1. ORGANISATION AND OPERATIONS

CEC International Holdings Limited (the "Company") was incorporated in Bermuda on 10th September, 1999 as an exempted company under the Companies Act 1981 of Bermuda (as amended). The Company's shares have been listed on The Stock Exchange of Hong Kong Limited since 15th November, 1999.

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 and other electronic components. The subsidiaries' products are generally used in the manufacture of various kinds of electronic and electrical products.

2. PRINCIPAL ACCOUNTING POLICIES

The financial statements have been prepared in accordance with Statements of Standard Accounting Practice issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong, the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. Principal accounting policies are summarised below:

a. Basis of presentation

As at 30th April, 2001, the Group was not in compliance with one of the covenants in relation to certain banking facilities, which require that the net gearing ratio should not exceed 0.6:1. Accordingly, the Group's long-term bank loans under such banking facilities have been reclassified as a current liability as at 30th April, 2001. However, the Group has made the bank aware of the breach of covenant and is in the process of negotiating with the relevant bank to maintain the loans on similar terms and conditions.

Management believes, based on its discussions with the bank, that it will be able to successfully negotiate the loans to be maintained on similar terms and conditions and is confident that the Group will be able to meet the required net gearing ratio in the near future. However, should it be unable to do so, or should the bank demand repayments of the loans, alternative sources of financing would be required to repay the bank and to finance the Group's ongoing operations. The financial statements have been prepared on the going concern basis which assumes that the relevant bank will not demand immediate repayment from the Group, the Group will be able to maintain the loans on similar terms and conditions and the covenant can be met in the near future.

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

b. Basis of measurement

The financial statements have been prepared on the historical cost basis as modified by the revaluation of land and buildings.

c. Basis of consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries (together the "Group"), together with the Group's share of post-acquisition results of subsidiaries and reserves of its jointly controlled entities under the equity method of accounting. The results of subsidiaries and jointly controlled entities acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal. Significant intra-group transactions and balances have been eliminated on consolidation.

d. Goodwill

Goodwill represents the difference between the fair value of the consideration given and the Group's share of the aggregate fair values of the identifiable net assets acquired. Positive goodwill arises where the consideration given exceeds the Group's share of the aggregate fair values of the identifiable net assets acquired and is eliminated immediately against available reserves. Negative goodwill arises where the Group's share of the aggregate fair values of the identifiable net assets acquired exceeds the consideration given and is credited directly to reserves.

e. Subsidiaries

A subsidiary is a company in which the Company holds, directly or indirectly, more than 50% of its issued voting share capital as a long-term investment. In the Company's financial statements, investment in subsidiaries is stated at cost less provision for any impairment in value, while income from subsidiaries is recorded to the extent of dividends received and receivable.

f. Jointly controlled entities

Jointly controlled entities are joint ventures where the Group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity. In the consolidated financial statements, the Group's interests in jointly controlled entities are initially recorded at cost and adjusted thereafter for the post-acquisition changes in the Group's share of the net assets of the jointly controlled entities. The Group's share of post-acquisition results of jointly controlled entities is included in the consolidated income statement under the equity method of accounting.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

g. Turnover and revenue recognition

Turnover represents the net invoiced value of merchandise sold after allowances for discounts and returns.

Revenue is recognised when the outcome of a transaction can be measured reliably and when it is probable that the economic benefits associated with the transaction will flow to the Group. Sales revenue is recognised when the merchandise is delivered and title has passed to customers. Interest income is recognised on a time proportion basis on the principal outstanding and at the rate applicable.

h. Taxation

Individual companies within the Group provide for profits tax on the basis of their profit for financial reporting purposes, adjusted for income and expense items which are not assessable or deductible for profits tax purposes.

Deferred taxation is provided under the liability method, at the current tax rate, in respect of significant timing differences between profit as computed for taxation purposes and profit as stated in the financial statements, except when it is considered that no liability will arise in the foreseeable future. Deferred tax assets are not recognised unless the related benefits are expected to crystallise in the foreseeable future.

i. Advertising and promotion costs

The costs of advertising and promotion are charged to the income statement as incurred.

j. Research and development costs

Research expenditures are written off as incurred. Development expenditures are charged against income in the period incurred except for those incurred for specific projects where recoverability can be foreseen with reasonable assurance and which comply with the following criteria: (i) the product or process is clearly defined and the costs attributable to the product or process can be separately identified and measured reliably; (ii) the technical feasibility of the product or process can be demonstrated; (iii) the enterprise intends to produce and market, or use, the product or process; (iv) the existence of a market for the product or process or, if it is to be used internally rather than sold, its usefulness, can be demonstrated; and (v) adequate resources exist, or their availability can be demonstrated, to complete the project and market or use the product or process. Capitalised development expenditures are amortised on a straight-line basis over the period in which the related products are expected to be sold, starting from the commencement of sales.

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

k. Employee retirement benefits

The costs of employee retirement benefits are charged to the income statement as incurred.

l. Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that takes a substantial period of time to prepare for its intended use or sale are capitalised as part of the cost of that asset. All other borrowing costs are recognised as an expense in the period in which they are incurred.

m. Property, plant and equipment and depreciation

Property, plant and equipment, other than land and buildings, are stated at cost less accumulated depreciation. Land and buildings are stated at valuation or cost less accumulated depreciation. Major expenditures on modifications and betterments of property, plant and equipment which will result in future economic benefits are capitalised, while expenditures on maintenance and repairs are expensed as incurred. Depreciation is provided on a straight-line basis to write off the cost or the revalued amount less estimated residual value of each asset over its estimated useful life. The annual rates of depreciation are as follows:

Land	2% (lease terms)
Buildings	2.5%
Machinery	10%
Furniture and equipment	20%
Motor vehicles	30%

Independent valuations for land and buildings are performed periodically with the last valuation performed on 31st August, 1999. In the intervening years, the Company's Directors review the carrying value of land and buildings and adjustment is made where in the Directors' opinion there has been a material change in value. Any increase in valuation of land and buildings is credited to the property revaluation reserve; any decrease is first offset against increases from earlier valuations in respect of the same land and buildings and is thereafter charged to the income statement.

Gains or losses on disposal of property, plant and equipment are recognised in the income statement based on the net disposal proceeds less the carrying amount of the assets, with previously recognised revaluation surpluses transferred from property revaluation reserve to retained profit.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

m. Property, plant and equipment and depreciation (Continued)

The carrying value of property, plant and equipment is assessed periodically or when factors indicating an impairment are present. Individual items of property, plant and equipment carried at cost less accumulated depreciation are reduced to their recoverable amount if this is lower than net book value, with the difference charged to the income statement. In determining the recoverable amount of individual items of property, plant and equipment, expected future cash flows are not discounted to their present value.

