

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 Main Board of The Stock Exchange of Hong Kong Limited since 15th November 1999.

The Company is an investment holding company. Its subsidiaries are principally engaged in (i) the design, development, manufacture and sale of a wide range of coils, capacitors and other electronic components, which are generally used in the manufacture of various kinds of electronic and electrical products; and (ii) the provision of information technology services.

2 Principal accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out below:

(a) Basis of preparation

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants (“HKSA”). They have been prepared under the historical cost convention except that certain properties are stated at revalued amounts and investment held as current asset is stated at fair value.

In the current year, the Group adopted the following Statements of Standard Accounting Practice (“SSAP”) issued by the HKSA which are effective for accounting periods commencing on or after 1st January 2002:

| | |
|-------------------|--|
| SSAP 1 (revised) | : Presentation of financial statements |
| SSAP 11 (revised) | : Foreign currency translation |
| SSAP 15 (revised) | : Cash flow statements |
| SSAP 34 (revised) | : Employee benefits |

The directors consider that there was no material impact on the financial statements of the Group as a result of adopting these revised SSAPs.

(b) Group accounting

(i) Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 30th April.

Subsidiaries are those entities in which the Company, directly or indirectly, controls more than one half the voting power; has the power to govern the financial and operating policies; to appoint or remove the majority of the members of the board of directors; or to cast majority of votes at the meetings of the board of directors.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.



2 Principal accounting policies (Continued)

(b) Group accounting (Continued)

(i) Consolidation (Continued)

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The gain or loss on the disposal of a subsidiary represents the difference between the sales proceeds and the Group's share of its net assets together with any unamortised goodwill or negative goodwill or goodwill/negative goodwill taken to reserves and which was not previously charged or recognised in the consolidated income statement.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

All subsidiaries incorporated in Mainland China adopt 31st December as their financial year end to comply with local reporting requirement. For the purpose of preparing the Group's consolidated financial statements, management accounts of these subsidiaries as at and for the twelve months ended 30th April 2002 and 2003 were used, after making adjustments which are considered necessary by the directors for compliance with SSAPs and accounting principles generally accepted in Hong Kong.

In the Company's balance sheet, the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(ii) Jointly controlled entities

A jointly controlled entity is a contractual agreement whereby 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.

The consolidated income statement includes the Group's share of the results of jointly controlled entities for the year, and the consolidated balance sheet includes the Group's share of the net assets of the jointly controlled entities and goodwill/negative goodwill (net of accumulated amortisation) on acquisition.

In the Company's balance sheet, investment in jointly controlled entities is stated at cost less provision for impairment losses. The results of jointly controlled entities are accounted for by the Company on the basis of dividends received and receivable.



ANNUAL
REPORT
2002/2003

2 Principal accounting policies (Continued)

(b) Group accounting (Continued)

(iii) Associates

An associate is a company, not being a subsidiary or a jointly controlled entity, in which an equity interest is held for the long-term and significant influence is exercised in its management.

The consolidated income statement includes the Group's share of the results of associates for the year, and the consolidated balance sheet includes the Group's share of the net assets of the associates and goodwill/negative goodwill (net of accumulated amortisation) on acquisition.

In the Company's balance sheet, investment in associates is stated at cost less provision for impairment losses. The results of associates are accounted for by the Company on the basis of dividends received and receivable.

Equity accounting is discontinued when the carrying amount of the investment in an associate reaches zero, unless the Group has incurred obligations or guaranteed obligations in respect of the associate.

(iv) Translation of foreign currencies

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the income statement.

The balance sheets of subsidiaries, jointly controlled entities and associates expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the income statements are translated at an average rate. Exchange differences are dealt with as movement in reserves. Upon disposal of a foreign entity, the related accumulative exchange differences are included in the consolidated income statement as part of the gain or loss on disposal.

(c) Intangible assets

(i) Goodwill/negative goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary/jointly controlled entity/associate at the date of acquisition.

Goodwill on acquisitions is included in intangible assets and is amortised using the straight-line method over its estimated useful life of five years.



2 Principal accounting policies (Continued)

(c) Intangible assets (Continued)

(i) Goodwill/negative goodwill (Continued)

Negative goodwill represents the excess of the fair value of the Group's share of the net assets acquired over the cost of acquisition. Negative goodwill is presented in the same balance sheet classification as goodwill. To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the Group's plan for the acquisition and can be measured reliably, but which do not represent identifiable liabilities at the date of acquisition, that portion of negative goodwill is recognised in the income statement when the future losses and expenses are recognised. Any remaining negative goodwill, not exceeding the fair values of the non-monetary assets acquired, is recognised in the income statement over the remaining weighted average useful life of those assets of five years; negative goodwill in excess of the fair values of those non-monetary assets is recognised in the income statement immediately.

(ii) Distribution right

Expenditure on acquired non-exclusive distribution right is capitalised and amortised using the straight-line method over its useful life of three years. Where appropriate, provision is made for any impairment in value.

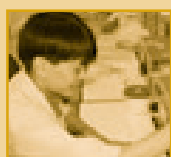
(iii) Research and development costs

Research costs are expensed as incurred. Costs incurred on development projects relating to the design and testing of new or improved products are recognised as an intangible asset where the technical feasibility and intention of completing the product under development has been demonstrated and the resources are available to do so, costs are identifiable and there is an ability to sell or use the asset that will generate probable future economic benefits. Such development costs are recognised as an asset and amortised on a straight-line basis over a period of not more than five years to reflect the pattern in which the related economic benefits are recognised. Development costs that do not meet the above criteria are expensed as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

All research and development costs for the years ended 30th April 2002 and 2003 have been expensed as no expenditure met the criteria for deferral.

(iv) Impairment of intangible assets

Where an indication of impairment exists, the carrying amount of any intangible asset, including goodwill previously written off against reserves, is assessed and written down immediately to its recoverable amount.



ANNUAL
REPORT
2002/2003

2 Principal accounting policies (Continued)

(d) Fixed assets

(i) Land and buildings

Land and buildings are stated at valuation less accumulated depreciation and accumulated impairment losses. Independent valuations are performed periodically. The valuations are on an open market basis related to individual properties and separate values are not attributed to land and buildings. In the intervening years, the directors review the carrying value of the land and buildings and adjustment is made where they consider that there has been a material change. Increases in valuation are credited to the revaluation reserve. Decreases in valuation are first offset against increases on earlier valuations in respect of the same property and are thereafter debited to operating profit. Any subsequent increases are credited to operating profit up to the amount previously debited.

(ii) Other fixed assets

Other fixed assets, comprising machinery, furniture and equipment and motor vehicles are stated at cost less accumulated depreciation and accumulated impairment losses.

(iii) Depreciation

Leasehold land is depreciated over the period of the lease while other fixed assets are depreciated at rates sufficient to write off their costs less accumulated impairment losses over their estimated useful lives on a straight-line basis. The principal annual rates are as follows:

| | |
|-------------------------|--------------|
| Buildings | 2.5% |
| Machinery | 10% |
| Furniture and equipment | 16.7% to 25% |
| Motor vehicles | 16.7% to 30% |

The plant components are depreciated over the period to overhaul. Major costs incurred in restoring the plant components to its normal working condition to allow continued use of the overall asset are capitalised and depreciated over the period to the next overhaul.

Improvements are capitalised and depreciated over their expected useful lives to the Group.

(iv) Impairment and gain or loss on sale

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that fixed assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the income statement except where the asset is carried at valuation and the impairment loss does not exceed the revaluation surplus for that same asset, in which case it is treated as a revaluation decrease.



2 Principal accounting policies (Continued)

(d) Fixed assets (Continued)

(iv) *Impairment and gain or loss on sale (Continued)*

The gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the income statement. Any revaluation reserve balance remaining attributable to the relevant asset is transferred to retained profits and is shown as a movement in reserves.

(e) Assets under leases

(i) *Finance leases*

Leases that substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as finance leases. Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased assets or the present value of the minimum lease payments. Each lease payment is allocated between the capital element and finance charges so as to achieve a constant rate on the capital balances outstanding. The corresponding rental obligations, net of finance charges, are included in liabilities. The finance charges are charged to the income statement over the lease periods.

Assets held under finance leases are depreciated over the shorter of their estimated useful lives or the lease periods.

(ii) *Operating leases*

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the income statement on a straight-line basis over the lease periods.

