

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)

Interim Report 中 期 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  
 Mr. Goh Gen Cheung  
 (*appointed on 1st December 2005*)

### AUDIT COMMITTEE

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

### REMUNERATION COMMITTEE

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

*Hong Kong Branch Share Registrar*  
 Computershare Hong Kong Investor  
 Services Limited  
 46th Floor  
 Hopewell Centre  
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 Hong Kong

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

## 2005/2006 INTERIM RESULTS

The Board of Directors (the “Board”) 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 and six months ended 31st October 2005 and the unaudited condensed consolidated balance sheet as at 31st October 2005 of the Group.

### CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	Three months ended 31st October		Six months ended 31st October	
		2005 HK\$'000 (Unaudited)	2004 HK\$'000 (Unaudited) (Restated)	2005 HK\$'000 (Unaudited)	2004 HK\$'000 (Unaudited) (Restated)
Turnover	3	156,059	150,217	301,272	293,388
Cost of sales		(120,826)	(116,765)	(234,669)	(228,130)
Gross profit		35,233	33,452	66,603	65,258
Other revenue		175	37	1,626	62
Selling and distribution expenses		(3,057)	(2,798)	(5,994)	(5,960)
General and administrative expenses		(18,176)	(18,450)	(33,954)	(35,640)
Operating profit		14,175	12,241	28,281	23,720
Finance costs	4	(4,593)	(4,054)	(9,635)	(7,997)
Profit before taxation	3, 5	9,582	8,187	18,646	15,723
Taxation	6	(2,355)	(919)	(4,840)	(2,521)
Profit attributable to equity holders of the Company		7,227	7,268	13,806	13,202
Earnings per share					
– Basic	8	1.04 cents	1.05 cents	1.99 cents	1.90 cents
– Diluted	8	N/A	N/A	N/A	N/A

## CONDENSED CONSOLIDATED BALANCE SHEET

	Notes	As at 31st October 2005 HK\$'000 (Unaudited)	As at 30th April 2005 HK\$'000 (Restated)
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	9	382,660	388,597
Investment properties	9	12,275	6,670
Leasehold land and land use rights		13,313	13,471
Investment in associates		25	25
Available-for-sale financial asset		6,381	–
Investment securities		–	8,580
Deposit for acquisition of land use rights		6,254	6,254
Deposit for property, plant and equipment		2,632	–
		<b>423,540</b>	<b>423,597</b>
<b>Current assets</b>			
Inventories		54,930	56,762
Trade receivables	10	150,310	97,632
Bills receivable		–	88
Prepayments, deposits and other receivables		8,781	6,053
Available-for-sale financial assets		1,029	–
Other investments		–	1,192
Tax recoverable		143	84
Pledged bank deposits		25,093	24,879
Bank balances and cash		46,202	43,770
		<b>286,488</b>	<b>230,460</b>
<b>Total assets</b>		<b>710,028</b>	<b>654,057</b>
<b>EQUITY</b>			
Share capital	11	71,661	69,303
Reserves			
Proposed final dividend		–	4,851
Others		256,050	239,604
<b>Total equity</b>		<b>327,711</b>	<b>313,758</b>

**CONDENSED CONSOLIDATED BALANCE SHEET (Continued)**

	Notes	As at 31st October 2005 HK\$'000 (Unaudited)	As at 30th April 2005 HK\$'000 (Restated)
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Long-term bank loans, non-current portion	13	113,916	22,406
Finance lease obligations, non-current portion		858	1,491
Deferred tax		16,044	17,740
		<b>130,818</b>	<b>41,637</b>
<b>Current liabilities</b>			
Short-term bank borrowings	13	161,384	211,791
Trade payables	14	57,943	46,401
Bills payable		324	5,212
Accruals and other payables		25,170	26,089
Finance lease obligations, current portion		1,598	2,588
Taxation payable		5,080	6,581
		<b>251,499</b>	<b>298,662</b>
<b>Total liabilities</b>		<b>382,317</b>	<b>340,299</b>
<b>Total equity and liabilities</b>		<b>710,028</b>	<b>654,057</b>
<b>Net current assets/(liabilities)</b>		<b>34,989</b>	<b>(68,202)</b>
<b>Total assets less current liabilities</b>		<b>458,529</b>	<b>355,395</b>

