



CEC國際控股有限公司

CEC INTERNATIONAL HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)
(於百慕達註冊成立之有限公司)

First Quarterly Report 第 1 季度報告

2005/2006

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CORPORATE INFORMATION

DIRECTORS

Executive Directors

Mr. Lam Wai Chun (*Chairman*)
Ms. Tang Fung Kwan
(*Deputy Chairman and Managing Director*)
Mr. Chua You Sing
Ms. Li Hong

Independent Non-executive Directors

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

AUDIT COMMITTEE

Dr. Tang Tin Sek (*Chairman*)
Mr. Au Son Yiu
Mr. Lee Wing Kwan, Denis

REMUNERATION COMMITTEE

Mr. Au Son Yiu (*Chairman*)
Dr. Tang Tin Sek
Mr. Lee Wing Kwan, Denis
Ms. Tang Fung Kwan

COMPANY SECRETARY

Ms. Li Lai Sheung *ACIS*

AUDITORS

PricewaterhouseCoopers
Certified Public Accountants

LEGAL ADVISERS

F. Zimmern & Co
Richards Butler
Appleby Spurling Hunter

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited
China Construction Bank
CITIC Ka Wah Bank Limited
Dah Sing Bank Limited
Hang Seng Bank Limited
Standard Chartered Bank
(Hong Kong) Limited
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

HEADQUARTERS IN MAINLAND CHINA

Li Xin Jie, Yong An Lu
Dong Feng Zhen
Zhongshan
Guangdong
Mainland China

SHARE REGISTRARS AND TRANSFER OFFICES

Bermuda Principal Share Registrar
Butterfield Fund Services (Bermuda) Limited
Rosebank Centre
11 Bermudiana Road
Pembroke HM08
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Hong Kong Branch Share Registrar

Computershare Hong Kong Investor
Services Limited
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Listed on The Stock Exchange
of Hong Kong Limited
Stock Code: 0759

2005/2006 FIRST QUARTER RESULTS

The Board of Directors (the “Directors”) of CEC International Holdings Limited (the “Company”) is pleased to present the unaudited condensed consolidated income statement, condensed consolidated cash flow statement, condensed consolidated statement of changes in equity of the Company and its subsidiaries (collectively referred to as the “Group”) for the three months ended 31st July 2005 and the unaudited condensed consolidated balance sheet as at 31st July 2005 of the Group.

CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	Three months ended 31st July	
		2005 HK\$'000 (Unaudited)	2004 HK\$'000 (Unaudited) (Restated)
Turnover	3	145,213	143,171
Cost of sales		(113,843)	(111,365)
Gross profit		31,370	31,806
Other revenue		1,451	25
Selling and distribution expenses		(2,937)	(3,162)
General and administrative expenses		(15,778)	(17,190)
Operating profit		14,106	11,479
Finance costs	4	(5,042)	(3,943)
Profit before taxation	3,5	9,064	7,536
Taxation	6	(2,485)	(1,602)
Profit attributable to equity holders of the Company		6,579	5,934
Earnings per share			
– Basic	8	0.95 cent	0.86 cent
– Diluted	8	N/A	N/A

CONDENSED CONSOLIDATED BALANCE SHEET

	Notes	As at 31st July 2005 HK\$'000 (Unaudited)	As at 30th April 2005 HK\$'000 (Restated)
NON-CURRENT ASSETS			
Property, plant and equipment	9	385,854	388,597
Investment properties	9	11,675	6,670
Leasehold land and land use rights		13,392	13,471
Investment in associates		25	25
Available-for-sale financial asset		6,304	–
Investment securities		–	8,580
Deposit for acquisition of land use rights		6,254	6,254
Deposit for property, plant and equipment		2,632	–
Total non-current assets		426,136	423,597
CURRENT ASSETS			
Inventories		52,751	56,762
Trade receivables	10	145,200	97,632
Bills receivable		49	88
Prepayments, deposits and other receivables		9,554	6,053
Available-for-sale financial assets		1,114	–
Other investments		–	1,192
Tax recoverable		143	84
Pledged bank deposits		25,000	24,879
Bank balances and cash		63,226	43,770
Total current assets		297,037	230,460
CURRENT LIABILITIES			
Short-term bank borrowings	11	(161,621)	(211,791)
Trade payables	12	(47,098)	(46,401)
Bills payable		(2,023)	(5,212)
Accruals and other payables		(26,303)	(26,089)
Finance lease obligations, current portion		(2,198)	(2,588)
Taxation payable		(8,916)	(6,581)
Total current liabilities		(248,159)	(298,662)
Net current assets /(liabilities)		48,878	(68,202)
Total assets less current liabilities		475,014	355,395
NON-CURRENT LIABILITIES			
Long-term bank loans, non-current portion	11	(134,698)	(22,406)
Finance lease obligations, non-current portion		(1,001)	(1,491)
Deferred tax		(17,343)	(17,740)
Total non-current liabilities		(153,042)	(41,637)
Net assets		321,972	313,758
EQUITY			
Share capital	13	69,303	69,303
Reserves			
Proposed final dividend		4,851	4,851
Others		247,818	239,604
Total equity		321,972	313,758