Property, plant and equipment held under finance leases are recorded and depreciated on the same basis as described above.

Buildings under construction are stated at cost, which include the original cost of land, construction expenditures incurred and other direct costs attributable to the buildings under construction. No depreciation is provided.

n. Intangible asset

Intangible asset, representing acquisition costs for a non-exclusive distribution right, is stated at cost and is amortised on a straight-line basis over the expected future economic life of three years. Where appropriate, provision is made for any impairment in value.

o. Inventories

Inventories are carried at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method of costing and includes costs of purchase, costs of conversion and other costs incurred in bringing the goods to their present location and condition. Net realisable value is based on estimated selling prices in the ordinary course of business, less further costs expected to be incurred to completion and disposal. Provision is made for obsolete, slow-moving or defective items where appropriate.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

p. Leases

Finance leases represent those leases under which substantially all the rewards and risks of ownership of the leased assets are transferred to the Group. Property, plant and equipment held under finance leases are initially recorded at the present value of the minimum payments at the inception of the leases, with equivalent liabilities categorised as appropriate under current or non-current liabilities. Interest, which represents the difference between the minimum payments at the inception of the finance leases and the corresponding fair value of the assets acquired, is allocated to accounting periods over the period of the relevant leases to produce a constant rate of charge on the outstanding balances.

Operating leases represent those leases under which substantially all the rewards and risks of ownership of the leased assets remain with the lessors. Rental payments under operating leases are charged to the income statement on a straight-line basis over the period of the relevant leases.

q. Foreign currency translation

Individual companies within the Group maintain their books and records in the primary currencies of their respective operations (“functional currencies”). In the accounts of the individual companies, transactions in other currencies during the year are translated into the respective functional currencies at the applicable rates of exchange prevailing at the time of the transactions. Monetary assets and liabilities denominated in other currencies are translated into the respective functional currencies at the applicable rates of exchange in effect at the balance sheet date. Exchange gains or losses are dealt with in the income statements of the individual companies.

The Group prepares consolidated financial statements in Hong Kong dollars. For the purpose of consolidation, all of the assets and liabilities of subsidiaries with functional currencies other than Hong Kong dollars are translated into Hong Kong dollars at the applicable rates of exchange in effect at the balance sheet date and income and expense items are translated into Hong Kong dollars at the average applicable exchange rates during the year. Exchange differences arising from such translation are dealt with as movements of cumulative translation adjustments.

3. TURNOVER AND SEGMENTAL INFORMATION

Turnover by product category is as follows:

	2001 Turnover $'000	**2001** Profit (loss) from operations $'000	2000 Turnover $'000	2000 Profit (loss) from operations $'000
Sales of merchandise				
– Coils	**309,886**	**51,908**	265,468	55,235
– Capacitors	**21,899**	**332**	3,292	908
– Other electronic components	**15,219**	**(495)**	2,532	(946)
	347,004	**51,745**	271,292	55,197

Analysis of turnover by geographical location as determined on the basis of the location where merchandise is delivered is as follows:

	2001 $'000	2000 $'000
Hong Kong	**271,532**	217,637
Mainland China	**23,210**	24,911
Taiwan	**16,409**	6,392
Europe	**15,849**	14,558
Singapore	**15,320**	5,535
Others	**4,684**	2,259
Total turnover	**347,004**	271,292

No analysis of profit (loss) from operations by geographical location is presented as it is generally in line with the distribution of turnover as set out above.

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

4. PROFIT BEFORE TAXATION

Profit before taxation in the consolidated income statement is determined after charging or crediting the following items:

	2001 $'000	2000 $'000
After charging –		
Staff costs (including directors' emoluments)	87,210	68,634
Advertising and promotion costs	2,125	1,795
Research and development costs	8,670	63
Operating lease rental of premises	2,697	1,050
Depreciation of property, plant and equipment		
– owned assets	22,381	16,305
– assets held under finance leases	11,975	6,537
Amortisation of intangible asset	356	–
Interest expense on		
– bank overdrafts and loans wholly repayable within five years	8,831	4,271
– factoring of trade receivables	3,755	2,727
– finance leases	6,913	3,369
Provision for/write-off of bad and doubtful debts	3,019	1,151
Net exchange loss	–	746
Auditors' remuneration	778	690
After crediting –		
Interest income from bank deposits	2,422	1,864
Write-back of provision for bad and doubtful debts	10	1,371
Net exchange gain	1,934	–

5. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS

a. **Details of directors' emoluments are:**

	2001	2000
	$'000	$'000
Fees for executive directors	**–**	–
Fees for non-executive director	**–**	–
Fees for independent non-executive directors	**600**	350
Other emoluments for executive directors		
– Basic salaries and allowances	**4,216**	3,322
– Contributions to pension schemes	**253**	162
Other emoluments for non-executive director		
– Basic salaries and allowances	**495**	526
	5,564	4,360

No directors waived any emoluments during the year. No incentive payment for joining the Group or compensation for loss of office was paid or payable to any director for the year.

Analysis of directors' emoluments by number of directors and emolument range is as follows:

	2001	2000
Executive directors		
– Nil to $1,000,000	**3**	4
– $1,000,001 to $1,500,000	**1**	1
– $1,500,001 to $2,000,000	**1**	–
	5	5
Non-executive director/Independent non-executive directors		
– Nil to $1,000,000	**3**	3

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

5. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS (Continued)

b. Details of emoluments paid to the five highest paid individuals (including directors and other employees) are:

	2001	2000
	$'000	$'000
Basic salaries and allowances	**4,544**	3,718
Contributions to pension schemes	**244**	155
	4,788	3,873

All (2000 – all) of the five highest paid individuals were directors of the Company, whose emoluments have been included in Note 5.a above.

During the year, no emoluments were paid to the five highest paid individuals as inducement to join or upon joining the Group or as compensation for loss of office.

Analysis of emoluments paid to the five highest paid individuals by number of individuals and emolument range is as follows:

	2001	2000
Nil to $1,000,000	**3**	4
$1,000,001 to $1,500,000	**1**	1
$1,500,001 to $2,000,000	**1**	–
	5	5

6. TAXATION

Taxation comprises:

	2001 $'000	2000 $'000
Current taxation –		
Hong Kong profits tax		
– current year	–	405
– over-provision in prior years	(51)	–
Mainland China enterprise income tax		
– current year	231	385
Deferred taxation (Note 22) –		
Hong Kong profits tax	3,625	4,070
	3,805	4,860

The Company is exempted from taxation in Bermuda until 2016. Hong Kong profits tax has been provided at the rate of 16% (2000 – 16%) on the estimated assessable profit arising in or derived from Hong Kong.