(f) Investment

Investment classified as current asset is carried at fair value, which generally approximates the quoted market value. At each balance sheet date, the net unrealised gains or losses arising from the changes in fair value of the investment are recognised in the income statement. Profits or losses on disposal of the investment, representing the difference between the net sales proceeds and the carrying amount, are recognised in the income statement as they arise.

(g) Inventories

Inventories comprise stocks and work in progress and are stated at the lower of cost and net realisable value. Cost, calculated on the first-in, first-out basis, comprises materials, direct labour and an appropriate portion of all production overhead expenditures. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.



ANNUAL
REPORT
2002/2003

2 Principal accounting policies (Continued)

(h) Accounts receivable

Provision is made against accounts receivable to the extent they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision.

(i) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purpose of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks and bank overdrafts.

(j) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

(k) Employee benefits

(i) *Employee leave entitlements*

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(ii) *Pension obligations*

The Group operates a number of defined contribution plans throughout the world, the assets of which are generally held in separate trustee-administered funds. The pension plans are generally funded by payments from employees and by the relevant group companies.

The Group's contributions to the defined contribution retirement scheme are expensed as incurred and are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions.

(l) Deferred taxation

Deferred taxation is accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the financial statements to the extent that a liability or an asset was expected to be payable or recoverable in the foreseeable future.



2 Principal accounting policies (Continued)

(m) Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that the outflow becomes probable, it will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to the financial statements when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

(n) Revenue recognition

Revenue from the sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed.

Revenue from the provision of service is recognised when the services are rendered.

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

(o) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset.

All other borrowing costs are charged to the income statement in the year in which they are incurred.

(p) Segment reporting

In accordance with the Group's internal financial reporting the Group has determined that business segments be presented as the primary reporting format and geographical as the secondary reporting format.



ANNUAL
REPORT
2002/2003

2 Principal accounting policies (Continued)

(p) Segment reporting (Continued)

Unallocated costs represent corporate expenses. Segment assets consist primarily of intangible assets, fixed assets, inventories, receivables and operating cash. Segment liabilities comprise operating liabilities. Capital expenditure comprises additions to intangible assets and fixed assets, including additions resulting from acquisitions through purchases of subsidiaries.

In respect of geographical segment reporting, sales are determined on the basis of the country in which customers are located. Total assets and capital expenditure are based on where the assets are located.

3 Turnover and revenues

Revenues recognised during the year are as follows:

| | 2003 HK\$'000 | 2002 HK\$'000 |
|--|------------------|------------------|
| Turnover | | |
| Sale of goods | 446,323 | 363,896 |
| Provision of information technology services | 1,832 | – |
| | 448,155 | 363,896 |
| Other revenue | | |
| Interest income | 341 | 1,031 |
| Total revenues | 448,496 | 364,927 |



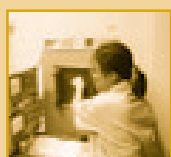
ANNUAL
REPORT
2002/2003

4 Segment information

(a) Primary segments

The Group is organised into four major operating units: (i) coils manufacturing; (ii) capacitors manufacturing; (iii) electronic components trading; and (iv) provision of information technology services. An analysis by business segment is as follows:

| | Coils manufacturing | | Capacitors manufacturing | | Electronic components trading | | Information technology services | | Eliminations | | Total | |
|---|---------------------|----------|--------------------------|----------|-------------------------------|----------|---------------------------------|----------|--------------|----------|----------|----------|
| | 2003 | 2002 | 2003 | 2002 | 2003 | 2002 | 2003 | 2002 | 2003 | 2002 | 2003 | 2002 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Turnover | | | | | | | | | | | | |
| External sales | 355,879 | 287,607 | 35,271 | 33,240 | 55,173 | 43,049 | 1,832 | - | - | - | 448,155 | 363,896 |
| Intersegment sales | 1,422 | 4,300 | 2,973 | 2,075 | 1,640 | 344 | - | - | (6,035) | (6,719) | - | - |
| | 357,301 | 291,907 | 38,244 | 35,315 | 56,813 | 43,393 | 1,832 | - | (6,035) | (6,719) | 448,155 | 363,896 |
| Operating results | | | | | | | | | | | | |
| Operating profit/(loss) | 26,722 | 30,747 | 821 | (368) | (1,392) | (542) | (11,527) | - | - | - | 14,624 | 29,837 |
| Interest income | 341 | 1,031 | - | - | - | - | - | - | - | - | 341 | 1,031 |
| Interest expense | (17,965) | (21,516) | (234) | (289) | (24) | (490) | - | - | - | - | (18,223) | (22,295) |
| Share of profits less losses of associates | | | | | | | | | | | 76 | - |
| Share of profits less losses of jointly controlled entities | | | | | | | | | | | 140 | (138) |
| (Loss)/profit before taxation | | | | | | | | | | | (3,042) | 8,435 |
| Taxation | | | | | | | | | | | (1,805) | (2,361) |
| (Loss)/profit after taxation but before minority interests | | | | | | | | | | | (4,847) | 6,074 |
| Minority interests | | | | | | | | | | | (100) | (101) |
| (Loss)/profit attributable to shareholders | | | | | | | | | | | (4,947) | 5,973 |
| Other information | | | | | | | | | | | | |
| Total assets | 635,113 | 636,223 | 48,402 | 17,916 | 10,691 | 12,875 | 3,380 | - | - | - | 697,586 | 667,014 |
| Total liabilities | 387,892 | 363,755 | 4,833 | 7,174 | 3,322 | 2,079 | 1,219 | - | - | - | 397,266 | 373,008 |
| Capital expenditures | | | | | | | | | | | | |
| - fixed assets | 26,101 | 102,825 | 239 | 1,094 | 11 | 4 | 358 | - | - | - | 26,709 | 103,923 |
| - subsidiaries and associates | 4,099 | - | - | - | - | - | 10,015 | - | - | - | 14,114 | - |
| | 30,200 | 102,825 | 239 | 1,094 | 11 | 4 | 10,373 | - | - | - | 40,823 | 103,923 |
| Depreciation and amortisation | 52,684 | 50,164 | 2,678 | 794 | 1,069 | 1,066 | 2,285 | - | - | - | 58,716 | 52,024 |
| Impairment loss | - | - | - | - | 711 | - | 8,229 | - | - | - | 8,940 | - |



4 Segment information (Continued)

(b) Secondary segments

The Group has business operations in Hong Kong, Mainland China, Taiwan, Europe, Singapore and other regions. An analysis by geographical location is as follows:

| | Turnover | | Operating profit/(loss) | | Total assets | | Capital expenditures | |
|----------------|----------------|----------------|-------------------------|---------------|----------------|----------------|----------------------|----------------|
| | 2003 | 2002 | 2003 | 2002 | 2003 | 2002 | 2003 | 2002 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Hong Kong | 278,381 | 253,463 | 15,518 | 23,785 | 206,322 | 179,358 | 1,957 | 3,216 |
| Mainland China | 52,793 | 21,919 | (4,955) | 2,938 | 465,396 | 461,974 | 34,763 | 100,674 |
| Taiwan | 58,050 | 45,456 | 1,345 | 829 | 6,147 | 3,822 | 4,099 | - |
| Europe | 25,649 | 16,879 | 1,153 | 2,162 | - | - | - | - |
| Singapore | 22,551 | 21,691 | 3,684 | 818 | 18,802 | 20,787 | 4 | 33 |
| Others | 10,731 | 4,488 | (2,121) | (695) | 919 | 1,073 | - | - |
| Total | 448,155 | 363,896 | 14,624 | 29,837 | 697,586 | 667,014 | 40,823 | 103,923 |