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Three months ended 31st July	
	2005 HK\$'000 (Unaudited)	2004 HK\$'000 (Unaudited)
Net cash (outflow)/inflow from operating activities	(19,335)	19,010
Net cash outflow from investing activities	(19,035)	(15,412)
Net cash inflow from financing activities	71,895	17,541
Translation adjustments	1,369	(491)
Increase in cash and cash equivalents	34,894	20,648
Cash and cash equivalents, beginning of period	28,332	9,097
Cash and cash equivalents, end of period	63,226	29,745
Analysis of cash and cash equivalents:		
Bank balances and cash	63,226	46,707
Bank overdrafts	–	(16,962)
	63,226	29,745

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital HK\$'000	Share premium HK\$'000	Capital reserve HK\$'000	Property revaluation reserve HK\$'000	Investment property revaluation reserve HK\$'000	Investment revaluation reserve HK\$'000	Mainland China statutory reserve HK\$'000	Cumulative translation adjustments HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1st May 2004, as previously reported	69,303	36,118	13,934	17,447	-	-	1,090	1,959	173,911	313,762
Effect of adopting HKAS 17	-	-	-	(17,447)	-	-	-	-	1,056	(16,391)
At 1st May 2004, as restated	69,303	36,118	13,934	-	-	-	1,090	1,959	174,967	297,371
Translation adjustments – Net loss not recognized in the consolidated income statement	-	-	-	-	-	-	-	(609)	-	(609)
Transfer from retained profits to Mainland China statutory reserve	-	-	-	-	-	-	183	-	(183)	-
Profit for the period	-	-	-	-	-	-	-	-	5,934	5,934
At 31st July 2004	69,303	36,118	13,934	-	-	-	1,273	1,350	180,718	302,696
At 1st May 2005, as previously reported	69,303	36,118	13,934	22,727	520	-	3,568	1,290	187,498	334,958
Effect of adopting HKAS 17	-	-	-	(22,727)	-	-	-	-	1,527	(21,200)
Effect of adopting HKAS 32 and HKAS 39	-	-	-	-	-	(1,017)	-	-	-	(1,017)
Effect of adopting HKAS 40 and HKAS -Int 21	-	-	-	-	(520)	-	-	-	429	(91)
At 1st May 2005, as restated	69,303	36,118	13,934	-	-	(1,017)	3,568	1,290	189,454	312,650
Translation adjustments	-	-	-	-	-	-	-	4,081	-	4,081
Change in fair value of available-for-sale financial assets	-	-	-	-	-	(1,338)	-	-	-	(1,338)
Net gain not recognised in the consolidated income statement	-	-	-	-	-	(1,338)	-	4,081	-	2,743
Profit for the period	-	-	-	-	-	-	-	-	6,579	6,579
As at 31st July 2005	69,303	36,118	13,934	-	-	(2,355)	3,568	5,371	196,033	321,972

HKAS: Hong Kong Accounting Standard

HKAS-Int: Hong Kong Accounting Standard – Interpretation

NOTES TO THE CONDENSED CONSOLIDATED ACCOUNTS

1. Basis of preparation and accounting policies

These unaudited condensed consolidated quarterly accounts (“Quarterly Accounts”) have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim financial reporting”, issued by the Hong Kong Institute of Certified Public Accountants. These Quarterly Accounts should be read in conjunction with the annual accounts for the year ended 30th April 2005.

The accounting policies and methods of computation used in the preparation of these Quarterly Accounts are consistent with those used in the annual accounts for the year ended 30th April 2005 except that the Group has changed certain of its accounting policies following the adoption of new/revised Hong Kong Financial Reporting Standards (“HKFRS”) and HKASs which are effective for accounting periods commencing on or after 1st January 2005. The major changes to the Group’s accounting policies and the effect of adopting these new accounting policies are set out in note 2 below.

2. Impact of new/revised HKFRSs and HKASs

The major and significant effects of the adoption of the new/revised HKFRSs and HKASs on the Group’s accounting policies and amounts disclosed in the Quarterly Accounts are summarised as follows:

(A) HKAS 17 “Leases”

In prior years, leasehold land and buildings held for own use were stated at revaluation less accumulated depreciation and accumulated impairment losses. Movements of revaluation surpluses or deficits were normally taken to the property revaluation reserve.

With the adoption of HKAS 17 as from 1st May 2005, where the land and building elements of the leasehold properties held for own use can be allocated reliably at the inception of the lease, the land element is accounted for as operating lease.

Such leasehold land will no longer be revalued. Instead, any pre-paid land premiums for acquiring the land leases, or other lease payments, are amortised on a straight line basis over the lease term.

Any buildings held for own use which are situated on such land leases continue to be presented as part of property, plant and equipment. However, as from 1st May 2005 the buildings are also stated at cost less accumulated depreciation, rather than at fair value, to be consistent with the new policy required to be adopted for the land element.

This new accounting policy has been adopted retrospectively and reflected by way of prior year adjustment and restatement of comparative figures.