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Six months ended 31st October	
	2005 HK\$'000 (Unaudited)	2004 HK\$'000 (Unaudited)
Net cash inflow from operating activities	5,293	67,741
Net cash outflow from investing activities	(32,452)	(25,204)
Net cash inflow/(outflow) from financing activities	43,831	(45,382)
Translation adjustments	1,198	(206)
Increase/(decrease) in cash and cash equivalents	17,870	(3,051)
Cash and cash equivalents, beginning of period	28,332	9,097
Cash and cash equivalents, end of period	46,202	6,046
Analysis of cash and cash equivalents:		
Bank balances and cash	46,202	25,683
Bank overdrafts	–	(19,637)
	46,202	6,046

## 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	-	-	-	-	-	-	-	(266)	-	(266)
Transfer from retained profits to Mainland China statutory reserve	-	-	-	-	-	-	227	-	(227)	-
Profit for the period	-	-	-	-	-	-	-	-	13,202	13,202
2003/2004 final dividend	-	-	-	-	-	-	-	-	(3,465)	(3,465)
At 31st October 2004	69,303	36,118	13,934	-	-	-	1,317	1,693	184,477	306,842
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	-	-	-	-	-	-	-	4,080	-	4,080
Change in fair value of available-for-sale financial assets	-	-	-	-	-	(1,346)	-	-	-	(1,346)
Net gain not recognized in the consolidated income statement	-	-	-	-	-	(1,346)	-	4,080	-	2,734
Shares issued during the period – scrip dividend scheme	2,358	1,014	-	-	-	-	-	-	-	3,372
Profit for the period	-	-	-	-	-	-	-	-	13,806	13,806
2004/2005 final dividend	-	-	-	-	-	-	-	-	(4,851)	(4,851)
As at 31st October 2005	71,661	37,132	13,934	-	-	(2,363)	3,568	5,370	198,409	327,711

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

The unaudited condensed consolidated interim accounts for the six months ended 31st October 2005 (the "Interim 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. The Interim 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 the Interim 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 Interim 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 October 2004 HK\$'000
.....		
<i>Assets:</i>		
Leasehold land and land use rights	13,471	13,629
Property, plant and equipment	(41,075)	(33,403)
<i>Liabilities and reserves:</i>		
Property revaluation reserve	(22,727)	(17,447)
Deferred tax	(6,404)	(3,619)
Retained profits	1,527	1,292

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

	Six months ended 31st October 2005 HK\$'000	2004 HK\$'000
.....		
Depreciation	(394)	(394)
Rental expenses	158	158

#### (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\$2,363,000 as at 31st October 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\$21,896,000 as at 1st May 2005. As at 31st October 2005, the Group had no trade receivables sold with recourse.

- (iii) On 1st May 2005, the Group measured its financial assets and liabilities in accordance with the relevant transitional provisions of HKAS 39.

## 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 three months ended and six months ended 31st October 2004 have been re-classified to conform to 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			
	Three months ended 31st October		Six months ended 31st October	
	2005 HK\$'000	2004 HK\$'000 (Restated)	2005 HK\$'000	2004 HK\$'000 (Restated)
Electronic components manufacturing	155,690	149,580	300,532	289,979
Others	369	637	740	3,409
	<b>156,059</b>	<b>150,217</b>	<b>301,272</b>	<b>293,388</b>
	Profit/(loss) before taxation			
	Three months ended 31st October		Six months ended 31st October	
	2005 HK\$'000	2004 HK\$'000 (Restated)	2005 HK\$'000	2004 HK\$'000 (Restated)
Electronic components manufacturing	9,320	8,266	18,059	16,017
Others	262	(79)	587	(294)
	<b>9,582</b>	<b>8,187</b>	<b>18,646</b>	<b>15,723</b>

### 4. Finance costs

	Finance costs			
	Three months ended 31st October		Six months ended 31st October	
	2005 HK\$'000	2004 HK\$'000 (Restated)	2005 HK\$'000	2004 HK\$'000 (Restated)
Interest expenses	3,969	3,723	8,835	7,335
Arrangement fee on long-term bank loan	624	331	800	662
	<b>4,593</b>	<b>4,054</b>	<b>9,635</b>	<b>7,997</b>

