

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)

(Stock Code 股份代號：0759)

Interim Report 中期報告

2006/2007

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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

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

AUDITORS

PricewaterhouseCoopers
Certified Public Accountants

LEGAL ADVISERS

F. Zimmern & Co.
 Richards Butler
 Appleby Hunter Bailhache

PRINCIPAL BANKERS

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

2006/2007 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 31 October 2006 and the unaudited condensed consolidated balance sheet as at 31 October 2006 of the Group.

CONDENSED CONSOLIDATED INCOME STATEMENT

	Note	Three months ended 31 October		Six months ended 31 October	
		2006 HK\$'000 (Unaudited)	2005 HK\$'000 (Unaudited)	2006 HK\$'000 (Unaudited)	2005 HK\$'000 (Unaudited)
Sales	2	179,154	156,059	351,918	301,272
Cost of sales	4	(142,688)	(120,826)	(280,809)	(234,669)
Gross profit		36,466	35,233	71,109	66,603
Other gains, net	3	406	175	785	1,626
Selling and distribution expenses	4	(3,587)	(3,057)	(7,082)	(5,994)
General and administrative expenses	4	(19,545)	(18,176)	(38,079)	(33,954)
Operating profit		13,740	14,175	26,733	28,281
Finance costs	5	(5,304)	(4,593)	(9,749)	(9,635)
Profit before taxation		8,436	9,582	16,984	18,646
Taxation	6	(1,267)	(2,355)	(2,974)	(4,840)
Profit attributable to equity holders of the Company	2	7,169	7,227	14,010	13,806
Earnings per share for profit attributable to equity holders of the Company	8				
– Basic		1.00 cent	1.04 cents	1.96 cents	1.99 cents
– Diluted		N/A	N/A	N/A	N/A

CONDENSED CONSOLIDATED BALANCE SHEET

	Note	As at 31 October 2006 HK\$'000 (Unaudited)	As at 30 April 2006 HK\$'000 (Audited)
ASSETS			
Non-current assets			
Leasehold land and land use rights	9	27,479	23,865
Property, plant and equipment	9	369,447	370,681
Investment properties	9	10,970	10,970
Available-for-sale financial assets		7,483	7,079
		415,379	412,595
Current assets			
Inventories		71,821	65,428
Bills and account receivables	10	180,672	162,622
Other receivables		9,290	7,961
Tax recoverable		21	53
Pledged bank deposits		25,949	25,446
Bank balances and cash		47,400	47,562
		335,153	309,072
Total assets		750,532	721,667
EQUITY			
Share capital	11	71,661	71,661
Reserves			
Proposed final dividend		–	6,449
Others		282,898	262,866
Total equity		354,559	340,976
LIABILITIES			
Non-current liabilities			
Borrowings	12	48,564	87,365
Deferred tax		12,141	13,508
		60,705	100,873
Current liabilities			
Borrowings	12	238,126	183,956
Bills and account payables	13	64,862	54,742
Accruals and other payables		26,165	31,647
Taxation payable		6,115	9,473
		335,268	279,818
Total liabilities		395,973	380,691
Total equity and liabilities		750,532	721,667
Net current (liabilities)/assets		(115)	29,254
Total assets less current liabilities		415,264	441,849

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Six months ended 31 October	
	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Net cash generated from operating activities	28,848	5,293
Net cash used in investing activities	(30,172)	(32,452)
Net cash generated from financing activities	2,809	43,831
Translation adjustments	1,862	1,198
Increase in cash and cash equivalents	3,347	17,870
Cash and cash equivalents, beginning of period	44,053	28,332
Cash and cash equivalents, end of period	47,400	46,202