NOTES TO THE CONDENSED CONSOLIDATED ACCOUNTS

2. Impact of new/revised HKFRSs and HKASs (continued)

(A) HKAS 17 "Leases" (continued)

Net increases/(decreases) in the following items on restatement of balance sheets

	As at 30th April 2005 HK\$'000	As at 31st July 2004 HK\$'000
<i>Assets:</i>		
Leasehold land and land use rights	13,471	13,708
Property, plant and equipment	(41,075)	(33,600)
<i>Liabilities and reserves:</i>		
Property revaluation reserve	(22,727)	(17,447)
Deferred tax	(6,404)	(3,619)
Retained profits	1,527	1,174

Net increases/(decreases) in the following items on restatement of income statement

	Three months ended 31st July	
	2005 HK\$'000	2004 HK\$'000
Depreciation	(197)	(197)
Rental expenses	79	79

(B) HKAS 32 "Financial Instruments: Disclosure and Presentation" HKAS 39 "Financial Instruments: Recognition and Measurement"

The adoption of HKAS 32 and HKAS 39 has resulted in a change in accounting policy for recognition, measurement, derecognition and disclosure of financial instruments.

- (i) The Group adopted the transitional provisions of HKAS 32 and HKAS 39 and all "investment securities" and "other investments" were redesignated as "available-for-sale financial assets" as at 1st May 2005. Available-for-sale financial assets are measured at fair value and changes in fair value are recognised in the investment revaluation reserve. This has resulted in a decrease in available-for-sale financial assets and a corresponding decrease in investment revaluation reserve of approximately HK\$2,355,000 as at 31st July 2005 (1st May 2005: HK\$1,017,000).
- (ii) HKAS 39 requires that where an entity sells trade receivables with recourse, these trade receivables should be accounted for as a collateralised borrowing, since it does not qualify for derecognition. In the past, the Group followed the principles under the replaced accounting standard SSAP 28 "Provisions, Contingent Liabilities and Contingent Assets" and disclosed such type of transaction as contingent liabilities.

The Group has adopted HKAS 32 and HKAS 39 prospectively. For trade receivables sold with recourse, the change in the accounting policy has resulted in an increase in trade receivables and a corresponding increase in borrowings of approximately HK\$8,669,000 as at 31st July 2005.

NOTES TO THE CONDENSED CONSOLIDATED ACCOUNTS

2. Impact of new/revised HKFRSs and HKASs (continued)

- (C) HKAS 40 "Investment Property"
HKAS 12 "Income Taxes" – HKAS Interpretation 21 ("HKAS-Int 21") -Recovery of revalued non-depreciable assets

In prior years, investment properties were carried at valuation assessed by professionally qualified valuers on an open market value basis. Increases in valuations were credited to the investment property revaluation reserve. Decreases in valuations were first set off against the investment property revaluation reserve on a portfolio basis and thereafter were charged to the income statement. No deferred taxation was provided on revaluation surplus of investment properties.

On adoption of HKAS 40, investment properties are carried at fair value with the changes in fair value reported directly in the income statement. Deferred tax is provided on revaluation surplus of investment properties in accordance with HKAS-Int 21 on HKAS 12.

The Group has adopted HKAS 40 prospectively. The effects of change in accounting policy are as follows:

Net increases/(decreases) in the following items on balance sheet

	As at 1st May 2005
	HK\$'000
.....	
<i>Liabilities and reserves:</i>	
Investment property revaluation reserve	(520)
Deferred tax	91
Retained profits	429

3. Segment information

The Company is an investment holding company. Its subsidiaries are principally engaged in the design, development, manufacture and sale of a wide range of coils, capacitors, ferrite powder and other electronic components, which are generally used in the manufacture of various kinds of electronic and electrical products.

With reference to 2004/2005 annual report, the directors of the Company re-classified certain segmental information. Coils manufacturing, capacitors manufacturing and ferrite powder manufacturing were combined and classified as "Electronic components manufacturing". Besides, information technology services, electronic components trading and others, being the non-core business, were combined and classified as "Others". Certain comparative figures of segmental information for the period ended 31st July 2004 have been re-classified to conform with the current period's presentation.

NOTES TO THE CONDENSED CONSOLIDATED ACCOUNTS

3. Segment information (continued)

Analysis of turnover and profit/(loss) before taxation by business segment is as follows:

	Turnover		Profit/ (loss) before taxation	
	Three months ended		Three months ended	
	31st July		31st July	
	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
		(Restated)		(Restated)
Electronic components manufacturing	144,842	140,399	8,739	7,751
Others	371	2,772	325	(215)
	145,213	143,171	9,064	7,536

4. Finance costs

	Three months ended 31st July	
	2005	2004
	HK\$'000	HK\$'000
		(Restated)
Interest expenses	4,866	3,612
Arrangement fee on long-term bank loan	176	331
	5,042	3,943

5. Profit before taxation

Profit before taxation is stated after crediting and charging the following:

	Three months ended 31st July	
	2005	2004
	HK\$'000	HK\$'000
		(Restated)
<i>Crediting</i>		
Gain on disposal of investment properties	–	50
Income from available-for-sale financial asset	1,305	–
Interest income	146	25
<i>Charging</i>		
Depreciation of property, plant and equipment	16,699	15,677
Cost of inventories sold	113,317	110,808
Staff costs (including directors' emoluments)	30,687	30,627

NOTES TO THE CONDENSED CONSOLIDATED ACCOUNTS

6. Taxation

The Company is exempted from taxation in Bermuda until 2016. Hong Kong profits tax has been provided at the rate of 17.5% (2004: 17.5%) on the estimated assessable profit for the period. Overseas taxation has been calculated on the estimated assessable profits for the period at the rates prevailing in the respective jurisdictions.

