accounts, retained profits as at 1st May 2002 and 2003 have been increased by approximately HK\$823,000 and HK\$611,000, respectively and property revaluation reserve as at 1st May 2002 and 2003 have been reduced by approximately HK\$3,593,000 and HK\$3,619,000, respectively, as a result of such change. This change has resulted in an increase in deferred tax assets and liabilities as at 30th April 2003 by approximately HK\$415,000 and HK\$3,423,000, respectively. Loss attributable to shareholders for the year ended 30th April 2003 has been reduced by HK\$212,000.

(m) Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that the outflow becomes probable, it will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to the accounts when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

2 Principal accounting policies (Continued)

(n) Revenue recognition

Revenue from the sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed.

Revenue from the provision of service is recognised when the services are rendered.

Revenue from rental income is recognised on a straight-line basis over the lease term.

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

(o) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset.

All other borrowing costs are charged to the income statement in the year in which they are incurred.

(p) Segment reporting

In accordance with the Group's internal financial reporting the Group has determined that business segments be presented as the primary reporting format and geographical as the secondary reporting format.

Unallocated costs represent corporate expenses. Segment assets consist primarily of intangible assets, fixed assets, inventories, receivables and operating cash and exclude income tax assets. Segment liabilities comprise operating liabilities and exclude income tax liabilities. Capital expenditure comprises additions to intangible assets and fixed assets, including additions resulting from acquisitions through purchases of subsidiaries.

In respect of geographical segment reporting, sales are determined on the basis of the country in which customers are located. Total assets and capital expenditure are based on where the assets are located.

3 Turnover and revenue

Revenues recognised during the year are as follows:

	2004 HK\$'000	2003 HK\$'000
Turnover		
Sale of goods	487,953	446,323
Provision of information technology services	3,499	1,832
Rental income	211	–
	491,663	448,155
Other revenue		
Interest income	156	341
Total revenue	491,819	448,496

Notes to the Accounts

4 Segment information

(a) Primary segments

The Group is organised into five major operating units: (i) coils manufacturing; (ii) electronic components trading; (iii) capacitors manufacturing; (iv) ferrite powder manufacturing; and (v) provision of information technology services. An analysis by business segment is as follows:

	Coils 2004 HK\$'000	Electronic components 2004 HK\$'000	Capacitors 2004 HK\$'000	Ferrite powder 2004 HK\$'000	Information technology 2004 HK\$'000	Others 2004 HK\$'000	Eliminations 2004 HK\$'000	Total 2004 HK\$'000
Turnover								
External sales	430,854	28,913	15,407	12,779	3,499	211	-	491,663
Intersegment sales	2,967	487	5,690	11	610	-	(9,765)	-
	433,821	29,400	21,097	12,790	4,109	211	(9,765)	491,663
Operating results								
Operating profit/(loss)	41,423	1,050	(1,586)	(52)	(2,162)	81	-	38,754
Interest income	155	-	1	-	-	-	-	156
Interest expense	(17,126)	(99)	(4)	-	(11)	-	-	(17,240)
Share of profits less losses of associates								(20)
Profit before taxation								21,650
Taxation								(5,854)
Profit after taxation but before minority interests								15,796
Minority interests								61
Profit attributable to shareholders								15,857
Other information								
Segment assets	629,087	2,445	37,616	33,793	1,621	2,406	-	706,968
Unallocated assets								471
Total assets								707,439
Segment liabilities	346,924	204	5,720	13,826	1,476	31	-	368,181
Unallocated liabilities								25,496
Total liabilities								393,677
Capital expenditures	32,762	-	503	19,751	118	2,291	-	55,425
Depreciation and amortisation	54,850	2	3,298	628	407	-	-	59,185

4 Segment information (Continued)

(a) Primary segments (Continued)

	Coils 2003 HK\$'000 (restated)	Electronic components 2003 HK\$'000 (restated)	Capacitors 2003 HK\$'000 (restated)	Ferrite powder 2003 HK\$'000 (restated)	Information technology 2003 HK\$'000 (restated)	Others 2003 HK\$'000 (restated)	Eliminations 2003 HK\$'000 (restated)	Total 2003 HK\$'000 (restated)
Turnover								
External sales	355,879	55,173	35,271	-	1,832	-	-	448,155
Intersegment sales	1,422	1,640	2,973	-	-	-	(6,035)	-
	<u>357,301</u>	<u>56,813</u>	<u>38,244</u>	<u>-</u>	<u>1,832</u>	<u>-</u>	<u>(6,035)</u>	<u>448,155</u>
Operating results								
Operating profit/ (loss)	26,722	(1,392)	821	-	(11,527)	-	-	14,624
Interest income	341	-	-	-	-	-	-	341
Interest expense	(17,965)	(24)	(234)	-	-	-	-	(18,223)
Share of profits less losses of associates								76
Share of profits less losses of jointly controlled entities								140
Loss before taxation								(3,042)
Taxation								(2,017)
Loss after taxation but before minority interests								(5,059)
Minority interests								(100)
Loss attributable to shareholders								<u>(5,159)</u>
Other information								
Segment assets	634,675	10,692	48,403	-	3,380	-	-	697,150
Unallocated assets								851
Total assets								<u>698,001</u>
Segment liabilities	371,479	3,182	4,814	-	1,219	-	-	380,694
Unallocated liabilities								19,995
Total liabilities								<u>400,689</u>
Capital expenditures	26,101	11	239	-	358	-	-	26,709
Depreciation and amortisation	52,684	1,069	2,678	-	2,285	-	-	58,716
Impairment loss	-	711	-	-	8,229	-	-	8,940

Notes to the Accounts

4 Segment information (Continued)

(b) Secondary segments

The Group has business operations in Hong Kong, Mainland China, Taiwan, Europe, Singapore and other regions. An analysis by geographical location is as follows:

	Turnover		Operating profit/(loss)		Total assets		Capital expenditures	
	2004 HK\$'000	2003 HK\$'000 (restated)	2004 HK\$'000	2003 HK\$'000 (restated)	2004 HK\$'000	2003 HK\$'000 (restated)	2004 HK\$'000	2003 HK\$'000 (restated)
Hong Kong	270,428	278,381	19,525	15,518	151,822	206,324	4,761	1,702
Mainland China	109,976	52,793	10,554	(4,955)	527,546	465,396	50,656	25,003
Taiwan	39,784	58,050	11	1,345	9,781	6,147	-	-
Europe	33,807	25,649	1,896	1,153	-	-	-	-
Singapore	22,401	22,551	6,840	3,684	18,290	19,215	8	4
Others	15,267	10,731	(72)	(2,121)	-	919	-	-
Total	491,663	448,155	38,754	14,624	707,439	698,001	55,425	26,709