5 Operating profit

Operating profit is stated after crediting and charging the following:

| | 2003 | 2002 |
|---|----------|----------|
| | HK\$'000 | HK\$'000 |
| Crediting | | |
| Unrealised gain on investment | 569 | - |
| Charging | | |
| Depreciation | | |
| – owned fixed assets | 48,484 | 43,616 |
| – fixed assets held under finance leases | 7,372 | 7,342 |
| Amortisation of intangible assets | | |
| – goodwill (Note 12) | 1,793 | - |
| – distribution right (Note 12) | 1,067 | 1,066 |
| Provision for impairment loss on intangible assets | | |
| – goodwill (Note 12) | 8,229 | - |
| – distribution right (Note 12) | 711 | - |
| Loss on disposal of fixed assets | 119 | 10 |
| Cost of inventories sold | 334,942 | 255,958 |
| Provision for bad and doubtful debts | 1,495 | 1,259 |
| Provision for slow moving and obsolete inventories | - | 502 |
| Operating lease rental on rented premises | 3,873 | 3,345 |
| Auditors' remuneration | 798 | 770 |
| Research and development costs | 6,641 | 6,162 |
| Unrealised loss on investment | - | 430 |
| Advertising and promotion costs | 1,478 | 1,768 |
| Net exchange losses | 2,371 | 1,134 |
| Staff costs (including directors' emoluments) (Note 10) | 89,183 | 91,264 |



ANNUAL
REPORT
2002/2003

6 Interest expense

| | 2003 HK\$'000 | 2002 HK\$'000 |
|---|------------------|------------------|
| Interest expense on | | |
| – bank overdrafts and loans wholly repayable within five years | 14,153 | 13,656 |
| – factoring of trade receivables | 2,247 | 2,372 |
| – finance leases | 1,823 | 6,267 |
| | 18,223 | 22,295 |

7 Taxation

The Company is exempted from taxation in Bermuda until 2016. Hong Kong profits tax has been provided at the rate of 17.5% (2002: 16%) on the estimated assessable profit for the year. Subsidiaries of the Company in Mainland China are subject to Mainland China enterprise income tax ranging from 12% to 33% (2002: 15% to 33%) on their taxable income determined according to Mainland China tax laws. Other overseas taxation has been calculated on the estimated assessable profits for the year at the rates prevailing in the respective jurisdictions.

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

| | 2003 HK\$'000 | 2002 HK\$'000 |
|--------------------------------------|------------------|------------------|
| Hong Kong profits tax | | |
| – current tax | 38 | 200 |
| – over-provision in prior years | (68) | – |
| Mainland China enterprise income tax | | |
| – current tax | 511 | 485 |
| – over-provision in prior years | (171) | – |
| Deferred taxation (<i>Note 26</i>) | 1,495 | 1,675 |
| Shares of taxation attributable to: | 1,805 | 2,360 |
| – associates | – | – |
| – jointly controlled entities | – | 1 |
| | 1,805 | 2,361 |

8 (Loss)/profit attributable to shareholders

(Loss)/profit attributable to shareholders is dealt with in the financial statements of the Company to the extent of a loss of HK\$626,000 (2002: HK\$944,000).



9 (Loss)/earnings per share

The calculation of basic (loss)/earnings per share is based on the consolidated loss attributable to shareholders of approximately HK\$4,947,000 (2002: profit of HK\$5,973,000) and the weighted average number of 690,047,989 (2002: 649,040,127) shares in issue during the year.

Diluted earnings per share is not presented as the outstanding share options and warrants during the years ended 30th April 2002 and 30th April 2003 were anti-dilutive.

10 Staff costs

| | 2003 HK\$'000 | 2002 HK\$'000 |
|--|------------------|------------------|
| Wages, salaries and welfare | 85,213 | 87,972 |
| Unutilised annual leave | 608 | – |
| Pension costs – defined contribution plans (Note 33) | 3,362 | 3,292 |
| | 89,183 | 91,264 |

11 Directors' and senior management's emoluments

(a) Directors' emoluments

The aggregate amounts of emoluments paid and payable to directors of the Company during the year are as follows:

| | 2003 HK\$'000 | 2002 HK\$'000 |
|---|------------------|------------------|
| Directors' fees | | |
| – independent non-executive directors | 600 | 600 |
| – non-executive director | 300 | 300 |
| Other emoluments for executive directors | | |
| – basic salaries, allowances and other benefits in kind | 5,451 | 4,136 |
| – contributions to pension schemes | 285 | 227 |
| | 6,636 | 5,263 |



ANNUAL
REPORT
2002/2003

11 Directors' and senior management's emoluments (Continued)

(a) Directors' emoluments (Continued)

The emoluments of the directors fell within the following bands:

| | Number of directors | |
|--|---------------------|----------|
| | 2003 | 2002 |
| Executive directors | | |
| Nil to HK\$1,000,000 | 6 | 4 |
| HK\$1,000,001 to HK\$1,500,000 | 1 | 1 |
| HK\$1,500,001 to HK\$2,000,000 | 1 | 1 |
| | 8 | 6 |
| Non-executive director/Independent non-executive directors | | |
| Nil to HK\$1,000,000 | 3 | 3 |

No directors waived any emoluments during the year (2002: Nil). No incentive payment for joining the Group or compensation for loss of office was paid or payable to any directors during the year.

(b) Five highest paid individuals

| | 2003 | 2002 |
|----------------------------------|--------------|--------------|
| | HK\$'000 | HK\$'000 |
| Basic salaries and allowances | 4,299 | 4,201 |
| Contributions to pension schemes | 230 | 248 |
| | 4,529 | 4,449 |

The five individuals whose emoluments were the highest in the Group for the year include five (2002: four) directors whose emoluments are reflected in the analysis presented above.

The emoluments payable to the remaining individual in 2002 fell within the following band:

| | Number of individuals | |
|----------------------|-----------------------|------|
| | 2003 | 2002 |
| Nil to HK\$1,000,000 | – | 1 |



12 Intangible assets

| | Goodwill (i) | Distribution right | Total |
|--|-----------------|-----------------------|----------|
| | HK\$'000 | HK\$'000 | HK\$'000 |
| Cost: | | | |
| Beginning of year | – | 3,200 | 3,200 |
| Acquisition of subsidiaries | 10,022 | – | 10,022 |
| End of year | 10,022 | 3,200 | 13,222 |
| Accumulated amortisation and impairment losses: | | | |
| Beginning of year | – | 1,422 | 1,422 |
| Amortisation charge | 1,793 | 1,067 | 2,860 |
| Provision for impairment losses (ii) | 8,229 | 711 | 8,940 |
| End of year | 10,022 | 3,200 | 13,222 |
| Net book value: | | | |
| End of year | – | – | – |
| Beginning of year | – | 1,778 | 1,778 |

Notes:

- (i) On 4th June 2002, CEC-Technology Limited (“CEC-Technology”), a wholly-owned subsidiary of the Company, acquired the entire issued share capital of Good Signal Holdings Limited (“Good Signal”), a company incorporated in the British Virgin Islands, and the benefit of a loan of HK\$9,367,720 advanced to Good Signal from Mr. Chen Guo Luan, an independent third party, at an aggregate consideration of HK\$8,320,000 by way of the issue of 32,000,000 new shares of the Company at HK\$0.26 per new share to satisfy the consideration of acquisition pursuant to an agreement entered between the Company and Mr. Chen Guo Luan on 14th May 2002. The aggregate cost of the acquisition was recorded at HK\$9,760,000 and the 32,000,000 new shares of the Company were recorded at HK\$0.305 per new share, being the closing price of the Company’s share as quoted on the Stock Exchange on 4th June 2002. The excess of consideration paid over the fair value of the assets acquired amounting to approximately HK\$9,727,000 was recorded as goodwill. Good Signal has an effective indirect equity interest of 12.5% in the registered capital of 上海圖王科技有限公司 (Shanghai Signking Science & Technology Co., Ltd.), which is a company incorporated in Mainland China whose principal operation is the provision of information technology services.

On 5th March 2003, CEC-Technology acquired 51% equity interest in Sun-iOMS Technology Holdings Limited (“Sun-iOMS Technology”), a company incorporated in the British Virgin Islands, at a total consideration of HK\$255,000 by way of subscription of new shares in Sun-iOMS Technology. Accordingly, CEC-Technology has an effective indirect interest of 51% in Sun-iOMS Technology’s two subsidiaries. The excess of consideration paid over the fair value of net liabilities acquired amounting to approximately HK\$295,000 was recorded as goodwill. The principal operation of the Sun-iOMS Technology group is the provision of information technology services.



12 Intangible assets (Continued)

Notes: (Continued)

- (ii) As at 30th April 2003, the directors assessed the recoverability of the carrying value of (i) the goodwill arising from the acquisition of subsidiaries as mentioned in Note 12(i); and (ii) the distribution right. As a result of this assessment, the Group determined to provide for impairment losses of HK\$8,940,000, which, in addition to the amortisation already charged, reduced the carrying value of the intangible assets to HK\$Nil as at 30th April 2003.

