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CEC-COILS®

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: 759)

INTERIM REPORT 2008/2009 中期報告

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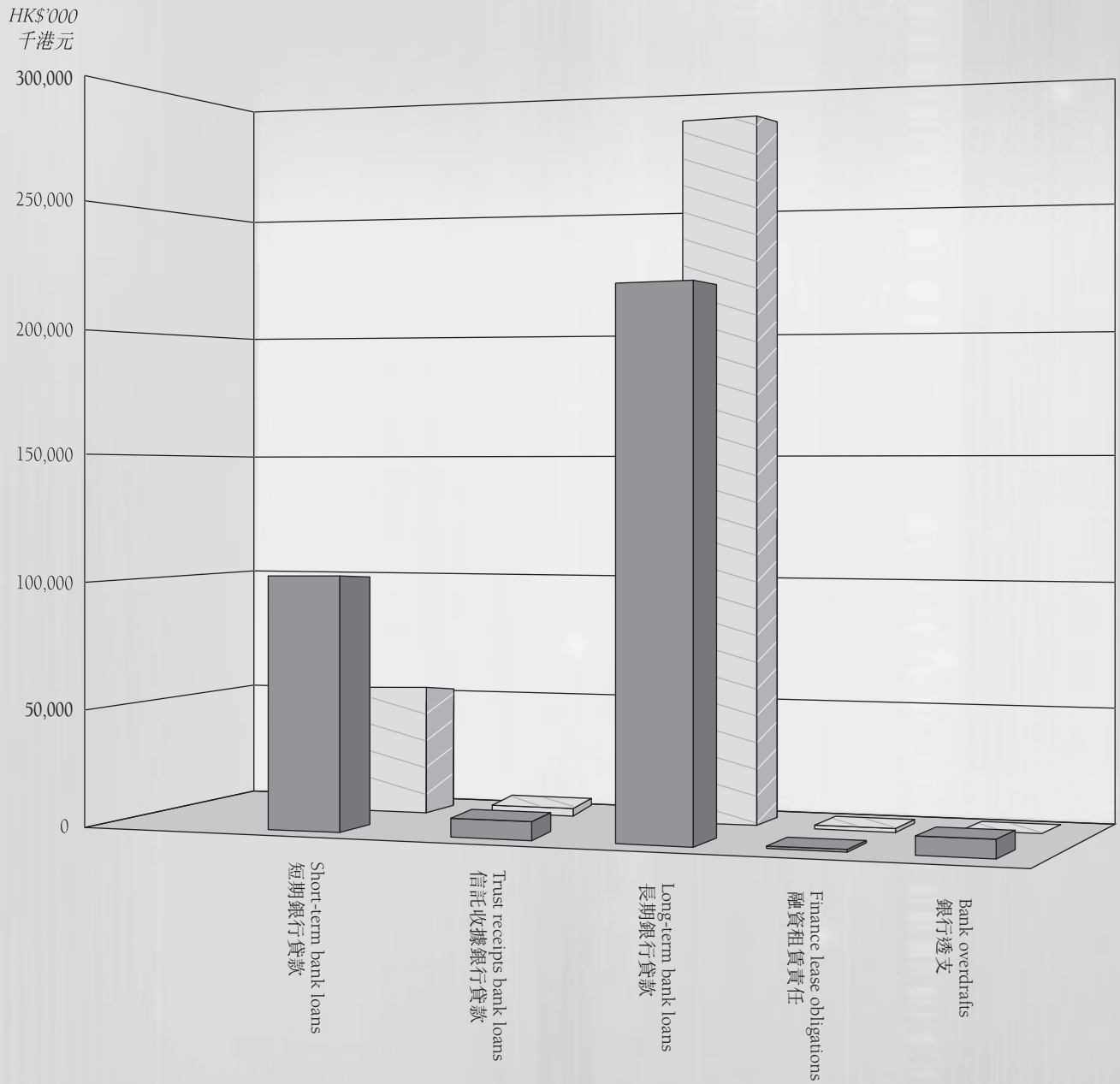
Summary

of credit facilities utilisation

融資 信貸動用摘要

As at 31 October 2008

於2008年10月31日



■ 31/10/2008

▨ 30/4/2008

CORPORATE INFORMATION

DIRECTORS

Executive Directors

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

Independent Non-executive Directors

Mr. Au Son Yiu
 Mr. Lee Wing Kwan, Denis
 Dr. Tang Tin Sek
 Mr. Goh Gen Cheung
 Professor Zhu Yuhe