5 Operating profit

Operating profit is stated after crediting and charging the following:

	2004 HK\$'000	2003 HK\$'000
Crediting		
Gain on disposal of investment	321	–
Gain on disposal of investment properties	42	–
Gross rental income	211	–
Less: outgoings	(59)	–
Net rental income	152	–
Unrealised gain on investment	–	569
Charging		
Advertising and promotion costs	761	1,478
Amortisation of intangible assets		
– distribution right	–	1,067
– goodwill	–	1,793
Auditors' remuneration	798	798
Cost of inventories sold	365,304	334,942
Depreciation		
– owned fixed assets	57,055	48,484
– fixed assets held under finance leases	2,130	7,372
Impairment loss on intangible assets		
– distribution right	–	711
– goodwill	–	8,229
Loss on disposal of an associate	83	–
Loss on disposal of fixed assets	29	119
Net exchange losses	2,790	2,371
Operating lease rental on rented premises	3,060	3,873
Provision for/ Write-off of bad and doubtful debts	2,009	1,495
Provision for slow moving and obsolete inventories	119	–
Research and development costs	1,615	6,641
Staff costs (including directors' emoluments) (Note 11)	106,313	89,183

Notes to the Accounts

6 Interest expense

	2004 HK\$'000	2003 HK\$'000
Interest expense on		
– bank overdrafts and loans wholly repayable within five years	14,780	14,153
– factoring of trade receivables	1,592	2,247
– finance leases	868	1,823
	17,240	18,223

7 Taxation

The Company is incorporated in Bermuda and is exempted from taxation in Bermuda until 2016. Hong Kong profits tax has been provided at the rate of 17.5% (2003: 17.5%) on the estimated assessable profit for the year. Subsidiaries of the Company in Mainland China are subject to Mainland China enterprise income tax ranging from 12% to 33% (2003: 12% to 33%) on their taxable income determined according to Mainland China tax laws. Other overseas taxation has been calculated on the estimated assessable profits for the year at the rates prevailing in the respective jurisdictions.

The amount of taxation charged to the consolidated income statement represents:

	2004 HK\$'000	2003 HK\$'000 (restated)
Hong Kong profits tax		
– current tax	1,477	38
– overprovision in prior years	(79)	(68)
Overseas taxation		
– current tax	796	511
– overprovision in prior years	–	(171)
Deferred taxation (<i>Note 25</i>)	3,636	1,707
	5,830	2,017
Share of taxation attributable to an associate	24	–
Total taxation charge	5,854	2,017

7 Taxation (Continued)

The reconciliation between the Group's actual tax charge and the amount which is calculated based on the statutory tax rate of Hong Kong is as follows:

	2004 HK\$'000	2003 HK\$'000 (restated)
Profit/(loss) before taxation	21,650	(3,042)
Calculated at a taxation rate of 17.5% (2003: 17.5%)	3,789	(532)
Effect of different taxation rates of subsidiaries and associates operating in other jurisdictions	379	44
Tax effect on income not subject to taxation	(95)	(241)
Tax effect on income exempt from taxation due to tax holiday	(1,586)	(464)
Tax effect on expenses not deductible for taxation purposes	3,141	3,384
Utilisation of previously unrecognised tax losses	(72)	(197)
Overprovision in prior years	(79)	(239)
Increase in opening net deferred tax liabilities resulting from an increase in tax rate	–	855
Others	377	(593)
Total taxation charge	5,854	2,017

8 Profit/(loss) attributable to shareholders

Profit/(loss) attributable to shareholders is dealt with in the accounts of the Company to the extent of a loss of HK\$43,000 (2003: loss of HK\$626,000).

9 Dividend

	2004 HK\$'000	2003 HK\$'000
Proposed final dividend, of HK0.5 cent (2003: Nil) per share	3,465	–

At a meeting of the board of directors of the Company held on 16th August 2004, the directors of the Company recommended a final dividend of HK0.5 cent per share for the year ended 30th April 2004 to be paid in cash to shareholders whose names appear on the Company's register of members on 27th September 2004. This proposed dividend is not reflected as a dividend payable in the accounts. Refer to Note 27 for details.

Notes to the Accounts

10 Earnings/(loss) per share

The calculation of basic earnings/(loss) per share is based on the consolidated profit attributable to shareholders of approximately HK\$15,857,000 (2003: loss of HK\$5,159,000) and the weighted average number of 693,028,811 (2003: 690,047,989) shares in issue during the year.

No information in respect of diluted earnings per share is presented as the exercise of the outstanding options and warrants during the years ended 30th April 2003 and 30th April 2004 would have no dilutive effect.

11 Staff costs

	2004 HK\$'000	2003 HK\$'000
Wages, salaries and welfare	100,522	85,213
Unutilised annual leave	433	608
Pension costs – defined contribution plans (Note 32)	5,358	3,362
	106,313	89,183

12 Directors' and senior management's emoluments

(a) Directors' emoluments

The aggregate amounts of emoluments paid and payable to directors of the Company during the year are as follows:

	2004 HK\$'000	2003 HK\$'000
Directors' fees		
– independent non-executive directors	850	600
– non-executive director	50	300
Other emoluments for executive directors		
– basic salaries, allowances and other benefits in kind	4,249	5,451
– contributions to pension schemes	293	285
	5,442	6,636

12 Directors' and senior management's emoluments (Continued)

(a) Directors' emoluments (Continued)

The emoluments of the directors fell within the following bands:

	Number of directors	
	2004	2003
Executive directors		
Nil to HK\$1,000,000	7	6
HK\$1,000,001 to HK\$1,500,000	1	1
HK\$1,500,001 to HK\$2,000,000	–	1
	8	8
Non-executive director		
Nil to HK\$1,000,000	–	1
Independent non-executive directors		
Nil to HK\$1,000,000	3	2

No directors waived any emoluments during the year (2003: Nil). No incentive payment for joining the Group or compensation for loss of office was paid or payable to any directors during the year.