13 Fixed assets

| | Land and buildings | Machinery | Furniture and equipment | Motor vehicles | Total |
|---|-----------------------|-----------|-------------------------------|-------------------|----------|
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Cost or valuation: | | | | | |
| Beginning of year | 74,130 | 520,393 | 48,647 | 5,696 | 648,866 |
| Additions | 1,399 | 21,121 | 3,625 | 564 | 26,709 |
| Disposals | – | (470) | (215) | (168) | (853) |
| Acquisition of subsidiaries (Note 31(d)) | – | – | 417 | – | 417 |
| Translation adjustments | 3 | 681 | (9) | (53) | 622 |
| End of year | 75,532 | 541,725 | 52,465 | 6,039 | 675,761 |
| Accumulated depreciation: | | | | | |
| Beginning of year | – | 124,602 | 31,986 | 3,266 | 159,854 |
| Charge for the year | 2,258 | 47,454 | 5,402 | 742 | 55,856 |
| Disposals | – | (231) | (178) | (149) | (558) |
| Acquisition of subsidiaries (Note 31(d)) | – | – | 32 | – | 32 |
| Translation adjustments | – | 82 | 42 | (16) | 108 |
| End of year | 2,258 | 171,907 | 37,284 | 3,843 | 215,292 |
| Net book value: | | | | | |
| End of year | 73,274 | 369,818 | 15,181 | 2,196 | 460,469 |
| Beginning of year | 74,130 | 395,791 | 16,661 | 2,430 | 489,012 |



13 Fixed assets (Continued)

The analysis of the cost or valuation is as follows:

| | Land and buildings | Machinery | Furniture and equipment | Motor vehicles | Total |
|-----------------------|-----------------------|-----------|-------------------------------|-------------------|----------|
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| At cost | 1,402 | 541,725 | 52,465 | 6,039 | 601,631 |
| At 2002 valuation | 74,130 | – | – | – | 74,130 |
| As at 30th April 2003 | 75,532 | 541,725 | 52,465 | 6,039 | 675,761 |
| At cost | – | 520,393 | 48,647 | 5,696 | 574,736 |
| At 2002 valuation | 74,130 | – | – | – | 74,130 |
| As at 30th April 2002 | 74,130 | 520,393 | 48,647 | 5,696 | 648,866 |

The Group's interests in land and buildings are analysed as follows:

| | 2003 HK\$'000 | 2002 HK\$'000 |
|----------------------------------|------------------|------------------|
| In Hong Kong, held on: | | |
| Leases of between 10 to 50 years | 8,436 | 8,140 |
| In Mainland China, held on: | | |
| Leases of between 10 to 50 years | 64,321 | 65,595 |
| Leases of over 50 years | 517 | 395 |
| | 73,274 | 74,130 |

Approximately HK\$64,321,000 (2002: HK\$65,595,000) of land and buildings located in Mainland China are held under land use rights for 50 years up to 2048, while approximately HK\$517,000 (2002: HK\$395,000) of land and buildings located in Mainland China are held under land use rights for 70 years up to 2072.

Approximately HK\$7,910,000 (2002: HK\$8,140,000) of land and buildings located in Hong Kong were stated at open market value as at 30th April 2002 (date of last valuation) as determined by Castores Magi Surveyors Limited, independent qualified valuers. Approximately HK\$64,400,000 (2002: HK\$65,990,000) of land and buildings located in Mainland China were stated on replacement cost basis as at 30th April 2002 as determined by the same firm.

The carrying amount of land and buildings would have been HK\$53,108,000 (2002: HK\$55,159,000) had they been stated at cost less accumulated depreciation.



13 Fixed assets (Continued)

At 30th April 2003, the net book value of land and buildings pledged as security for the Group's banking facilities amounted to approximately HK\$6,005,000 (2002: HK\$6,190,000) (Note 34).

Certain machinery and motor vehicles were purchased under finance leases. Details of these assets are as follows:

| | 2003 HK\$'000 | 2002 HK\$'000 |
|--------------------------------|------------------|------------------|
| Cost | 73,903 | 71,813 |
| Less: Accumulated depreciation | (18,811) | (13,239) |
| Net book value | 55,092 | 58,574 |

14 Investment in subsidiaries

| | 2003 HK\$'000 | 2002 HK\$'000 |
|--------------------------------------|------------------|------------------|
| Unlisted shares/investments, at cost | 137,348 | 137,348 |
| Due from subsidiaries | 194,617 | 205,530 |
| | 331,965 | 342,878 |

The following is a list of the subsidiaries as at 30th April 2003:

| Name | Place of incorporation/ operation | Principal activities | Particulars of issued and fully paid share capital/ registered capital | Interest held (a) |
|--------------------------------------|--------------------------------------|---|---|----------------------|
| Coils International Holdings Limited | British Virgin Islands | Investment holding | Ordinary US\$10,000 | 100% |
| CEC-Coils Hong Kong Co., Limited | Hong Kong | Dormant | Ordinary HK\$2 | 100% |
| | | | Non-voting deferred HK\$1,000,000 (b) | 100% |
| CEC-Coils Singapore Pte Ltd. | Singapore | Manufacture and sale of coils and other electronic components | Ordinary S\$1,500,000 | 100% |



14 Investment in subsidiaries (Continued)

| Name | Place of incorporation/ operation | Principal activities | Particulars of issued and fully paid share capital/ registered capital | Interest held (a) |
|---|--------------------------------------|---|---|----------------------|
| CEC-ECAP Limited | Hong Kong | Manufacture and sale of electrolytic capacitors | Ordinary HK\$1,000,000 | 100% |
| CEC-Electric Co., Limited | Hong Kong | Dormant | Ordinary HK\$2 | 100% |
| CEC-Smart Good Enterprises Limited | Hong Kong | Trading of electronic components | Ordinary HK\$3,200,000 | 100% |
| CEC-Technology Limited | Hong Kong | Investment holding | Ordinary HK\$10,000 | 100% |
| Coils Electronic Co., Limited | Hong Kong | Investment holding; manufacture and sale of coils and other electronic components | Ordinary HK\$2 Non-voting deferred HK\$14,000,000 (b) | 100% — |
| Coils Investment (BVI) Limited | British Virgin Islands | Investment holding | Ordinary US\$1 | 100% |
| CEC-Unitech Electronics Limited | Hong Kong | Dormant | Ordinary HK\$10,000 | 100% |
| Jin Yuan Moulds Limited | Hong Kong | Investment holding | Ordinary HK\$100 | 100% |
| CEC-Coils International Limited (formerly known as CEC-Chung Cheuk Electronics Limited) | Hong Kong | Dormant | Ordinary HK\$200,000 | 100% |
| Xiamen Coils Electronic Co., Ltd. (c) | Mainland China | Manufacture and sale of coils and other electronic components | Registered capital HK\$2,900,000 | 100% |
| Zhongshan Tonichi Ferrite Products Co., Ltd. (c) | Mainland China | Manufacture and sale of coils and other electronic components | Registered capital HK\$81,600,000 | 100% |

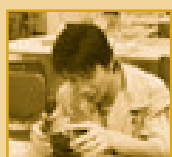


ANNUAL
REPORT
2002/2003

14 Investment in subsidiaries (Continued)

| Name | Place of incorporation/ operation | Principal activities | Particulars of issued and fully paid share capital/ registered capital | Interest held (a) |
|---|--------------------------------------|---|---|----------------------|
| Zhongshan Coils Metalwork Co., Ltd. (c) | Mainland China | Manufacture of coils | Registered capital US\$66,185 (d) | 100% |
| Zhongshan Coils Electronic Co., Ltd. (c) | Mainland China | Manufacture and sale of coils and other electronic components | Registered capital US\$2,587,557 (d) | 100% |
| Kunshan CEC-Ferrite Manufacturing Co., Ltd. (c) | Mainland China | Manufacture and sale of coils and other electronic components | Registered capital HK\$2,000,000 | 100% |
| Zhuhai Guozhong Electronic Co., Ltd. (c) | Mainland China | Dormant | Registered capital HK\$723,232 (d) | 100% |
| Qingdao Coils Electronic Co., Ltd. (c) | Mainland China | Dormant | Registered capital US\$40,000 (d) | 100% |
| Chongqing CEC-Technology Limited (c) | Mainland China | Provision of information technology services | Registered capital HK\$500,000 | 100% |
| Nanjing Guo Zhong Magnetic Material Co., Ltd. (c) | Mainland China | Dormant | – (d) | 100% |
| Good Signal Holdings Limited | British Virgin Islands | Investment holding | Ordinary US\$100 | 100% |
| Sun-iOMS Technology Holdings Limited* | British Virgin Islands | Investment holding | Ordinary HK\$500,000 | 51% |
| Sun-iOMS Development Limited* | British Virgin Islands | Dormant | Ordinary US\$1 | 51% |
| Sun-iOMS (Hong Kong) Limited* | Hong Kong | Provision of information technology services | Ordinary HK\$2 | 51% |

* Subsidiaries not audited by PricewaterhouseCoopers. The aggregate assets of subsidiaries not audited by PricewaterhouseCoopers amounted to approximately 0.2% of the Group's total assets.