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
 Professor Zhu Yuhe
 Ms. Tang Fung Kwan

COMPANY SECRETARY

Ms. Li Lai Sheung

AUDITORS

PricewaterhouseCoopers
Certified Public Accountants

LEGAL ADVISERS

F. Zimmern & Co.
 Appleby

PRINCIPAL BANKERS

China Construction Bank
 CITIC Ka Wah Bank Limited
 Dah Sing 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 Fulcrum Group (Bermuda) Limited
 Rosebank Centre
 11 Bermudiana Road
 Pembroke HM08
 Bermuda

Hong Kong Branch Share Registrar
 Computershare Hong Kong Investor
 Services Limited
 Shops 1712-1716, 17th Floor
 Hopewell Centre
 183 Queen's Road East
 Hong Kong

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Listed on The Stock Exchange of
 Hong Kong Limited
 Stock Code: 759

2008/2009 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 2008 and the unaudited condensed consolidated balance sheet as at 31 October 2008 of the Group.

CONDENSED CONSOLIDATED INCOME STATEMENT

	Note	Three months ended 31 October		Six months ended 31 October	
		2008 HK\$'000 (Unaudited)	2007 HK\$'000 (Unaudited)	2008 HK\$'000 (Unaudited)	2007 HK\$'000 (Unaudited)
Revenue	2	196,116	216,429	394,959	393,561
Cost of sales	5	(161,138)	(173,264)	(327,564)	(313,906)
Gross profit		34,978	43,165	67,395	79,655
Other income	3	151	466	316	793
Other loss	4	(76)	(124)	(98)	(137)
Selling and distribution expenses	5	(3,908)	(4,435)	(7,739)	(7,933)
General and administrative expenses	5	(23,210)	(25,595)	(43,854)	(46,579)
Operating profit		7,935	13,477	16,020	25,799
Finance costs	6	(4,037)	(5,678)	(7,694)	(9,834)
Profit before taxation		3,898	7,799	8,326	15,965
Taxation	7	(946)	(626)	(1,190)	(1,892)
Profit for the period		2,952	7,173	7,136	14,073
Attributable to:					
– equity holders of the Company		2,945	7,305	7,129	14,429
– minority interest		7	(132)	7	(356)
		2,952	7,173	7,136	14,073
Earnings per share, basic and diluted	9	0.41 cent	1.02 cents	0.99 cent	2.01 cents

CONDENSED CONSOLIDATED BALANCE SHEET

	Note	As at 31 October 2008 HK\$'000 (Unaudited)	As at 30 April 2008 HK\$'000 (Audited)
ASSETS			
Non-current assets			
Leasehold land and land use rights	10	40,049	40,154
Property, plant and equipment	10	380,718	364,474
Investment properties	10	26,705	26,705
Prepayment for construction of building		–	17,843
Available-for-sale financial assets		7,612	8,528
		455,084	457,704
Current assets			
Inventories		134,343	114,396
Accounts receivable	11	195,932	181,095
Prepayments, deposits and other receivables		8,874	8,749
Tax recoverable		–	61
Pledged bank deposits		27,615	27,446
Bank balances and cash		41,409	70,316
		408,173	402,063
Total assets		863,257	859,767
EQUITY			
Share capital	12	71,661	71,661
Reserves			
Proposed final dividend		–	3,583
Others		365,235	352,371
		436,896	427,615
Minority interest		255	248
Total equity		437,151	427,863
LIABILITIES			
Non-current liabilities			
Borrowings	13	101,927	154,571
Deferred income tax		7,776	9,250
		109,703	163,821
Current liabilities			
Borrowings	13	241,409	184,049
Accounts payable	14	47,018	45,655
Accruals and other payables		26,346	34,525
Taxation payable		1,630	3,854
		316,403	268,083
Total liabilities		426,106	431,904
Total equity and liabilities		863,257	859,767
Net current assets		91,770	133,980
Total assets less current liabilities		546,854	591,684

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Six months ended 31 October	
	2008 HK\$'000 (Unaudited)	2007 HK\$'000 (Unaudited)
Net cash generated from operating activities	7,796	32,433
Net cash used in investing activities	(30,260)	(41,210)
Net cash (used in)/generated from financing activities	(17,030)	149,231
(Decrease)/increase in cash and cash equivalents	(39,494)	140,454
Translation adjustments	130	496
Cash and cash equivalents at beginning of period	70,316	31,585
Cash and cash equivalents at end of period	30,952	172,535
Analysis of the balance of cash and cash equivalents		
Cash and bank balances	41,409	176,475
Bank overdrafts	(10,457)	(3,940)
	30,952	172,535