The remuneration of each of the directors (including non-executive director and independent non-executive directors) is set out below:

	Fees HK\$'000	Basic salaries and allowances HK\$'000	Employer's contribution pension schemes HK\$'000	2004	2003
				Total HK\$'000	Total HK\$'000
Mr. Lam Wai Chun	–	968	97	1,065	1,091
Ms. Tang Fung Kwan	–	720	72	792	682
Mr. Huang Kong	–	600	12	612	194
Mr. Law Hoo Shan	–	600	60	660	436
Mr. Saito Misao (resigned on 30th June 2003)	–	234	–	234	1,513
Mr. Ho Kwok Keung (resigned on 14th August 2003)	–	173	17	190	621
Mr. Chiu Chan, Charles (resigned on 21st January 2004)	–	443	9	452	577
Mr. Lam Wing Kin, Sunny (resigned on 21st February 2004)	–	511	26	537	622
Mr. Tang Tin Sek	300	–	–	300	300
Mr. An Son Yiu	300	–	–	300	300
Mr. Lee Wing Kwan, Denis	300	–	–	300	300
	900	4,249	293	5,442	6,636

Notes to the Accounts

12 Directors' and senior management's emoluments (Continued)

(b) Five highest paid individuals

	2004 HK\$'000	2003 HK\$'000
Basic salaries, allowances and other benefits in kind	3,399	4,299
Contributions to pension schemes	267	230
	3,666	4,529

The five individuals whose emoluments were the highest in the Group for the year include five (2003: five) directors whose emoluments are reflected in the analysis presented above.

13 Fixed assets

Group

	Investment properties HK\$'000	Construction in progress HK\$'000	Land and buildings HK\$'000	Machinery HK\$'000	Furniture and equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Cost or valuation:							
Beginning of year	–	–	75,532	541,725	52,465	6,039	675,761
Additions	2,291	1,662	941	45,384	3,094	2,053	55,425
Disposals	(438)	–	–	(76)	(365)	(770)	(1,649)
Reclassification	230	(941)	(230)	941	–	–	–
Translation adjustments	–	3	105	1,322	166	21	1,617
End of year	2,083	724	76,348	589,296	55,360	7,343	731,154
Accumulated depreciation:							
Beginning of year	–	–	2,258	171,907	37,284	3,843	215,292
Charge for the year	–	–	1,482	50,757	5,778	1,168	59,185
Disposals	–	–	–	(18)	(262)	(756)	(1,036)
Translation adjustments	–	–	5	384	99	12	500
End of year	–	–	3,745	223,030	42,899	4,267	273,941
Net book value:							
End of year	2,083	724	72,603	366,266	12,461	3,076	457,213
Beginning of year	–	–	73,274	369,818	15,181	2,196	460,469

13 Fixed assets (Continued)

The analysis of the cost or valuation as at 30th April 2004 and 30th April 2003 is as follows:

	Investment properties HK\$'000	Construction in progress HK\$'000	Land and buildings HK\$'000	Machinery HK\$'000	Furniture and equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
At cost	-	724	2,448	589,296	55,360	7,343	655,171
At valuation	2,083	-	73,900	-	-	-	75,983
As at 30th April 2004	2,083	724	76,348	589,296	55,360	7,343	731,154

	Investment properties HK\$'000	Construction in progress HK\$'000	Land and buildings HK\$'000	Machinery HK\$'000	Furniture and equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
At cost	-	-	1,402	541,725	52,465	6,039	601,631
At valuation	-	-	74,130	-	-	-	74,130
As at 30th April 2003	-	-	75,532	541,725	52,465	6,039	675,761

The Group's interests in the properties (including investment properties) are analysed as follows:

	2004 HK\$'000	2003 HK\$'000
In Hong Kong, held on:		
Leases of between 10 to 50 years	10,053	8,436
In Mainland China, held on:		
Leases of between 10 to 50 years	64,127	64,321
Leases of over 50 years	506	517
	74,686	73,274

Investment properties were located in Hong Kong and were stated at open market value as at 30th April 2004 as determined by LCH (Asia-Pacific) Surveyors Limited, independent qualified valuers.

13 Fixed assets (Continued)

The Group leased out its investment properties under operating leases, for an initial period of one to two years, with an option to renew on renegotiated terms. During the year, gross rental income from investment properties amounted to approximately HK\$211,000 (2003: Nil). As at 30th April 2004, the Group had future aggregate minimum lease receipts under non-cancellable operating leases as follows:

	2004 HK\$'000	2003 HK\$'000
Not later than one year	250	–
Later than one year and not later than five years	139	–
	389	–

Approximately HK\$64,127,000 (2003: HK\$64,321,000) of land and buildings located in Mainland China are held under land use rights for 50 years up to 2048, while approximately HK\$506,000 (2003: HK\$517,000) of land and buildings located in Mainland China are held under land use rights for 70 years up to 2072.

Approximately HK\$7,681,000 (2003: HK\$7,910,000) of land and buildings located in Hong Kong were stated at open market value as at 30th April 2002 (date of last valuation) as determined by Castores Magi Surveyors Limited, independent qualified valuers. Approximately HK\$63,271,000 (2003: HK\$64,400,000) of land and buildings located in Mainland China were stated on replacement cost basis as at 30th April 2002 as determined by the same firm. The revaluation surplus net of applicable deferred taxes was credited to reserves in shareholders' equity (Note 27).

The carrying amount of land and buildings would have been approximately HK\$52,531,000 (2003: HK\$53,108,000) if stated at cost less accumulated depreciation.

At 30th April 2004, the net book value of land and buildings pledged as security for the Group's banking facilities amounted to approximately HK\$5,821,000 (2003: HK\$6,005,000) (Note 33).

At 30th April 2004, the net book value of certain machinery and motor vehicles purchased under finance leases amounted to approximately HK\$30,212,000 (2003: HK\$55,092,000).