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

	Three months ended 31st July	
	2005	2004
	HK\$'000	HK\$'000
Hong Kong profits tax		
– current tax	2,107	1,228
Overseas taxation		
– current tax	848	1,083
Deferred taxation	(470)	(709)
	2,485	1,602

7. Dividend

The Directors resolved not to declare any dividend in respect of the three months ended 31st July 2005 (2004: Nil).

8. Earnings per share

The calculation of basic earnings per share for the three months ended 31st July 2005 is based on the profit attributable to equity holders of the Company of approximately HK\$6,579,000 (2004: HK\$5,934,000) and 693,028,811 (2004: 693,028,811) shares in issue during the period.

No information in respect of diluted earnings per share is presented as the exercise of the outstanding options (if any) during the three months ended 31st July 2004 and 31st July 2005 respectively would have no dilutive effect.

9. Movements in property, plant and equipment and investment properties

During the three months ended 31st July 2005, the additions to property, plant and equipment and investment properties were approximately HK\$16,463,000 (2004: HK\$16,864,000); the total net book value of disposals and write-offs of property, plant and equipment and investment properties were approximately HK\$148,000 (2004: HK\$483,000).

NOTES TO THE CONDENSED CONSOLIDATED ACCOUNTS

10. Trade receivables

The aging analysis of trade receivables, net of impairment losses, is as follows:

	As at 31st July 2005 HK\$'000	As at 30th April 2005 HK\$'000 (Restated)
Current	126,766	86,812
Overdue by 0 – 1 month	7,858	7,075
Overdue by 1 – 2 months	7,734	1,635
Overdue by 2 – 3 months	2,842	2,110
	145,200	97,632

Management of the Group performs ongoing credit and collectibility evaluations of each customer. Allowance for impairment losses are provided 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 customers who have good payment records and well-established relationships with the Group.

11. Bank loans

(a) Short-term bank borrowings

	As at 31st July 2005 HK\$'000	As at 30th April 2005 HK\$'000
Long-term bank loans, current portion	98,214	89,337
Others	63,407	122,454
	161,621	211,791

(b) Long-term bank loans

During the period, the Group obtained long-term bank loans in the amount of HK\$200,880,000 and the long-term bank loans amounting to approximately HK\$79,711,000 were repaid.

NOTES TO THE CONDENSED CONSOLIDATED ACCOUNTS

12. Trade payables

The aging analysis of trade payables is as follows:

	As at 31st July 2005 HK\$'000	As at 30th April 2005 HK\$'000
Current	42,563	42,241
Overdue by 0 – 1 month	1,724	2,393
Overdue by 1 – 2 months	1,489	478
Overdue by 2 – 3 months	447	177
Overdue by more than 3 months	875	1,112
	47,098	46,401

13. Share capital

	Number of shares	Nominal value HK\$'000
Ordinary shares of HK\$0.10 each		
Authorised:		
As at 30th April 2005 and 31st July 2005	1,000,000,000	100,000
Issued and fully paid:		
As at 30th April 2005 and 31st July 2005	693,028,811	69,303

14. Share options

On 26th September 2002, a new share option scheme (the "Scheme") was adopted by the Company. The purpose of the Scheme is to provide any full-time employees of the Company or any of its subsidiaries (including executive directors) and non-executive directors of the Company or any of its subsidiaries (including independent non-executive directors of the Company) with the opportunity to acquire proprietary interests 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.

During the three months ended 31st July 2005, no option was granted under the Scheme (2004: Nil).

NOTES TO THE CONDENSED CONSOLIDATED ACCOUNTS

15. Commitments and contingent liabilities

(a) Capital commitments

	As at 31st July 2005 HK\$'000	As at 30th April 2005 HK\$'000
Contracted but not provided for		
– construction of a production plant in Zhongshan, Mainland China	7,060	11,672
– purchase of properties in Hong Kong	–	1,377
– purchase of other property, plant and equipment	2,823	29
– The balance of land premium in Zhongshan, Mainland China	1,464	1,464
	11,347	14,542

(b) Contingent liabilities

	As at 31st July 2005 HK\$'000	As at 30th April 2005 HK\$'000
Factoring of trade receivables with recourse	–	21,896

16. Comparative figures

Comparative figures have been adjusted to confirm with the current presentation.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group's turnover for the three months ended 31st July 2005 was HK\$145,213,000 (2004: HK\$143,171,000) with an increase of 1.4% as compared with the corresponding period last year. During the period, the turnover of electronic components manufacturing segment, the Group's core business, slightly increased by 3.2% to HK\$144,842,000 (2004: HK\$140,399,000), which accounted for 99.7% (2004: 98.1%) of the Group's turnover. The turnover of the Group's non-core businesses for the period was HK\$371,000 (2004: HK\$2,772,000), which accounted for 0.3% (2004: 1.9%) of the overall turnover. The under-performed electronic components trading segment had completely terminated its business operation during the period.

