14. Contingent liabilities

Contingent liabilities not provided for in the financial statements are:

	As at 31st October 2002 HK$'000	As at 30th April 2002 HK$'000
Discounted bills with recourse	–	205
Factoring of trade receivables with recourse	38,636	36,618
	38,636	36,823

BUSINESS REVIEW

During the period under review, according to the "APEC Economic Outlook 2002" presented by the Asia-Pacific Economic Cooperation ("APEC"), the Group believed that the poor economy appeared to bottom out and start making its way back to stability. Although the market was only just stabilising, leveraging its solid foundations and successful marketing strategies, the Group recorded turnover of HK$247,959,000 (2001: HK$184,253,000) for the six months ended 31st October 2002, growing at 34.6% over the corresponding period last year. The growth in turnover for nearly all markets of the Group during the current period has confirmed that the Group was steering for the correct direction by investment in expansion and upgrade of production facilities in recent years. The resulting top quality of the Group's products, which met the stringent requirements of its customers well, was the key to strong acceptance by the markets.

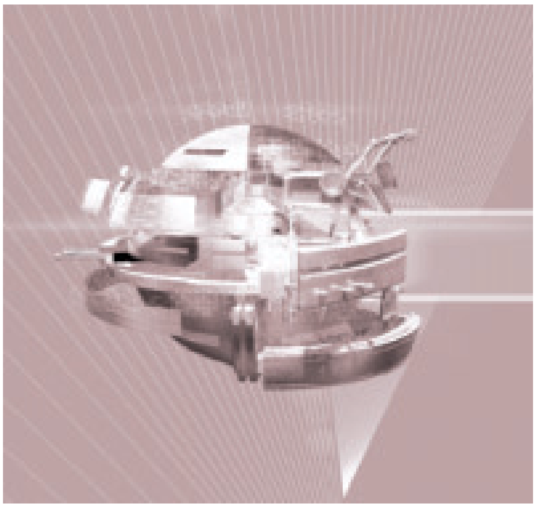
Product prices were still pressurised under the difficult market atmosphere during the period under review, leading to a drop in the Group's gross profit margin from 29.4% for the six months ended 31st October 2001 to 22.0% for the same period this year. The repercussion on the Group's half-yearly results was also further, but believed to be temporarily, amplified by the 43.7% jump in depreciation of property, plant and equipment due to the heavy capital expenditures on production facilities during the past years. The profit attributable to shareholders for the six months ended 31st October 2002 was HK$5,294,000 (2001: HK$10,477,000), down 49.5% year-on-year. Despite this, the Group believes that the investments will payoff eventually, for the new and sophisticated production facilities will enhance the Group's competitiveness in the long term. The Group is also actively fine-tuning its cost control policies such as procuring quality raw materials from the Mainland China at more competitive prices and giving up unrewarding operations among the Group's various business streams, which were reviewed in the following.

Coils Manufacturing Segment

During the period under review, coils manufacturing continued to represent the Group's principal business segment, generating 82.1% (2001: 80.4%) of the Group's turnover. For the six months ended 31st October 2002, the segment's turnover recorded an encouraging growth rate of 37.3% to reach HK$203,438,000 (2001: HK$148,196,000). Last year, the Group actively expanded and installed new, automatic and precision machinery and equipment to produce quality products to meet the demands of the increasingly demanding customers. These new facilities, however, have led to an increase in the segment's depreciation by 40.6%, rising from HK$22,300,000 for the six months ended 31st October 2001 to HK$31,350,000 for the current period. On the other hand, market prices for coils remained under substantial pressure resulting from poor market sentiment and keen competition during the period under review. Profit from operations, therefore, dropped from HK$21,699,000 to HK$15,896,000 for the current period, with a gross profit margin of 24.4% (2001: 32.4%). Nevertheless, the positive sign stemming from the expanded production facilities is that this will effectively enhance the vertical integration of the segment's production processes and reduce production costs in the future. This is why the Group could get over the competitive and harsh market environment in the past years with ease and successfully re-achieve double-digit turnover growth rate in this major business segment during the period under review.

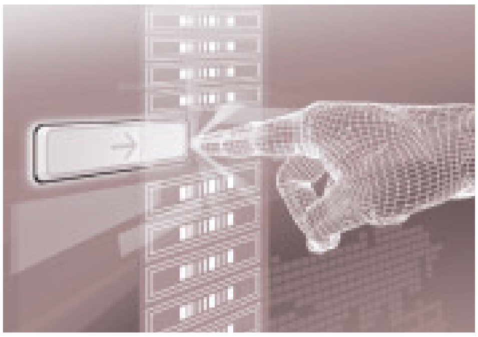
The Group's manganese-zinc series ferrite core products have been receiving warm response since its launch to the market. Raising product quality further, the Group has invested HK$5,597,000 more on the project during the second quarter to acquire advanced facilities to enhance the production capability for the manganese-zinc series ferrite core products. The new facilities are expected to boost returns to the Group when they begin operations in the third quarter of the financial year.

