



# CEC INTERNATIONAL HOLDINGS LIMITED

(CEC 國際控股有限公司)\*

(Incorporated in Bermuda with limited liability)

(Stock Code: 0759)

## 2006/2007 ANNUAL RESULTS ANNOUNCEMENT

The Board of Directors (the “Board”) of CEC International Holdings Limited (the “Company”) is pleased to announce that the audited consolidated results of the Company and its subsidiaries (collectively referred to as the “Group”) for the year ended 30 April 2007 as follows:

### CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 30 APRIL 2007

	<i>Note</i>	<b>2007</b> <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Turnover	2	<b>700,279</b>	618,561
Cost of sales	4	<b>(564,459)</b>	(482,808)
Gross profit		<b>135,820</b>	135,753
Other gains, net	3	<b>3,120</b>	4,927
Selling and distribution expenses	4	<b>(14,364)</b>	(13,344)
General and administrative expenses	4	<b>(77,960)</b>	(77,367)
Operating profit		<b>46,616</b>	49,969
Finance costs	5	<b>(19,248)</b>	(18,550)
Share of loss of an associate		–	(25)
Profit before taxation		<b>27,368</b>	31,394
Taxation	6	<b>(4,455)</b>	(8,098)
Profit for the year		<b>22,913</b>	23,296
Attributable to:			
– equity holders of the Company		<b>23,810</b>	23,296
– minority interest		<b>(897)</b>	–
		<b>22,913</b>	23,296
Earnings per share for profit attributable to the equity holders of the Company during the year			
– basic	7	<b>HK3.32 cents</b>	HK3.30 cents
– diluted	7	<b>HK3.32 cents</b>	HK3.30 cents
Dividend	8	<b>6,808</b>	6,449

## CONSOLIDATED BALANCE SHEET

AS AT 30 APRIL 2007

	<i>Note</i>	<b>2007</b> <i>HK\$'000</i>	2006 <i>HK\$'000</i>
<b>ASSETS</b>			
<b>Non-current assets</b>			
Leasehold land and land use rights		31,117	23,865
Property, plant and equipment		355,836	370,681
Investment properties		9,148	10,970
Available-for-sale financial assets		7,895	7,079
Deposit for acquisition of property, plant and equipment		3,623	–
		<u>407,619</u>	<u>412,595</u>
<b>Current assets</b>			
Inventories		79,574	65,428
Accounts receivable	9	173,801	162,622
Prepayment, deposits and other receivables		8,477	7,961
Tax recoverable		21	53
Pledged bank deposits		26,509	25,446
Bank balances and cash		31,586	47,562
		<u>319,968</u>	<u>309,072</u>
<b>Total assets</b>		<u><u>727,587</u></u>	<u><u>721,667</u></u>
<b>EQUITY</b>			
Share capital		71,661	71,661
Reserves			
Proposed final dividend		6,808	6,449
Others		295,782	262,866
<b>Total equity</b>		<u>374,251</u>	<u>340,976</u>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Borrowings		38,329	87,365
Deferred income tax		10,777	13,508
		<u>49,106</u>	<u>100,873</u>
<b>Current liabilities</b>			
Borrowings		224,972	183,956
Accounts payable	10	47,424	54,742
Accruals and other payables		25,204	31,647
Taxation payable		6,630	9,473
		<u>304,230</u>	<u>279,818</u>
<b>Total liabilities</b>		<u>353,336</u>	<u>380,691</u>
<b>Total equity and liabilities</b>		<u><u>727,587</u></u>	<u><u>721,667</u></u>
<b>Net current assets</b>		<u>15,738</u>	<u>29,254</u>
<b>Total assets less current liabilities</b>		<u><u>423,357</u></u>	<u><u>441,849</u></u>

Notes:

## 1. Basis of preparation and accounting policies

The consolidated financial statements of the Company have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain investment properties and available-for-sale financial assets which are carried at fair value.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company’s accounting policies.

