

## 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) 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; (ii) manufacture and sale of ferrite powder which is a major raw material for production of display tubes; and (iii) provision of information technology services.

## 2 Principal accounting policies

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

### (a) Basis of preparation

The accounts 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 investment properties and investment held as current asset are stated at fair value and certain land and buildings are stated at valuations.

In the current year, the Group adopted the revised Statement of Standard Accounting Practice Number 12 “Income Taxes” (“SSAP 12”) issued by the HKSA which is effective for accounting periods commencing on or after 1st January 2003.

The changes to the Group’s accounting policies and the effect of adopting the revised SSAP 12 are set out below:

### (b) Group accounting

#### (i) Consolidation

The consolidated accounts include the accounts 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.

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

## 2 Principal accounting policies (Continued)

### (b) Group accounting (Continued)

#### (i) Consolidation (Continued)

Gain or loss on 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 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.

In the Company's balance sheet, investments in subsidiaries are stated at cost less accumulated impairment losses. Results of the 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.

#### (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 accumulated impairment losses. 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.

## 2 Principal accounting policies (Continued)

### (b) Group accounting (Continued)

#### (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.

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.

## 2 Principal accounting policies (Continued)

### (c) Intangible assets (Continued)

#### (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 2003 and 2004 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.

### (d) Fixed assets

#### (i) *Investment properties*

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties are included in the balance sheet at their open market value on the basis of an annual valuation by qualified valuers. Increases in valuation are credited to the investment properties revaluation reserve. Decreases in valuation are first set off against increases on earlier valuations on a portfolio basis and thereafter are debited to operating profit. Any subsequent increases are credited to operating profit up to the amount previously debited.

Upon the disposal of investment properties, the relevant portion of the revaluation reserve realised in respect of previous valuations is released from the investment properties revaluation reserve to the income statement.

Investment properties are not depreciated except where the unexpired term of the lease is 20 years or less in which case depreciation is provided on the carrying amount over the remaining term of the lease.

## 2 Principal accounting policies (Continued)

### (d) Fixed assets (Continued)

#### (ii) Land and buildings

Land and buildings other than investment properties 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.

#### (iii) Construction-in-progress

Construction-in-progress is machinery under construction. The amount is stated at cost which includes development and construction expenditure incurred and other direct costs attributable to the construction.

#### (iv) 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.

#### (v) 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.

## 2 Principal accounting policies (Continued)

### (d) Fixed assets (Continued)

#### (vi) *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.

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.

## 2 Principal accounting policies (Continued)

### (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.

### (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, cash investments with maturity of three months or less from date of investment 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.

## 2 Principal accounting policies (Continued)

### (l) Deferred taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries, jointly controlled entities and associates, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

In prior years, deferred taxation was 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 accounts to the extent that a liability or an asset was expected to be payable or recoverable in the foreseeable future. The adoption of the revised SSAP 12 represents a change in accounting policy, which has been applied retrospectively so that the comparatives presented have been restated to conform to the changed policy.

As detailed in Note 27 to the accounts, retained profits as at 1st May 2002 and 2003 have been increased by approximately HK\$823,000 and HK\$611,000, respectively and property revaluation reserve as at 1st May 2002 and 2003 have been reduced by approximately HK\$3,593,000 and HK\$3,619,000, respectively, as a result of such change. This change has resulted in an increase in deferred tax assets and liabilities as at 30th April 2003 by approximately HK\$415,000 and HK\$3,423,000, respectively. Loss attributable to shareholders for the year ended 30th April 2003 has been reduced by HK\$212,000.

### (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 accounts. 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 accounts when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.



## 2 Principal accounting policies (Continued)

### (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.

Revenue from rental income is recognised on a straight-line basis over the lease term.

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.