Reaping the benefits of the coils manufacturing segment's expansion into the market in Mainland China, the Group enjoyed a considerable growth in its semi-annual turnover in Mainland China by 97.7%, accounting for 8.2% (2001: 5.6%) of the Group's turnover. Such ready success reflects the tremendous room for further expansion available in Mainland China. New wholly owned subsidiaries were established in major developed cities in Mainland China such as Chongqing and Kunshan during the six months ended 31st October 2002, enabling the Group to foster closer relationships with the customers in Mainland China and further understand their product needs.



With the Group's continual effort to explore the European market during recent years, the Group harvested by deriving 52.8% higher turnover from European customers for the current period, which accounted for 5.0% (2001: 4.4%) of the Group's turnover. One of the most noteworthy achievements in this sector of the market was the growing popularity of a major component in mobile phone chargers supplied by the Group to major European mobile phone manufacturers. The Group believes that this is largely attributable to its product quality, which well catered for the needs of those demanding electronics manufacturers.

Capacitors Manufacturing Segment



For the six months ended 31st October 2002, the turnover generated from the capacitors manufacturing segment amounted to HK$22,413,000, representing an increase of 40.2% against the HK$15,984,000 recorded during the previous year's corresponding period. This segment accounted for 9.0% (2001: 8.7%) of the Group's turnover. Similar to the first quarter, due to the climbing production costs, distribution and selling expenses as well as general and administrative expenses, the gross profit margin dropped to 10.1% (2001: 19.0%), whereas the profit from operations recorded a decrease of 58.1% to HK$1,005,000 (2001: HK$2,397,000). The expanded turnover from the capacitors manufacturing segment reflects the Group's success in tapping the capacitors market. The Group will, on the other hand, endeavour to tighten the segment's operational cost controls while continuing to develop quality products in order to bring in ongoing and more desirable returns to the Group.

Power Supply Devices Manufacturing Segment

For the six months ended 31st October 2002, the turnover of the power supply devices manufacturing segment rose to HK$3,398,000 (2001: HK$1,925,000), accounting for 1.4% (2001: 1.1%) of the Group's turnover. The gross profit margin reached 31.7% (2001: 14.9%), but with a loss from operations of HK$270,000 (2001: profit from operations of HK$11,000) as a result of the increase in general and administrative expenses during the current period. Building on the wide variety of the segment's products, which are extensively employed in telecommunications and information technology equipment, office automation equipment, home electrical appliances, toys, audio and visual products, etc, and its growing customer base, the segment is expected to maintain steady turnover growth in the future. To enhance overall operational efficiency and with the similarity of the segment's products with those of the coils manufacturing segment, the Group is also considering to integrate the power supply devices manufacturing segment into that of coils manufacturing in the near future.

Electronic Components Trading Segment

For the six months ended 31st October 2002, competition in the electronic components trading market remained fierce. The electronic components trading segment reported a turnover of HK$18,710,000 (2001: HK$18,148,000) for the six months ended 31st October 2002, up slightly by 3.1% from the corresponding period last year. The segment accounted for 7.5% (2001: 9.8%) of the Group's turnover. Owing to the increasingly keen competition facing the electronic components trading segment, the segment's gross profit margin shrank from 15.1% for the six months ended 31st October 2001 to 8.2% for the six months ended 31st October 2002. The segment also incurred a loss from operations of HK$1,067,000 in the current period, compared to a profit from operations of HK$217,000 in the corresponding period of the previous year. Looking ahead, with the deterioration in operating results and poor prospects of the electronic components trading segment, the Group will concentrate more on developing its core business instead. Starting from October 2002, the Group has ceased its trading of semiconductors and kit set of consumer electronic products. The segment will, therefore, keep its trading of Samsung passive components only in the future.

Information Technology Development

CEC-Technology Limited ("CEC-Technology"), one of the Group's subsidiaries, is the Group's information technology and communication management center. The center's main responsibility is to manage the Group's website "www.0759.com", e-mail system, and to develop the internet version of the enterprise resource planning system. Recently, many enterprises in Mainland China have started to automate their internal management systems. The Group believes that CEC-Technology's software development can also be beneficial to those rapidly developing enterprises in Mainland China, by helping them to streamline their financial and general operations management efficiency.