### (a) Amendments and interpretations effective in 2007

The followings amendments and interpretations are mandatory for the year ended 30 April 2007 but are not relevant or do not have significant impact on the Group’s operations:

HKAS 19 (Amendment)	Employee Benefits: Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 21 (Amendment)	Net Investment in a Foreign Operation
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 (Amendment)	The Fair Value Option
HKAS 39 and HKFRS 4 (Amendment)	Financial Guarantee Contracts
HKFRS 1 (Amendment)	First-time Adoption of Hong Kong Financial Reporting Standards
HKFRS 6 (Amendment)	Exploration for and Evaluation of Mineral Resources
HKFRS-Int 4	Determining whether an Arrangement contains a Lease
HKFRS-Int 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
HK(IFRIC)-Int 6	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29
HK(IFRIC)-Int 8	Financial Reporting in Hyperinflationary Economies Scope of HKFRS 2

### (b) Standards, amendments and interpretations that have been published and have not been early adopted by the Group

The following standards, amendments and interpretations have been published that are mandatory for the Group’s accounting periods beginning after 1 May 2006 or later periods that the Group has not early adopted:

- HK(IFRIC)-Int 9, ‘Reassessment of Embedded Derivatives’, effective for annual periods beginning on or after 1 June 2006. HK(IFRIC) – Int 9 requires an entity to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case assessment is required.

- HK(IFRIC)-Int 10, 'Interim Financial Reporting and Impairment', effective for annual periods beginning on or after 1 November 2006. It prohibits the impairment losses recognised in an interim period on goodwill, investments in equity instruments and investments in financial assets carried at cost to be reversed at a subsequent balance sheet date.
- HK(IFRIC)-Int 11, 'Group and Treasury Share Transactions', effective for annual periods beginning on or after 1 March 2007. This interpretation clarifies that certain types of transaction are accounted for as equity-settled or cash-settled under HKFRS 2. It also addresses the accounting for share-based payment transactions involving two or more entities within one group.
- HK(IFRIC)-Int 12, 'Service Concession Arrangements', effective for annual periods beginning on or after 1 January 2008. It applies to companies that participate in service concession arrangements and provides guidance on the accounting by operators in public-to-private service concession arrangements.
- HKFRS 7, 'Financial Instruments: Disclosures', and the complementary Amendment to HKAS 1, 'Presentation of Financial Statements – Capital Disclosures', effective for annual periods beginning on or after 1 January 2007. HKFRS 7 introduces new disclosures relating to financial instruments. These standard and amendment does not have any impact on the classification and valuation of the Group's financial instruments.
- HKFRS 8, 'Operating Segments', effective for annual periods beginning on or after 1 January 2009. Under HKFRS 8, segments are components of an entity regularly reviewed by an entity's chief operating decision-maker. Items are reported based on the internal reporting.

The Group has already commenced an assessment of the impact of these new standards, amendments and interpretations but is not yet in a position to state whether these new standards, amendments and interpretations would have a significant impact on its results of operations and financial positions.

## 2. Segment information

### (a) Primary segments

The Group is organised into two major operating units: (i) Electronic components manufacturing and (ii) Others (comprise rental income and service income from provision of information technology services). An analysis by business segment is as follows:

	Electronic components manufacturing		Others		Eliminations		Total	
	2007	2006	2007	2006	2007	2006	2007	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover								
External sales	<b>699,038</b>	617,093	<b>1,241</b>	1,468	-	-	<b>700,279</b>	618,561
Intersegment sales	-	-	<b>2,975</b>	2,375	<b>(2,975)</b>	(2,375)	-	-
	<b>699,038</b>	617,093	<b>4,216</b>	3,843	<b>(2,975)</b>	(2,375)	<b>700,279</b>	618,561
Operating results								
Operating profit	<b>43,739</b>	47,458	<b>2,877</b>	2,511	-	-	<b>46,616</b>	49,969
Finance costs	<b>(18,689)</b>	(18,068)	<b>(559)</b>	(482)	-	-	<b>(19,248)</b>	(18,550)
Share of loss of an associate							-	(25)
Profit before taxation							<b>27,368</b>	31,394
Taxation							<b>(4,455)</b>	(8,098)
Profit for the year							<b>22,913</b>	23,296
Other information:								
Segment assets	<b>716,216</b>	707,490	<b>11,350</b>	14,124	-	-	<b>727,566</b>	721,614
Unallocated assets							<b>21</b>	53
Total assets							<b>727,587</b>	721,667
Segment liabilities	<b>335,422</b>	356,690	<b>507</b>	1,020	-	-	<b>335,929</b>	357,710
Unallocated liabilities							<b>17,407</b>	22,981
Total liabilities							<b>353,336</b>	380,691
Capital expenditures	<b>49,797</b>	49,202	-	3,923	-	-	<b>49,797</b>	53,125
Depreciation	<b>67,399</b>	66,782	<b>40</b>	46	-	-	<b>67,439</b>	66,828
Amortisation	<b>595</b>	362	-	-	-	-	<b>595</b>	362