Zhongshan Tonichi Ferrite Products Co., Ltd., Zhongshan Coils Metalwork Co., Ltd. and Zhongshan Coils Electronic Co., Ltd., wholly foreign owned enterprises established in Zhongshan, the open coastal area of Mainland China, are subject to Mainland China enterprise income tax at a rate of 24%, while Xiamen Coils Electronic Co., Ltd., a wholly foreign owned enterprise established in Xiamen, a special economic zone in Mainland China, is subject to Mainland China enterprise income tax at a rate of 15%. However, Zhongshan Tonichi Ferrite Products Co., Ltd. and Xiamen Coils Electronic Co., Ltd. are exempted from state income tax and local income tax for two years starting from the first year of profitable operations after offsetting accumulated losses carried forward, to be followed by a 50% reduction in state income tax for the next three years. Zhongshan Coils Metalwork Co., Ltd. and Zhongshan Coils Electronic Co., Ltd. are still in the process of applying for the exemption from state income tax and local income tax from tax bureau as at 30th April, 2001. Zhongshan Tonichi Ferrite Products Co., Ltd. was entitled to tax exemption during the period from 1st January, 1996 to 31st December, 1997, and it was subject to state income tax at the rate of 12% for the three years ended 31st December, 2000. Xiamen Coils Electronic Co., Ltd., Zhongshan Coils Metalwork Co., Ltd. and Zhongshan Coils Electronic Co., Ltd. were still in tax loss position as at 30th April, 2001.

For all other companies within the Group, profits tax was provided at tax rates in the respective jurisdictions in which they operate.

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

7. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The consolidated profit attributable to shareholders includes a profit of approximately $9,085,000 (2000 – $10,771,000) dealt with in the financial statements of the Company.

8. DIVIDENDS

Dividends comprise:

	2001 **$'000**	2000 $'000
Proposed final dividend of 1 cent (2000 – 2 cents*) per share based on 528,027,108 (2000 – 500,000,000*) shares	**5,280**	10,000
Interim dividend paid	**–**	1,088
	5,280	11,088

* The comparative figures have been adjusted to reflect the bonus issue of shares on the basis of three bonus shares for every two shares held by shareholders on 17th August, 2000 (see Note 23.a).

The proposed final dividend of 1 cent per share for the year ended 30th April, 2001 is to be paid in cash with a scrip option at the election of shareholders whose names appear on the Company's register of member on 14th September, 2001.

9. RETAINED PROFIT

Retained profit comprises:

	2001 **$'000**	2000 $'000
Company	**4,576**	771
Subsidiaries	**135,728**	113,950
	140,304	114,721

(Amounts expressed in Hong Kong dollars unless otherwise stated)

10. EARNINGS PER SHARE

The calculation of basic earnings per share for the year ended 30th April, 2001 is based on the profit attributable to shareholders of approximately $30,863,000 (2000 – $41,910,000) and on the weighted average number of 513,023,946 (2000 – 434,426,230) shares in issue during the year.

The comparative weighted average number of shares in issue and basic earnings per share for the year ended 30th April, 2000 have been adjusted to reflect the bonus issue of shares on the basis of three bonus shares for every two shares held by shareholders on 17th August, 2000 (see Note 23.a).

The calculation of diluted earnings per share for the year ended 30th April, 2001 is based on the profit attributable to shareholders of approximately $30,863,000 and on the weighted average number of 544,597,234 shares, adjusted to reflect the effect of all dilutive potential shares in issue during the year.

A reconciliation of the weighted average number of shares used in the calculation of basic earnings per share for the year ended 30th April, 2001 to that used in the calculation of diluted earnings per share is as follows:

Weighted average number of shares used in the calculation of basic earnings per share	513,023,946
Weighted average number of shares assumed to have been issued at no consideration on the deemed exercise of all warrants outstanding during the year (Note 25)	31,573,288
Weighted average number of shares used in the calculation of diluted earnings per share	544,597,234

The outstanding share options during the year ended 30th April, 2001 were anti-dilutive. No diluted earnings per share for the year ended 30th April, 2000 is presented because there were no dilutive potential shares in existence during that year.

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

11. PROPERTY, PLANT AND EQUIPMENT

a. Movements of property, plant and equipment (consolidated) are:

	2001						2000
	Land and buildings	Machinery	Furniture and equipment	Motor vehicles	Buildings under construction	Total	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Cost or valuation							
Beginning of year	51,655	233,927	33,072	4,187	–	322,841	201,771
Additions	4,021	189,657	10,322	682	18,615	223,297	121,664
Disposals	–	–	–	–	–	–	(471)
Transfer	–	643	(643)	–	–	–	–
Revaluation deficit	–	–	–	–	–	–	(132)
Translation adjustments	–	(764)	(202)	(46)	–	(1,012)	9
End of year	55,676	423,463	42,549	4,823	18,615	545,126	322,841
Representing							
At cost	8,875	423,463	42,549	4,823	18,615	498,325	276,040
At professional valuation	46,801	–	–	–	–	46,801	46,801
	55,676	423,463	42,549	4,823	18,615	545,126	322,841
Accumulated depreciation							
Beginning of year	845	56,368	19,303	2,261	–	78,777	56,713
Provision for the year	1,367	26,968	5,635	386	–	34,356	22,842
Disposals	–	–	–	–	–	–	(412)
Write-back upon revaluation	–	–	–	–	–	–	(366)
Translation adjustments	–	(218)	(198)	(8)	–	(424)	–
End of year	2,212	83,118	24,740	2,639	–	112,709	78,777
Net book value							
End of year	53,464	340,345	17,809	2,184	18,615	432,417	244,064
Beginning of year	50,810	177,559	13,769	1,926	–	244,064	145,058

11. PROPERTY, PLANT AND EQUIPMENT (Continued)

b. Details of land and buildings (consolidated) are:

	2001 $'000	2000 $'000
Hong Kong – medium-term leases	8,204	6,856
Mainland China – medium-term leases	44,865	43,551
Mainland China – long-term leases	395	403
	53,464	50,810

Approximately $44,095,000 (2000 – $39,088,000) of land and buildings located in Mainland China are held under land use rights for 50 years up to 2048 and approximately $395,000 (2000 – $403,000) under land use rights for 70 years up to 2068. As at 30th April, 2001, the Group is still in the process of applying for land use rights for certain land and buildings located in Mainland China with a net book value of approximately $770,000 (2000 – $4,463,000).