During the period, the Group's gross profit was HK\$31,370,000 (2004: HK\$31,806,000), down 1.4% as compared with the corresponding period last year. Gross profit margin was 21.6% (2004: 22.2%), down 0.6% as compared with the corresponding period last year. The decrease in gross profit margin was mainly attributable to the continued increase in raw materials prices, oil price, energy charges and wages for labour arisen from the shortage of labour in Mainland China, all of which have been exerting pressure on the Group's cost of production. During the period, operating profit and earnings before interest, tax, depreciation and amortisation ("EBITDA") increased to HK\$14,106,000 (2004: HK\$11,479,000) and HK\$30,805,000 (2004: HK\$27,156,000), respectively. Profit attributable to equity holders for the period was HK\$6,579,000 (2004: HK\$5,934,000), up 10.9% as compared with the same period last year.

As at 31st July 2005, the Group's inventory was HK\$52,751,000 (30th April 2005: HK\$56,762,000). Such decrease in inventory was resulted from the Group's persistent improvement in the management of purchasing, manufacturing and logistics during the period. The Group will actively continue to control the inventory within the reasonable level, which is a target set for the management of purchasing, manufacturing and logistics.

The Group's trade receivables increased to HK\$145,200,000 (30th April 2005: HK\$97,632,000) as at 31st July 2005. Such increase in the trade receivables was primarily attributable to the Group's adoption of new accounting standards issued by The Hong Kong Institute of Certified Public Accountants. The factoring of trade receivables with recourse, which was previously treated as contingent liabilities in accounting, was treated as current borrowings and transferred to the Group's trade receivables commencing from this financial year. On the other hand, it is a trend for the market to generally have a prolonged credit period, which has accelerated the increase of the Group's trade receivables. As the rising trade receivables will exert pressure on the cash flow and increase the risk of bad debt, the Group will proactively revise its credit management policy with a view to controlling its trade receivables, both in quality and quantity.

FINANCIAL REVIEW

Funds Surplus and Liabilities

As at 31st July 2005, cash and bank balance (denominated mainly in Hong Kong dollar, United States dollar, Renminbi) was HK\$88,226,000 (30th April 2005: HK\$68,649,000). The banking facilities were secured by mortgages on the Group's certain land and buildings, pledges of the Group's bank deposits, available-for-sale financial asset and machinery, and corporate guarantees provided by the Company and of its certain subsidiaries. In addition, the Group is required to meet certain restrictive financial covenants with the major banks. As at 31st July 2005, the Group could comply with such financial ratios, which indicates that the Group's financial position was satisfactory.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW *(continued)*

Funds Surplus and Liabilities (continued)

As at 31st July 2005, the Group's total borrowings granted from banks and financial institutions was HK\$299,518,000 (30th April 2005: HK\$238,276,000), of which HK\$163,819,000 (30th April 2005: HK\$214,379,000) was current and HK\$135,699,000 (30th April 2005: HK\$23,897,000) was non-current and will be repayable within a period of more than one year but not exceeding five years. As mentioned above, factoring of trade receivables with recourse was treated as current borrowings in accounting. Therefore, as at 31st July 2005, the Group had no significant contingent liabilities (30th April 2005: factoring of trade receivables with recourse of HK\$21,896,000).

On 27th April 2005, the Company entered into a 3-year transferable term loan and revolving credit facility agreement for an aggregate amount of HK\$243,000,000 with a group of banks. The facility was fully drawn down before the end of May 2005 and mainly used to re-organize the Group's debt structure, including the overall current borrowings, non-current borrowings and factoring of trade receivables with recourse. As at 31st July 2005, the re-organization of the Group's debt structure was not yet wholly completed, and thus the Group recorded a comparatively higher level of cash in hand than that at the financial year-end-date of last year. In addition, factoring of trade receivables with recourse was treated as current borrowings in accounting in accordance with the revised accounting standards, which rendered the total borrowings higher than that at the financial year-end-date of last year.

Financial Resources and Capital Structure

The Group's net cash inflow for the three months ended 31st July 2005 amounted to HK\$34,894,000 (2004: HK\$20,648,000). Net cash outflow from operating activities was HK\$19,335,000 (2004: inflow of HK\$19,010,000). Net cash inflow from financing activities was HK\$71,895,000 (2004: HK\$17,541,000). During the period, the increase in net cash inflow from financing activities was mainly attributable to the draw-down of the aggregate amount of HK\$243,000,000 under the aforesaid 3-year transferable term loan and revolving credit facility agreement entered into with a group of banks and the accounting treatment of factoring of trade receivables with recourse as current borrowings under the revised accounting standards. In the meantime, with the change of accounting standards, factoring of trade receivables with recourse was transferred to the Group's trade receivables, which gave rise to an increase in the Group's trade receivables and an increase on net cash outflow from operating activities.

As at 31st July 2005, the Group's net gearing ratio* was 0.67 (30th April 2005: 0.64). The rise in net gearing ratio was due to the aforesaid increase in total borrowings. The Group will complete its re-organization of debt structure in the next quarter, and is still extremely prudent to control its financial resources.