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

	Attributable to equity holders of the Company			Total	Minority interest	Total equity
	Share capital	Other reserves	Retained profits			
	HK\$'000	HK\$'000	HK\$'000			
Balance at 1 May 2007	71,661	85,926	216,664	374,251	–	374,251
Change in fair value of available-for-sale financial assets	–	388	–	388	–	388
Currency translation differences	–	8,327	–	8,327	–	8,327
Net income recognised directly in equity	–	8,715	–	8,715	–	8,715
Profit/(loss) for the period	–	–	14,429	14,429	(356)	14,073
Total recognised income for 2007	–	8,715	14,429	23,144	(356)	22,788
2006/2007 final dividend	–	–	(6,808)	(6,808)	–	(6,808)
Capital contribution by a minority shareholder of a subsidiary	–	–	–	–	450	450
Balance at 31 October 2007	71,661	94,641	224,285	390,587	94	390,681
Balance at 1 May 2008	71,661	126,948	229,006	427,615	248	427,863
Change in fair value of available-for-sale financial assets	–	(877)	–	(877)	–	(877)
Currency translation differences	–	6,612	–	6,612	–	6,612
Net income recognised directly in equity	–	5,735	–	5,735	–	5,735
Profit for the period	–	–	7,129	7,129	7	7,136
Total recognised income for 2008	–	5,735	7,129	12,864	7	12,871
2007/2008 final dividend	–	–	(3,583)	(3,583)	–	(3,583)
Balance at 31 October 2008	71,661	132,683	232,552	436,896	255	437,151

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 (“HKICPA”). The Interim Financial Statements should be read in conjunction with the annual financial statements for the year ended 30 April 2008.

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 2008.

The following new interpretations are mandatory for the first time for the financial year beginning 1 May 2008 but are currently not relevant to the Group.

HK(IFRIC) – Int 12

Service Concession Arrangements

HK(IFRIC) – Int 14

HKAS19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The Group has not early adopted any new standards, amendments or interpretations which have been issued on or before 31 October 2008 but are not effective for the financial year ending 30 April 2009. 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 2008			Six months ended 31 October 2007		
	Electronic components manufacturing HK\$'000	Others HK\$'000	Total HK\$'000	Electronic components manufacturing HK\$'000	Others HK\$'000	Total HK\$'000
Revenue						
Total sales	394,234	2,130	396,364	392,958	2,243	395,201
Intersegment sales	–	(1,405)	(1,405)	–	(1,640)	(1,640)
External sales	394,234	725	394,959	392,958	603	393,561
Operating results						
Operating profit	15,666	354	16,020	25,471	328	25,799
Finance costs			(7,694)			(9,834)
Profit before taxation			8,326			15,965
Taxation			(1,190)			(1,892)
Profit for the period			7,136			14,073
Capital expenditures	48,319	–	48,319	43,350	31	43,381
Depreciation	35,905	26	35,931	36,025	23	36,048
Amortisation	484	–	484	408	–	408

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

2. Segment information (continued)

(a) Primary segments (continued)

	Electronic components manufacturing		Others		Total	
	As at 31/10/2008	As at 30/4/2008	As at 31/10/2008	As at 30/4/2008	As at 31/10/2008	As at 30/4/2008
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Other information						
Segment assets	835,053	830,902	28,204	28,804	863,257	859,706
Unallocated assets					-	61
Total assets					863,257	859,767
Segment liabilities	416,434	418,409	266	391	416,700	418,800
Unallocated liabilities					9,406	13,104
Total liabilities					426,106	431,904

(b) Secondary segments

	Revenue Six months ended 31 October		Total assets		Capital expenditures Six months ended 31 October	
	2008	2007	As at 31/10/2008	As at 30/4/2008	2008	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	104,771	114,918	176,610	188,703	3,102	11,540
Mainland China	207,252	193,881	645,140	629,009	45,212	31,793
Other Asian countries	57,814	57,541	32,364	32,392	5	48
Europe and America	25,122	27,221	9,143	9,663	-	-
Total	394,959	393,561	863,257	859,767	48,319	43,381

In respect of geographical segment reporting, revenue is determined on the basis of the destination of shipment; while total assets and capital expenditures are determined based on the location of the relevant assets.