ANNUAL
REPORT
2002/2003

14 Investment in subsidiaries (Continued)

The amounts due from subsidiaries are unsecured, non-interest bearing and are not repayable within the next 12 months.

The underlying value of the investment in subsidiaries is, in the opinion of the Company's directors and the Group's management, not less than the carrying value as at 30th April 2003.

As at 30th April 2003, the Company had given guarantees to banks and financial institutions of approximately HK\$264,818,000 (2002: HK\$259,368,000) to secure banking and finance lease facilities of certain subsidiaries (Note 32(c)).

None of the subsidiaries had any loan capital in issue at any time during the year ended 30th April 2003.

Notes:

(a) The shares of Coils International Holdings Limited are held directly by the Company. 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, a wholly-owned subsidiary of the Company, 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 each of CEC-Coils Hong Kong Co., Limited and 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 the ordinary shares.

(c) Qingdao Coils Electronic Co., Ltd. is a wholly foreign owned enterprise established in Mainland China to be operated for 12 years up to September 2014.

Xiamen Coils Electronic Co., Ltd., Zhongshan Tonichi Ferrite Products Co., Ltd., Zhongshan Coils Metalwork Co., Ltd., Zhongshan Coils Electronic Co., Ltd. and Chongqing CEC-Technology Limited are wholly foreign owned enterprises established in Mainland China to be operated for 15 years up to December 2012, September 2008, February 2016, April 2016 and August 2017, respectively.

Kunshan CEC-Ferrite Manufacturing Co., Ltd. and Zhuhai Guozhong Electronic Co., Ltd. are wholly foreign owned enterprises established in Mainland China to be operated for 50 years up to August 2052 and September 2052, respectively.

Nanjing Guo Zhong Magnetic Material Co., Ltd. is a wholly foreign owned enterprise established in Mainland China to be operated for 30 years up to April 2033.

(d) Zhongshan Coils Metalwork Co., Ltd., Zhongshan Coils Electronic Co., Ltd., Zhuhai Guozhong Electronic Co., Ltd., Qingdao Coils Electronic Co., Ltd. and Nanjing Guo Zhong Magnetic Material Co., Ltd. were established with registered capital of US\$3,000,000, US\$8,000,000, HK\$35,000,000, US\$500,000 and US\$2,780,000, respectively. As at 30th April 2003, the Group had outstanding commitments of approximately US\$2,934,000, US\$5,412,000, HK\$34,277,000, US\$460,000 and US\$2,780,000, respectively, for capital contribution to these five subsidiaries.



15 Investment in associates

| | 2003 HK\$'000 | 2002 HK\$'000 |
|---------------------|------------------|------------------|
| Share of net assets | 4,193 | – |

The following is a list of the associates as at 30th April 2003:

| Name | Place of incorporation/ operation | Principal activities | Particulars of issued share capital | Interest held indirectly |
|------------------------------|--------------------------------------|-----------------------------------|-------------------------------------|--------------------------|
| Rentz Technologies Co., Ltd. | Taiwan | Manufacture and sale of machinery | Ordinary NT\$45,000,000 | 40% |
| Signking Science Ltd. | British Virgin Islands | Investment holding | Ordinary US\$10,000 | 50% |

16 Investment in jointly controlled entities

| | 2003 HK\$'000 | 2002 HK\$'000 |
|---|------------------|------------------|
| Unlisted shares, at cost | – | 105 |
| Share of undistributed post-acquisition results | – | (141) |
| Due from jointly controlled entities | – | 908 |
| | – | 872 |

On 8th October 2002, Coils International Holdings Limited (“CIHL”), a wholly-owned subsidiary of the Company, acquired the remaining 50% equity interest in CEC-Coils International Limited (formerly known as CEC-Chung Cheuk Electronics Limited) at a total consideration of HK\$100,000, which approximated the book value of the net assets acquired. Thereafter, that company became a wholly-owned subsidiary of the Company.

On 10th December 2002, CIHL disposed of all its 50% equity interest in Yat Chun Motor Car Services Limited to the remaining shareholder at a total consideration of HK\$5,000. No gain or loss arose from the disposal.

17 Deposit with an associate

Deposit was paid to Rentz Technologies Co., Ltd., an associate of the Group, for construction of a production plant of the Group in Nanjing Economic and Technical Development Zone in Mainland China amounting to approximately HK\$8,577,000 (2002: Nil). Refer to Note 32(a) for details of the Group's capital commitment.



18 Inventories

| | 2003 HK\$'000 | 2002 HK\$'000 |
|--|------------------|------------------|
| Raw materials | 61,254 | 41,623 |
| Work-in-progress | 8,239 | 16,572 |
| Finished goods | 16,687 | 14,550 |
| | 86,180 | 72,745 |
| Less: Provision for slow-moving and obsolete inventories | (2,424) | (2,424) |
| | 83,756 | 70,321 |

As at 30th April 2003, no inventories (2002: HK\$4,256,000) were carried at net realisable value.

As at 30th April 2003, certain inventories were held under trust receipts bank loans of HK\$63,214,000 (2002: HK\$54,985,000).

19 Trade receivables

The aging analysis of trade receivables (consolidated) is as follows:

| | 2003 HK\$'000 | 2002 HK\$'000 |
|--|------------------|------------------|
| Current | 52,393 | 27,527 |
| Overdue by 0 – 1 month | 9,472 | 9,937 |
| Overdue by 1 – 2 months | 3,879 | 3,284 |
| Overdue by 2 – 3 months | 5,923 | 842 |
| Overdue by more than 3 months | 8,922 | 2,218 |
| | 80,589 | 43,808 |
| Less: Provision for bad and doubtful debts | (2,909) | (1,808) |
| | 77,680 | 42,000 |

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 to three months to its trade customers who have good payment records and well-established relationships with the Group.



20 Investment

| | 2003 HK\$'000 | 2002 HK\$'000 |
|--|------------------|------------------|
| Guaranteed return fund, at quoted market value | 7,939 | 7,370 |

As at 30th April 2003, the Group's investment was pledged as collateral for the Group's banking facilities (Note 34).

21 Bank balances and cash

As at 30th April 2003, the Group's bank deposits of approximately HK\$24,983,000 (2002: HK\$35,847,000) were pledged as collateral for the Group's banking facilities (Note 34).

As at 30th April 2003, approximately HK\$8,032,000 (2002: HK\$2,723,000) of the Group's cash and bank balances were denominated in Renminbi and kept in Mainland China. The conversion of these Renminbi denominated balances into foreign currencies is subject to the rules and regulations of foreign exchange promulgated by the government of Mainland China.

22 Short-term bank borrowings

| | 2003 HK\$'000 | 2002 HK\$'000 |
|---------------------------|------------------|------------------|
| Bank overdrafts | 28,528 | 20,370 |
| Short-term bank loans | 56,057 | 13,675 |
| Trust receipts bank loans | 63,214 | 54,985 |
| | 147,799 | 89,030 |

Refer to Note 34 for details of the Group's banking facilities.