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

	Attributable to equity holders of the Company			Total HK\$'000
	Share capital HK\$'000	Other reserves HK\$'000	Retained profits HK\$'000	
Balance at 1 May 2005	69,303	53,893	189,454	312,650
Change in fair value of available-for-sale financial assets	–	(1,346)	–	(1,346)
Currency translation differences	–	4,080	–	4,080
Net gains recognised directly in equity	–	2,734	–	2,734
Profit for the period	–	–	13,806	13,806
Total recognised income for 2005	–	2,734	13,806	16,540
Shares issued during the period	2,358	1,014	–	3,372
2004/2005 final dividend	–	–	(4,851)	(4,851)
Balance at 31 October 2005	71,661	57,641	198,409	327,711
Balance at 1 May 2006	71,661	64,515	204,800	340,976
Change in fair value of available-for-sale financial assets	–	405	–	405
Currency translation differences	–	5,617	–	5,617
Net gain recognised directly in equity	–	6,022	–	6,022
Profit for the period	–	–	14,010	14,010
Total recognised income for 2006	–	6,022	14,010	20,032
2005/2006 final dividend	–	–	(6,449)	(6,449)
Balance at 31 October 2006	71,661	70,537	212,361	354,559

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of preparation and accounting policies

These unaudited condensed consolidated interim financial statements (the “Interim Financial Statements”) 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 Financial Statements should be read in conjunction with the annual financial statements for the year ended 30 April 2006.

The accounting policies used in the preparation of the Interim Financial Statements are consistent with those used in the annual financial statements for the year ended 30 April 2006 with the addition of certain new standards or amendments of Hong Kong Financial Reporting Standards (“HKFRS”) issued and became effective during the period ended 31 October 2006. The adoption of such standards or amendments has no significant effect on the Group’s results.

The Group has not early adopted any new/revised HKFRSs, HKASs, amendments and interpretations which have been issued on or before 31 October 2006 but are not effective for the financial year ending 30 April 2007. The Group is in the process of assessing their impact on the Group’s results and operations.

2. Segment information

(a) Primary segments

	Six months ended 31 October 2006			Six months ended 31 October 2005		
	Electronic components		Total	Electronic components		Total
	manufacturing	Others		manufacturing	Others	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Sales	351,189	2,119	353,308	300,532	1,987	302,519
Inter-segment sales	-	(1,390)	(1,390)	-	(1,247)	(1,247)
External sales	351,189	729	351,918	300,532	740	301,272
Operating profit	26,547	186	26,733	27,722	559	28,281
Finance costs			(9,749)			(9,635)
Profit before taxation			16,984			18,646
Taxation			(2,974)			(4,840)
Profit attributable to equity holders of the Company			14,010			13,806
Capital expenditures	32,255	-	32,255	25,440	5,708	31,148
Depreciation	33,253	20	33,273	33,237	21	33,258
Amortisation	308	-	308	158	-	158

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

2. Segment information (continued)

(a) Primary segments (continued)

	Electronic components manufacturing		Others		Total	
	As at	As at	As at	As at	As at	As at
	31/10/2006	30/4/2006	31/10/2006	30/4/2006	31/10/2006	30/4/2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Other information						
Segment assets	738,876	707,490	11,635	14,124	750,511	721,614
Unallocated assets					21	53
Total assets					750,532	721,667
Segment liabilities	376,830	356,690	887	1,020	377,717	357,710
Unallocated liabilities					18,256	22,981
Total liabilities					395,973	380,691

(b) Secondary segments

	Sales		Capital expenditures		Total assets	
	Six months ended		Six months ended		As at	As at
	31 October		31 October			
	2006	2005	2006	2005	31/10/2006	30/4/2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	117,587	118,735	8,907	6,071	120,388	118,700
Mainland China	157,875	114,828	22,634	25,077	571,934	541,691
Taiwan	24,404	21,111	714	-	22,310	24,136
Europe	13,375	13,306	-	-	3,893	4,093
Singapore	20,840	15,505	-	-	25,730	26,332
Others	17,837	17,787	-	-	6,277	6,715
	351,918	301,272	32,255	31,148	750,532	721,667

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

3. Other gains, net

	Three months ended		Six months ended	
	31 October		31 October	
	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Interest income	406	141	785	287
Dividend income	–	34	–	1,339
	406	175	785	1,626

4. Expenses by nature

	Three months ended		Six months ended	
	31 October		31 October	
	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Amortisation of prepaid operating lease payment	156	79	308	158
Depreciation of property, plant and equipment	16,542	16,559	33,273	33,258
(Reversal of)/provision for impairment of receivables	(731)	180	(1,897)	520
Cost of inventories sold	142,581	120,326	280,573	233,643
Employee benefit expense (including directors' emoluments)	42,101	35,743	82,820	66,430