(c) Analysis of turnover by category

	Six months ended 31 October	
	2008 HK\$'000	2007 HK\$'000
Sales of goods	394,234	392,958
Rental income	542	447
Service income from provision of information technology services	183	156
Total	394,959	393,561

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

3. Other income

	Three months ended		Six months ended	
	31 October		31 October	
	2008	2007	2008	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Interest income	151	444	316	771
Dividend income	–	22	–	22
	151	466	316	793

4. Other loss

	Three months ended		Six months ended	
	31 October		31 October	
	2008	2007	2008	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Net loss on disposals and written offs of property, plant and equipment	76	124	98	137

5. Expenses by nature

	Three months ended		Six months ended	
	31 October		31 October	
	2008	2007	2008	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Amortisation of leasehold land and land use rights	238	221	484	408
Cost of inventories sold	160,491	172,397	326,118	312,197
Depreciation of property, plant and equipment	18,028	18,370	35,931	36,048
Employee benefit expenses (including directors' emoluments)	52,696	49,787	105,712	98,822
(Reversal of)/provision for impairment of accounts receivable	(47)	(232)	139	(357)

6. Finance costs

	Three months ended		Six months ended	
	31 October		31 October	
	2008	2007	2008	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Interest expense	3,615	5,214	6,807	9,172
Amortisation of deferred borrowing costs	422	464	887	662
	4,037	5,678	7,694	9,834

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

7. Taxation

The Company is incorporated in Bermuda and is exempted from taxation in Bermuda until 2016. Hong Kong profits tax has been provided at the rate of 16.5% (2007: 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 12.5% to 25% (2007: 12% to 27%) on their taxable income determined according to Mainland China tax laws. Other overseas taxation has been calculated on the estimated assessable profits for the 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	
	2008 HK\$'000	2007 HK\$'000	2008 HK\$'000	2007 HK\$'000
Hong Kong profits tax				
– current tax	584	244	917	1,787
– over-provision in prior year	(37)	–	(137)	–
Overseas taxation including Mainland China – current tax	205	1,463	1,884	2,420
Deferred taxation	194	(1,081)	(1,474)	(2,315)
	946	626	1,190	1,892

8. Dividend

The Board resolved not to declare any dividend in respect of the six months ended 31 October 2008 (2007: Nil).

9. Earnings per share

The calculation of basic earnings per share for the three months ended 31 October 2008 is based on the profit attributable to equity holders of the Company of approximately HK\$2,945,000 (2007: HK\$7,305,000) and 716,610,798 (2007: 716,610,798) shares in issue during the period.

The calculation of basic earnings per share for the six months ended 31 October 2008 is based on the profit attributable to equity holders of the Company of approximately HK\$7,129,000 (2007: HK\$14,429,000) and 716,610,798 (2007: 716,610,798) shares in issue during the period.

For the three months and six months ended 31 October 2008 and 31 October 2007, diluted earnings per share equals basic earnings per share as there was no dilutive potential share.

10. Movements in capital expenditures

During the six months ended 31 October 2008, the additions to capital expenditures were approximately HK\$48,319,000 (2007: HK\$43,381,000); the total net book value of disposals and write-offs of property, plant and equipment was approximately HK\$103,000 (2007: HK\$137,000).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

11. Accounts receivable

The aging analysis of accounts receivable is as follows:

	As at 31 October 2008 <i>HK\$'000</i>	As at 30 April 2008 <i>HK\$'000</i>
Current	171,165	168,308
Overdue by 0 – 1 month	16,507	9,640
Overdue by 1 – 2 months	5,926	1,385
Overdue by 2 – 3 months	2,334	1,762
Overdue by more than 3 months	2,236	2,099
	198,168	183,194
Less: provision for impairment of accounts receivable	(2,236)	(2,099)
	195,932	181,095

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

12. Share capital

	As at 31 October 2008 <i>HK\$'000</i>	As at 30 April 2008 <i>HK\$'000</i>
Authorised:		
1,000,000,000 (As at 30 April 2008:1,000,000,000) shares of HK\$0.10 each	100,000	100,000
Issued and fully paid:		
716,610,798 (As at 30 April 2008: 716,610,798) shares of HK\$0.10 each	71,661	71,661

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

13. Borrowings

	As at 31 October 2008 HK\$'000	As at 30 April 2008 HK\$'000
Non-current		
Bank borrowings	101,927	154,571
Current		
Bank overdrafts	10,457	–
Bank borrowings	230,872	183,829
Finance lease liabilities	80	220
	241,409	184,049
	343,336	338,620

14. Accounts payable

The aging analysis of accounts payable is as follows:

	As at 31 October 2008 HK\$'000	As at 30 April 2008 HK\$'000
Current		
Overdue by 0 – 1 month	651	2,662
Overdue by 1 – 2 months	241	8
Overdue by 2 – 3 months	–	–
Overdue by more than 3 months	273	444
	47,018	45,655

15. Share option 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 2008, no option was granted under the Scheme (2007: Nil).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

16. Capital commitments

	As at 31 October 2008 <i>HK\$'000</i>	As at 30 April 2008 <i>HK\$'000</i>
Capital commitments in respect of property, plant and equipment:		
Contracted but not provided for	2,049	725

17. Related party transaction

	Six months ended 31 October	
	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
Key management compensation		
Wages and salaries	2,951	2,792
Pension costs – defined contribution plans	251	222
	3,202	3,014

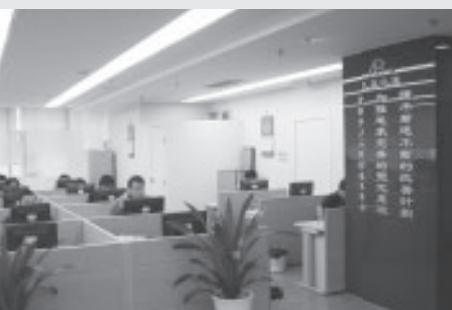
MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

For the six months ended 31 October 2008, revenue of the Group amounted to HK\$394,959,000 (2007: HK\$393,561,000), which approximates that of the corresponding period last year. Revenue of the first quarter for this year was HK\$198,843,000 (2007: HK\$177,132,000), rising 12.3% as compared with that of the corresponding period last year; while revenue of this second quarter for the three months was HK\$196,116,000 (2007: HK\$216,429,000), slipping 9.4% as compared with that of the corresponding period last year, which indicates that the Group has been strictly adhering to its operating direction as laid down in the last financial year: focusing on strengthening the sustainability of its core business; phasing out some of the products series with low value added and not in line with the Group's long-term operating and development strategies and allocating resources on development of products series, which can be extensively applied with value added potential. In view of the tightening of credit flows in markets, the Group has implemented rapid, flexible and stringent risk management measures and capital application strategies.

During the period under review, the Group's profit was HK\$7,136,000 (2007: HK\$14,073,000), reducing 49.3% over the corresponding period last year. Gross profit recorded HK\$67,395,000 (2007: HK\$79,655,000), reducing 15.4% as compared with that of the corresponding period last year. Gross profit margin was 17.1% (2007: 20.2%), down 3.1% as compared with the corresponding period last year. The fall in operating profit was primarily affected by the market factors including appreciation of Renminbi, volatile raw materials prices, soaring costs in energy and labour, etc. Gross profit margin of the second quarter for the three months of this year was 17.8%, rebounding 1.5% when compared with 16.3% of the first quarter. This demonstrates the results of the cost control measures taken by the Group.

As at 31 October 2008, the accounts receivable of the Group was HK\$195,932,000 (30 April 2008: HK\$181,095,000), reporting an increase of 8% when compared with that of the financial year-end date of last year. The uplift of accounts receivable mainly attributed to the rise in revenue. The revenue for the second quarter of this financial year was HK\$196,116,000 in comparison with revenue amounting to HK\$185,277,000 for fourth quarter of the last financial year increased by approximately 6%. Furthermore, the accounts receivable of some of the partnering customers and long-term strategic partnering customers were affected by macro-economic policies in China. The Group considers the rise of accounts receivable during the period under review should be highly recoverable, which can be fully recovered under the payment schedules of the agreements made with the partnering customers. Following the ease of monetary policy for the financial market in Mainland China, the Group believes that payment term for the relevant partnering customers can resume to normally agreed terms. As at 31 October 2008, inventories of the Group amounted to HK\$134,343,000 (30 April 2008: HK\$114,396,000), registering an increase of 17% as compared with that of the financial year-end date of last year, which was



MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW *(continued)*

mainly affected by some customers' delayed or cancelled orders resulting from their worries about the market outlook during the second quarter of this year. This led to increases in inventories of raw materials and finished products. General and administrative expenses of the Group for the period was HK\$43,854,000 (2007: HK\$46,579,000), slightly lower than that of the corresponding period last year, reflecting that the Group's colleagues at all levels understand the proactive cost control is the primary objective at present.