23 Trade payables

The aging analysis of trade payables (consolidated) is as follows:

| | 2003 HK\$'000 | 2002 HK\$'000 |
|-------------------------------|------------------|------------------|
| Current | 29,248 | 25,386 |
| Overdue by 0 – 1 month | 9,565 | 7,525 |
| Overdue by 1 – 2 months | 4,840 | 3,112 |
| Overdue by 2 – 3 months | 2,656 | 2,344 |
| Overdue by more than 3 months | 5,567 | 3,229 |
| | 51,876 | 41,596 |



ANNUAL
REPORT
2002/2003

24 Long-term bank loans, secured

As at 30th April 2003, the Group's long-term bank loans are repayable as follows:

| | Group | | Company | |
|----------------------------|------------------|------------------|------------------|------------------|
| | 2003 HK\$'000 | 2002 HK\$'000 | 2003 HK\$'000 | 2002 HK\$'000 |
| Within one year | 42,996 | 44,798 | 20,000 | 20,000 |
| In the second year | 74,936 | 43,820 | 55,000 | 20,000 |
| In the third to fifth year | 17,926 | 90,829 | – | 55,000 |
| | 135,858 | 179,447 | 75,000 | 95,000 |
| Less: Current portion | (42,996) | (44,798) | (20,000) | (20,000) |
| | 92,862 | 134,649 | 55,000 | 75,000 |

Refer to Note 34 for details of the Group's banking facilities.

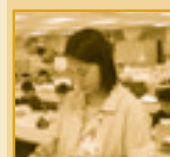
25 Finance lease obligations

Finance lease obligations (consolidated) are repayable as follows:

| | 2003 HK\$'000 | 2002 HK\$'000 |
|--|------------------|------------------|
| Within one year | 15,346 | 16,414 |
| In the second year | 6,214 | 10,493 |
| In the third to fifth year | 2,370 | 7,877 |
| | 23,930 | 34,784 |
| Less: Future finance charges on finance leases | (1,217) | (3,172) |
| | 22,713 | 31,612 |

The present value of finance lease obligations is as follows:

| | 2003 HK\$'000 | 2002 HK\$'000 |
|----------------------------|------------------|------------------|
| Within one year | 14,487 | 14,552 |
| In the second year | 5,929 | 9,671 |
| In the third to fifth year | 2,297 | 7,389 |
| | 22,713 | 31,612 |
| Less: Current portion | (14,487) | (14,552) |
| | 8,226 | 17,060 |



26 Deferred taxation

Deferred taxation is calculated in full on timing differences under the liability method using a principal taxation rate of 17.5% (2002: 16%).

The movement in deferred taxation is as follows:

| | 2003 HK\$'000 | 2002 HK\$'000 |
|--|------------------|------------------|
| Beginning of year | 14,937 | 13,262 |
| Provision for net timing differences (Note 7) | 95 | 1,675 |
| Deferred taxation resulting from an increase in tax rate (Note 7) | 1,400 | – |
| End of year | 16,432 | 14,937 |

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

| | 2003 HK\$'000 | 2002 HK\$'000 |
|--|------------------|------------------|
| Accelerated depreciation allowances of fixed assets | 25,428 | 26,276 |
| Cumulative tax losses carried forward of certain subsidiaries | (8,617) | (10,989) |
| General provisions | (379) | (350) |
| | 16,432 | 14,937 |

As at 30th April 2003, the Group had unprovided deferred tax liabilities of approximately HK\$3,308,000 (2002: HK\$3,300,000), 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 for as the directors and the Group's management are of the opinion that the related land and buildings are held for the long-term for own use 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 2003.



27 Share capital

Movements in share capital are as follows:

| | 2003 | | 2002 | |
|---|------------------|---------------------------|------------------|---------------------------|
| | Number of shares | Nominal value HK\$'000 | Number of shares | Nominal value HK\$'000 |
| Authorised shares of HK\$0.10 each | 1,000,000,000 | 100,000 | 1,000,000,000 | 100,000 |
| Issued and fully paid shares of HK\$0.10 each | | | | |
| Beginning of year | 661,028,811 | 66,103 | 528,027,108 | 52,803 |
| Issue of new shares (<i>Note</i>) | 32,000,000 | 3,200 | 20,588,235 | 2,059 |
| Issue of shares upon exercise of warrants | – | – | 1,050,000 | 105 |
| Bonus issue | – | – | 105,815,421 | 10,581 |
| Issue of shares pursuant to scrip dividend scheme | – | – | 5,548,047 | 555 |
| End of year | 693,028,811 | 69,303 | 661,028,811 | 66,103 |

Note:

On 4th June 2002, the Company issued 32,000,000 new shares to an independent third party for acquisition of a subsidiary (see Note 12).



ANNUAL
REPORT
2002/2003

28 Reserves

Movements in reserves are as follows:

| | Share premium HK\$'000 | Capital reserve HK\$'000 | Subscription right reserve HK\$'000 | Property revaluation reserve HK\$'000 | Mainland | | Retained profits HK\$'000 | Total HK\$'000 | Proposed final dividends HK\$'000 |
|--|------------------------------|--------------------------------|--|--|----------------------------------|--|---------------------------------|-------------------|--|
| | | | | | China | Cumulative | | | |
| | | | | | statutory reserve HK\$'000 | translation adjustments HK\$'000 | | | |
| Group | | | | | | | | | |
| As at 1st May 2001 | 24,490 | 13,934 | 17,454 | 17,476 | - | (234) | 140,304 | 213,424 | 5,280 |
| Bonus issue | (10,581) | - | - | - | - | - | - | (10,581) | - |
| Premium arising from issue of shares pursuant to the scrip dividend scheme | 3,196 | - | - | - | - | - | - | 3,196 | - |
| Proceeds from exercise of warrants | 514 | - | - | - | - | - | - | 514 | - |
| Premium arising from issue of shares on exercise of warrants | 240 | - | (240) | - | - | - | - | - | - |
| Premium arising from issue of new shares | 11,941 | - | - | - | - | - | - | 11,941 | - |
| Share issue expense | (239) | - | - | - | - | - | - | (239) | - |
| Surplus on revaluation of properties | - | - | - | 3,590 | - | - | - | 3,590 | - |
| Profit for the year | - | - | - | - | - | - | 5,973 | 5,973 | - |
| Dividends paid | | | | | | | | | |
| - scrip dividends | - | - | - | - | - | - | - | - | (3,751) |
| - cash dividends | - | - | - | - | - | - | (11) | (11) | (1,529) |
| Translation adjustments | - | - | - | - | - | 96 | - | 96 | - |
| As at 30th April 2002 | 29,561 | 13,934 | 17,214 | 21,066 | - | (138) | 146,266 | 227,903 | - |
| As at 1st May 2002 | 29,561 | 13,934 | 17,214 | 21,066 | - | (138) | 146,266 | 227,903 | - |
| Premium arising from issue of new shares (Note 27) | 6,560 | - | - | - | - | - | - | 6,560 | - |
| Share issue expense | (3) | - | - | - | - | - | - | (3) | - |
| Loss for the year | - | - | - | - | - | - | (4,947) | (4,947) | - |
| Transfer from retained profits to Mainland China statutory reserve | - | - | - | - | 137 | - | (137) | - | - |
| Translation adjustments | - | - | - | - | - | 1,443 | - | 1,443 | - |
| As at 30th April 2003 | 36,118 | 13,934 | 17,214 | 21,066 | 137 | 1,305 | 141,182 | 230,956 | - |



28 Reserves (Continued)

Retained profits consist:

| | 2003 HK\$'000 | 2002 HK\$'000 |
|-----------------------------|------------------|------------------|
| Company | 2,995 | 3,621 |
| Subsidiaries | 138,111 | 142,786 |
| Associates | 76 | – |
| Jointly controlled entities | – | (141) |
| | 141,182 | 146,266 |

| | Share premium HK\$'000 | Contributed surplus HK\$'000 | Subscription right reserve HK\$'000 | Retained profits HK\$'000 | Total HK\$'000 | Proposed final dividends HK\$'000 |
|--|------------------------------|------------------------------------|--|---------------------------------|-------------------|--|
| Company | | | | | | |
| As at 1st May 2001 | 24,490 | 131,338 | 17,454 | 4,576 | 177,858 | 5,280 |
| Bonus issue | (10,581) | – | – | – | (10,581) | – |
| Premium arising from issue of shares pursuant to the scrip dividend scheme | 3,196 | – | – | – | 3,196 | – |
| Proceeds from exercise of warrants | 514 | – | – | – | 514 | – |
| Premium arising from issue of shares on exercise of warrants | 240 | – | (240) | – | – | – |
| Premium arising from issue of new shares | 11,941 | – | – | – | 11,941 | – |
| Share issue expense | (239) | – | – | – | (239) | – |
| Loss for the year | – | – | – | (944) | (944) | – |
| Dividends paid | | | | | | |
| – scrip dividends | – | – | – | – | – | (3,751) |
| – cash dividends | – | – | – | (11) | (11) | (1,529) |
| As at 30th April 2002 | 29,561 | 131,338 | 17,214 | 3,621 | 181,734 | – |
| As at 1st May 2002 | 29,561 | 131,338 | 17,214 | 3,621 | 181,734 | – |
| Premium arising from issue of new shares (Note 27) | 6,560 | – | – | – | 6,560 | – |
| Share issue expense | (3) | – | – | – | (3) | – |
| Loss for the year | – | – | – | (626) | (626) | – |
| As at 30th April 2003 | 36,118 | 131,338 | 17,214 | 2,995 | 187,665 | – |