### 5. Profit before taxation

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

	Profit before taxation			
	Three months ended 31st October		Six months ended 31st October	
	2005 HK\$'000	2004 HK\$'000 (Restated)	2005 HK\$'000	2004 HK\$'000 (Restated)
<b>Crediting</b>				
Gain on disposal of investment properties	–	–	–	50
Income from available-for-sale financial assets	34	–	1,339	–
Interest income	141	37	287	62
<b>Charging</b>				
Depreciation of property, plant and equipment	16,559	16,038	33,258	31,715
Unrealised loss on other investment	–	939	–	939
Cost of inventories sold	120,326	116,466	233,643	227,274
Staff costs (including directors' emoluments)	35,743	31,406	66,430	62,033

## 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 October		Six months ended 31st October	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Hong Kong profits tax – current tax	2,521	1,530	4,628	2,758
Overseas taxation – current tax	1,111	62	1,959	1,145
Deferred taxation	(1,277)	(673)	(1,747)	(1,382)
	<b>2,355</b>	<b>919</b>	<b>4,840</b>	<b>2,521</b>

### 7. Dividend

The Board resolved not to declare any dividend in respect of the six months ended 31st October 2005 (2004: Nil).

### 8. Earnings per share

The calculation of basic earnings per share for the three months ended 31st October 2005 is based on the profit attributable to equity holders of the Company of approximately HK\$7,227,000 (2004: HK\$7,268,000) and the weighted average number of 695,079,419 (2004: 693,028,811) shares in issue during the period.

The calculation of basic earnings per share for the six months ended 31st October 2005 is based on the profit attributable to equity holders of the Company of approximately HK\$13,806,000 (2004: HK\$13,202,000) and the weighted average number of 694,054,115 (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 and six months ended 31st October 2004 and 31st October 2005 respectively would have no dilutive effect.

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

During the six months ended 31st October 2005, the additions to property, plant and equipment and investment properties were approximately HK\$31,148,000 (2004: HK\$24,600,000); the total net book value of disposals and write-offs of property, plant and equipment and investment properties were approximately HK\$1,052,000 (2004: HK\$800,000).

## 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 October 2005 HK\$'000	As at 30th April 2005 HK\$'000 (Restated)
Current	130,038	86,812
Overdue by 0 – 1 month	7,014	7,075
Overdue by 1 – 2 months	9,222	1,635
Overdue by 2 – 3 months	4,036	2,110
	<b>150,310</b>	<b>97,632</b>

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. Share capital

	Number of shares	Nominal value HK\$'000
Shares of HK\$0.10 each		
Authorised:		
As at 30th April 2005 and 31st October 2005	1,000,000,000	100,000
Issued and fully paid:		
As at 30th April 2005	693,028,811	69,303
Issue of shares pursuant to the scrip dividend scheme ( <i>Note</i> )	23,581,987	2,358
As at 31st October 2005	<b>716,610,798</b>	<b>71,661</b>

*Note:*

On 24th October 2005, 23,581,987 new shares were allotted and issued at HK\$0.143 per new share, credited as fully paid, to certain shareholders of the Company whose names appeared on the Company's register of members on 23rd September 2005 and who elected to receive new fully paid shares in lieu of cash in respect of part or all of the final dividend of HK0.7 cent per share for the year ended 30th April 2005 pursuant to the scrip dividend scheme.

## NOTES TO THE CONDENSED CONSOLIDATED ACCOUNTS

### 12. 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 six months ended 31st October 2005, no option was granted under the Scheme (2004: Nil).

### 13. Bank loans

#### (a) Long-term bank loans

During the period, the Group obtained long-term bank loans in the amount of HK\$197,721,000 and the long-term bank loans amounting to approximately HK\$104,902,000 were repaid.