Recognising the development of CEC-Technology, on 14th May 2002, the Company entered into an agreement with an independent third party for the acquisition of the entire issued share capital of, and the benefit of a loan advanced to, Good Signal Holdings Limited ("Good Signal") by the Company or through its nominated wholly-owned subsidiary for an aggregate consideration of HK$8,320,000. The consideration for the acquisition, which was completed on 4th June 2002, was satisfied by the issue of 32,000,000 new shares in the Company. Upon completion of the acquisition, the Group indirectly holds 12.5% of the registered capital of 上海圖王科技有限公司 (Shanghai Signking Science & Technology Co., Ltd. (for identification purpose)) ("Shanghai Signking"). Shanghai Signking is principally engaged in software development, sale of software products and system integration. The customers of Shanghai Signking mainly include local government entities and local private enterprises. The Group believes that the acquisition will be conducive to CEC-Technology's further development in the computer software business by taking advantage of the synergy between CEC-Technology and Shanghai Signking, and the possible commercialisation of the software products developed by CEC-Technology.

Changes in Financial Resources and Gearing

As at 31st October 2002, the Group's total borrowings, which were mainly denominated in Hong Kong dollars and partly in United States dollars, Japanese yen and euro, amounted to HK$314,991,000 (as at 30th April 2002: HK$300,089,000), of which HK$133,226,000 (as at 30th April 2002: HK$151,709,000) was non-current and will be repayable within a period of more than one year but not exceeding five years. Interest expense was levied on Hong Kong dollar prime or Hong Kong Interbank Offered Rate ("HIBOR") basis with competitive margins. Owing to the decreasing trend in interest rates over the previous financial year, the Group encountered a 69.0% fall in interest income, which amounted to HK$235,000 in the six months ended 31st October 2002 (2001: HK$759,000). On the other hand, interest expense declined by 27.0% to HK$9,430,000 (2001: HK$12,923,000). Total cash and bank deposits and investment, denominated mainly in Hong Kong dollars, United States dollars, Renminbi, Japanese yen, Singapore dollars and New Taiwan dollars, were HK$55,903,000 (as at 30th April 2002: HK$52,804,000). The net gearing ratio (total borrowings less total cash and bank deposits and investment over net tangible assets less proposed final dividends) was 0.84:1 (as at 30th April 2002: 0.85:1). Besides, the net gearing ratio calculated in accordance with the 3-year transferable term loan and revolving credit facility agreement entered into between the Company and a group of banks on 31st January 2002 was 0.99:1 (as at 30th April 2002: 0.99:1), which also complied with the relevant financial covenants.

As at 31st October 2002, the current ratio was 0.91:1 (as at 30th April 2002: 0.85:1). Contingent liabilities were HK$38,636,000 (as at 30th April 2002: HK$36,823,000), represented mainly by factoring of trade receivables with recourse of HK$38,636,000 (as at 30th April 2002: HK$36,618,000). The Group's authorised and contracted capital commitments for acquisition of machinery and equipment were HK$404,000 (as at 30th April 2002: HK$270,000).

As at 31st October 2002, the Group's aggregate banking facilities expanded to HK$430,686,000 (as at 30th April 2002: HK$391,747,000), of which HK$98,438,000 (as at 30th April 2002: HK$68,786,000) remained unutilised. The banking facilities were secured by mortgages over certain of the Group's land and buildings, pledges of bank deposits, investment, inventories and machinery, as well as corporate guarantees provided by the Company and certain of its subsidiaries. The Group is required to comply with certain restrictive financial covenants imposed by the banks. The financial covenants include, among other things, the maintenance of the following specific financial ratios: (1) the net gearing ratio, defined by the relevant bank as total borrowings plus contingent liabilities less total cash and bank deposits and investment over net tangible assets less proposed final dividends, shall not exceed 0.85:1; and (2) the amount of capital expenditures, as defined by the relevant banks, for the year ended 30th April 2002 shall not exceed HK$70,000,000. The Group did not fulfill these two financial covenants as at 30th April 2002, but obtained waivers from the relevant banks in respect of such non-compliance in August 2002. The continuing financial support the Group has been enjoying from its principal banks speaks volume of the Group's prospects.

FUTURE PLANS AND PROSPECTS

Looking forward, as the global economy continues to stabilise, the market appears to show fresh signs of recovery. Building on its strengths and capitalising on the market recovery trend, the Group is always ready to consolidate its core business in order to further expand its market presence in the electronics arena. This would not be possible without the Group adhering to its proactive and prudent operating philosophy, both during the past, at present and in the future.