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

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW (continued)

Financial Resources and Capital Structure (continued)

For the three months ended 31st July 2005, the Group's interest expenses was HK\$4,866,000 (2004: HK\$3,612,000). The rise in interest expenses was mainly due to (1) an increase in the Group's total borrowings during the period as mentioned above; (2) the interbank offer rate and prime rate of Hong Kong remarkably soared in the past year, which lead to a rise of more than 2% in the Group's average interest rate of borrowings as compared with that of the corresponding period last year. Faced with such interest-rate hike cycle, the Group will endeavour to reduce all kinds of expenditure (including capital expenditure) and to strengthen the effective use of financial resources so as to reduce borrowings.

For the three months ended 31st July 2005, net cash outflow from investing activities was HK\$19,035,000 (2004: HK\$15,412,000), the capital expenditure of which was mainly used in purchasing equipment and expanding manufacturing plant, thereby increasing the Group's production capacity.

Cash Flow Summary

	For the three months ended 31st July	
	2005 HK\$'000	2004 HK\$'000
Net cash (outflow)/inflow from operating activities	(19,335)	19,010
Net cash outflow from investing activities	(19,035)	(15,412)
Net cash inflow from financing activities	71,895	17,541
Exchange adjustment	1,369	(491)
Increase in cash and cash equivalents	34,894	20,648

Charges on Assets

As at 31st July 2005, certain assets of the Group with an aggregate carrying value of HK\$43,599,000 (as at 30th April 2005: HK\$46,221,000) 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 currencies and major currencies in purchase commitments primarily denominated in Hong Kong dollar, Renminbi ("RMB") and United States dollar. Since The People's Bank of China announced an appreciation of 2% of RMB against United States dollar at the end of July 2005, the Group's certain revenues and expenses denominated in RMB may be subject to significant impact arising from the fluctuations in RMB in the future, but the fluctuation in RMB has been only preliminary and mild for the time being. As such, the Directors are 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, but will closely monitor the fluctuations in exchange rates of the currencies.

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

MANAGEMENT DISCUSSION AND ANALYSIS

FUTURE PLAN AND PROSPECTS

The Group will continue to consolidate coils manufacturing segment, its core line of business, with prudence in operation to steadily develop the business step by step. The Group's focus for the next few quarters will be the deployment of internal resources, including optimization of the management in trade receivables, purchasing, inventory logistics and production efficiency. Meanwhile, the Group will also improve its production management flow, quality and environmental protection system with a view to enhancing the existing supply capacity and expediting the production cycle as well as attracting the quality customers in terms of its persistent commitment of high product quality for achieving the objective of steady growth. As for the Group's financing management, the Group will adopt a firm and prudent approach. Save all unnecessary expenditure, all investment plans and capital expenditure must get through a stringent feasibility study to assess the return on investment and risks which are acceptable by the Group before they are implemented. Furthermore, the amount of investment is subject to the existing financial covenants imposed by banks.

EMPLOYEES AND REMUNERATION POLICY

The Group had approximately 6,500 employees as at 31st July 2005. The remuneration of the employees is determined by reference to market benchmark, individual performance and work experience, subject to periodic review, while bonus entitlement depends on the Group's results and employees' individual performance.

OTHER INFORMATION

INTERESTS OF DIRECTORS AND CHIEF EXECUTIVES IN SECURITIES

As at 31st July 2005, 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 of Hong Kong Limited (the “Stock Exchange”) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) were as follows:

(a) Shares of the Company

Name of director	Number of shares of HK\$0.10 each				Total interests	Percentage of issued share capital
	Family interests	Personal interests (Note 2)	Corporate interests	Trusts and similar interests		
Lam Wai Chun	404,008,996 (Note 3)	11,832,000	404,008,996 (Note 3)	404,008,996 (Note 3)	415,840,996 (Note 3)	60.00%
Ms. Tang Fung Kwan	–	3,502,611	–	–	3,502,611	0.51%
Ms. Li Hong	–	548,000	–	–	548,000	0.08%
Mr. Au Son Yiu	–	5,000,000	–	–	5,000,000	0.72%
Dr. Tang Tin Sek	–	1,414,000	–	–	1,414,000	0.20%

Notes:

- All the above interests in the shares of the Company were long positions.
- 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 immediate family members. 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, Mr. Lam Wai Chun’s total interests of 415,840,996 shares in the Company was arrived at after eliminating the duplications.

OTHER INFORMATION

INTERESTS OF DIRECTORS AND CHIEF EXECUTIVES IN SECURITIES (continued)

(b) 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 31st July 2005, 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.

At no time during the three months ended 31st July 2005 was the Company, its subsidiaries, its fellow subsidiaries or its holding companies a party to any arrangement to enable the directors and chief executives of the Company (including their spouse and children under 18 years of age) to acquire benefits by means of the acquisition of shares or underlying shares in, or debentures of, the Company and its associated corporations (within the meaning of Part XV of the SFO) or had exercised such rights.