FINANCIAL REVIEW

Fund Surplus and Liabilities

As at 31 October 2008, the Group's bank balances and cash (denominated mainly in Hong Kong dollar, United States dollar and Renminbi) was HK\$41,409,000 (30 April 2008: HK\$70,316,000). As at 31 October 2008, the Group had aggregate banking facilities of approximately HK\$455,532,000 (30 April 2008: HK\$502,324,000) for overdrafts, loans, trade financing, factoring of accounts receivable etc. Unused facilities as at the same date amounted to approximately HK\$110,474,000 (30 April 2008: HK\$144,640,000). These facilities were secured by corporate guarantees executed by the Company and certain of its subsidiaries. As at 31 October 2008, approximately HK\$113,653,000 (30 April 2008: HK\$51,881,000) of the total used facilities were secured by charges on the Group's certain accounts receivable, pledges of the Group's bank deposits and available-for-sale financial assets. In addition, the Group is required to comply with certain restrictive financial covenants imposed by the major financing banks. As at 31 October 2008, the Group could comply with such financial covenants, which indicates that the Group's financial position remained normal.

As at 31 October 2008, the Group's total borrowings granted from banks and financial institutions amounted to HK\$343,336,000 (30 April 2008: HK\$338,620,000), of which HK\$241,409,000 (30 April 2008: HK\$184,049,000) was current and will be repayable within one year, and HK\$101,927,000 (30 April 2008: HK\$154,571,000) was non-current and will be repayable within a period of more than one year but not exceeding five years. As at 31 October 2008, the Group's gearing ratio* was 0.79 (30 April 2008: 0.79), the same as that of the financial year-end date of last year.

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

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW (continued)

Financial Resources and Capital Structure

For the six months ended 31 October 2008, the Group's net cash outflow (decrease in cash and cash equivalents) was HK\$39,494,000 (2007: net cash inflow of HK\$140,454,000). The net cash inflow from operating activities was HK\$7,796,000 (2007: HK\$32,433,000), reducing 76% as compared with the corresponding period last year. Importantly, lower profit and profit margins in comparison with those of last year resulting from the influence of the stern operating environment is significant, in addition to the increase in accounts receivable by HK\$14,837,000 as compared with that of the financial year-end date of last year and increase in inventories by HK\$19,947,000 as compared with that of the financial year-end date of last year. Secondly, accruals and other payables amounted to HK\$26,346,000 (30 April 2008: HK\$34,525,000), reducing 23.7% as compared with that of the financial year-end date of last year, which was mainly attributable to the expedite wage payments for the Group's production workforce, technical staff and management in Mainland China. Such move aimed at harmonizing the labour relations and releasing the worries of the workforce, which brought forth by the hit of the financial tsunami and the volatile general manufacturing environment. Besides, the days of accounts payable turnover further shortened to 25 days for the period under review from 31 days for the corresponding period last year. As a result, the bank borrowings amounting to HK\$343,256,000 (30 April 2008: HK\$338,400,000) reported a corresponding rise of approximately HK\$4,856,000 when compared with that of the financial year-end date of last year. The Group will be dedicated to improving the effectiveness in managing cash flow utilization to increase the cash inflow from operating activities in future. The net cash outflow from financing activities was HK\$17,030,000 (2007: net cash inflow of HK\$149,231,000) and this great disparity in comparison with that of the corresponding period last year was mainly due to the draw-down of a syndicated loan for the aggregate amount of HK\$300,000,000 made during the last year. For the six months ended 31 October 2008, the Group's interest expenses amounted to HK\$6,807,000 (2007: HK\$9,172,000), reducing 25.8% as compared with that of the corresponding period last year.

For the six months ended 31 October 2008, net cash outflow from investing activities was HK\$30,260,000 (2007: HK\$41,210,000), of which capital expenditure amounting to approximately HK\$20,000,000 was used for purchasing machinery and equipment to improve the level of automated production. The Board considers that the investment on large-scale infrastructure for coils manufacturing business for the period up to 2012 had been completed.





MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW (continued)

Cash Flow Summary

	For the six months ended 31 October	
	2008 HK\$'000	2007 HK\$'000
Net cash inflow from operating activities	7,796	32,433
Net cash outflow from investing activities	(30,260)	(41,210)
Net cash (outflow)/inflow from financing activities	(17,030)	149,231
(Decrease)/Increase in cash and cash equivalents	(39,494)	140,454