Approximately $6,668,000 (2000 – $6,856,000) of land and buildings located in Hong Kong were stated at open market value as at 31st August, 1999 (date of last valuation) as determined by LCH (Asia-Pacific) Surveyors Limited, independent qualified valuers. Approximately $38,456,000 (2000 – $39,491,000) of land and buildings located in Mainland China were stated on a replacement cost basis as at 31st August, 1999 as determined by the same firm.

Had all land and buildings been carried at cost less accumulated depreciation, the net book value of the Group's land and buildings as at 30th April, 2001 would have been approximately $37,587,000 (2000 – $34,506,000).

Land and buildings with a net book value of approximately $6,319,000 (2000 – $6,500,000) were mortgaged as collateral for the Group's banking facilities (see Note 30.a).

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

11. PROPERTY, PLANT AND EQUIPMENT (Continued)

c. **Machinery and motor vehicles:**

Certain machinery and motor vehicles included in Note 11.a above were held under finance leases. Details of these assets are as follows:

	2001 $'000	2000 $'000
Cost	**149,291**	94,752
Less: Accumulated depreciation	**(16,770)**	(11,281)
Net book value	**132,521**	83,471

Machinery with a net book value of approximately $35,778,000 (2000 – Nil) was pledged as collateral for the Group's banking facilities (see Note 30.c).

12. INTANGIBLE ASSET

Movement of intangible asset (consolidated) is as follows:

	2001 $'000	2000 $'000
Cost		
Addition and end of year	**3,200**	–
Accumulated amortisation		
Amortisation and end of year	**(356)**	–
Net book value	**2,844**	–

13. INVESTMENT IN SUBSIDIARIES

In the Company's balance sheet, investment in subsidiaries comprises:

	2001 $'000	2000 $'000
Unlisted shares, at cost	137,348	137,348
Due from subsidiaries	88,608	44,193
	225,956	181,541

The amounts due from subsidiaries are unsecured, non-interest bearing and not repayable until the subsidiaries are financially capable to do so.

The underlying value of the investment in subsidiaries is, in the opinion of the Company's Directors, not less than the carrying value as at 30th April, 2001.

As at 30th April, 2001, the Company has given guarantees to banks of approximately $296,622,000 (2000 – $158,147,000) to secure banking and finance lease facilities of certain subsidiaries (see Note 28.c).

Details of the Company's subsidiaries as at 30th April, 2001 are as follows:

Name	Place of incorporation/ operation	Issued and fully paid share capital	Percentage of equity interest attributable to the Group (a)	Principal activities
Coils International Holdings Limited	British Virgin Islands	Ordinary US$10,000	100%	Investment holding
CEC-Coils Hong Kong Co., Limited	Hong Kong	Ordinary $2 Non-voting deferred $1,000,000 (b)	100%	Dormant
CEC-Coils Singapore Pte Ltd.	Singapore	Ordinary S$1,500,000	100%	Manufacture and sale of coils and other electronic components
CEC-ECAP Limited	Hong Kong	Ordinary $1,000,000	100%	Manufacture and sale of electrolytic capacitors
CEC-Electric Co., Limited	Hong Kong	Ordinary $2	100%	Trading of electronic components

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

13. INVESTMENT IN SUBSIDIARIES (Continued)

Name	Place of incorporation/ operation	Issued and fully paid share capital	Percentage of equity interest attributable to the Group (a)	Principal activities
CEC-Smart Good Enterprises Limited (Formerly known as Billion Dragons Limited)	Hong Kong	Ordinary $10,000	100%	Trading of electronic components
CEC-Technology Limited (Formerly known as CEC-CAP Limited)	Hong Kong	Ordinary $10,000	100%	Provision of information technology management services
Coils Electronic Co., Limited	Hong Kong	Ordinary $2 Non-voting deferred $14,000,000 (b)	100%	Investment holding; manufacture and sale of coils and other electronic components
Coils Investment (BVI) Limited	British Virgin Islands	Ordinary US$1	100%	Investment holding
CEC-Unitech Electronics Limited (Formerly known as CEC-Ceramic Cap Limited)	Hong Kong	Ordinary $10,000	51%	Trading of electronic components
Jin Yuan Moulds Limited	Hong Kong	Ordinary $100	100%	Dormant
Xiamen Coils Electronic Co., Ltd. (c)	Mainland China	Registered capital $2,900,000	100%	Manufacture and sale of coils and other electronic components
Zhongshan Tonichi Ferrite Products Co., Ltd. (c)	Mainland China	Registered capital $81,600,000	100%	Manufacture and sale of coils and other electronic components
Zhongshan Coils Metalwork Co., Ltd. (c)	Mainland China	– (d)	100%	Manufacture of coils
Zhongshan Coils Electronic Co., Ltd. (c)	Mainland China	– (d)	100%	Dormant

13. INVESTMENT IN SUBSIDIARIES (Continued)

Notes:

a. The shares of Coils International Holdings Limited are held by the Company directly. The shares of other subsidiaries are held indirectly.

b. The non-voting deferred shares of CEC-Coils Hong Kong Co., Limited are owned by Coils Electronic Co., Limited, whereas the non-voting deferred shares of Coils Electronic Co., Limited are owned by Mr. Lam Wai Chun, Ms. Law Ching Yee and Ka Yan China Development (Holding) Company Limited, the intermediate holding company of the Company. Holders of the non-voting deferred shares have no voting rights, are not entitled to dividends unless the net profit of CEC-Coils Hong Kong Co., Limited and Coils Electronic Co., Limited each exceeds $100,000,000,000,000, and are not entitled to any distributions upon winding up unless a sum of $100,000,000,000,000 has been distributed to the holders of the ordinary shares.

c. Xiamen Coils Electronic Co., Ltd., Zhongshan Tonichi Ferrite Products Co., Ltd., Zhongshan Coils Metalwork Co., Ltd. and Zhongshan Coils Electronic Co., Ltd. are wholly foreign owned enterprises established in Mainland China to be operated for 15 years up to December 2012, September 2008, February 2016 and April 2016, respectively.

d. Zhongshan Coils Metalwork Co., Ltd. and Zhongshan Coils Electronic Co., Ltd. were established with registered capital of US$3,000,000 and US$8,000,000, respectively. As at 30th April, 2001, the Group has not yet contributed any capital to these two subsidiaries.