14 Investment in subsidiaries

	2004 HK\$'000	2003 HK\$'000
Unlisted shares/investments, at cost	137,348	137,348
Due from subsidiaries	229,985	194,617
	367,333	331,965

The following is a list of the subsidiaries as at 30th April 2004:

Name	Place of incorporation/ operation	Principal activities	Particulars of issued and fully paid share capital/ registered capital	Interest held (a)
CEC-Coils Hong Kong Co., Limited	Hong Kong	Dormant	Ordinary HK\$2	100%
			Non-voting deferred HK\$1,000,000 (b)	100%
CEC-Coils Singapore Pte Ltd.	Singapore	Manufacture and sale of coils and other electronic components	Ordinary S\$1,500,000	100%
CEC-ECAP Limited	Hong Kong	Manufacture and sale of electrolytic capacitors	Ordinary HK\$1,000,000	100%
CEC-Electric Co., Limited	Hong Kong	Dormant	Ordinary HK\$2	100%
CEC-Smart Good Enterprises Limited	Hong Kong	Trading of electronic components	Ordinary HK\$3,200,000	100%
CEC-Technology Limited	Hong Kong	Investment holding	Ordinary HK\$10,000	100%
CEC-Unitech Electronics Limited	Hong Kong	Dormant	Ordinary HK\$10,000	100%
重慶高雅科技有限公司 (Chongqing CEC-Technology Limited) (c)	Mainland China	Provision of information technology services	Registered capital HK\$500,000	100%
Coils Electronic Co., Limited	Hong Kong	Investment holding; manufacture and sale of coils and other electronic components	Ordinary HK\$2	100%
			Non-voting deferred HK\$14,000,000 (b)	–

Notes to the Accounts

14 Investment in subsidiaries (Continued)

Name	Place of incorporation/ operation	Principal activities	Particulars of issued and fully paid share capital/ registered capital	Interest held (a)
Coils Electronic (Zhong Shan) Co., Ltd. (c)	Mainland China	Manufacture and sale of coils and other electronic components	Registered capital US\$2,587,557 (d)	100%
Coils International Holdings Limited	British Virgin Islands	Investment holding	Ordinary US\$10,000	100%
Coils Investment (BVI) Limited	British Virgin Islands	Investment holding	Ordinary US\$1	100%
Coils Property Management Limited (formerly known as CEC-Coils International Limited)	Hong Kong	Property investment holding	Ordinary HK\$200,000	100%
Good Signal Holdings Limited	British Virgin Islands	Investment holding	Ordinary US\$100	100%
Jin Yuan Moulds Limited	Hong Kong	Dormant	Ordinary HK\$100	100%
Kunshan CEC-Ferrite Manufacturing Co., Ltd. (c)	Mainland China	Manufacture and sale of coils and other electronic components	Registered capital HK\$2,000,000	100%
南京國仲磁性材料製品有限公司 (Nanjing Guo Zhong Magnetic Material Co., Ltd.) (c)	Mainland China	Manufacture and sale of ferrite powder	Registered capital US\$2,445,147 (d)	100%
Qingdao Coils Electronic Co., Ltd. (c)	Mainland China	Dormant	Registered capital US\$40,000 (d)	100%
Sun-iOMS Technology Holdings Limited	British Virgin Islands	Investment holding	Ordinary HK\$500,000	51%
Sun-iOMS Development Limited	British Virgin Islands	Dormant	Ordinary US\$1	51%
Sun-iOMS (Hong Kong) Limited	Hong Kong	Provision of information technology services	Ordinary HK\$2	51%

14 Investment in subsidiaries (Continued)

Name	Place of incorporation/ operation	Principal activities	Particulars of issued and fully paid share capital/ registered capital	Interest held (a)
Tonichi Ferrite Co., Ltd. (c)	Mainland China	Manufacture and sale of coils and other electronic components	Registered capital HK\$81,600,000	100%
Xiamen Coils Electronic Co., Ltd. (c)	Mainland China	Manufacture and sale of coils and other electronic components	Registered capital HK\$2,900,000	100%
Zhongshan Coils Metalwork Co., Ltd. (c)	Mainland China	Manufacture of coils	Registered capital US\$66,185 (d)	100%
珠海國仲電子材料 有限公司 (Zhuhai Guozhong Electronic Co., Ltd.) (c)	Mainland China	Dormant	Registered capital HK\$723,232 (d)	100%

The amounts due from subsidiaries are unsecured, non-interest bearing and are not repayable within the next 12 months.

The underlying value of the investment in subsidiaries is, in the opinion of the Company's directors and the Group's management, not less than the carrying value as at 30th April 2004.

As at 30th April 2004, the Company had given guarantees to banks and financial institutions of approximately HK\$207,536,000 (2003: HK\$264,818,000) to secure banking and finance lease facilities of certain subsidiaries (Note 31(c)).

None of the subsidiaries had any loan capital in issue at any time during the year ended 30th April 2004 (2003: Nil).

Notes:

- (a) The shares of Coils International Holdings Limited are held directly by the Company. The shares of other subsidiaries are held indirectly.
- (b) The non-voting deferred shares of Coils Electronic Co., Limited are owned by Mr. Lam Wai Chun, Ms. Law Ching Yee and Ka Yan China Development (Holding) Company Limited, the intermediate holding company of the Company, whereas the non-voting deferred shares of CEC-Coils Hong Kong Co., Limited are owned by Coils Electronic Co., Limited, a wholly-owned subsidiary of the Company. Holders of the non-voting deferred shares have no voting rights, are not entitled to dividends unless the net profit of each of Coils Electronic Co., Limited and CEC-Coils Hong Kong Co., Limited exceeds HK\$100,000,000,000,000, 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 the ordinary shares.

14 Investment in subsidiaries (Continued)

- (c) 重慶高雅科技有限公司 (Chongqing CEC-Technology Limited), Coils Electronic (Zhong Shan) Co., Ltd., Tonichi Ferrite Co., Ltd., Xiamen Coils Electronic Co., Ltd. and Zhongshan Coils Metalwork Co., Ltd. are wholly foreign owned enterprises established in Mainland China to be operated for 15 years up to August 2017, April 2016, September 2008, December 2012 and February 2016 respectively.

Kunshan CEC-Ferrite Manufacturing Co., Ltd. and 珠海國仲電子材料有限公司 (Zhuhai Guozhong Electronic Co., Ltd.) are wholly foreign owned enterprises established in Mainland China to be operated for 50 years up to August 2052 and September 2052, respectively.

南京國仲磁性材料製品有限公司 (Nanjing Guo Zhong Magnetic Material Co., Ltd.) is a wholly foreign owned enterprise established in Mainland China to be operated for 30 years up to April 2033.

Qingdao Coils Electronic Co., Ltd. is a wholly foreign owned enterprise established in Mainland China to be operated for 12 years up to September 2014.