(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:

	<b>Turnover</b>		<b>Total assets</b>		<b>Capital expenditures</b>	
	<b>2007</b>	2006	<b>2007</b>	2006	<b>2007</b>	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong	<b>218,240</b>	218,708	<b>123,617</b>	118,700	<b>13,522</b>	10,636
Mainland China	<b>331,799</b>	256,855	<b>544,549</b>	541,691	<b>35,525</b>	42,340
Taiwan	<b>49,550</b>	48,265	<b>26,203</b>	24,136	<b>715</b>	149
Europe	<b>24,374</b>	25,957	<b>4,525</b>	4,093	–	–
Singapore	<b>31,284</b>	30,547	<b>19,011</b>	26,332	–	–
Others	<b>45,032</b>	38,229	<b>9,682</b>	6,715	<b>35</b>	–
Total	<b><u>700,279</u></b>	<u>618,561</u>	<b><u>727,587</u></b>	<u>721,667</u>	<b><u>49,797</u></b>	<u>53,125</u>

Segment assets consist primarily of leasehold land and land use rights, property, plant and equipment, investment properties, inventories, receivables and operating cash. Taxation and investment in an associate are included as unallocated and excluded from segment assets.

Segment liabilities comprise operating liabilities. They exclude items such as taxation.

Capital expenditures comprise additions to leasehold land and land use rights, property, plant and equipment and investment properties.

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.

(c) **Analysis of turnover by category**

	<b>2007</b>	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
Sales of goods	<b>699,038</b>	617,093
Rental income	<b>972</b>	1,131
Service income from provision of information technology services	<b>269</b>	337
	<b><u>700,279</u></b>	<u>618,561</u>

### 3. Other gains, net

	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Interest income on bank deposits	1,475	963
Dividend income	–	1,339
Fair value gains on investment properties	984	1,400
Net gain on disposal of investment property	855	938
Net (loss)/gain on disposal of property, plant and equipment	<u>(194)</u>	<u>287</u>
	<u><b>3,120</b></u>	<u><b>4,927</b></u>

### 4. Expenses by nature

Expenses included in cost of sales, selling and distribution expenses and general and administrative expenses are analysed as follows:

	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Auditors' remuneration		
– Company's auditor	1,250	1,150
– Other auditors	175	154
Amortisation of prepaid operating lease payment	595	362
Cost of inventories sold	562,552	480,389
Depreciation of property, plant and equipment		
– owned assets	66,816	65,502
– assets held under finance leases	623	1,326
Direct operating expenses arising from investment properties that generate rental income	307	382
Employee benefit expenses (including directors' emoluments)	169,863	145,065
Net exchange losses	1,763	890
Operating lease rentals	4,602	2,868
Provision for other receivables	–	151
Research and development costs	3,434	2,588
(Reversal of)/provision for impairment of accounts receivable	<u>(5,019)</u>	<u>5,043</u>

## 5. Finance costs

	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Interest on:		
– Bank borrowings wholly repayable within five years	18,071	16,774
– Finance lease liabilities	59	164
	<u>18,130</u>	<u>16,938</u>
Total interest incurred during the year		
	18,130	16,938
Amortisation of deferred borrowing costs	1,118	1,612
	<u>19,248</u>	<u>18,550</u>

## 6. 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% (2006: 17.5%) on the estimated assessable profit for the year. Subsidiaries of the Group in Mainland China are subject to Mainland China enterprise income tax ranging from 7.5% to 27% (2006: 7.5% to 27%) 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:

	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Hong Kong profits tax		
– current tax	2,634	8,076
– (over)/under-provision in prior years	(82)	208
Overseas taxation including Mainland China		
– current tax	4,634	4,137
Deferred taxation	(2,731)	(4,323)
	<u>4,455</u>	<u>8,098</u>
Total taxation		
	<u>4,455</u>	<u>8,098</u>

## 7. Earnings per share

The calculation of basic earnings per share is based on the consolidated profit attributable to equity holders of the Company of approximately HK\$23,810,000 (2006: HK\$23,296,000) and the weighted average number of 716,610,798 (2006: 705,239,758) shares in issue during the year.