Charges On Assets

As at 31 October 2008, certain assets of the Group with an aggregate carrying value of approximately HK\$64,801,000 (30 April 2008: HK\$39,516,000) 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 Southeast Asia. The major revenue currencies are primarily denominated in Hong Kong dollar, United States dollar, Renminbi and New Taiwan dollar; whilst the major currencies in purchase commitments are primarily denominated in Hong Kong dollar, Renminbi, Japanese Yen, United States dollar and New Taiwan dollar. Given that Renminbi has a remarkable appreciation, there would be a material negative impact on the Group's profit performance. Recently, there are signs of slower appreciation in Renminbi, whilst Japanese Yen mostly experienced cyclic rises, which can be hedged with purchase plans. As such, the Board considers that it is not necessary for the Group to enter into any highly cost foreign exchange futures or options contract for hedging against exchange risks, but will continue to closely monitor the fluctuations in exchange rates of the currencies. The Group's financing loans are all settled in Hong Kong dollars; whilst trust receipts are mainly settled in Hong Kong dollars and United States dollars. In addition, the settlements of accounts payable are mainly in Hong Kong dollars, Renminbi and United States dollars. The Board believes that there is no substantial exchange risk in this respect.

MANAGEMENT DISCUSSION AND ANALYSIS

FUTURE STRATEGIC PLAN AND LAYOUT OF SHORT-TERM WORK

Being hit by the global financial tsunami, the Group expects that the operating environment would be more challenging in the near future. The falling consumer confidence and demand will further affect the electronic consumer products market. Shrinkage in product orders has been emerging gradually. However, the Group's sales departments have reassessed the market opportunities and will work with their most sincere dedication even in the gloomy market. Resources will be allocated on development projects in meeting the Group's objectives. For the Chinese saying "one does not advance, he will fall backward". It is expected that the joint forces of the sales departments will lead the Group to another way open even if there are full of challenges.

Over the years, the Group has been operating and developing with bank financing. Under the shadow of the financial tsunami, banks have implemented new monitoring standards on credit and imposed more stringent requirements on repayment qualities. In view of this, the Group has reviewed the operating direction, production scale, adjustment and change of facilities, job duties assignment, credit policy, business divisioning, partnering relations, etc. to make changes that can adapt to the environment.

The adjustments for the Group's productivity are underway. With the assistance from department of Foreign Trade and Economic Corporation and department of labour in Mainland China, the production facilities of Kunshan plant will be merged into Zhongshan main plant according to procedures and the laws during the third quarter. The two plants in Dongguan will also be combined to reduce the costs in overall production and management.

The Group will keep on improving industrial flow and undertaking research and development on more competitive applied raw materials. It will also make its utmost endeavour in raising the production efficiency and reducing waste, as well as further enhancing the competitiveness and flexibility of its business in future based on quality-oriented approach.

The Group has revised the purchase order plan to reduce the inventory level and control the time for releasing the materials to turn to work in progress in workshops. The heads and colleagues at all levels in production have been urged to proactively co-ordinate to turn the inventory into products that can generate more working capital in short-term.



MANAGEMENT DISCUSSION AND ANALYSIS

FUTURE STRATEGIC PLAN AND LAYOUT OF SHORT-TERM WORK *(continued)*

The Group has been well aware that maintaining the policy of offering favourable payment terms to its suppliers can effectively wipe away unnecessary worries in time of financial tsunami! This will allow the Group to obtain competitive raw materials supply in the gloomy market. To reserve more cash to meet the accounts payable as planned in the first quarter of this year provides a sound basis for the Group to reduce its materials inventory level with stable supply secured and to procure arrangement of reliable payment in the future.

Despite the current gloomy and uncertain economic circumstances, the Group strongly believes that the allocation of resources on Hong Kong headquarter to set up a center for its research and development, technology and inspection functions in terms of the Group's long-term strategic objective can effectively enhance the technological development, effectiveness of sales and marketing, adjustment and control on production and abilities of capital and financial management. More efforts to reduce all the expenses on unnecessary entertainment and non-business related activities and corresponding changes on its business structure have been made. Human resources is the Group's strong investment and reserve. The Group will not recklessly reduce its valuable talents resources, which are the hard-earned results, even in time of financial tsunami. The overall organization structure will be reasonably evaluated. Taking this favourable opportunity, the Group will re-organise positions, where appropriate, with replacement recruitment. The Board believes that the optimized human resources will be the important impulsion to catch up future opportunities.

EMPLOYEES

As at 31 October 2008, the Group employed approximately 7,600 (2007: 8,500) employees, down 10.6% when compared with the same period last year. Due to the volatile market, policy is adopted to have natural attrition for low-yield positions and flexible transfer for key positions to maintain an effective productivity, which shows that the Group's production capacity has high flexibility riding on its harmonious labour relations. The remuneration of the employees is determined by reference to market benchmark, individual performance and work experience, subject to periodic review. In spite of the queasy operating environment, the Group still provides incentives to those with outstanding performance with appropriate salary adjustments. Other agreed employee benefits include pension scheme, medical insurance, subsidies for on-job training and education and those as required by the relevant jurisdiction of places of operation including social security fund, paid leaves, etc. Under the share option scheme of the Company, options may be granted to eligible employees to subscribe for shares in the Company. During the period under review, no option was granted under the scheme (2007: Nil).