Through the strengthening of its production bases in Zhongshan, Xiamen and Dongguan, and the setup of new subsidiaries in Chongqing and Kunshan in Mainland China during the first half financial year, the Group has established a firm stepping stone for capturing a larger slice of the electronics market in the world's fastest growing economy. This successful strategy has been reflected in the Group's nearly doubled turnover to Mainland China during the current semi-annual period. To meet increasing orders, the Group is planning the establishment of new production facilities in Kunshan. The new production facilities should be able to commence operation and play its part to contribute to the Group's operating results in the early half of the next financial year. The new production facilities will principally manufacture coils and the requisite ferrite cores and ferrite materials. With this strengthened vertical integration in the production processes, the new production facilities can also relieve pressures on the production capacity in Zhongshan, and this will also be translated into shortened delivery lead-time and heightened efficiency in serving our customers better. With the Group's widespread market presence over the various cities in Mainland China, the Group is prepared at any time to catch the latest market intelligence and capture the maximum opportunities to cater for our customers' requirements.

While the Group's policy is to actively pursue the most dynamic markets, the European market is another significant battlefield that the Group will not overlook. It will insist on its strategic development in this continent, by actively seeking new customers and consolidating its existing customer networks to fuel the Group's business in the European market well into the long run.

In addition to the marketing front, the Group believes that improvement in operating results would not be achieved without consistently paying attention to cost controls. Looking to the future, further efforts will be made to source quality but cost-competitive raw materials in Mainland China. Sourcing raw materials in Mainland China will not only allow the Group to obtain the raw materials at a comparatively lower cost level, but also enable it to shorten delivery lead-time, with the final benefit to the Group in terms of higher operating efficiency and returns.

As the Group moves forward, leveraging its effective operational and marketing strategies, the Group will further devote its attention to strengthening its existing business and magnifying the effectiveness of its vertical integration so as to orientate itself in an even more competitive position among the markets, with the expected goal of sharing our resultant success with shareholders in the years to come.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 31st October 2002.

DIRECTORS' INTERESTS IN SECURITIES

As at 31st October 2002, the Directors of the Company had the following beneficial interests in the share capital of the Company and its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance")) and in the warrants of the Company as recorded in the register required to be kept by the Company pursuant to Section 29 of the SDI Ordinance or otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Companies:

(a) The Company

	Number of shares of HK$0.10 each		Number of warrants
	Family interests	Personal interests	Personal interests
Mr. Lam Wai Chun *(Note 1)*	404,008,996	3,832,000	–
Mr. Saito Misao	–	750,493	–
Ms. Tang Fung Kwan	–	3,502,611	–
Mr. Au Son Yiu	–	1,000,000	1,000,000

Notes:

1. As at 31st October 2002, Ka Yan China Development (Holding) Company Limited held 404,008,996 shares in the Company. The entire issued share capital of Ka Yan China Development (Holding) Company Limited was ultimately beneficially owned by Ka Yan China Family Trust, the family trust of Mr. Lam Wai Chun. The beneficiaries under this family trust were Mr. Lam Wai Chun's spouse, Ms. Law Ching Yee, and his children who were under the age of 18 years, and accordingly Mr. Lam Wai Chun was deemed under the SDI Ordinance to be interested in all the shares held by Ka Yan China Development (Holding) Company Limited.

(b) Associated corporation

Coils Electronic Co., Limited

	Number of non-voting deferred shares of HK$1.00 each *(Note 4)*		
	Personal interests	Family interests	Total
Mr. Lam Wai Chun *(Notes 2 and 3)*	7,500,000	6,500,000	14,000,000

Notes:

2. Mr. Lam Wai Chun held 7,500,000 non-voting deferred shares of HK$1.00 each in Coils Electronic Co., Limited, a wholly-owned subsidiary of the Company, representing approximately 53.57% of the 14,000,000 non-voting deferred shares of HK$1.00 each in the share capital of Coils Electronic Co., Limited.

3. In respect of the 6,000,000 non-voting deferred shares of HK$1.00 each held by Ka Yan China Development (Holding) Company Limited and the remaining 500,000 non-voting deferred shares of HK$1.00 each held by Ms. Law Ching Yee 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 those shares under the SDI Ordinance by virtue of, in the case of Ka Yan China Development (Holding) Company Limited, the reasons set out in Note (a)1 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.

4. Holders of the non-voting deferred shares have no voting rights, are not entitled to dividends unless the net profit of Coils Electronic Co., Limited exceeds HK$100,000,000,000,000, and are not entitled to any distributions upon winding up unless a sum of HK$100,000,000,000,000 has been distributed to the holders of ordinary shares.

Save as disclosed above, as at 31st October 2002, none of the Directors of the Company or any of their associates (as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules")) had any interests in the securities of the Company or its associated corporations (within the meaning of the SDI Ordinance) which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to Section 28 of the SDI Ordinance, or pursuant to the Model Code for Securities Transactions by Directors of Listed Companies or which were required, pursuant to Section 29 of the SDI Ordinance, to be entered in the register referred to therein.