5. Finance costs

	Three months ended		Six months ended	
	31 October		31 October	
	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Interest expense	5,000	3,969	9,103	8,835
Amortisation of deferred borrowing costs	304	624	646	800
	5,304	4,593	9,749	9,635

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

6. Taxation

The Company is incorporated in Bermuda and is exempted from taxation in Bermuda until 2016. Hong Kong profits tax has been provided at the rate of 17.5% (2005: 17.5%) on the estimated assessable profit for the period. Subsidiaries of the Group in Mainland China are subject to Mainland China enterprise income tax ranging from 7.5% to 33% (2005: 7.5% to 33%) on their taxable income determined according to Mainland China tax laws. Other overseas taxation has been calculated on the estimated assessable profits for the period at the rates prevailing in the respective jurisdictions.

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

	Three months ended 31 October		Six months ended 31 October	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Hong Kong profits tax – current tax	1,106	2,521	2,040	4,628
Overseas taxation – current tax	1,082	1,111	2,321	1,959
Deferred taxation	(921)	(1,277)	(1,387)	(1,747)
	1,267	2,355	2,974	4,840

7. Dividend

The Board resolved not to declare any dividend in respect of the six months ended 31 October 2006 (2005: Nil).

8. Earnings per share

The calculation of basic earnings per share for the three months ended 31 October 2006 is based on the profit attributable to equity holders of the Company of approximately HK\$7,169,000 (2005: HK\$7,227,000) and the weighted average number of 716,610,798 (2005: 695,079,419) shares in issue during the period.

The calculation of basic earnings per share for the six months ended 31 October 2006 is based on the profit attributable to equity holders of the Company of approximately HK\$14,010,000 (2005: HK\$13,806,000) and the weighted average number of 716,610,798 (2005: 694,054,115) shares in issue during the period.

No information in respect of diluted earnings per share is presented as there was no dilutive potential share during the three months and six months ended 31 October 2005 and 31 October 2006 respectively.

9. Movements in capital expenditure

During the six months ended 31 October 2006, the additions to capital expenditures were approximately HK\$32,255,000 which included property, plant and equipment of HK\$28,494,000 and leasehold land and land use rights of HK\$3,761,000 while the additions to capital expenditure during the six months ended 31 October 2005 were approximately HK\$31,148,000 which included property, plant and equipment of HK\$25,543,000 and investment properties of HK\$5,605,000. The total net book value of disposals and write-offs of property, plant and equipment were approximately HK\$93,000 (2005: HK\$1,052,000).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

10. Bills and account receivables

The aging analysis of bills and account receivables, net of impairment losses, is as follows:

	As at 31 October 2006 HK\$'000	As at 30 April 2006 HK\$'000
Current	144,797	134,827
Overdue by 0 – 1 month	20,028	20,197
Overdue by 1 – 2 months	12,286	3,305
Overdue by 2 – 3 months	3,561	4,293
	180,672	162,622

Management of the Group performs ongoing credit and collectibility evaluations of each customer. 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

Movements in share capital are as follows:

	Six months ended 31 October 2006		Year ended 30 April 2006	
	Number of shares	Nominal value HK\$'000	Number of shares	Nominal value HK\$'000
Shares of HK\$0.10 each				
Authorised:				
Beginning and end of period/year	1,000,000,000	100,000	1,000,000,000	100,000
Issued and fully paid:				
Beginning of period/year	716,610,798	71,661	693,028,811	69,303
Issue of new shares (Note)	–	–	23,581,987	2,358
End of period/year	716,610,798	71,661	716,610,798	71,661

Note:

On 24 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 23 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 30 April 2005 pursuant to the scrip dividend scheme.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

12. Borrowings

During the period, the Group repaid long-term bank borrowings in the amount of HK\$47,728,000 by means of raising short-term bank borrowings. The Group did not have any new long-term bank borrowings during the period.

The carrying amounts of borrowings approximate their fair values.

13. Bills and account payables

The aging analysis of bills and account payables is as follows:

	As at 31 October 2006 HK\$'000	As at 30 April 2006 HK\$'000
Current	58,643	48,142
Overdue by 0 – 1 month	4,383	4,945
Overdue by 1 – 2 months	1,114	446
Overdue by 2 – 3 months	296	838
Overdue by more than 3 months	426	371
	64,862	54,742

14. Share options scheme

On 26 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 (including executive directors) of the Company or any of its subsidiaries 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 31 October 2006, no option was granted under the Scheme (2005: Nil).