OTHER INFORMATION

INTERESTS OF DIRECTORS AND CHIEF EXECUTIVE IN SECURITIES

As at 31 October 2008, 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				Percentage of issued share capital
	Personal interests (Note 2)	Corporate interests	Trust interests	Total interests	
Mr. Lam Wai Chun	28,827,188	442,295,660 (Note 3)	442,295,660 (Note 3)	471,122,848 (Note 3)	65.74%
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	5,617,440	–	–	5,617,440	0.78%
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 442,295,660 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 (the “Trust”). 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 442,295,660 shares in the corporate interests and trust interests related to the same block of shares in the Company and duplicated each other. Accordingly, Mr. Lam Wai Chun’s total interests of 471,122,848 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:

4. 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.
5. 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 subparagraph (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.
6. All the above interests in the non-voting deferred shares of Coils Electronic Co., Limited held by Mr. Lam Wai Chun were long positions.
7. Mr. Lam Wai Chun held shares in certain subsidiaries as trustee for their holding companies.

Save as disclosed above, as at 31 October 2008, 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 2008, 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 2008, 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	Trust interests	Beneficial owner	
Ms. Law Ching Yee	471,122,848 (Note 2)	-	-	-	65.74%
Ka Yan China Development (Holding) Company Limited	-	-	-	442,295,660 (Notes 2 and 3)	61.72%
Ka Yan China Investments Limited	-	437,217,660 (Notes 2 and 3)	-	-	61.01%
HSBC International Trustee Limited	-	-	437,217,660 (Notes 2 and 3)	-	61.01%

Other person 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	Trust interests	Beneficial owner	
Toko, Inc.	-	-	-	36,785,402	5.13%*

Notes:

- All the above interests in the shares of the Company were long positions.
- The 442,295,660 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. 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 in which her spouse, Mr. Lam Wai Chun, was interested for the purpose of the SFO.
- The interests of Ka Yan China Investments Limited, the ultimate holding company of the Company, and HSBC International Trustee Limited were in respect of the same 437,217,660 shares and duplicated each other. Such shares formed part of the shares in which Ka Yan China Development (Holding) Company Limited was interested. As at 31 October 2008, the actual duplicate interests held by Ka Yan China Investments Limited and HSBC International Trustee Limited in the Company was 442,295,660 shares which were also the same shares held by Ka Yan China Development (Holding) Company Limited as referred to in the Note 2 above.

* The percentage has been adjusted based on the total number of shares of the Company in issue as at 31 October 2008 (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 2008.

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 2007 Agreement (as defined below), which include a condition relating to specific performance of the controlling shareholder of the Company:

- On 17 September 2007, the Company (as borrower), Coils Electronic Co., Limited (as original guarantor), an indirect wholly-owned subsidiary of the Company, and a group of banks entered into a 3-year transferable term loan facility agreement (the “2007 Agreement”) for an aggregate amount of HK\$300,000,000 (the “2007 Facility”).

Under the provisions of the 2007 Agreement, it would be an event of default, inter alia, if Mr. Lam Wai Chun, 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.

For the 2007 Agreement, if the aforesaid event of default occurs, upon a notice served to the Company, (i) the 2007 Facility shall immediately be cancelled; (ii) all or part of the loans under the 2007 Facility, together with accrued interest, and all other amounts accrued or outstanding under all finance documents (including the 2007 Agreement) shall immediately become due and payable; and/or (iii) all or part of the loans outstanding under the 2007 Facility shall immediately become payable on demand. As at 31 October 2008, the aggregate carrying value of the outstanding loan under the 2007 Agreement was approximately HK\$198,459,000.

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 2008. 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 2008.

OTHER INFORMATION

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 2008, 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 26 September 2008 (“2008 AGM”) due to illness at the material time. The Managing Director of the Company, who chaired 2008 AGM, and all other members of the Board (including the chairman of each of the Audit Committee and Remuneration Committee) attended 2008 AGM to ensure effective communication with shareholders of the Company.

AUDIT COMMITTEE

The Audit Committee of the Company presently comprises 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 2008.

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 2008. 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 2008.

By Order of the Board
Lam Wai Chun
Chairman

08/09

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