28 Reserves (Continued)

Notes:

- (a) Under the Companies Act 1981 of Bermuda (as amended), contributed surplus is distributable to shareholders subject to 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.
- (b) In accordance with the laws and regulations of Mainland China, the Group's subsidiaries in Mainland China are required to set aside certain portion of their retained profits to a statutory reserve account. The general reserve fund can only be used to make up losses incurred, increase registered capital or used for collective welfare of employees.

29 Warrants

As at 30th April 2003, the Company had outstanding warrants of 300,800,000 units, exercisable at any time from 3rd July 2000 to 30th September 2003, both dates inclusive. These warrants carrying subscription rights of HK\$1.475 for every 10 units of warrants entitle the holders thereof to subscribe in cash for 90,546,938 new shares in the Company at an adjusted subscription price of HK\$0.49 per new share (subject to adjustment). During the year ended 30th April 2003, no new share (2002: 1,050,000) was issued as a result of the exercise of the subscription rights attaching to the warrants (2002: 4,200,000 units).

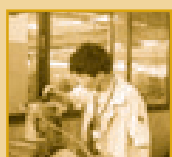
30 Share options

The Stock Exchange of Hong Kong Limited (the "Stock Exchange") announced certain amendments to Chapter 17 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") in relation to share option scheme on 23rd August 2001, which came into effect on 1st September 2001. At the annual general meeting of the Company held on 26th September 2002, the shareholders of the Company approved the adoption of a new share option scheme (the "New Scheme") with rules in compliance with the requirements of the amended Listing Rules and the termination of the share option scheme adopted by the Company on 26th October 1999 (the "Old Scheme").

The Old Scheme

Under the Old Scheme, the board of directors may grant options to any 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 issued share capital of the Company from time to time, excluding for this purpose shares allotted and issued upon exercise of options granted pursuant to the share option scheme. The subscription price per share 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 on the five trading days immediately preceding the date of offer of the options or (ii) the nominal value of the shares, whichever is higher.

In view of the termination of the Old Scheme on 26th September 2002, no further options can be offered under the Old Scheme. However, in all other respects the provisions of the Old Scheme shall remain in full force and all outstanding options granted under the Old Scheme prior to such termination shall continue to be valid and exercisable pursuant to the Old Scheme until their respective expiry dates.



ANNUAL
REPORT
2002/2003

30 Share options (Continued)

The New Scheme

Under the New Scheme, the Company may grant options to any full-time employees and executive directors of the Company or any of its subsidiaries (including non-executive directors of the Company or any of its subsidiaries and independent non-executive directors of the Company) to subscribe for shares in the Company. The total number of shares available for issue upon exercise of all options to be granted under the New Scheme and other share option schemes of the Company must not in aggregate exceed 10% of the issued share capital of the Company as at the date of approval of the New Scheme and such limit may be refreshed by the shareholders of the Company in general meeting. The overall limit on the number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the New Scheme and any other share option schemes of the Company must not exceed 30% of the shares of the Company in issue from time to time. The subscription price per share will be determined by the board of directors, and will not be less than the highest of (i) the closing price of the Company's share as stated in the daily quotations sheet issued by the Stock Exchange on the date of grant; (ii) the average closing price of the Company's share as stated in the daily quotations sheets issued by the Stock Exchange for the 5 business days immediately preceding the date of grant; and (iii) the nominal value of the Company's share on the date of grant. No option was granted under the New Scheme during the year ended 30th April 2003.

Movements in share options granted under the Old Scheme during the year were as follows:

| Date of grant | Subscription price per share | Exercisable period | Number of shares under options | | | End of year |
|---------------------|------------------------------|---|--------------------------------|---------------------------|------------------------|-------------|
| | | | Beginning of year | Exercised during the year | Lapsed during the year | |
| 21st September 2000 | HK\$1.02 | From 22nd September 2002 to 21st January 2005 | 14,108,776 | - | - | 14,108,776 |
| 1st November 2000 | HK\$0.75 | From 1st November 2002 to 28th February 2005 | 34,740,000 | - | (1,080,000) | 33,660,000 |
| | | | 48,848,776 | - | (1,080,000) | 47,768,776 |

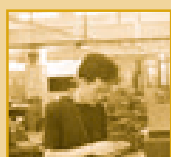


ANNUAL
REPORT
2002/2003

31 Consolidated cash flow statement

(a) Reconciliation of (loss)/profit before taxation to net cash inflow from operating activities

| | 2003 HK\$'000 | 2002 HK\$'000 |
|--|------------------|------------------|
| (Loss)/profit before taxation | (3,042) | 8,435 |
| Interest income | (341) | (1,031) |
| Interest expense | 18,223 | 22,295 |
| Depreciation of fixed assets | 55,856 | 50,958 |
| Amortisation of distribution right | 1,067 | 1,066 |
| Amortisation of goodwill | 1,793 | – |
| Provision for impairment loss on intangible assets | 8,940 | – |
| Loss on disposal of fixed assets | 119 | 10 |
| Deficit on revaluation of properties | – | 69 |
| Share of profits less losses of associates | (76) | – |
| Share of profits less losses of jointly controlled entities | (140) | 138 |
| Unrealised (gain)/loss on investment | (569) | 430 |
| Increase in inventories | (13,404) | (11,559) |
| Increase in trade receivables | (35,152) | (11,220) |
| Increase in bills receivable | (583) | – |
| Decrease/(increase) in prepayments, deposits and other current assets | 758 | (2,161) |
| Increase in trade payables | 10,169 | 18,169 |
| Decrease in bills payable | (1,730) | (9,581) |
| Increase in accruals and other payables | 6,533 | 841 |
| Hong Kong profits tax paid | (23) | (137) |
| Hong Kong profits tax refunded | 68 | 5 |
| Mainland China enterprise income tax paid | (776) | (485) |
| Net cash inflow from operating activities | 47,690 | 66,242 |