#### (b) Short-term bank borrowings

	As at 31st October 2005 HK\$'000	As at 30th April 2005 HK\$'000
Bank overdrafts	–	15,438
Short-term bank loans	64,543	78,628
Trust receipts bank loans	5,395	28,388
Long-term bank loans, current portion	91,446	89,337
	<b>161,384</b>	<b>211,791</b>

### 14. Trade payables

The aging analysis of trade payables is as follows:

	As at 31st October 2005 HK\$'000	As at 30th April 2005 HK\$'000
Current	45,814	42,241
Overdue by 0 – 1 month	6,734	2,393
Overdue by 1 – 2 months	3,759	478
Overdue by 2 – 3 months	884	177
Overdue by more than 3 months	752	1,112
	<b>57,943</b>	<b>46,401</b>

## NOTES TO THE CONDENSED CONSOLIDATED ACCOUNTS

### 15. Commitments and contingent liabilities

#### (a) Capital commitments

	As at 31st October 2005 HK\$'000	As at 30th April 2005 HK\$'000
Contracted but not provided for		
– construction of a production plant in Zhongshan, Mainland China	2,860	11,672
– purchase of properties in Hong Kong	639	1,377
– purchase of other property, plant and equipment	6,624	29
– the balance of land premium in Zhongshan, Mainland China	1,464	1,464
	<b>11,587</b>	<b>14,542</b>

#### (b) Contingent liabilities

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



## MANAGEMENT DISCUSSION AND ANALYSIS

### BUSINESS REVIEW

The Group has been prudent in operating its business and making investment, with policy for optimizing its production and increasing the efficiency of management to enhance the competitiveness of its products and services in developing its core business step by step. Shareholders' return rate has been served as target in controlling the operating expenses, deployment of resources and capital expenditure. For the six months ended 31st October 2005, the Group's turnover, similar to that of the corresponding period last year, was HK\$301,272,000 (2004: HK\$293,388,000), of which 99.8% came from its core business, electronic components manufacturing segment, with a turnover of HK\$300,532,000 (2004: HK\$289,979,000).

During the period under review, the Group's gross profit was HK\$66,603,000 (2004: HK\$65,258,000). Gross profit margin was 22.1% (2004: 22.2%), with a slight decrease of 0.1% as compared with that of the corresponding period last year resulting from its utmost effort in improving its production and logistics efficiency for resisting the pressure exerted on cost of production by the soaring prices of raw materials in metal and plastics, energy charges and wages in Mainland China. Operating profit and profit attributable to equity holders for the period were HK\$28,281,000 (2004: HK\$23,720,000) and HK\$13,806,000 (2004: HK\$13,202,000), respectively. During the period, earnings before interest, tax, depreciation and amortisation ("EBITDA") was HK\$61,252,000 (2004: HK\$55,373,000). The remarkable rise in the interest rate of Hong Kong dollar as compared with that of the same period last year led to an increase in interest expenses. However, the profit indicators could be maintained reflecting the result of the Group's endeavour in controlling cost and operating expenses.

Recently, the employment markets in Hong Kong and Mainland China have been becoming more active than the past few years, with higher remuneration benchmark. The Group also kept up with the markets by reviewing the remuneration system of its subsidiaries and reasonably struck a balance between the positions and the levels of remuneration and fringe benefits. After the review, the Group's overall staff cost recorded a rise of 7.1% to HK\$66,430,000 (2004: HK\$62,033,000) during the period under review. The Group is currently committed to studying job assignments according to positions for optimizing the division of labour and work flow between departments, and increases work efficiency of staff through effective training programmes. In addition, the Group will introduce new system for performance appraisal in terms of work efficiency. Those with outstanding performance will be provided with generous incentive programmes, through which increases in work efficiency and their enthusiasm for work are expected to be achieved.

### FINANCIAL REVIEW

#### *Funds Surplus and Liabilities*

As at 31st October 2005, bank balances and cash (denominated mainly in Hong Kong dollar, United States dollar and Renminbi) was HK\$71,295,000 (30th April 2005: HK\$68,649,000). The banking facilities were secured by mortgages on the Group's certain buildings, pledges of the Group's bank deposits, available-for-sale financial asset 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 financing banks. As at 31st October 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 October 2005, the Group's total borrowings granted from banks and financial institutions was HK\$277,756,000 (30th April 2005: HK\$238,276,000), of which HK\$162,982,000 (30th April 2005: HK\$214,379,000) was current and HK\$114,774,000 (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 at 31st October 2005, the current ratio was 1.14 (30th April 2005: 0.77) at a relatively steady level; whilst the Group's average inventory turnover was of approximately 43 days (30th April 2005: 60 days) and the average trade receivable turnover was of approximately 81 days (30th April 2005: 82 days).