All subsidiaries established in Mainland China have financial accounting year end dated on 31st December in accordance with the local statutory requirements, which is not coterminous with the Group. The consolidated accounts of the Group were prepared based on the accounts of these subsidiaries for the twelve months ended 30th April 2004.

- (d) Coils Electronic (Zhong Shan) Co., Ltd., 南京國仲磁性材料製品有限公司 (Nanjing Guo Zhong Magnetic Material Co., Ltd.), Qingdao Coils Electronic Co., Ltd., Zhongshan Coils Metalwork Co., Ltd. and 珠海國仲電子材料有限公司 (Zhuhai Guozhong Electronic Co., Ltd.) were established with registered capital of US\$8,000,000, US\$2,780,000, US\$500,000, US\$3,000,000 and HK\$35,000,000 respectively. As at 30th April 2004, the Group had outstanding commitments of approximately US\$5,412,000, US\$335,000, US\$460,000, US\$2,934,000 and HK\$34,277,000 respectively, for capital contribution to these five subsidiaries.

15 Investment in associates

	Group	
	2004 HK\$'000	2003 HK\$'000
Share of net assets	33	4,193

The following is the details of the associates as at 30th April 2004:

Name	Place of incorporation/ operation	Principal activities	Particulars of issued share capital	Interest held indirectly
Signking Science Ltd.	British Virgin Islands	Investment holding	Ordinary US\$10,000	50%

Investment in associates as at 30th April 2003 represented the Group's investment in (i) Signking Science Ltd. and (ii) Rentz Technologies Co., Ltd. ("Rentz"), a company incorporated in Taiwan. During the year ended 30th April 2004, the Group disposed of its 40% equity interest in Rentz. Refer to Note 30(d) for details of the disposal.

16 Deposit for acquisition of land

During the year, the Group paid a deposit of approximately HK\$4,764,000 (2003: Nil) for acquisition of land in Zhongshan, Mainland China. Please refer to Note 31 for details of the Group's capital commitment.

17 Inventories

	Group	
	2004 HK\$'000	2003 HK\$'000
Raw materials	62,983	61,254
Work-in-progress	8,712	8,239
Finished goods	14,821	16,687
	86,516	86,180
Less: Provision for slow-moving and obsolete inventories	(2,543)	(2,424)
	83,973	83,756

As at 30th April 2004, no inventories (2003: Nil) were carried at net realisable value.

As at 30th April 2004, certain inventories were held under trust receipts bank loans.

18 Trade receivables

The aging analysis of trade receivables is as follows:

	Group	
	2004 HK\$'000	2003 HK\$'000
Current	78,954	52,393
Overdue by 0 – 1 month	7,048	9,472
Overdue by 1 – 2 months	2,648	3,879
Overdue by 2 – 3 months	2,961	5,923
Overdue by more than 3 months	3,686	8,922
	95,297	80,589
Less: Provision for bad and doubtful debts	(3,039)	(2,909)
	92,258	77,680

Management of the Group performs ongoing credit and collectibility evaluations of each customer. Provisions for potential credit losses are maintained and such losses in aggregate have not exceeded management's estimates. The Group offers an average credit period ranging from one to three months to its trade customers who have good payment records and well-established relationships with the Group.

Notes to the Accounts

19 Investment

	Group	
	2004 HK\$'000	2003 HK\$'000
Guaranteed return fund, at quoted market value	8,580	7,939

As at 30th April 2003 and 2004, the Group's investment was pledged as collateral for the Group's banking facilities (Note 33).

20 Cash and bank balances

As at 30th April 2004, the Group's bank deposits of approximately HK\$25,058,000 (2003: HK\$24,983,000) were pledged as collateral for the Group's banking facilities (Note 33).

As at 30th April 2004, approximately HK\$4,465,000 (2003: HK\$8,032,000) of the Group's cash and bank balances were denominated in Renminbi and kept in Mainland China. The conversion of Renminbi denominated balances into foreign currencies is subject to the rules and regulations of foreign exchange promulgated by the government of Mainland China.

21 Short-term bank borrowings

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Bank overdrafts	15,409	28,528	–	–
Short-term bank loans	59,129	56,057	–	–
Trust receipts bank loans	48,885	63,214	–	–
Long-term bank loans, current portion (Note 23)	74,936	42,996	55,000	20,000
	198,359	190,795	55,000	20,000

22 Trade payables

The aging analysis of trade payables is as follows:

	Group	
	2004 HK\$'000	2003 HK\$'000
Current	41,701	29,248
Overdue by 0 – 1 month	7,322	9,565
Overdue by 1 – 2 months	3,811	4,840
Overdue by 2 – 3 months	1,311	2,656
Overdue by more than 3 months	5,143	5,567
	59,288	51,876

23 Long-term bank loans

As at 30th April 2004, the Group's long-term bank loans are repayable as follows:

	Group		Company	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Within one year	74,936	42,996	55,000	20,000
In the second year	71,545	74,936	55,000	55,000
In the third to fifth year	1,381	17,926	–	–
	147,862	135,858	110,000	75,000
Less: Current portion (Note 21)	(74,936)	(42,996)	(55,000)	(20,000)
	72,926	92,862	55,000	55,000

24 Finance lease obligations

Finance lease obligations are repayable as follows:

	Group	
	2004	2003
	HK\$'000	HK\$'000
Within one year	6,333	15,346
In the second year	2,486	6,214
In the third to fifth year	670	2,370
	9,489	23,930
Less: Future finance charges on finance leases	(501)	(1,217)
	8,988	22,713

The present value of finance lease obligations is as follows:

	Group	
	2004	2003
	HK\$'000	HK\$'000
Within one year	6,017	14,487
In the second year	2,368	5,929
In the third to fifth year	603	2,297
	8,988	22,713
Less: Current portion	(6,017)	(14,487)
	2,971	8,226

Notes to the Accounts

25 Deferred taxation

Deferred taxation is calculated in full on temporary differences under the liability method using a principal taxation rate of 17.5% (2003: 17.5%).

The movement of the net deferred tax liabilities is as follows:

	Group	
	2004 HK\$'000	2003 HK\$'000 (restated)
Beginning of year	19,440	17,707
Deferred taxation		
– charged to income statement (<i>Note 7</i>)	3,636	1,707
– charged to equity	–	26
End of year	23,076	19,440

Deferred tax assets are recognised for tax loss carry forwards to the extent that realisation of the related tax benefit through the future taxable profits is probable. The Group has unrecognised tax losses of approximately HK\$719,000 (2003: HK\$847,000) to carry forward against future taxable income. These tax losses have no expiry date.