15. Capital commitments

	As at 31 October 2006 HK\$'000	As at 30 April 2006 HK\$'000
Contracted but not provided for		
– construction of a production plant in Zhongshan, Mainland China	1,500	1,500
– purchase of land and buildings in Hong Kong and Mainland China	5,452	5,668
– purchase of other fixed assets	3,092	6,749
	10,044	13,917

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

16. Related party transaction

Key management compensation

	Six months ended 31 October	
	2006	2005
	HK\$'000	HK\$'000
.....		
Wages and salaries	2,339	2,062
Pension costs – defined contribution plans	182	157
	2,521	2,219

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The turnover of the Group for the six months ended 31 October 2006 was HK\$351,918,000 (2005: HK\$301,272,000) achieving an increase of 16.8% as compared with the corresponding period last year. The Group's core business, electronic components manufacturing segment, the turnover of which was HK\$351,189,000 (2005: HK\$300,532,000) and accounted for 99.8% (2005: 99.8%) of the Group's turnover. Sales analysis by geographical location reflecting the main turnover growth drivers were Mainland China and other countries in Asia, of which the turnover from Mainland China reported approximately HK\$157,875,000 (2005: HK\$114,828,000), up 37% as compared with the same period last year. Besides, turnover from Singapore and Taiwan reported approximately HK\$20,840,000 (2005: HK\$15,505,000) and HK\$24,404,000 (2005: HK\$21,111,000) respectively, up 34% and 16% respectively as compared with the same period last year.

During the period under review, the sustained rises in prices of metallic materials and energy cost as well as the soaring staff wages of Mainland China giving rise to an increase of approximately 5% in the average wage of production staff as compared with the corresponding period last year propelled the overall production cost upwards. Gross profit margin decreased by 1.9% to 20.2% (2005: 22.1%) as compared with the corresponding period last year. Gross profit for the period was HK\$71,109,000 (2005: HK\$66,603,000). Profit attributable to equity holders of the Company for the period was HK\$14,010,000 (2005: HK\$13,806,000). Net profit margin reduced by 0.6% to 4.0% (2005: 4.6%) as compared with the corresponding period last year, which was mainly attributable to the decline in gross profit margin and the increase of approximately 7% in the average salary of sales and marketing, administrative and management personnel during the period.

As at 31 October 2006, the Group's total accounts receivables rose to HK\$180,672,000 (30 April 2006: HK\$162,622,000), which was primarily attributable to the increase in the Group's turnover as compared with the corresponding period last year. On the other hand, the prolonged repayment period has been a tendency in the market, accelerating the rise in overall accounts receivables. The Group's total inventory was HK\$71,821,000 (30 April 2006: HK\$65,428,000), up approximately 9.8% as compared with that of the financial year-end date of last year. The Group will continue to improve the management of purchasing, manufacturing and logistics and to actively control the inventory within a reasonable level.

FINANCIAL REVIEW

Fund Surplus and Liabilities

As at 31 October 2006, the Group's bank balance and cash (denominated mainly in Hong Kong dollar, United States dollar and Renminbi) was HK\$73,349,000 (30 April 2006: HK\$73,008,000). The banking facilities amounting to HK\$292,069,000 were secured by mortgages on the Group's certain land and buildings, pledges of the Group's bank deposits, available-for-sale financial assets and machinery, and corporate guarantees provided by the Company and its certain subsidiaries. In addition, the Group is required to comply with certain restrictive financial covenants imposed by the major financing banks. As at 31 October 2006, the Group complied with such financial covenants, which indicates that the Group's financial position was satisfactory.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW (continued)

Fund Surplus and Liabilities (continued)

As at 31 October 2006, the Group's total borrowings granted from banks and financial institutions amounted to HK\$286,690,000 (30 April 2006: HK\$271,321,000), of which HK\$238,126,000 (30 April 2006: HK\$183,956,000) will be repayable within one year and HK\$48,564,000 (30 April 2006: HK\$87,365,000) will be repayable within a period of more than one year but not exceeding five years. As at 31 October 2006, the Group's net gearing ratio* was 0.60 (30 April 2006: 0.59). The Group will continue to prudently control its financial resources for gradually reducing the Group's debt level.