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 was mainly used to re-organize the Group's debt structure, including the overall current and non-current borrowings. As at 31st October 2005, the re-organization of the Group's main debt structure was completed, therefore, the level of cash in hand was similar to that at the financial year-end-date of last year.

#### *Financial Resources and Capital Structure*

The Group's net cash inflow for the six months ended 31st October 2005 amounted to HK\$17,870,000 (2004: outflow of HK\$3,051,000). Net cash inflow from operating activities was HK\$5,293,000 (2004: HK\$67,741,000). Net cash inflow from financing activities was HK\$43,831,000 (2004: outflow of HK\$45,382,000). 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. The Group expects that the use of fixed term loans in gradually replacing the short-term trade finance and trust receipt bank loans in future can procure relatively stable sources for working capital with a view to reducing the cost of capital.

As at 31st October 2005, the Group's net gearing ratio\* was 0.63 (30th April 2005: 0.64). The level of net gearing ratio was similar to that at the financial year-end-date of last year due to the completed re-organization of the Group's main debt structure during the period. The Group will continuously adopt prudent approach 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))

As to interest expenses, for the six months ended 31st October 2005, the Group's interest expenses was HK\$8,835,000 (2004: HK\$7,335,000). 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 resulted in a rise of approximately 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 working capital so as to reduce borrowings.

## MANAGEMENT DISCUSSION AND ANALYSIS

### FINANCIAL REVIEW *(continued)*

#### *Financial Resources and Capital Structure (continued)*

For the six months ended 31st October 2005, net cash outflow from investing activities was HK\$32,452,000 (2004: HK\$25,204,000), the capital expenditure of which was mainly used in purchasing equipment and constructing manufacturing plant, which were approximately HK\$16,675,000 (2004: HK\$23,049,000) and approximately HK\$8,868,000 (2004: Nil), respectively for raising the production capacity, and purchasing investment properties amounting to approximately HK\$5,605,000 (2004: HK\$1,551,000).

#### *Cash Flow Summary*

	For the six months ended 31st October	
	2005 HK\$'000	2004 HK\$'000
Net cash inflow from operating activities	5,293	67,741
Net cash outflow from investing activities	(32,452)	(25,204)
Net cash inflow/(outflow) from financing activities	43,831	(45,382)
Exchange adjustment	1,198	(206)
Increase/(decrease) in cash and cash equivalents	17,870	(3,051)

#### **Charges on Assets**

As at 31st October 2005, certain assets of the Group with an aggregate carrying value of HK\$39,068,000 (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 Board 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, but will 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.

## MANAGEMENT DISCUSSION AND ANALYSIS

### FUTURE PLAN AND PROSPECTS

Looking ahead, the Group will continue to face four major challenges: (1) prolonged price-hike of raw materials (especially copper and other metal oxides) and energy; (2) further appreciation of Renminbi; (3) surging labour costs driven by labour-shortage in Mainland China; and (4) over-supply of electronic components which rocks the market and clouds order-sourcing. All the above factors may have negative effects on the Group's earning prospects. The Group expects that the overall business will maintain steady development in the next quarter. However, it is hard to have an accurate forecast on the business development in the fourth and subsequent quarters by virtue of the above-mentioned four factors.

The Group will carry through its prudent investment strategy to develop its core coil business under controllable circumstances, in a sense not to be engaged in any risky investment project with relevant capital expenditure made. The specific development directions are set out as follows:

1. The Group has been regarding Zhongshan, Guangdong Province as its main production base and is contemplating to establish several new production bases in addition to its Zhongshan main plant. The establishment of new production bases will facilitate the Group's staff recruitment in these different regions to relax the labour-shortage pressure being endured by Zhongshan main plant. On the other hand, the newly established production bases can satisfy individual needs of certain partnership customers, cut back certain customer services, reduce logistics cost and simplify the production complexity of the existing Zhongshan plant. Moreover, the newly established production bases will create new management vacancies, leaving room for the existing staff to develop their careers as well as providing the Group with opportunities in training and promoting the management talents.
2. The Group has planned to make Hong Kong as its core management base in Pan Pearl River Delta region. Hong Kong will be developed into the administrative base of marketing, sales, information technology, capital management and product research and development. The Group has assigned some young management trainees, who were trained earlier in its subsidiaries in Mainland China, to the above-mentioned functional positions; while production bases located in Pan Pearl River Delta region, including Zhongshan plant, Dongguan plant, Nanjing plant, Gaozhou plant, Xiamen plant and Kunshan plant, are responsible for production technology, quality control and logistics management. Besides, the Group is considering the feasibility in establishing additional centers for product research and development in Hong Kong, other than in Zhongshan, with an objective to recruit science and technology talents from Hong Kong, Mainland China and even from world-wide for raising the Group's capability in product development in the future. The feasibility study of this project is being conducted by the Group. It is expected to have the results of the study before the end of this financial year-end-date.

### EMPLOYEES AND REMUNERATION POLICY

The Group had approximately 6,700 employees as at 31st October 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. Under the share option scheme of the Company, options may be granted to eligible employees to subscribe for shares in the Company.

## OTHER INFORMATION

### INTERESTS OF DIRECTORS AND CHIEF EXECUTIVE IN SECURITIES

As at 31st October 2005, the interests and short positions of the directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its 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		
Mr. Lam Wai Chun	423,785,660 (Note 3)	12,411,188	423,785,660 (Note 3)	423,785,660 (Note 3)	436,196,848 (Note 3)	60.87%
Ms. Tang Fung Kwan	-	3,502,611	-	-	3,502,611	0.49%
Ms. Li Hong	-	548,000	-	-	548,000	0.08%
Mr. Au Son Yiu	-	6,467,440	-	-	6,467,440	0.90%
Dr. Tang Tin Sek	-	2,016,000	-	-	2,016,000	0.28%

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 423,785,660 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 423,785,660 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 436,196,848 shares in the Company was arrived at after eliminating the duplications.

## OTHER INFORMATION

## INTERESTS OF DIRECTORS AND CHIEF EXECUTIVE 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 the entire 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 October 2005, none of the directors or chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of 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 six months ended 31st October 2005 was the Company, its subsidiaries, its fellow subsidiaries or its holding companies a party to any arrangement to enable the directors and chief executive 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 October 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 executive 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			Beneficial owner	Percentage of issued share capital
	Family interests	Corporate interests	Trusts and similar interests		
Ms. Law Ching Yee	436,196,848 (Note 2)	–	–	–	60.87%
Ka Yan China Development (Holding) Company Limited	–	–	–	423,785,660 (Notes 2 and 3)	59.14%
Ka Yan China Investments Limited	–	423,785,660 (Notes 2 and 3)	–	–	59.14%
HSBC International Trustee Limited	–	–	423,785,660 (Note 4)	–	59.14%

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

Name	Number of shares held			Beneficial owner	Percentage of issued share capital
	Family interests	Corporate interests	Trusts and similar interests		
Nittoku Engineering Co., Ltd.	–	–	–	51,093,983	7.13%*
Toko, Inc.	–	–	–	36,785,402	5.13%*

## OTHER INFORMATION

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

#### Shares of the Company (continued)

Notes:

1. All the above interests in the shares of the Company were long positions.
  2. The 423,785,660 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, Ka Yan China Investments Limited, the ultimate holding company of the Company, and HSBC International Trustee Limited were in respect of the same 423,785,660 shares and duplicated each other.
  4. The 423,785,660 shares in which HSBC International Trustee Limited was interested were the shares referred to in Note 2 above.
- \* The percentage has been adjusted based on the total number of shares of the Company in issue as at 31st October 2005 (i.e. 716,610,798 shares).

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 31st October 2005.

### 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 31st October 2005 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\$21,612,000.
2. The total trade receivables due to the Group from Nanjing Feijin Magnetic Products Co., Ltd. amounted to approximately HK\$14,372,000.

All of the above-mentioned trade receivables were interest-free and unsecured with payment terms of 90 days, and all of which arose in the ordinary course of business of the Group.