The movement of the deferred tax assets and liabilities (prior to offsetting of balances within the same taxation jurisdiction) during the year is as follows:

Deferred tax assets	Provisions		Tax losses		Total	
	2004 HK\$'000	2003 HK\$'000 (restated)	2004 HK\$'000	2003 HK\$'000 (restated)	2004 HK\$'000	2003 HK\$'000 (restated)
Beginning of year	801	315	6,994	10,599	7,795	10,914
Credited/(charged) to income statement	39	486	(5,147)	(3,605)	(5,108)	(3,119)
End of year	840	801	1,847	6,994	2,687	7,795

25 Deferred taxation (Continued)

Deferred tax liabilities	Accelerated depreciation allowance		Property revaluation		Total	
	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000 (restated)	HK\$'000	HK\$'000 (restated)	HK\$'000	HK\$'000 (restated)
Beginning of year	23,616	25,028	3,619	3,593	27,235	28,621
Credited to income statement	(1,472)	(1,412)	-	-	(1,472)	(1,412)
Charged to equity	-	-	-	26	-	26
End of year	22,144	23,616	3,619	3,619	25,763	27,235

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred taxes relate to the same fiscal authority. The following amounts, determined after appropriate offsetting, are shown in the consolidated balance sheet:

	2004 HK\$'000	2003 HK\$'000 (restated)
Deferred tax assets	-	(415)
Deferred tax liabilities	23,076	19,855
	23,076	19,440

26 Share capital

Movements in share capital are as follows:

	2004		2003	
	Number of shares	Nominal value HK\$'000	Number of shares	Nominal value HK\$'000
Authorised shares of HK\$0.10 each	1,000,000,000	100,000	1,000,000,000	100,000
Issued and fully paid of shares of HK\$0.10 each				
Beginning of year	693,028,811	69,303	661,028,811	66,103
Issue of new shares	-	-	32,000,000	3,200
End of year	693,028,811	69,303	693,028,811	69,303

Notes to the Accounts

27 Reserves

Movements in reserves are as follows:

	Share premium HK\$'000	Capital reserve HK\$'000	Subscription right reserve HK\$'000	Property revaluation reserve HK\$'000	Mainland China statutory reserve HK\$'000	Cumulative translation adjustments HK\$'000	Retained profits HK\$'000	Total HK\$'000
Group								
At 1st May 2002, as previously reported	29,561	13,934	17,214	21,066	-	(138)	146,266	227,903
Effect of adoption of the revised SSAP 12 (Note 2(f))	-	-	-	(3,593)	-	-	823	(2,770)
At 1st May 2002, as restated	29,561	13,934	17,214	17,473	-	(138)	147,089	225,133
Premium arising from issue of new shares	6,560	-	-	-	-	-	-	6,560
Share issue expense	(3)	-	-	-	-	-	-	(3)
Effect of deferred taxation	-	-	-	(26)	-	-	-	(26)
Loss for the year	-	-	-	-	-	-	(5,159)	(5,159)
Transfer from retained profits to								
Mainland China statutory reserve	-	-	-	-	137	-	(137)	-
Translation adjustments	-	-	-	-	-	1,443	-	1,443
At 30th April 2003	36,118	13,934	17,214	17,447	137	1,305	141,793	227,948
As at 1st May 2003, as previously reported	36,118	13,934	17,214	21,066	137	1,305	141,182	230,956
Effect of adoption of the revised SSAP 12 (Note 2(f))	-	-	-	(3,619)	-	-	611	(3,008)
At 1st May 2003, as restated	36,118	13,934	17,214	17,447	137	1,305	141,793	227,948
Profit for the year	-	-	-	-	-	-	15,857	15,857
Transfer from subscription right reserve to retained profits (Note 28)	-	-	(17,214)	-	-	-	17,214	-
Transfer from retained profits to								
Mainland China statutory reserve	-	-	-	-	953	-	(953)	-
Translation adjustments	-	-	-	-	-	654	-	654
At 30th April 2004	36,118	13,934	-	17,447	1,090	1,959	173,911	244,459
Representing:								
2004 final dividend proposed							3,465	
Others							170,446	
Retained profits as at 30th April 2004							173,911	

27 Reserves (Continued)

Retained profits comprised:

	2004 HK\$'000	2003 HK\$'000 (restated)
Company	20,166	2,995
Subsidiaries	153,745	138,722
Associate	–	76
	173,911	141,793

	Share premium HK\$'000	Contributed surplus HK\$'000	Subscription right reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
Company					
At 1st May 2002	29,561	131,338	17,214	3,621	181,734
Premium arising from issue of new shares	6,560	–	–	–	6,560
Share issue expense	(3)	–	–	–	(3)
Loss for the year	–	–	–	(626)	(626)
At 30th April 2003	36,118	131,338	17,214	2,995	187,665
At 1st May 2003	36,118	131,338	17,214	2,995	187,665
Transfer from subscription right reserve to retained profits (Note 28)	–	–	(17,214)	17,214	–
Loss for the year	–	–	–	(43)	(43)
At 30th April 2004	36,118	131,338	–	20,166	187,622
Representing:					
2004 final dividend proposed				3,465	
Others				16,701	
Retained profits as at 30th April 2004				20,166	

27 Reserves (Continued)

Notes:

- (a) Under the Companies Act 1981 of Bermuda (as amended), contributed surplus is distributable to shareholders subject to the condition that subsequent to the payment of dividend or any distribution, (i) the Company will be able to pay its liabilities as they become due, and (ii) the realisable value of the Company's assets would not be less than the aggregate of its liabilities and its issued share capital and share premium.
- (b) In accordance with the laws and regulations of Mainland China, the Group's subsidiaries in Mainland China are required to set aside certain portion of their retained profits to a statutory reserve account. The general reserve fund can only be used to make up losses incurred, increase registered capital or used for collective welfare of employees.

28 Warrants

As at 1st May 2003, the Company had outstanding warrants of 300,800,000 units, which carried subscription rights of HK\$1.475 for every 10 units of warrants entitling the holders to subscribe in cash for 90,546,938 new shares in the Company at an adjusted subscription price of HK\$0.49 (subject to adjustment) per new share from the date of issue (3rd July 2000) to 30th September 2003 (both dates inclusive).