For the years ended 30 April 2006 and 30 April 2007, diluted earnings per share equals basic earnings per share as there was no dilutive potential share.



## 8. Dividend

	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Proposed final dividend of HK0.95 cent (2006: HK0.9 cent) per share	<u>6,808</u>	<u>6,449</u>

At a meeting of the Board of the Company held on 10 August 2007, the Board recommended a final dividend of HK0.95 cent per share for the year ended 30 April 2007 to be paid in cash to shareholders whose names appear on the Company's register of members on 27 September 2007. These financial statements do not reflect this dividend payable.

## 9. Accounts receivable

The aging analysis of accounts receivable is as follows:

	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Current	158,243	138,647
Overdue by 0 – 1 month	11,506	20,197
Overdue by 1 – 2 months	1,979	3,305
Overdue by 2 – 3 months	2,004	4,360
Overdue by more than 3 months	<u>1,386</u>	<u>3,325</u>
	175,118	169,834
Less: provision for impairment of receivable	<u>(1,317)</u>	<u>(7,212)</u>
	<u>173,801</u>	<u>162,622</u>

As at 30 April 2007, the carrying amount of accounts receivable approximated its fair value.

Management of the Group and an Accounts Receivable Supervisory Committee set up by the Company perform on-going credit and collectibility evaluation of each customer. The Group offers an average credit period ranging from one to four months to its customers who have good payment records and well-established relationships with the Group.

## 10. Accounts payable

The aging analysis of accounts payable is as follows:

	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Current	45,567	48,142
Overdue by 0 – 1 month	902	4,945
Overdue by 1 – 2 months	257	446
Overdue by 2 – 3 months	479	838
Overdue by more than 3 months	<u>219</u>	<u>371</u>
	<u>47,424</u>	<u>54,742</u>

## **DIVIDEND AND CLOSURE OF REGISTER OF MEMBERS**

No interim dividend was declared for the year ended 30 April 2007 (2006: Nil).

The Board has resolved to recommend the payment of a final dividend of HK0.95 cent (2006: HK0.9 cent) per share for the year ended 30 April 2007 to shareholders whose names appear on the register of members of the Company on 27 September 2007.

The proposed final dividend of HK0.95 cent per share, the payment of which is subject to the approval of the shareholders at the forthcoming Annual General Meeting to be held on Thursday, 27 September 2007, is to be payable on Wednesday, 10 October 2007.

The register of members of the Company will be closed from Thursday, 20 September 2007 to Thursday, 27 September 2007 (both dates inclusive), during which period no transfer of shares will be effected. In order to qualify for the proposed final dividend and to attend and vote at the Annual General Meeting of the Company to be held on 27 September 2007, 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 Wednesday, 19 September 2007.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **BUSINESS REVIEW**

#### *Overview*

During the year ended 30 April 2007, the Group's business maintained steady growth with a total turnover of HK\$700,279,000 (2006: HK\$618,561,000), reporting a 13.2% increase over that of last year. The increases in prices of raw materials, energy cost and the labour cost for production in Mainland China exerted pressure on the Group during the financial year. Accordingly, gross profit margin declined to 19.4% (2006: 21.9%) as compared with that of last year and gross profit recorded HK\$135,820,000 (2006: HK\$135,753,000), similar to that of last year. During the year, the Group reinforced its internal control to enhance the efficiency and focused on controlling the selling and distribution expenses as well as general and administrative expenses, thereby offsetting the impact of the soaring costs in production and currency translation. Profit attributable to equity holders of the Company was HK\$23,810,000 (2006: HK\$23,296,000), whilst the Group's earnings before interest, tax, depreciation and amortisation ("EBITDA") was HK\$113,175,000 (2006: HK\$116,196,000).

### **The Group's Business Performance**

#### *Electronic components manufacturing segment*

For the year, the turnover of electronic components manufacturing segment (including coils, coils-related accessories and capacitors), the Group's core business, was HK\$699,038,000 (2006: HK\$617,093,000), which accounted for 99.8% (2006: 99.8%) of the total turnover, with approximately 13.3% growth as compared with that of last year. The increase in turnover was mainly benefited from the desirable growth in various consumer electronic product industries, especially cell phones, flat-panel televisions, computers, electronic video game consoles and power-supply devices.