None of the subsidiaries had any loan capital in issue at any time during the year ended 30th April, 2001.

14. INVESTMENT IN JOINTLY CONTROLLED ENTITIES

Investment in jointly controlled entities (consolidated) comprises:

	2001	2000
	$'000	$'000
Unlisted shares, at cost	**103**	–
Due from a jointly controlled entity	**136**	–
Due to a jointly controlled entity	**(5)**	–
	234	–

The outstanding balances with jointly controlled entities are unsecured, non-interest bearing and without predetermined repayment terms.

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

14. INVESTMENT IN JOINTLY CONTROLLED ENTITIES (Continued)

The underlying value of the investment in jointly controlled entities is, in the opinion of the Directors, not less than the carrying value as at 30th April, 2001.

Details of the jointly controlled entities as at 30th April, 2001 are as follows:

Name	Place of incorporation/ operation	Issued and fully paid share capital	Percentage of equity interest and profit sharing attributable to the Group	Principal activities
CEC-East Tower Co., Limited	Hong Kong	Ordinary $10,000	50%	Dormant
CEC-Chung Cheuk Electronics Limited (Formerly known as Wisdom Connection Limited)	Hong Kong	Ordinary $200,000	50%	Trading of electronic components

The shares of the jointly controlled entities are held indirectly by the Company.

15. INVENTORIES

Inventories (consolidated) comprise:

	2001 $'000	2000 $'000
Raw materials	**39,593**	25,690
Work-in-progress	**9,513**	10,179
Finished goods	**11,578**	8,941
	60,684	44,810
Less: Provision for slow-moving and obsolete inventories	**(1,922)**	(1,922)
	58,762	42,888

The Group's inventories with a carrying amount of approximately $56,562,000 (2000 – $31,911,000) were held under trust receipts bank loan arrangements (see Note 30.c). No inventories were stated at net realisable value as at 30th April, 2001.

16. TRADE RECEIVABLES

The aging analysis of trade receivables (consolidated) as at 30th April, 2001 is as follows:

	2001 $'000	2000 $'000
Current	**20,707**	12,937
Overdue by 0 – 1 month	**6,559**	10,797
Overdue by 1 – 2 months	**4,250**	2,238
Overdue by 2 – 3 months	**1,010**	278
Overdue by more than 3 months	**2,869**	1,857
	35,395	28,107
Less: Provision for bad and doubtful debts	**(4,615)**	(1,906)
	30,780	26,201

Management of the Group performs ongoing credit and collectibility evaluations of each customer. Provisions for potential credit losses are maintained and such losses in aggregate have not exceeded management's estimates. The Group offers an average credit period ranging from one month to three months to its trade customers who have good payment records and well-established relationships with the Group.

17. PLEDGED BANK DEPOSITS

As at 30th April, 2001, the Group's bank deposits of approximately $47,387,000 (2000 – $43,201,000) were pledged as collateral for the Group's banking facilities (see Note 30.b).

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

18. SHORT-TERM BANK BORROWINGS

Short-term bank borrowings (consolidated) comprise:

	2001 $'000	2000 $'000
Bank overdrafts	12,075	6,030
Short-term bank loans	5,575	–
Trust receipts bank loans	71,153	29,416
	88,803	35,446

Refer to Note 30 for details of the Group's banking facilities.

19. LONG-TERM BANK LOANS

Details of long-term bank loans (consolidated), which are secured, are:

	2001 $'000	2000 $'000
Amounts repayable within a period		
– not exceeding one year	73,266	3,623
– more than one year but not exceeding two years	6,174	3,394
– more than two years but not exceeding five years	5,078	1,430
	84,518	8,447
Less: Amounts repayable within one year included under current liabilities	(73,266)	(3,623)
	11,252	4,824

Refer to Note 30 for details of the Group's banking facilities.

20. FINANCE LEASE OBLIGATIONS

Obligations under finance leases, net of future finance charges (consolidated), comprise:

	2001 $'000	2000 $'000
Amounts repayable within a period		
– not exceeding one year	**33,092**	20,487
– more than one year but not exceeding two years	**27,510**	17,726
– more than two years but not exceeding five years	**21,635**	15,128
	82,237	53,341
Less: Amounts repayable within one year included under current liabilities	**(33,092)**	(20,487)
	49,145	32,854

21. TRADE PAYABLES

The aging analysis of trade payables (consolidated) as at 30th April, 2001 is as follows:

	2001 $'000	2000 $'000
Current	**12,212**	23,863
Overdue by 0 – 1 month	**4,432**	11,206
Overdue by 1 – 2 months	**1,665**	474
Overdue by 2 – 3 months	**257**	1,951
Overdue by more than 3 months	**4,861**	2,121
	23,427	39,615

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

22. DEFERRED TAXATION

Movements of deferred taxation (consolidated) are:

	2001 **$'000**	2000 $'000
Beginning of year	**9,637**	5,567
Provision for net timing differences (Note 6)	**3,625**	4,070
End of year	**13,262**	9,637

Deferred taxation represents the taxation effect of the following timing differences:

	2001 **$'000**	2000 $'000
Accelerated depreciation allowance of property, plant and equipment	**20,397**	10,882
Cumulative tax losses carried forward of certain subsidiaries	**(6,922)**	(1,005)
General provisions	**(213)**	(240)
End of year	**13,262**	9,637

As at 30th April, 2001, the Group had an unprovided deferred tax liability of approximately $3,889,000 (2000 – $3,850,000), representing the tax effect on the surpluses arising on the revaluation of the Group's land and buildings in Mainland China, which would be recorded as a reduction of surplus on revaluation of properties. The deferred tax liability has not been provided as the Directors are of the opinion that the related land and buildings will not be disposed of in the foreseeable future and, accordingly, such deferred tax liability will not crystallise in the foreseeable future. There was no other significant unprovided deferred taxation as at 30th April, 2001.