During the year, no warrant was exercised (2003: Nil). Upon expiry of the warrants on 30th September 2003, net proceeds arose from issue of such warrants amounting to HK\$17,214,000 were transferred from subscription right reserve to retained profits.

29 Share options

The Stock Exchange of Hong Kong Limited (the "Stock Exchange") announced certain amendments to Chapter 17 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") in relation to share option scheme on 23rd August 2001, which came into effect on 1st September 2001. At the annual general meeting of the Company held on 26th September 2002, the shareholders of the Company approved the adoption of a new share option scheme (the "New Scheme") with rules in compliance with the requirement of the amended Listing Rules and termination of the share option scheme adopted by the Company on 26th October 1999 (the "Old Scheme").

The Old Scheme

Under the Old Scheme, the board of directors 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, subject to a maximum of 10% of the issued share capital of the Company from time to time, excluding for this purpose shares allotted and issued upon exercise of options granted pursuant to the share option scheme. The subscription price per share will be determined by the board of directors, and will not be less than (i) 80% of the average closing price of the shares of the Company quoted on the Stock Exchange on the five trading days immediately preceding the date of offer of the options or (ii) the nominal value of the shares, whichever is higher.

29 Share options (Continued)

The Old Scheme (Continued)

In view of the termination of the Old Scheme on 26th September 2002, no further options can be offered under the Old Scheme. However, in all other respects the provisions of the Old Scheme shall remain in full force and all outstanding options granted under the Old Scheme prior to such termination shall continue to be valid and exercisable pursuant to the Old Scheme until their respective expiry dates.

The New Scheme

Under the New Scheme, the Company may grant options to any full-time employees and executive directors of the Company or any of its subsidiaries (including non-executive directors of the Company or any of its subsidiaries and independent non-executive directors of the Company) to subscribe for shares in the Company. The total number of shares available for issue upon exercise of all options to be granted under the New Scheme and other share option schemes of the Company must not in aggregate exceed 10% of the issued share capital of the Company as at the date of approval of the New Scheme and such limit may be refreshed by the shareholders of the Company in general meeting. The overall limit on the number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the New Scheme and any other share option schemes of the Company must not exceed 30% of the shares of the Company in issue from time to time. The subscription price per share will be determined by the board of directors, and will not be less than the highest of (i) the closing price of the Company's share as stated in the daily quotations sheet issued by the Stock Exchange on the date of grant; (ii) the average closing price of the Company's share as stated in the daily quotations sheets issued by the Stock Exchange for the 5 business days immediately preceding the date of grant; and (iii) the nominal value of the Company's share on the date of grant. No option under the New Scheme was granted during the year ended 30th April 2004.

Movements in share options under the Old Scheme were as follows:

Date of grant	Subscription price per share	Exercisable period	Number of shares under options			
			Beginning of year	Exercised during the year	Lapsed during the year	End of year
21st September 2000	HK\$1.02	22nd September 2002 to 21st January 2005	14,108,776	–	(6,172,588)	7,936,188
1st November 2000	HK\$0.75	1st November 2002 to 28th February 2005	33,660,000	–	(14,175,000)	19,485,000
			47,768,776	–	(20,347,588)	27,421,188

Notes to the Accounts

30 Consolidated cash flow statement

(a) Reconciliation of profit/(loss) before taxation to net cash inflow generated from operations

	2004 HK\$'000	2003 HK\$'000 (restated)
Profit/(loss) before taxation	21,650	(3,042)
Interest income	(156)	(341)
Interest expense	17,240	18,223
Depreciation of fixed assets	59,185	55,856
Loss on disposal of fixed assets	29	119
Amortisation of distribution right	–	1,067
Amortisation of goodwill	–	1,793
Impairment loss on intangible assets	–	8,940
Gain on disposal of investment properties	(42)	–
Loss on disposal of an associate	83	–
Share of profits less losses of associates	20	(76)
Share of profits less losses of jointly controlled entities	–	(140)
Unrealised gain on investment	–	(569)
Gain on disposal of investment	(321)	–
Operating profit before working capital changes	97,688	81,830
Increase in inventories	(217)	(13,404)
Increase in trade receivables	(14,578)	(35,152)
Increase in bills receivable	(1,598)	(583)
Decrease in prepayments, deposits and other current assets	1,311	758
Increase in trade payables	7,412	10,169
Increase/(decrease) in bills payable	2,230	(1,730)
Increase in accruals and other payables	3,499	6,533
Net cash inflow generated from operations	95,747	48,421

30 Consolidated cash flow statement (Continued)

(b) Analysis of changes in financing during the year

	Share capital and share premium HK\$'000	Subscription right reserve HK\$'000	Short-term bank borrowings HK\$'000	Long-term bank loans HK\$'000	Finance lease obligations HK\$'000	Minority interests HK\$'000	Total HK\$'000
At 1st May 2002	95,664	17,214	68,660	179,447	31,612	-	392,597
Issue of new shares	9,760	-	-	-	-	-	9,760
Share issue expense	(3)	-	-	-	-	-	(3)
New short-term bank borrowings	-	-	307,963	-	-	-	307,963
Repayment of short-term bank borrowings	-	-	(257,352)	-	-	-	(257,352)
New long-term bank loans	-	-	-	7,000	-	-	7,000
Repayment of long-term bank loans	-	-	-	(50,589)	-	-	(50,589)
Inception of finance leases	-	-	-	-	9,451	-	9,451
Repayment of capital element of finance leases	-	-	-	-	(18,350)	-	(18,350)
Acquisition of subsidiaries	-	-	-	-	-	(39)	(39)
Minority interests' share in net profit of subsidiaries	-	-	-	-	-	100	100
At 30th April 2003	105,421	17,214	119,271	135,858	22,713	61	400,538
Transfer from subscription right reserve to retained profits	-	(17,214)	-	-	-	-	(17,214)
New short-term bank borrowings	-	-	398,695	-	-	-	398,695
Repayment of short-term bank borrowings	-	-	(409,952)	-	-	-	(409,952)
New long-term bank loans	-	-	-	165,000	-	-	165,000
Repayment of long-term bank loans	-	-	-	(152,996)	-	-	(152,996)
Inception of finance leases	-	-	-	-	1,231	-	1,231
Repayment of capital element of finance leases	-	-	-	-	(14,956)	-	(14,956)
Minority interests' share in net loss of subsidiaries	-	-	-	-	-	(61)	(61)
At 30th April 2004	105,421	-	108,014	147,862	8,988	-	370,285

Notes to the Accounts

30 Consolidated cash flow statement (Continued)

(c) Major non-cash transactions

During the year, the Group entered into finance lease arrangements of approximately HK\$1,231,000 (2003: HK\$9,451,000) in respect of new machinery.