## OTHER INFORMATION

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### 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 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 OF 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 (a) 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 (b) 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 October 2005, the aggregate carrying value of the outstanding loan under the Facilities was approximately HK\$8,537,000.

- (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 consist 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 October 2005, the aggregate carrying value of the outstanding loan under the 2005 Facility was approximately HK\$208,241,000.

## OTHER INFORMATION

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### 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 six months ended 31st October 2005.

### CORPORATE GOVERNANCE

In the opinion of the directors, the Company has complied with code provisions as set out in the Code on Corporate Governance Practices (the "Code") in Appendix 14 of the Listing Rules throughout the accounting period for the six months ended 31st October 2005, except the code provision C.2 on internal control (which is applicable to the accounting periods commencing on or after 1st July 2005) and the following deviations:

1. There was no procedure agreed by the Board to enable directors, upon reasonable request, to seek independent professional advice in appropriate circumstances at the Company's expense. In June 2005, the Board approved and adopted the normal procedure to be applied for such written request from directors.
2. All the independent non-executive directors have not been appointed for a specific term, but are subject to retirement by rotation and re-election at annual general meetings in accordance with the Bye-laws of the Company. At the Annual General Meeting of the Company held on 23rd September 2005 (the "AGM"), amendments to the Bye-laws of the Company were approved to require every director, including those appointed for a specific term, to be subject to retirement by rotation at least once every three years, or in any event, no later than the third annual general meeting of the Company after he was last elected or re-elected (i.e. the term of appointment of each director is effectively three years). 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.
3. Written guidelines incorporating certain crucial rules of the Model Code were established for relevant employees of the Group in respect of their dealings in the securities of the Company. In July 2005, a model code for securities transactions by relevant employees on no less exacting terms than the Model Code was adopted by the Board. Such code will be issued to relevant employees of the Group as and when appropriate.
4. The division of responsibilities between the Chairman and Managing Director of the Company was not clearly established and set out in writing, and the functions reserved to the Board and those delegated to the management was not formalised. In July 2005, the aforesaid division of responsibilities was clearly established in writing and the practice for the Board's functions and the delegation to the management was formalised.
5. The Company did not make available the terms of reference of the Remuneration Committee and Audit Committee on its website. In August 2005, the terms of reference of the aforesaid committees were posted on the Company's website.
6. The Chairman of the Board did not attend the AGM due to illness. The Managing Director of the Company, who took the chair of the AGM, and all other members of the Board (including the chairman of each of the Audit Committee and Remuneration Committee) attended the AGM to answer questions at the AGM.

## OTHER INFORMATION

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### CORPORATE GOVERNANCE *(continued)*

During the review period, the Company also complied certain extent of the recommended best practices of the Code as follows:

- (i) The Company has been announcing and publishing quarterly financial results within 60 days after the end of the relevant quarter since its listing on the Stock Exchange.
- (ii) The Board comprised four executive directors and three independent non-executive directors. The number of independent non-executive directors represented more than one-third of the Board.

The subsequent appointment of Mr. Goh Gen Cheung ("Mr. Goh") in December 2005 brought the number of independent non-executive directors of the Company representing 50% of the Board. The Board believes that the Group will benefit from the valuable advice on the Group's finance policy provided by Mr. Goh, who has extensive experience in finance and banking. On the other hand, the Group has contemplated to strengthen its internal audit by conducting regular internal audit on the Group's subsidiaries in Mainland China with a view to enhancing the standard of corporate governance.

### AUDIT COMMITTEE

The Audit Committee of the Company presently comprises the four independent non-executive directors after the appointment of Mr. Goh with effect from 1st December 2005, 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 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 Interim Report for the six months ended 31st October 2005.

### MODEL 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 six-month period to 31st October 2005. Following specific enquiry by the Company, all of the directors of the Company (excluding the director appointed with effect from 1st December 2005) confirmed compliance with the required standard set out in the Model Code throughout the period for the six months ended 31st October 2005.