(* 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))

Financial Resources and Capital Structure

For the six months ended 31 October 2006, the Group's net cash inflow was HK\$3,347,000 (2005: HK\$17,870,000). The net cash inflow from operating activities was HK\$28,848,000 (2005: HK\$5,293,000). The net cash inflow from financing activities was HK\$2,809,000 (2005: HK\$43,831,000). The total net cash inflows from operating activities and financing activities of the same period last year were comparatively higher than those of the period under review due to the draw-down of the aggregate amount of HK\$243,000,000 under the 3-year transferable term loan and revolving credit facility agreement by the Company during the same period last year. As regards to interest expenses, for the six months ended 31 October 2006, the Group's interest expenses amounted to HK\$9,103,000 (2005: HK\$8,835,000), up approximately 3% as compared with the same period last year.

For the six months ended 31 October 2006, net cash outflow from investing activities was HK\$30,172,000 (2005: HK\$32,452,000), of which HK\$24,734,000 (2005: HK\$25,543,000) was mainly used for the purchase of machinery and equipment and expansion of plant with a view to raising production capacity.

Cash Flow Summary

	For the six months ended 31 October	
	2006 HK\$'000	2005 HK\$'000
Net cash inflow from operating activities	28,848	5,293
Net cash outflow from investing activities	(30,172)	(32,452)
Net cash inflow from financing activities	2,809	43,831
Exchange adjustment	1,862	1,198
Increase in cash and cash equivalents	3,347	17,870

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW *(continued)*

Financial Resources and Capital Structure (continued)

As at 31 October 2006, the Group's current ratio was 1.0 (30 April 2006: 1.1). The lower current ratio was due to the increase of HK\$54,170,000 in the outstanding balance of the Group's short-term borrowings as at 31 October 2006, as compared with that as at the financial year-end date of last year. On the contrary, the outstanding balance of the Group's long-term borrowings as at 31 October 2006 reduced by HK\$38,801,000, as compared with that as at the financial year-end date of last year. On the other hand, the use of HK\$7,521,000 for the purchase of properties by the Group during the period under review also had an impact on the current ratio. The Board will focus on controlling the working capital and the change of capital structure so as to improve the current ratio.

Charges on Assets

As at 31 October 2006, certain assets of the Group with an aggregate carrying value of approximately HK\$38,146,000 (30 April 2006: HK\$41,356,000) were pledged to secure banking facilities and finance lease of the Group.

Exchange Risks

The Group's business is mainly conducted in Mainland China, Hong Kong and South-east Asia. The major revenue currencies are primarily denominated in Hong Kong dollar, Renminbi and United States dollar; whilst the major currencies in purchase commitments are primarily denominated in Hong Kong dollar, Renminbi, United States dollar and Japanese Yen. Renminbi has been on upward trend since The People's Bank of China announced an appreciation of Renminbi against United States dollar at the end of July 2005. Recently, Renminbi has a stronger rise and once surpassed 1:1 against Hong Kong dollar. It is predicted that the appreciation of Renminbi will continue. As such, the Group's certain revenues and expenses denominated in Renminbi may be subject to significant impact arising from the fluctuations in Renminbi. The Board is closely monitoring 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.

FUTURE PLAN AND PROSPECTS

The Group has been facing price fluctuation of metal materials, soaring staff wages in Mainland China and the sustained appreciation of Renminbi, giving rise to a downward trend of its gross profit margin. The Board considers that the pressure on costs will continue. However, the Board and the senior management will endeavour to lead all staff to make dedication for work with a view to raising the Group's operating performance in all aspects to resist the sustained pressure on costs.

MANAGEMENT DISCUSSION AND ANALYSIS

FUTURE PLAN AND PROSPECTS *(continued)*

The Group has assessed the feasibility of developing energy-saving products in the previous year. After thorough consideration, the Group has positioned this project as a second manufacturing segment, in addition to the electronic components manufacturing segment. The Group will establish a research and development centre for the new products at its Hong Kong headquarters and recruit relevant technological research staff to develop those products related to energy-saving products. The Group aims at developing the second manufacturing segment in two years and expects that the new products will become another source of income, other than the electronic components manufacturing segment, in 2008-2009 financial year. In addition, the Group has purchased a property in Zhongguancun, Beijing, at which an equipment development centre will be established in 4 to 6 months from the date of this report. The centre will be responsible for developing and manufacturing high-quality equipment which can be used for the energy-saving products of the Group.