During the year, the uptrend of the prices of raw materials, the exchange rate of Renminbi (“RMB”), the staff costs in Mainland China and the energy cost all put an enormous pressure on the costs of the Group. Accordingly, the Group has continued to implement a series of measures to improve its efficiency for raising overall productivity during the year. As a result, the gross profit of the Group’s core business for the year amounted to HK\$134,826,000 (2006: HK\$135,242,000). Gross profit margin fell by 2.6% to 19.3% (2006: 21.9%) as compared with that of last year under the immense cost pressure.

Last year, the sustained surge of the prices of raw materials remained the biggest challenge to the Group. This year, the prices of the Group’s major raw materials, including copper required for manufacturing coils and various metals like nickel, zinc, manganese and iron required for manufacturing magnetic materials, all still persistently stayed high and the prices of most metals even continued to rise significantly in the fourth quarter of the year. Based on the quoted prices on London Metal Exchange, the spot prices of copper, nickel and zinc as at the year-end date of this financial year increased by approximately 8.4%, 169.6% and 14.3% respectively as compared with those as at the same date of last year, and even showed a tremendous rise of approximately 123%, 347% and 302% respectively when compared with those as at the year-end date of 2004/2005.

As the Group’s major production operations are in Mainland China, most of the production expenses including wages, domestic purchases of materials, rentals, water and electrical supplies and tax are all settled in RMB. Therefore, there has been an upward pressure on the costs of the Group in the long run because of the sustained appreciation of RMB. For the year ended 30 April 2007, the accumulated appreciation of RMB reached 5%, a direct link to the increase in production cost of the Group.

With the rapid economic development of Mainland China, the labour market of which is still in shortage. High labour turnover rate and difficulty in recruitment are very common in Guangdong province. The remuneration of the management and factory workers has continued to rise in line with the rapid economic growth in Mainland China. During the year, the Group made appropriate remuneration evaluation and adjustments for its employees at different levels, resulting in an increase of approximately 17% as compared with that of last year. The rise in overall remuneration was mainly due to the increases of employees and staff remuneration. The Group is considering the allocation of more resources for expanding plants and installing automated production facilities, which will provide further modernized production environment and improve the existing production cost structure.

## **FINANCIAL REVIEW**

### *Overview*

For the year ended 30 April 2007, profit attributable to equity holders of the Company was HK\$23,810,000 (2006: HK\$23,296,000), whilst basic earnings per share was HK3.32 cents (2006: HK3.30 cents).

## **Financial Management**

### *Funds Surplus and Liabilities*

As at 30 April 2007, the Group's credit facilities granted from banks amounted to HK\$385,399,000 (2006: HK\$430,131,000), of which HK\$118,085,000 (2006: HK\$158,751,000) remained unutilised.

The Group's cash and bank balances (denominated mainly in Hong Kong dollar, United States dollar and RMB) was HK\$58,095,000 (2006: HK\$73,008,000) as at 30 April 2007. The banking facilities amounting to HK\$81,678,000 were secured by mortgages on the Group's certain land and buildings, pledges of the Group's bank deposits, available-for-sale financial assets and corporate guarantees provided by the Company and its certain subsidiaries. In addition, the Group is required to comply with certain restrictive financial covenants with the major financing banks. As at 30 April 2007, the Group complied with such financial covenants, which indicates that the Group's financial position remained satisfactory.

As at 30 April 2007, the Group's total borrowings granted from banks and financial institutions amounted to HK\$263,301,000 (2006: HK\$271,321,000), of which HK\$224,972,000 (2006: HK\$183,956,000) was current and HK\$38,329,000 (2006: HK\$87,365,000) was non-current and will be repayable within a period of more than one year but not exceeding five years. As at 30 April 2007, the Group's gearing ratio\* was 0.7 (2006: 0.8). The Group will continue to focus on managing its financial resources in prudence and to proactively reduce its financial leverage ratio to further stabilize its business development in future. In addition, the Group did not have any contingent liabilities (2006: Nil) as at the same date.

(\* The ratio of (total borrowings) over (total equity))

### *Interest Expenses*

For the year ended 30 April 2007, the Group's interest expenses amounted to HK\$18,130,000 (2006: HK\$16,938,000), up 7% as compared with that of last year mainly due to a slight rise in Hong Kong interbank offer rate. The Group will endeavour to control all kinds of expenses and bank borrowings so as to reduce the future interest expenses.