OTHER INFORMATION

INTERESTS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SFO

As at 31st July 2005, according to the register required to be kept by the Company under section 336 of the SFO, the following persons, other than the directors or chief executives of the Company, had an interest 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:

Shares of the Company

Substantial shareholders (as defined in the Rules Governing the Listing of Securities on the Stock Exchange ("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	415,840,996 (Note 2)	–	–	–	60.00%
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%

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%

OTHER INFORMATION

INTERESTS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SFO *(continued)*

Notes:

1. All the above interests in the shares of the Company were long positions.
2. 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 immediate family members. 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 held by her spouse, Mr. Lam Wai Chun, for the purpose of the SFO.
3. 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.
4. The 404,008,996 shares in which HSBC International Trustee Limited was interested were the shares referred to in Notes 2 and 3 above.

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 interests (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 31st July 2005.

OTHER INFORMATION

DISCLOSURE PURSUANT TO RULE 13.21 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 2003 Agreement (as defined below), the Facility Letter (as defined below) and 2005 Agreement (as defined below), all of which include conditions relating to specific performance of the controlling shareholder of the Company:

- (a) 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 (“Coils”), an indirect wholly-owned subsidiary of the Company, as original guarantor, and a group of banks.

Under the provisions of 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.

If the aforesaid event of default occurs, upon a notice served to the Company, (i) the 2003 Facility shall immediately be cancelled; (ii) all or part of the loans under the 2003 Facility, together with accrued interest, and all other amounts accrued and outstanding under all finance documents (including the 2003 Agreement) shall immediately become due and payable; and/or (iii) all or part of the loans outstanding under the 2003 Facility shall immediately become payable on demand.

All the outstanding indebtedness under the 2003 Agreement was prepaid in May 2005.

OTHER INFORMATION

DISCLOSURE PURSUANT TO RULE 13.21 THE LISTING RULES *(continued)*

- (b) On 30th July 2004, Coils accepted an offer of (i) a documentary credit plus trust receipt facility plus invoice financing – import facility of up to HK\$20,000,000 (the “First Facility”) and (ii) a 2-year term loan facility of up to HK\$20,000,000 (the “Second Facility”, together with the First Facility, the “Facilities”) under a facility letter dated 28th July 2004 (the “Facility Letter”) issued by a bank in Hong Kong (the “Bank”). The Company (as corporate guarantor) also countersigned the Facility Letter and has provided a guarantee and indemnity up to the extent of HK\$40,000,000 and accrued interest and default interest thereon and all other costs and expenses to secure the Facilities. The Facilities shall be subject to periodical review as the Bank deems fits and at the Bank’s sole and absolute discretion. The Facilities shall expire and be repayable forthwith as and when the Bank has given Coils notice of termination.

Under the provisions of the Facility Letter, there are conditions, among other things, that (1) Mr. Lam and Ka Yan shall remain the beneficial owners, together, of the largest proportion of the issued share capital of the Company at all times and, Mr. Lam and Ka Yan shall not sell, transfer, assign, encumber or dispose of all or part of their respective beneficial shareholdings in the Company and (2) the aggregate beneficial shareholdings of Mr. Lam and Ka Yan shall not fall below 35% of the issued share capital of the Company throughout the life of the Facilities. Should there be any breach of such conditions, the Bank shall have the right to demand for repayment of all outstanding amounts due by Coils under the Facilities.

As at 31st July 2005, the aggregate outstanding loan under the Facilities was approximately HK\$11,560,000.

- (c) On 27th April, 2005, the Company (as borrower) entered into a 3-year transferable term loan and revolving credit facility agreement (the “2005 Agreement”) for an aggregate amount of HK\$243,000,000 (the “2005 Facility”) with a group of banks and Coils and CEC-Coils Singapore Pte Ltd., being two indirect wholly-owned subsidiaries of the Company (collectively, as original guarantors). The 2005 Facility consists of (1) a term loan for an aggregate amount of HK\$194,400,000 and (2) a revolving credit facility for an aggregate amount of HK\$48,600,000.

Under the provisions of the 2005 Agreement, it would be an event of default, inter alia, if Mr. Lam, the Chairman of the Company and a controlling shareholder of the Company, ceases to be the Chairman of the Company or ceases to be involved actively in the management and business of the Group. If the aforesaid event of default occurs, upon a notice served to the Company, (i) the 2005 Facility shall immediately be cancelled; (ii) all or part of the loans under the 2005 Facility, together with accrued interest, and all other amounts accrued and outstanding under all finance documents (including the 2005 Agreement) shall immediately become due and payable; and/or (iii) all or part of the loans outstanding under the 2005 Facility shall immediately become payable on demand.

As at 31st July 2005, the aggregate outstanding loan under the 2005 Facility was approximately HK\$226,800,000.

OTHER INFORMATION

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares during the three months ended 31st July 2005.

AUDIT COMMITTEE

The Audit Committee of the Company presently comprises the three independent non-executive directors, with Dr. Tang Tin Sek, who is a Certified Public Accountant practising in Hong Kong with substantial experience in corporate finance, auditing and financial management, acting as Chairman of the Audit Committee. The written terms of reference of the Audit Committee has been modified in accordance with the code provisions set out in the Code on Corporate Governance Practices in Appendix 14 of the Listing Rules. Regular meetings have been held by the Audit Committee since its establishment and it meets at least twice each financial year.