23. SHARE CAPITAL

Movements in share capital are:

	2001		2000	
	Number of shares	**Nominal value $'000**	Number of shares	Nominal value $'000
Authorised shares of $0.10 each				
Beginning of year	1,000,000,000	100,000	–	–
Upon incorporation	–	–	1,000,000	100
Addition	–	–	999,000,000	99,900
End of year	1,000,000,000	100,000	1,000,000,000	100,000
Issued and fully paid shares of $0.10 each				
Beginning of year	200,000,000	20,000	–	–
Issued upon incorporation	–	–	1,000,000	100
Issue of shares arising from the reorganisation (Note 33)	–	–	1,000,000	100
Issue of shares through public offering and private placement	–	–	50,000,000	5,000
Capitalisation of share premium	–	–	148,000,000	14,800
Bonus issue (a)	300,000,000	30,000	–	–
Issue of shares pursuant to the scrip dividend scheme (b)	4,277,108	428	–	–
Issue of shares upon exercise of warrants (Note 25)	23,750,000	2,375	–	–
End of year	528,027,108	52,803	200,000,000	20,000

Notes:

a. On 13th July, 2000, the Directors recommended a bonus issue of new shares of $0.10 each in the share capital of the Company to shareholders whose names appeared on the Company's register of members on 17th August, 2000 (the "2000 Bonus Share Issue"). The 2000 Bonus Share Issue was made on the basis of three bonus shares for every two shares held on 17th August, 2000. On 8th September, 2000, the bonus shares were issued and credited as fully paid at par by way of capitalisation of the share premium and contributed surplus, ranking pari passu with the then existing shares in all respects when issued.

b. On 8th September, 2000, 4,277,108 new shares were issued and credited as fully paid at $1.778 per new share pursuant to the scrip dividend scheme under which certain shareholders whose names appeared on the Company's register of members on 17th August, 2000 elected to receive new fully paid shares in lieu of cash in respect of part or all of the final dividend for the year ended 30th April, 2000.

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

24. SHARE OPTIONS

On 26th October, 1999, the shareholders of the Company approved a share option scheme under which its Board of Directors may grant options to any full-time employees or executives of the Company or any of its subsidiaries, including executive directors (but excluding independent non-executive directors of the Company) of the Company or any of its subsidiaries, to subscribe for shares in the Company, subject to a maximum of 10% of the nominal value of the issued share capital of the Company from time to time, excluding for this purpose shares issued upon exercise of options granted pursuant to the share option scheme. The subscription price will be determined by the Board of Directors, and will not be less than (i) 80% of the average closing price of the shares of the Company quoted on The Stock Exchange of Hong Kong Limited on the five trading days immediately preceding the date of offer of the options or (ii) the nominal value of the shares, whichever is the higher.

Movements in share options during the year are as follows:

		Number of shares under options				
Date of grant	Subscription price per share	Beginning of year	Granted during the year	Exercised during the year	Lapsed during the year	End of year
21st September, 2000	$1.22*	–	11,795,864	–	–	11,795,864
1st November, 2000	$0.90**	–	37,650,000	–	(2,250,000)	35,400,000
		–	49,445,864	–	(2,250,000)	47,195,864

* Such share options are exercisable from 22nd September, 2002 to 21st January, 2005, both dates inclusive.

** Such share options are exercisable from 1st November, 2002 to 28th February, 2005, both dates inclusive.

25. WARRANTS

On 3rd July, 2000, the Company issued 400,000,000 units of warrants at an issue price of $0.0625 per unit of warrant through a private placement, resulting in net proceeds of approximately $22,891,000 (after deduction of related issuance expenses of approximately $2,109,000). Such warrants carry the subscription rights of $1.475 for every 10 units of warrants entitling the holders thereof to subscribe in cash for new shares in the Company up to a maximum aggregate amount of $59,000,000 at a subscription price of $0.59 per new share (subject to adjustment). The subscription price has been adjusted from $1.475 per new share to $0.59 per new share with effect from 18th August, 2000 as a result of the 2000 Bonus Share Issue. The warrants are exercisable at any time from 3rd July, 2000 to 30th September, 2003, both dates inclusive. During the year ended 30th April, 2001, 23,750,000 new shares were allotted and issued as a result of the exercise of 95,000,000 units of subscription rights of the warrants totalling $14,012,500. The proceeds were used as working capital of the Company. As at 30th April, 2001, the outstanding warrants entitled the holders thereof to subscribe for new shares in the Company up to a maximum aggregate amount of $44,987,500.

26. RESERVES

Movements of reserves are:

	2001							2000
	Share premium $'000	Capital reserve $'000	Contributed surplus (a) $'000	Subscription right reserve $'000	Property revaluation reserve $'000	Cumulative translation adjustments $'000	Total $'000	Total $'000
Consolidated								
Beginning of year	24,607	13,934	5,810	–	17,476	(37)	61,790	37,146
Proceeds from issue of warrants (Note 25)	–	–	–	25,000	–	–	25,000	–
Warrant issuance expenses (Note 25)	–	–	–	(2,109)	–	–	(2,109)	–
Bonus issue (Note 23.a)	(24,190)	–	(5,810)	–	–	–	(30,000)	–
Premium arising from issue of shares pursuant to the scrip dividend scheme (Note 23.b)	7,177	–	–	–	–	–	7,177	–
Proceeds from exercise of warrants (Note 25)	11,637	–	–	–	–	–	11,637	–
Premium arising from issuance of shares on exercise of warrants	5,437	–	–	(5,437)	–	–	–	–
Share issuance expenses	(178)	–	–	–	–	–	(178)	(10,593)
Capitalisation of share premium	–	–	–	–	–	–	–	(14,800)
Elimination of goodwill arising from acquisition of additional interest in a subsidiary	–	–	–	–	–	–	–	(72)
Surplus on revaluation of properties	–	–	–	–	–	–	–	234
Attributable to the reorganisation (Note 33)	–	–	–	–	–	–	–	(116)
Premium arising from new issue of shares	–	–	–	–	–	–	–	50,000
Translation adjustments	–	–	–	–	–	(197)	(197)	(9)
End of year	24,490	13,934	–	17,454	17,476	(234)	73,120	61,790

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

26. RESERVES (Continued)

	2001							2000
	Share premium $'000	Capital reserve $'000	Contributed surplus (a) $'000	Subscription right reserve $'000	Property revaluation reserve $'000	Cumulative translation adjustments $'000	Total $'000	Total $'000
Company								
Beginning of year	24,607	–	137,148	–	–	–	161,755	–
Proceeds from issue of warrants (Note 25)	–	–	–	25,000	–	–	25,000	–
Warrant issuance expenses (Note 25)	–	–	–	(2,109)	–	–	(2,109)	–
Bonus issue (Note 23.a)	(24,190)	–	(5,810)	–	–	–	(30,000)	–
Contributed surplus arising from the reorganisation (Note 33)	–	–	–	–	–	–	–	137,148
Premium arising from new issue of shares	–	–	–	–	–	–	–	50,000
Premium arising from issue of shares pursuant to the scrip dividend scheme (Note 23.b)	7,177	–	–	–	–	–	7,177	–
Proceeds from exercise of warrants (Note 25)	11,637	–	–	–	–	–	11,637	–
Premium arising from issuance of shares on exercise of warrants	5,437	–	–	(5,437)	–	–	–	–
Share issuance expenses	(178)	–	–	–	–	–	(178)	(10,593)
Capitalisation of share premium	–	–	–	–	–	–	–	(14,800)
End of year	24,490	–	131,338	17,454	–	–	173,282	161,755