### *Financial Resources and Capital Structure*

For the year ended 30 April 2007, the Group's net cash outflow (decrease in cash and cash equivalents) was HK\$13,326,000 (2006: net cash inflow (increase in cash and cash equivalents) of HK\$13,262,000). During the year, net cash outflow was mainly attributable to the increase in net cash outflow from financing activities to HK\$28,971,000 (2006: inflow of HK\$2,776,000), which reflects that the Group used internal fund to repay its borrowings. The net cash inflow from financing activities of last year was comparatively higher than that of the year under review due to the draw-down of the aggregate amount of HK\$243,000,000 under the 3-year transferable term loan and revolving credit facility agreement by the Company during last year. The net cash inflow from operating activities for the year was HK\$67,713,000 (2006: HK\$56,947,000), up 18.9% as compared with last year. For the year ended 30 April 2007, net cash outflow from investing activities rose to HK\$52,068,000 (2006: HK\$46,461,000), most of which were capital expenditures in an aggregate amount of HK\$49,797,000 (2006: HK\$53,125,000). The capital expenditures were mainly utilised in constructing new plants in Zhongshan amounting to approximately HK\$5,166,000 (2006: HK\$10,986,000), purchasing

machinery and equipment amounting to approximately HK\$27,479,000 (2006: HK\$28,678,000) for raising production capacity and Hong Kong properties amounting to approximately HK\$11,651,000 (2006: HK\$8,615,000).

#### *Cash Flow Summary*

	<b>2007</b>	2006
	<b><i>HK\$'000</i></b>	<i>HK\$'000</i>
Net cash inflow from operating activities	<b>67,713</b>	56,947
Net cash outflow from investing activities	<b>(52,068)</b>	(46,461)
Net cash (outflow)/inflow from financing activities	<b>(28,971)</b>	2,776
	<hr/>	<hr/>
(Decrease)/increase in cash and cash equivalents	<b><u>(13,326)</u></b>	<u>13,262</u>

As at 30 April 2007, the net current assets was HK\$15,738,000 (2006: HK\$29,254,000), whilst the current ratio was 1.05 (2006: 1.10).

#### **Charges on Assets**

As at 30 April 2007, certain assets of the Group with an aggregate carrying value of approximately HK\$38,620,000 (2006: HK\$41,356,000) were pledged to secure banking facilities and finance lease of the Group.

#### **Exchange Risks**

The Group's business is mainly conducted in Mainland China, Hong Kong and South-east Asia. The major revenue currencies are primarily denominated in Hong Kong dollar ("HKD"), RMB and United States dollar ("USD"); whilst the major currencies in purchase commitments are primarily denominated in Hong Kong dollar, Renminbi and United States dollar. The cumulative appreciation of over 5% in RMB against USD during the financial year posed a significant challenge on the Group's business. Given that the appreciation of RMB is great, there will be a negative impact on the Group's profit. In view of the mild and somewhat predictable fluctuation in RMB for the time being, the Board is of the view that it is not necessary for the Group to purchase any highly cost foreign exchange futures or options contract for hedging against exchange risks for the time being and will continue to closely monitor the fluctuations in exchange rates of the currencies. The Group's borrowings are mainly settled in Hong Kong dollars. The Board believes that there is no substantial exchange risk.

#### **EMPLOYEES**

The Group had approximately 8,100 (2006: 7,900) employees as at 30 April 2007. The salaries of the employees are maintained at competitive levels determined by reference to their academic qualification, working experience, professional or licensing qualification, job skill and market benchmark. The overall salary level of the Group is reviewed periodically, taking into consideration factors such as competitive market position and market practice. Discretionary bonuses are granted based on the operating results of the Group and the performance of individuals. Other employee benefits include pension scheme and medical insurance. Under the share option scheme of the Company, options may be granted to eligible employees to subscribe for shares in the Company.

The Group also emphasizes the promotion of on-the-job training and continuing education of its employees at all levels. Subsidies on training and education are provided to its employees with different levels for enhancing their knowledge and job or professional skills, which can yield the Group's competitive advantage.