The Group anticipates that the newly developed products can be launched to the market within the next two years and the Zhongshan main workshop will take up such production. The manufacturing workshops of the Group, other than the Zhongshan main workshop, have commenced study on the pilot run of coils production. In addition, further installation and expansion of production facilities will be made in the future so as to diverge part of coils production from the Zhongshan main workshop to such manufacturing workshops, thereby catering for the manufacture of the new products with its spare production capacity.

EMPLOYEES

The Group employed approximately 7,900 (2005: 6,700) employees as at 31 October 2006. 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 employee benefits include pension scheme and medical insurance. Subsidies on training and education are also provided. Under the share option scheme of the Company, options may be granted to eligible employees to subscribe for shares in the Company.

For re-positioning Hong Kong as a core management base, the Group has, through the Admission Scheme for Mainland Talents and Professionals of Hong Kong government, been recruiting and assigning Mainland talents to take up leading and managerial work in Hong Kong. In 2006, four experienced Mainland management staff were admitted for employment in Hong Kong headquarters of the Group. Looking ahead, there are still a number of job vacancies of the Group for recruitment from Mainland China to build up a full-fledged management team.

OTHER INFORMATION

INTERESTS OF DIRECTORS AND CHIEF EXECUTIVE IN SECURITIES

As at 31 October 2006, 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)	19,183,188	423,785,660 (Note 3)	423,785,660 (Note 3)	442,968,848 (Note 3)	61.81%
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	–	6,767,440	–	–	6,767,440	0.94%
Dr. Tang Tin Sek	–	3,714,000	–	–	3,714,000	0.52%

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 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 442,968,848 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 31 October 2006, 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.

Save as disclosed above, as at 31 October 2006, neither the directors or chief executive of the Company nor their spouses or children under the age of 18 had been granted any rights to subscribe for any equity or debt securities of the Company or any of 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 31 October 2006, 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 (the "Listing Rules"))

Name	Number of shares held				Percentage of issued share capital
	Family interests	Corporate interests	Trusts and similar interests	Beneficial owner	
Ms. Law Ching Yee	442,968,848 (Note 2)	-	-	-	61.81%
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				Percentage of issued share capital
	Family interests	Corporate interests	Trusts and similar interests	Beneficial owner	
Nittoku Engineering Co., Ltd.	-	-	-	51,093,983	7.13%*
Toko, Inc.	-	-	-	36,785,402	5.13%*

Notes:

- All the above interests in the shares of the Company were long positions.
- The 423,785,660 shares were held by 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.
- 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.
- 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 31 October 2006 (i.e. 716,610,798 shares).

OTHER INFORMATION

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

Save as disclosed above, the Company had not been notified of any other person (other than a director or a chief executive of the Company) who had an interest (whether direct or indirect) in 5% or more of the shares comprised in the relevant share capital or a short position which were required to be recorded in the register kept by the Company pursuant to section 336 of the SFO as at 31 October 2006.

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 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 30 July 2004, Coils Electronic Co., Limited (“Coils”), an indirect wholly-owned subsidiary of the Company, 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 28 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 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, 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.

The Facility Letter was terminated in July 2006 as all the outstanding debt under the Facilities was fully repaid.

OTHER INFORMATION

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

- (b) On 27 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 31 October 2006, the aggregate carrying value of the outstanding loan under the 2005 Agreement was approximately HK\$144,898,000.

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

The Company had not redeemed any of its listed shares during the six months ended 31 October 2006. Neither the Company nor any of its subsidiaries had purchased or sold any of the Company's listed shares during the six months ended 31 October 2006.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has applied the principles and complied with the applicable code provisions of the Code on Corporate Governance Practices (the “Code”) as set out in Appendix 14 to the Listing Rules for the six months ended 31 October 2006, except the following deviations:

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

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

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

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

OTHER INFORMATION

AUDIT COMMITTEE

The Audit Committee of the Company presently comprises the four 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. 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, the internal control of the Group and the Interim Report for the six months ended 31 October 2006.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding directors' securities transactions for the six-month period to 31 October 2006. 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 six months ended 31 October 2006.