ANNUAL
REPORT
2002/2003

31 Consolidated cash flow statement (Continued)

(b) Analysis of changes in financing during the year

| | Share capital and share premium | Subscription right reserve | Short-term bank borrowings | Long-term bank loans | Finance lease obligations | Minority interests | Total |
|--|--|----------------------------------|----------------------------------|-------------------------|---------------------------------|-----------------------|----------|
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| As at 1st May 2001 | 77,293 | 17,454 | 76,728 | 84,518 | 82,237 | 5 | 338,235 |
| Issue of shares pursuant to the scrip dividend scheme | 3,751 | - | - | - | - | - | 3,751 |
| Issue of new shares for cash | 14,000 | - | - | - | - | - | 14,000 |
| Share issue expense | (239) | - | - | - | - | - | (239) |
| Exercise of warrants for cash | 619 | - | - | - | - | - | 619 |
| Premium arising from issue of shares on exercise of warrants | 240 | (240) | - | - | - | - | - |
| New short-term bank borrowings | - | - | 68,660 | - | - | - | 68,660 |
| Repayment of short-term bank borrowings | - | - | (76,728) | - | - | - | (76,728) |
| New long-term bank loans | - | - | - | 134,117 | - | - | 134,117 |
| Repayment of long-term bank loans | - | - | - | (39,188) | - | - | (39,188) |
| Inception of finance leases | - | - | - | - | 12,194 | - | 12,194 |
| Repayment of capital element of finance leases | - | - | - | - | (62,864) | - | (62,864) |
| Translation adjustments | - | - | - | - | 45 | - | 45 |
| Acquisition of additional interests in a subsidiary | - | - | - | - | - | (5) | (5) |
| Minority interests' share in net profit of a subsidiary | - | - | - | - | - | 101 | 101 |
| Dividend declared by a subsidiary | - | - | - | - | - | (101) | (101) |
| As at 30th April 2002 | 95,664 | 17,214 | 68,660 | 179,447 | 31,612 | - | 392,597 |
| Issue of new shares | 9,760 | - | - | - | - | - | 9,760 |
| Share issue expense | (3) | - | - | - | - | - | (3) |
| New short-term bank borrowings | - | - | 119,271 | - | - | - | 119,271 |
| Repayment of short-term bank borrowings | - | - | (68,660) | - | - | - | (68,660) |
| New long-term bank loans | - | - | - | 7,000 | - | - | 7,000 |
| Repayment of long-term bank loans | - | - | - | (50,589) | - | - | (50,589) |
| Inception of finance leases | - | - | - | - | 9,451 | - | 9,451 |
| Repayment of capital element of finance leases | - | - | - | - | (18,350) | - | (18,350) |
| Acquisition of subsidiaries | - | - | - | - | - | (39) | (39) |
| Minority interests' share in net profit of subsidiaries | - | - | - | - | - | 100 | 100 |
| As at 30th April 2003 | 105,421 | 17,214 | 119,271 | 135,858 | 22,713 | 61 | 400,538 |



ANNUAL
REPORT
2002/2003

31 Consolidated cash flow statement (Continued)

(c) Major non-cash transactions

During the year, the Group entered into finance lease arrangements for approximately HK\$9,451,000 (2002: HK\$12,194,000) in respect of new machinery.

(d) Purchase of subsidiaries

| | 2003 HK\$'000 |
|--|------------------|
| Net liabilities assumed | |
| Investment in an associate | 33 |
| Fixed assets | 385 |
| Trade receivables | 528 |
| Prepayments, deposits and other current assets | 244 |
| Bank balances and cash | 256 |
| Trade payables | (111) |
| Accruals and other payables | (1,381) |
| Minority interests | 39 |
| | (7) |
| Goodwill | 10,022 |
| Consideration | 10,015 |
| Satisfied by | |
| Issue of shares | 9,760 |
| Cash | 255 |
| | 10,015 |

Analysis of the net cash inflow in respect of the purchase of subsidiaries:

| | 2003 HK\$'000 |
|--|------------------|
| Bank balances and cash acquired | 256 |
| Cash consideration | (255) |
| Net cash inflow in respect of the purchase of subsidiaries | 1 |

(e) Purchase of additional interest in a jointly controlled entity

| | 2003 HK\$'000 |
|------------------------|------------------|
| Net assets acquired | |
| Inventories | 31 |
| Bank balances and cash | 220 |
| Due to group companies | (148) |
| Taxation payable | (3) |
| | 100 |
| Satisfied by cash | 100 |



31 Consolidated cash flow statement (Continued)

(e) Purchase of additional interest in a jointly controlled entity (Continued)

Analysis of the net cash inflow in respect of the purchase of a jointly controlled entity:

| | 2003 HK\$'000 |
|--|------------------|
| Bank balances and cash acquired | 220 |
| Cash consideration | (100) |
| Net cash inflow in respect of the purchase of additional interest in a jointly controlled entity | 120 |

32 Commitments and contingent liabilities

(a) Capital commitments

| | Group | |
|---|------------------|------------------|
| | 2003 HK\$'000 | 2002 HK\$'000 |
| Contracted but not provided for | | |
| – construction of a production plant in Nanjing, Mainland China | 8,023 | – |
| – purchase of fixed assets | 1,872 | 270 |
| | 9,895 | 270 |

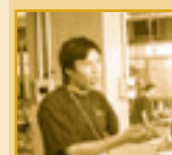
(b) Operating leases commitments

As at 30th April 2003, the Group had future aggregate minimum lease payments in respect of rented premises under various non-cancellable operating leases as follows:

| | Group | | Company | |
|---|------------------|------------------|------------------|------------------|
| | 2003 HK\$'000 | 2002 HK\$'000 | 2003 HK\$'000 | 2002 HK\$'000 |
| Not later than one year | 2,133 | 2,626 | – | – |
| Later than one year and not later than five years | 1,971 | 2,237 | – | – |
| | 4,104 | 4,863 | – | – |

(c) Contingent liabilities

| | Group | | Company | |
|---|------------------|------------------|------------------|------------------|
| | 2003 HK\$'000 | 2002 HK\$'000 | 2003 HK\$'000 | 2002 HK\$'000 |
| Discounted bills with recourse | – | 205 | – | – |
| Factoring of trade receivables with recourse | 25,286 | 36,618 | – | – |
| Guarantees given to banks and financial institutions in respect of banking and finance lease facilities of its subsidiaries | – | – | 264,818 | 259,368 |
| | 25,286 | 36,823 | 264,818 | 259,368 |



33 Pension schemes

The Group had arranged for certain of its employees (including executive directors) in Hong Kong to participate in a defined contribution provident fund under the Occupational Retirement Schemes Ordinance (the “ORSO Scheme”), which is 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 make monthly 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 HK\$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 at rates of approximately 10% to 28% of the basic salaries of its employees in Mainland China, and has no further obligation for the actual payment of pensions or post-retirement benefits. The state-sponsored retirement plans are responsible for the entire pension obligations payable to retired employees.

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 2003, aggregate contributions made by the Group to the aforementioned schemes amounted to approximately HK\$3,362,000 (2002: HK\$3,292,000), with no deduction of forfeited contributions (2002: HK\$3,000). As at 30th April 2003, there were no material forfeitures available to offset the Group’s future contributions.

34 Banking facilities and pledge of assets

As at 30th April 2003, the Group had aggregate banking facilities of approximately HK\$539,426,000 (2002: HK\$391,747,000) for overdrafts, loans, factoring of trade receivables and trade financing. Unused facilities as at the same date amounted to approximately HK\$222,320,000 (2002: HK\$68,786,000). These facilities were secured by:

- (a) mortgages over certain of the Group’s land and buildings with a net book value of approximately HK\$6,005,000 (2002: HK\$6,190,000) (Note 13);



ANNUAL
REPORT
2002/2003

34 Banking facilities and pledge of assets (Continued)

- (b) pledge of the Group's investment of approximately HK\$7,939,000 (2002: HK\$7,370,000) (Note 20);
- (c) pledges of the Group's bank deposits of approximately HK\$24,983,000 (2002: HK\$35,847,000) (Note 21); and
- (d) corporate guarantees executed by the Company and certain of its subsidiaries.

In addition, the Group is required to comply with certain restrictive financial covenants imposed by the banks.

On 30th April 2003, the Company entered into a three-year transferable term loan facility agreement (the "Agreement") with Coils Electronic Co., Limited, the Company's wholly-owned subsidiary, as original guarantor and a group of banks for an aggregate amount of HK\$165,000,000. Under the Agreement, the loan will be drawn down and applied as follows:

- (a) prepay all of the Company's outstanding indebtedness, which amounted to HK\$75,000,000, under a HK\$100,000,000 term loan and revolving credit facility agreement dated 31st January 2002;
- (b) develop a production plant in Nanjing, Mainland China; and
- (c) the balance as general working capital of the Group.

Subsequent to 30th April 2003, the full amount of the loan under the Agreement had been drawn down by the Company in one lump sum on 30th May 2003.

35 Related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

During the year, the Group paid HK\$8,577,000 to Rentz Technologies Co., Ltd., an associate, as deposit for construction of a production plant in Nanjing, Mainland China. The total contracted sum for the project amounts to approximately HK\$16,600,000 (see Note 17 & Note 32).

36 Comparative figures

Certain comparative figures of the consolidated cash flow statement for the year ended 30th April 2002 have been reclassified to conform to current year's presentation due to the adoption of SSAP 15 (revised) – Cash flow statements. In addition, certain staff costs have been reclassified from cost of sales to general and administrative expenses to conform to current year's presentation.

37 Ultimate holding company

The directors regard Ka Yan China Investments Limited, a company incorporated in the British Virgin Islands, as the ultimate holding company.

38 Approval of financial statements

The financial statements were approved by the board of directors on 14th August 2003.