By Order of the Board  
**Lam Wai Chun**  
Chairman

Hong Kong, 21st December 2005

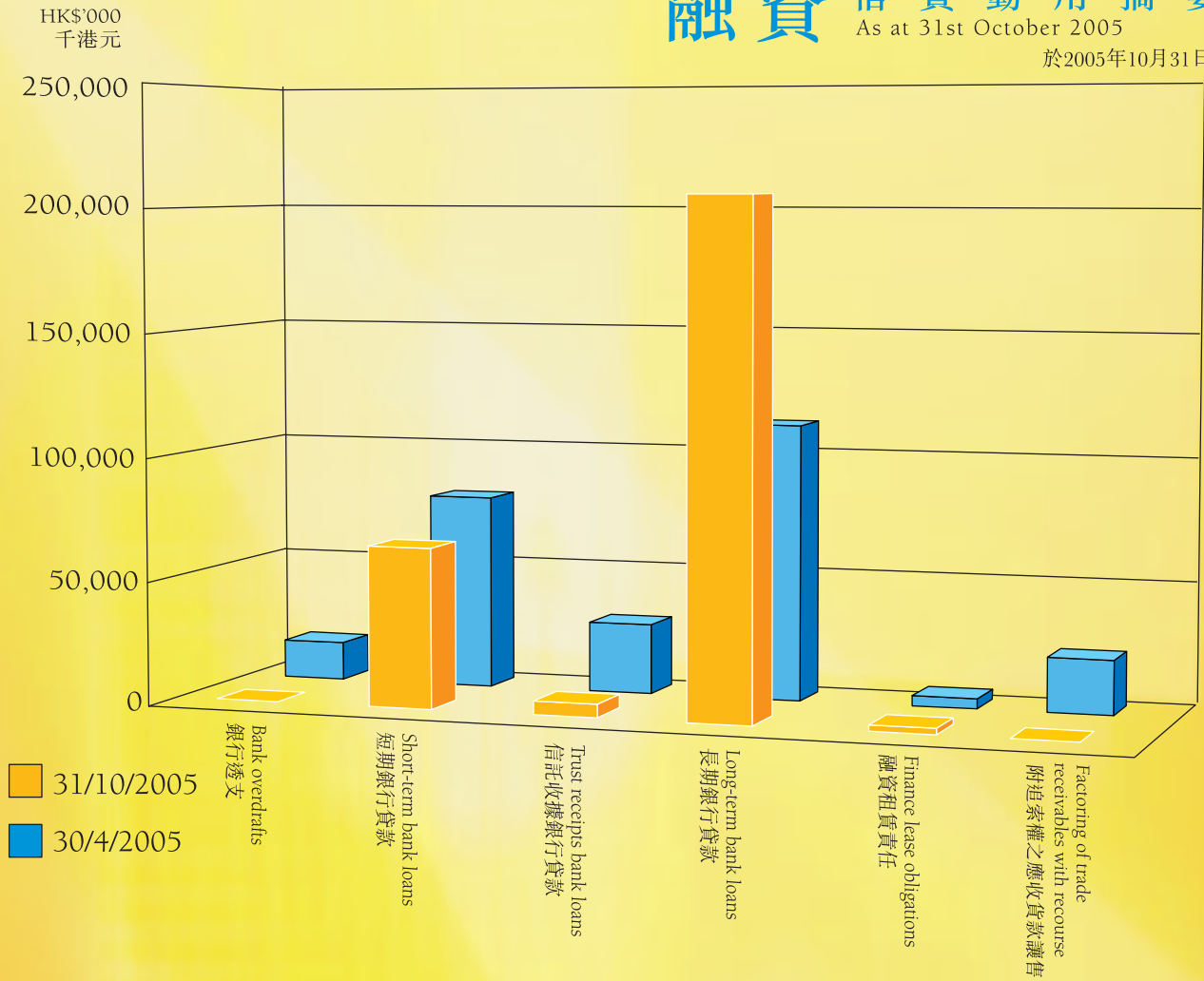
# Summary

of credit facilities utilisation

## 融資 信貸動用摘要

As at 31st October 2005

於2005年10月31日



Purchase, turnover and wages & salaries by settlement currency for the 6 months ended 31st October 2005  
截至2005年10月31日止6個月，根據清算貨幣劃分的採購、銷售及工資和薪金