In prior year, deposit of approximately HK\$8,577,000 was paid to Rentz, a former associate of the Group, for construction of a production plant in Nanjing, Mainland China. Such deposit was transferred to fixed assets upon completion of the construction during the year.

(d) Disposal of an associate

During the year, the Group disposed of its 40% equity interest in Rentz. The consideration of such disposal was satisfied by machineries with fair value of approximately HK\$4,020,000 (2003: Nil). Net loss from disposal of approximately HK\$83,000 (2003: Nil) was recognised in the income statement in the current year.

31 Commitments and contingent liabilities

(a) Capital commitments

	Group	
	2004 HK\$'000	2003 HK\$'000
Contracted but not provided for		
– construction of a production plant in Nanjing, Mainland China	–	8,023
– purchase of land in Zhongshan, Mainland China (Note 16)	2,954	–
– purchase of other fixed assets	42	1,872
	2,996	9,895

The Company had no capital commitment as at 30th April 2004 (2003: Nil).

(b) Operating lease commitments

As at 30th April 2004, the Group had future aggregate minimum lease payments in respect of rented premises under various non-cancellable operating leases as follows:

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Not later than one year	2,552	2,133	–	–
Later than one year and not later than five years	818	1,971	–	–
	3,370	4,104	–	–

31 Commitments and contingent liabilities (Continued)

(c) Contingent liabilities

	Group		Company	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Discounted bills with recourse	2,484	–	–	–
Factoring of trade receivables with recourse	35,568	25,286	–	–
Guarantees given to banks and financial institutions in respect of banking and finance lease facilities of its subsidiaries	–	–	207,536	264,818
	38,052	25,286	207,536	264,818

32 Pension schemes

The Group had arranged for certain of its employees (including executive directors) in Hong Kong to participate in a defined contribution provident fund under the Occupational Retirement Schemes Ordinance (the “ORSO Scheme”), which is managed by an independent trustee. Each of the Group and its employees made monthly contributions to the scheme at 5% to 10% and 5%, respectively, of the employees’ basic salaries. The employees were entitled to receive their entire contributions and the accrued interest thereon, and 100% of the Group’s employer contributions and the accrued interest thereon upon retirement or leaving the Group after completing one year of service. The forfeited contributions made by the Group and related accrued interest were used to reduce the Group’s employer contribution. This scheme is not available to new employees effective from 1st December 2000.

From 1st December 2000, companies within the Group in Hong Kong have participated in the Mandatory Provident Fund Scheme under the Mandatory Provident Fund Schemes Ordinance (the “MPF Scheme”), a defined contribution scheme managed by an independent trustee. Members of the ORSO Scheme were given a one-time option to choose to transfer to the MPF Scheme or remain in the ORSO Scheme. Under the MPF Scheme, each of the Group and its employees make monthly contributions to the scheme at 5% of the employees’ relevant income as defined under the Mandatory Provident Fund Schemes Ordinance with the maximum mandatory contributions by each of the Group and its employees limited to HK\$1,000 per month and thereafter contributions are voluntary. The mandatory contributions were fully and immediately vested in the employees as accrued benefits. The employees were entitled to receive their entire voluntary contributions and 100% of the Group’s employer voluntary contributions upon retirement or leaving the Group after completing one year of service. The forfeited voluntary contributions made by the Group were used to reduce the Group’s employer voluntary contributions.

As stipulated by the rules and regulations in Mainland China, the Group contributes to state-sponsored retirement plans for its employees in Mainland China. The Group contributes to the retirement plans at rates of approximately 10% to 28% of the basic salaries of its employees in Mainland China, and has no further obligation for the actual payment of pensions or post-retirement benefits. The state-sponsored retirement plans are responsible for the entire pension obligations payable to retired employees.

32 Pension schemes (Continued)

The employees of the Company's subsidiary in Singapore are members of the Central Provident Funds (the "Funds") operated by the government of Singapore. The subsidiary contributes to the Funds approximately 12% to 20% of the salaries of its employees, and has no further obligation for the actual payment of pensions or post-retirement benefits beyond the contributions.

During the year ended 30th April 2004, aggregate contributions made by the Group to the aforementioned schemes amounted to approximately HK\$5,358,000 (2003: HK\$3,362,000), with no deduction of forfeited contributions (2003: Nil). As at 30th April 2004, there were no material forfeitures available to offset the Group's future contributions.

33 Banking facilities and pledge of assets

As at 30th April 2004, the Group had aggregate banking facilities of approximately HK\$385,620,000 (2003: HK\$539,426,000) for overdrafts, loans, factoring of trade receivables and trade financing. Unused facilities as at the same date amounted to approximately HK\$67,615,000 (2003: HK\$222,320,000). These facilities were secured by:

- (a) mortgages over certain of the Group's land and buildings with net book value of approximately HK\$5,821,000 (2003: HK\$6,005,000) (Note 13);
- (b) pledge of the Group's investment of approximately HK\$8,580,000 (2003: HK\$7,939,000) (Note 19);
- (c) pledges of the Group's bank deposits of approximately HK\$25,058,000 (2003: HK\$24,983,000) (Note 20); and
- (d) corporate guarantees executed 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.

34 Related party transaction

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

Particulars of a related party transaction during the year are as follows:

	2004 HK\$'000	2003 HK\$'000
Construction cost paid to Rentz, a former associate of the Group, in respect of construction of a production plant in Nanjing, Mainland China	9,023	8,577

34 Related party transaction (Continued)

Note:

In the opinion of the Directors, the above transaction was entered into in the ordinary course of business and in accordance with the terms as agreed by the Group and Rentz. In November 2003, Rentz transferred the construction project to a company, a third party, who had undertaken to complete the construction of the Nanjing plant for the Group.

35 Ultimate holding company

The directors regard Ka Yan China Investments Limited, a company incorporated in the British Virgin Islands, as the ultimate holding company.

36 Approval of accounts

The accounts were approved by the board of directors on 16th August 2004.

Summary

of credit facilities utilisation

融資 信貸動用摘要

As at 30th April 2004

於二零零四年四月三十日