## **FUTURE PROSPECTS**

In view of the surging prices of raw materials and the rising staff wages in Mainland China leading to a persistent cost pressure, the Group has been devoted to undertaking research and development on the applied materials and looking for new ideas on the improvements for industrial process. However, it is expected that the uptrend of raw materials and staff wages will not be reversed in the foreseeable future. The Group has taken the initiative to negotiate with its customers and suppliers in the fourth quarter of this year so as to provide with both parties a relative stable price basis. On the other hand, the Group's industrial engineering team is striving to develop production flow improvements as well as proactively introducing the new measures of such production flow improvements to its customers in order to ease the immense cost pressure.

The Group has re-positioned its headquarters in Hong Kong since 2005/2006. In line with its sales and marketing base in Hong Kong, the Group has, during the first quarter of the next financial year, contemplated to establish a product research and development division, which will focus on overseas markets and be mainly engaged in research and development of power-supply products, in three years. The Group will recruit more technician and purchase advanced equipment and facilities for the product research and development division.

In order to achieve more desirable results in promoting the Group's overall productivity and efficiency, the Group plans to re-deploy its resources for its plants. The Group will cease the operation of its plants in Singapore and Bishan at Chongqing, Mainland China in the next financial year and re-allocate the production facilities of the aforesaid plants to its Zhongshan main plant and other plants. On the other hand, the construction of a large plant with usable area over 26,000 square meters in Zhongshan, which will provide room for expansion of the Group's coils manufacturing segment in future, has commenced in the first quarter of 2007/2008.

## **ACKNOWLEDGEMENTS**

Finally, on behalf of the Board, I would like to express my thanks to all investors, staff and business partners for their continued support to the Company during the year.

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

The Company has not redeemed any of its listed shares during the year ended 30 April 2007. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's listed shares during the year ended 30 April 2007.

## **CORPORATE GOVERNANCE**

The Board believes that good corporate governance is not only in the interest of the Company and its shareholders as a whole, but also increasingly important for maintaining and promoting investor confidence. The Board is responsible for ensuring a high quality of corporate governance maintained. The Company has applied the principles and complied with the applicable code provisions of the Code on Corporate Governance Practices (the “Code”) as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) for the year ended 30 April 2007, except the following deviations:

1. Under Code Provision A.4.1, non-executive directors should be appointed for a specific term, subject to re-election.

All the independent non-executive directors of the Company have not been appointed for a specific term, but are subject to retirement by rotation at the annual general meeting of the Company at least once every three years in accordance with the Bye-laws of the Company. The Company considers that sufficient measure has been taken to ensure that the Company’s corporate governance practices are no less exacting than those in the Code.

2. Under Code Provision E.1.2, the Chairman of the Board should attend the annual general meeting.

The Chairman of the Board did not attend the Annual General Meeting of the Company held on 27 September 2006 (“2006 AGM”) due to illness at the material time. The Managing Director of the Company, who took the chair of 2006 AGM, and all other members of the Board (including the chairman of each of the Audit Committee and Remuneration Committee) attended 2006 AGM to ensure effective communication with shareholders of the Company.

The Audit Committee of the Company, currently comprising four independent non-executive directors, has reviewed the accounting principles and practices adopted by the Group, the internal control of the Group and the annual results of the Company for the year ended 30 April 2007.

Further information on corporate governance practices of the Company will be set out in 2006/2007 annual report of the Company, which will be sent to shareholders of the Company by the end of August, 2007.

## **ANNUAL GENERAL MEETING**

The 2007 Annual General Meeting of the Company will be held on Thursday, 27 September 2007 and the Notice of Annual General Meeting will be published and despatched in the manner as required by the Listing Rules in due course.

By Order of the Board  
**Tang Fung Kwan**  
*Deputy Chairman and Managing Director*

Hong Kong, 10 August 2007

*As at the date hereof, the Board of the Company comprises four Executive Directors, namely Mr. Lam Wai Chun (Chairman), Ms. Tang Fung Kwan (Deputy Chairman and Managing Director), Mr. Chua You Sing and Ms. Li Hong; and five Independent Non-executive Directors, namely Mr. Au Son Yiu, Mr. Lee Wing Kwan, Denis, Dr. Tang Tin Sek, Mr. Goh Gen Cheung and Professor Zhu Yuhe.*

Websites: <http://www.0759.com>  
<http://www.ceccoils.com>  
<http://www.irasia.com/listco/hk/cecint>

\* *For identification purpose only*