Note:

a. Contributed surplus of the Company represents the difference between the nominal value of the Company's shares issued and the aggregate net asset value of the subsidiaries acquired through an exchange of shares pursuant to the reorganisation in 1999 (see Note 33). Contributed surplus of the Group represents the excess of the share capital and share premium of Coils International Holdings Limited, the then holding company of the Group before the reorganisation, over the nominal value of the Company's shares issued in exchange of shares pursuant to the reorganisation. Under the Companies Act 1981 of Bermuda (as amended), contributed surplus is distributable to shareholders, on the condition that subsequent to the payment of dividend or any distribution, (i) the Company will be able to pay its liabilities as they become due, and (ii) the realisable value of the Company's assets would not be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

As at 30th April, 2001, the Company's reserves (excluding retained profit) available for distribution to shareholders are represented by the contributed surplus of approximately $131,338,000 (2000 – $137,148,000).

27. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

a. **Reconciliation of profit before taxation to net cash inflow from operating activities:**

	2001	2000
	$'000	$'000
Profit before taxation	**34,668**	46,694
Interest income	**(2,422)**	(1,864)
Interest expense	**19,499**	10,367
Depreciation of property, plant and equipment	**34,356**	22,842
Amortisation of intangible asset	**356**	–
Net loss on disposal of property, plant and equipment	**–**	55
Increase in inventories	**(15,874)**	(17,403)
Increase in trade receivables	**(7,779)**	(4,527)
Increase in prepayments, deposits and other current assets	**(2,751)**	(2,551)
Decrease in amount due from a related company	**–**	303
(Decrease) Increase in trade payables	**(16,188)**	24,326
Increase (Decrease) in bills payable	**11,971**	(999)
(Decrease) Increase in accruals and other payables	**(1,526)**	6,313
Net cash inflow from operating activities	**54,310**	83,556

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

27. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

b. Analysis of changes in financing during the year is as follows:

	Share capital and share premium	Subscription right reserve	Long-term bank loans	Finance lease obligations	Due to intermediate holding company	Due from a director	Minority interests	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Balance as at 1st May, 1999	6,010	–	3,209	22,104	3,299	(4,070)	–	30,552
Effect of the reorganisation (Note 33)	(6,010)	–	–	–	–	–	–	(6,010)
Issue of shares as part of the reorganisation (Note 33)	200	–	–	–	–	–	–	200
Issue of new shares for cash	55,000	–	–	–	–	–	–	55,000
Share issuance expenses	(10,593)	–	–	–	–	–	–	(10,593)
New long-term bank loans	–	–	10,051	–	–	–	–	10,051
Repayment of long-term bank loans	–	–	(4,813)	–	–	–	–	(4,813)
Inception of finance leases	–	–	–	53,336	–	–	–	53,336
Repayment of capital element of finance lease obligations	–	–	–	(22,099)	–	–	–	(22,099)
Decrease in amount due from a director	–	–	–	–	–	997	–	997
Decrease in amount due to intermediate holding company	–	–	–	–	(226)	–	–	(226)
Offset against amount due from a director	–	–	–	–	(3,073)	3,073	–	–

27. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

b. Analysis of changes in financing during the year is as follows: (Continued)

	Share capital and share premium $'000	Subscription right reserve $'000	Long-term bank loans $'000	Finance lease obligations $'000	Due to intermediate holding company $'000	Due from a director $'000	Minority interests $'000	Total $'000
Balance as at 30th April, 2000	44,607	–	8,447	53,341	–	–	–	106,395
Issue of warrants for cash (Note 25)	–	25,000	–	–	–	–	–	25,000
Warrant issuance expenses (Note 25)	–	(2,109)	–	–	–	–	–	(2,109)
Bonus issue (Note 23.a)	5,810	–	–	–	–	–	–	5,810
Issue of shares pursuant to the scrip dividend scheme (Note 23.b)	7,605	–	–	–	–	–	–	7,605
Share issuance expenses	(178)	–	–	–	–	–	–	(178)
Issue of new shares in a subsidiary to minority interests	–	–	–	–	–	–	5	5
New long-term bank loans	–	–	88,325	–	–	–	–	88,325
Repayment of long-term bank loans	–	–	(12,254)	–	–	–	–	(12,254)
Inception of finance leases	–	–	–	56,794	–	–	–	56,794
Repayment of capital element of finance lease obligations	–	–	–	(27,620)	–	–	–	(27,620)
Translation adjustments	–	–	–	(278)	–	–	–	(278)
Exercise of warrants for cash (Note 25)	14,012	–	–	–	–	–	–	14,012
Premium arising from issuance of shares on exercise of warrants	5,437	(5,437)	–	–	–	–	–	–
Balance as at 30th April, 2001	77,293	17,454	84,518	82,237	–	–	5	261,507

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

27. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

c. **Major non-cash transactions:**

(i) During the year, the Group entered into finance lease arrangements for approximately $56,794,000 (2000 – $53,336,000) in respect of new machinery and motor vehicles.

(ii) During the year, the Group acquired an intangible asset at a consideration of $3,200,000 from a customer by offsetting the trade receivable due from the customer of the same amount.

(iii) During the year, 4,277,108 new shares were issued and credited as fully paid at $1.778 per new share pursuant to the scrip dividend scheme in respect of the final dividend for the year ended 30th April, 2000 under which certain shareholders elected to receive new shares in lieu of cash dividend (see Note 23.b).

d. **Analysis of cash and cash equivalents:**

	2001	2000
	$'000	$'000
Cash and other bank deposits	**8,327**	6,442
Bank overdrafts	**(12,075)**	(6,030)
Short-term bank loans	**(5,575)**	–
Trust receipts bank loans	**(71,153)**	(29,416)
	(80,476)	(29,004)

28. COMMITMENTS AND CONTINGENT LIABILITIES

a. Capital commitments

As at 30th April, 2001, the Group had authorised and contracted capital commitments (consolidated) of approximately $28,038,000 (2000 – $17,591,000) for acquisition of plant and equipment.

b. Operating lease commitments

As at 30th April, 2001, the Group had operating lease commitments in respect of rented premises under various non-cancellable operating lease agreements extending to May 2005. The total commitments payable under the agreements are as follows:

	Consolidated		Company	
	2001	2000	**2001**	2000
	$'000	$'000	**$'000**	$'000
Amounts payable				
– within one year	**2,359**	697	**–**	–
– within two to five years	**4,244**	726	**–**	–
	6,603	1,423	**–**	–

The commitments payable within the next twelve months are as follows:

	Consolidated		Company	
	2001	2000	**2001**	2000
	$'000	$'000	**$'000**	$'000
Leases expiring				
– within one year	**150**	186	**–**	–
– within two to five years	**2,209**	511	**–**	–
	2,359	697	**–**	–

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

28. COMMITMENTS AND CONTINGENT LIABILITIES (Continued)

c. **Contingent liabilities**

Contingent liabilities not provided for in the financial statements are:

	Consolidated		Company	
	2001	2000	**2001**	2000
	$'000	$'000	**$'000**	$'000
Discounted bills with recourse	**1,402**	–	–	–
Factoring of trade receivables with recourse	**30,415**	31,803	–	–
Shipping guarantees	**–**	315	**–**	–
Guarantees given to banks in respect of banking and finance lease facilities of its subsidiaries	**–**	–	**296,622**	158,147
	31,817	32,118	**296,622**	158,147

29. PENSION SCHEMES

The Group has arranged for certain of its employees (including executive directors) in Hong Kong and certain selected employees in Mainland China a defined contribution provident fund under the Occupational Retirement Schemes Ordinance (the "ORSO Scheme"), which was managed by an independent trustee. Each of the Group and its employees made monthly contributions to the scheme at 5% to 10% and 5%, respectively, of the employees' basic salaries. The employees were entitled to receive their entire contributions and the accrued interest thereon, and 100% of the Group's employer contributions and the accrued interest thereon upon retirement or leaving the Group after completing one year of service. The forfeited contributions made by the Group and related accrued interest were used to reduce the Group's employer contribution. This scheme is not available to new employees effective from 1st December, 2000.

From 1st December, 2000, companies within the Group in Hong Kong have participated in the Mandatory Provident Fund Scheme under the Mandatory Provident Fund Schemes Ordinance (the "MPF Scheme"), a defined contribution scheme managed by an independent trustee. Members of the ORSO Scheme were given a one-time option to choose to transfer to the MPF Scheme or remain in the ORSO Scheme. Under the MPF Scheme, each of the Group and its employees made monthly mandatory contributions to the scheme at 5% of the employees' relevant income as defined under the Mandatory Provident Fund Schemes Ordinance with the maximum mandatory contributions by each of the Group and its employees limited to $1,000 per month and thereafter contributions are voluntary. The mandatory contributions were fully and immediately vested in the employees as accrued benefits. The employees were entitled to receive their entire voluntary contributions and 100% of the Group's employer voluntary contributions upon retirement or leaving the Group after completing one year of service. The forfeited voluntary contributions made by the Group were used to reduce the Group's employer voluntary contributions.

As stipulated by the rules and regulations in Mainland China, the Group contributes to state-sponsored retirement plans for its employees in Mainland China. The Group contributes to the retirement plans approximately 10% to 15% of the basic salaries of its employees, and has no further obligation for the actual payment of pensions or post-retirement benefits beyond the annual contributions.

The employees of the Company's subsidiary in Singapore are members of the Central Provident Funds (the "Funds") operated by the government of Singapore. The subsidiary contributes to the Funds approximately 12% to 20% of the salaries of its employees, and has no further obligation for the actual payment of pensions or post-retirement benefits beyond the contributions.

During the year ended 30th April, 2001, aggregate contributions made by the Group to the aforementioned schemes amounted to approximately $2,344,000 (2000 – $1,557,000), after deduction of forfeited contributions of approximately $190,000 (2000 – $38,000). As at 30th April, 2001, there were no material forfeitures available to offset the Group's future contributions.

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

30. BANKING FACILITIES AND PLEDGE OF ASSETS

As at 30th April, 2001, the Group had aggregate banking facilities of approximately $302,624,000 (2000 – $199,896,000) for overdrafts, loans, factoring of trade receivables and trade financing. Unused facilities as at the same date amounted to approximately $65,727,000 (2000 – $95,090,000). These facilities were secured by:

a. mortgages over certain of the Group's land and buildings with a net book value of approximately $6,319,000 (2000 – $6,500,000) (see Note 11.b);

b. pledges of the Group's bank deposits of approximately $47,387,000 (2000 – $43,201,000) (see Note 17);

c. the Group's inventories with a carrying amount of approximately $56,562,000 (2000 – $31,911,000) (see Note 15) and the Group's machinery with a net book value of approximately $35,778,000 (2000 – Nil) (see Note 11.c) held under trust receipts bank loan arrangements; and

d. guarantees provided by the Company.

In addition, the Group is required to comply with certain restrictive financial covenants imposed by certain banks. The financial covenants include, among other things, the maintenance of specific financial ratios including:

(a) the consolidated tangible net worth be maintained at a level above $220,000,000; and

(b) the consolidated net gearing ratio, as defined by the relevant banks, shall not exceed 0.6:1.

As at 30th April, 2001, the Group did not meet one of the above financial covenants (see Note 2.a).

31. ULTIMATE HOLDING COMPANY

The Directors consider Ka Yan China Investments Limited, a company incorporated in the British Virgin Islands, to be the ultimate holding company.

32. SUBSEQUENT EVENT

On 31st July, 2001, the Directors recommended a bonus issue of new shares of $0.10 each in the share capital of the Company (the "Bonus Shares") to shareholders whose names appear on the Company's register of members on 14th September, 2001 (the "Proposed Bonus Share Issue"). The Proposed Bonus Share Issue will be made on the basis of one Bonus Share for every five existing shares held on 14th September, 2001. The Bonus Shares will be credited as fully paid at par and will rank pari passu with the existing shares in all respects when issued, save in respect of the entitlement to the proposed final dividend of 1 cent per share for the year ended 30th April, 2001.

33. COMPARATIVE FIGURES

Pursuant to a group reorganisation (the "Reorganisation") in preparation for listing of the Company's shares on The Stock Exchange of Hong Kong Limited, the Company became the holding company of the Group on 28th October, 1999. The Reorganisation involved companies under common control, and the Company and its subsidiaries resulting from the Reorganisation have been regarded as a continuing group. Accordingly, the Reorganisation has been accounted for on the basis of merger accounting, as if the current group structure had been in existence throughout the year ended 30th April, 2000, rather than from the date on which the Reorganisation was completed.