Unallocated costs represent corporate expenses. Segment assets consist primarily of intangible assets, fixed assets, inventories, receivables and operating cash and exclude income tax assets. Segment liabilities comprise operating liabilities and exclude income tax 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 revenue

Revenues recognised during the year are as follows:

	2004 HK\$'000	2003 HK\$'000
Turnover		
Sale of goods	487,953	446,323
Provision of information technology services	3,499	1,832
Rental income	211	–
	<b>491,663</b>	448,155
Other revenue		
Interest income	156	341
Total revenue	<b>491,819</b>	448,496

# Notes to the Accounts

## 4 Segment information

### (a) Primary segments

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

	Coils 2004 HK\$'000	Electronic components 2004 HK\$'000	Capacitors 2004 HK\$'000	Ferrite powder 2004 HK\$'000	Information technology 2004 HK\$'000	Others 2004 HK\$'000	Eliminations 2004 HK\$'000	Total 2004 HK\$'000
Turnover								
External sales	430,854	28,913	15,407	12,779	3,499	211	-	491,663
Intersegment sales	2,967	487	5,690	11	610	-	(9,765)	-
	433,821	29,400	21,097	12,790	4,109	211	(9,765)	491,663
Operating results								
Operating profit/(loss)	41,423	1,050	(1,586)	(52)	(2,162)	81	-	38,754
Interest income	155	-	1	-	-	-	-	156
Interest expense	(17,126)	(99)	(4)	-	(11)	-	-	(17,240)
Share of profits less losses of associates								(20)
Profit before taxation								21,650
Taxation								(5,854)
Profit after taxation but before minority interests								15,796
Minority interests								61
Profit attributable to shareholders								15,857
Other information								
Segment assets	629,087	2,445	37,616	33,793	1,621	2,406	-	706,968
Unallocated assets								471
Total assets								707,439
Segment liabilities	346,924	204	5,720	13,826	1,476	31	-	368,181
Unallocated liabilities								25,496
Total liabilities								393,677
Capital expenditures	32,762	-	503	19,751	118	2,291	-	55,425
Depreciation and amortisation	54,850	2	3,298	628	407	-	-	59,185

## 4 Segment information (Continued)

## (a) Primary segments (Continued)

	Coils 2003 HK\$'000 (restated)	Electronic components 2003 HK\$'000 (restated)	Capacitors 2003 HK\$'000 (restated)	Ferrite powder 2003 HK\$'000 (restated)	Information technology 2003 HK\$'000 (restated)	Others 2003 HK\$'000 (restated)	Eliminations 2003 HK\$'000 (restated)	Total 2003 HK\$'000 (restated)
<b>Turnover</b>								
External sales	355,879	55,173	35,271	-	1,832	-	-	448,155
Intersegment sales	1,422	1,640	2,973	-	-	-	(6,035)	-
	<u>357,301</u>	<u>56,813</u>	<u>38,244</u>	<u>-</u>	<u>1,832</u>	<u>-</u>	<u>(6,035)</u>	<u>448,155</u>
<b>Operating results</b>								
Operating profit/ (loss)	26,722	(1,392)	821	-	(11,527)	-	-	14,624
Interest income	341	-	-	-	-	-	-	341
Interest expense	(17,965)	(24)	(234)	-	-	-	-	(18,223)
Share of profits less losses of associates								76
Share of profits less losses of jointly controlled entities								140
Loss before taxation								(3,042)
Taxation								(2,017)
Loss after taxation but before minority interests								(5,059)
Minority interests								(100)
Loss attributable to shareholders								<u>(5,159)</u>
<b>Other information</b>								
Segment assets	634,675	10,692	48,403	-	3,380	-	-	697,150
Unallocated assets								851
Total assets								<u>698,001</u>
Segment liabilities	371,479	3,182	4,814	-	1,219	-	-	380,694
Unallocated liabilities								19,995
Total liabilities								<u>400,689</u>
Capital expenditures	26,101	11	239	-	358	-	-	26,709
Depreciation and amortisation	52,684	1,069	2,678	-	2,285	-	-	58,716
Impairment loss	-	711	-	-	8,229	-	-	8,940