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

Hong Kong, 18 December 2006

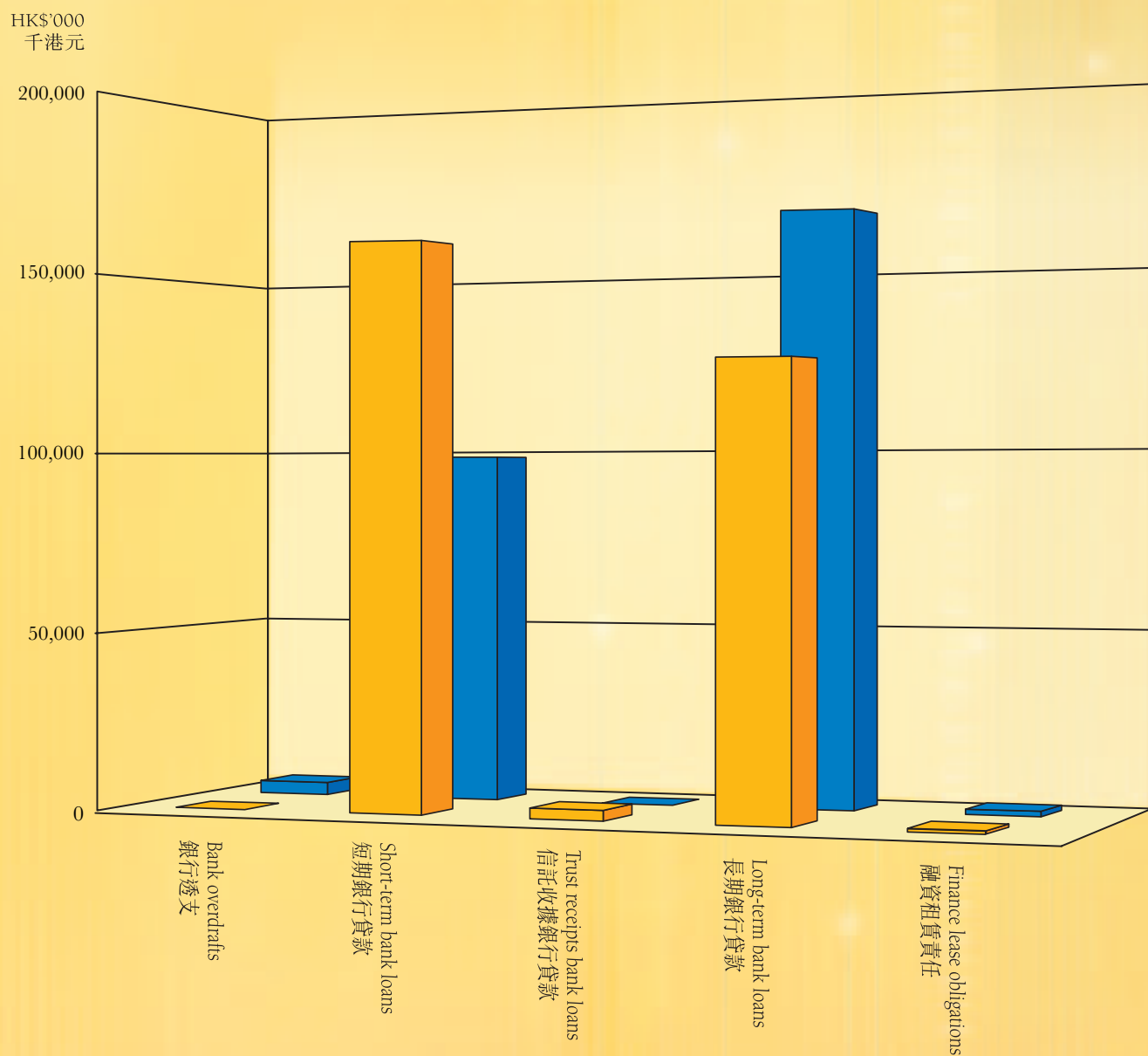
Summary

of credit facilities utilisation

融資 信貸動用摘要

As at 31 October 2006

於2006年10月31日



31/10/2006

30/4/2006