The Audit Committee has reviewed the accounting principles and practices adopted by the Group and the First Quarterly Report for the three months ended 31st July 2005.

CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules as its own code of conduct regarding directors' securities transactions for the three-month period to 31st July 2005. Following specific enquiry by the Company, all of the directors of the Company confirmed compliance with the required standard set out in the Model Code throughout the three months ended 31st July 2005.

By Order of the Board
Lam Wai Chun
Chairman

Hong Kong, 23rd September 2005

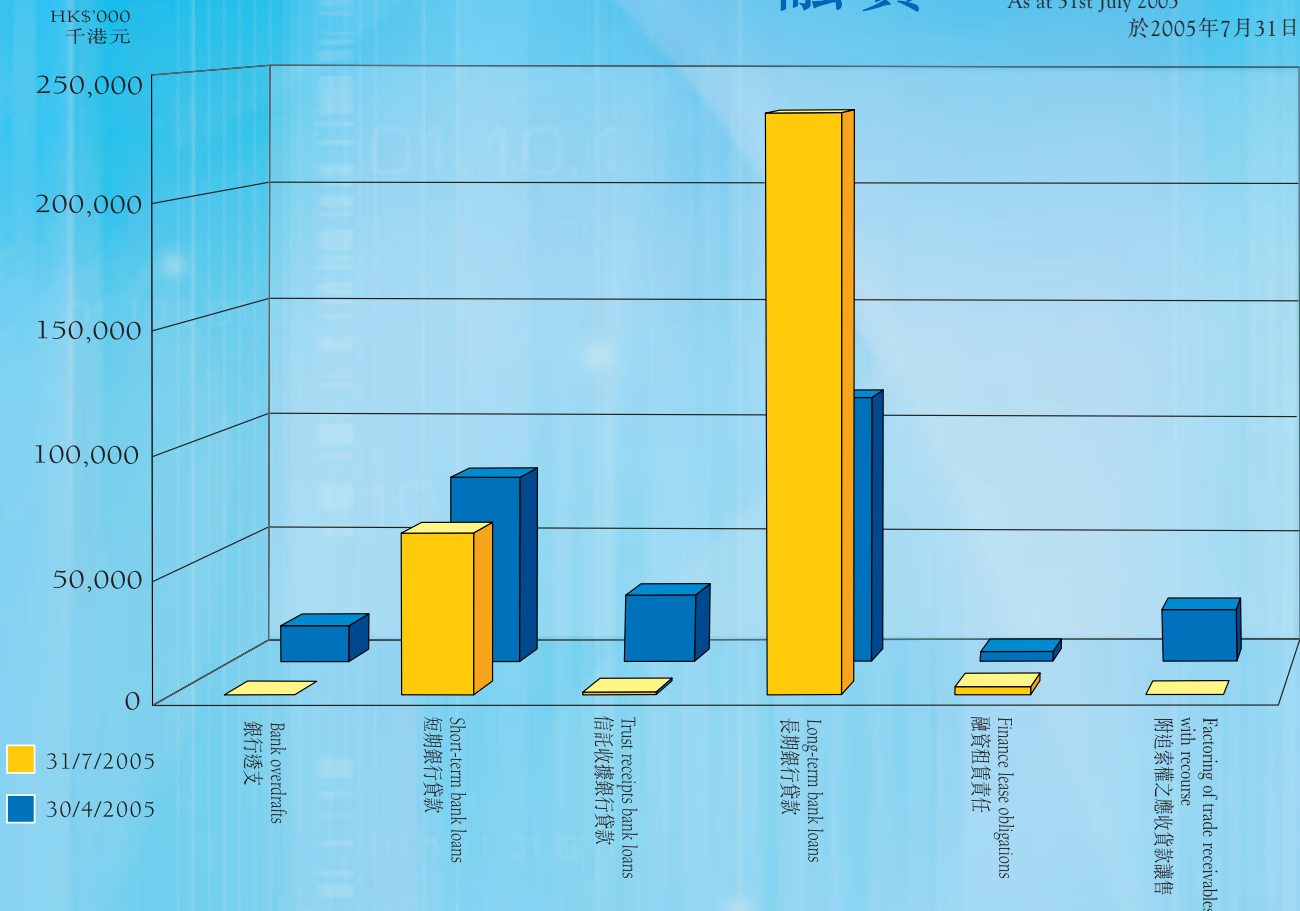
Summary

of credit facilities utilisation

融資信貸動用摘要

As at 31st July 2005

於2005年7月31日



Remark: The Group has adopted HKAS 32 and HKAS 39 prospectively. The amount of factoring of trade receivables with recourse has been treated as short-term bank loans from 1st May 2005. Please refer to Note 2(B) of notes to the condensed consolidated accounts for explanation.

備註：本集團以非追溯應用方式採納香港會計準則第32號及第39號。由2005年5月1日起，附追索權之應收貨款讓售已列帳為短期銀行借貸。有關解釋，請參閱簡明綜合賬目附註2(B)。

Purchase, turnover and wages & salaries by settlement currency for the 3 months ended 31st July 2005

截至2005年7月31日止3個月，
根據清算貨幣劃分的採購、銷售及工資和薪金

Percentage 百分比