# Notes to the Accounts

## 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	
	2004	2003	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000 (restated)	HK\$'000	HK\$'000 (restated)	HK\$'000	HK\$'000 (restated)	HK\$'000	HK\$'000 (restated)
Hong Kong	270,428	278,381	19,525	15,518	151,822	206,324	4,761	1,702
Mainland China	109,976	52,793	10,554	(4,955)	527,546	465,396	50,656	25,003
Taiwan	39,784	58,050	11	1,345	9,781	6,147	-	-
Europe	33,807	25,649	1,896	1,153	-	-	-	-
Singapore	22,401	22,551	6,840	3,684	18,290	19,215	8	4
Others	15,267	10,731	(72)	(2,121)	-	919	-	-
<b>Total</b>	<b>491,663</b>	<b>448,155</b>	<b>38,754</b>	<b>14,624</b>	<b>707,439</b>	<b>698,001</b>	<b>55,425</b>	<b>26,709</b>

## 5 Operating profit

Operating profit is stated after crediting and charging the following:

	2004 HK\$'000	2003 HK\$'000
<b>Crediting</b>		
Gain on disposal of investment	321	–
Gain on disposal of investment properties	42	–
Gross rental income	211	–
Less: outgoings	(59)	–
Net rental income	152	–
Unrealised gain on investment	–	569
<b>Charging</b>		
Advertising and promotion costs	761	1,478
Amortisation of intangible assets		
– distribution right	–	1,067
– goodwill	–	1,793
Auditors' remuneration	798	798
Cost of inventories sold	365,304	334,942
Depreciation		
– owned fixed assets	57,055	48,484
– fixed assets held under finance leases	2,130	7,372
Impairment loss on intangible assets		
– distribution right	–	711
– goodwill	–	8,229
Loss on disposal of an associate	83	–
Loss on disposal of fixed assets	29	119
Net exchange losses	2,790	2,371
Operating lease rental on rented premises	3,060	3,873
Provision for/ Write-off of bad and doubtful debts	2,009	1,495
Provision for slow moving and obsolete inventories	119	–
Research and development costs	1,615	6,641
Staff costs (including directors' emoluments) (Note 11)	106,313	89,183

# Notes to the Accounts

## 6 Interest expense

	2004 HK\$'000	2003 HK\$'000
Interest expense on		
– bank overdrafts and loans wholly repayable within five years	14,780	14,153
– factoring of trade receivables	1,592	2,247
– finance leases	868	1,823
	<b>17,240</b>	<b>18,223</b>

## 7 Taxation

The Company is incorporated in Bermuda and is exempted from taxation in Bermuda until 2016. Hong Kong profits tax has been provided at the rate of 17.5% (2003: 17.5%) 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% (2003: 12% 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:

	2004 HK\$'000	2003 HK\$'000 (restated)
Hong Kong profits tax		
– current tax	1,477	38
– overprovision in prior years	(79)	(68)
Overseas taxation		
– current tax	796	511
– overprovision in prior years	–	(171)
Deferred taxation ( <i>Note 25</i> )	3,636	1,707
	<b>5,830</b>	<b>2,017</b>
Share of taxation attributable to an associate	24	–
Total taxation charge	<b>5,854</b>	<b>2,017</b>

## 7 Taxation (Continued)

The reconciliation between the Group's actual tax charge and the amount which is calculated based on the statutory tax rate of Hong Kong is as follows:

	2004 HK\$'000	2003 HK\$'000 (restated)
Profit/(loss) before taxation	21,650	(3,042)
Calculated at a taxation rate of 17.5% (2003: 17.5%)	3,789	(532)
Effect of different taxation rates of subsidiaries and associates operating in other jurisdictions	379	44
Tax effect on income not subject to taxation	(95)	(241)
Tax effect on income exempt from taxation due to tax holiday	(1,586)	(464)
Tax effect on expenses not deductible for taxation purposes	3,141	3,384
Utilisation of previously unrecognised tax losses	(72)	(197)
Overprovision in prior years	(79)	(239)
Increase in opening net deferred tax liabilities resulting from an increase in tax rate	–	855
Others	377	(593)
<b>Total taxation charge</b>	<b>5,854</b>	<b>2,017</b>

## 8 Profit/(loss) attributable to shareholders

Profit/(loss) attributable to shareholders is dealt with in the accounts of the Company to the extent of a loss of HK\$43,000 (2003: loss of HK\$626,000).

## 9 Dividend

	2004 HK\$'000	2003 HK\$'000
Proposed final dividend, of HK0.5 cent (2003: Nil) per share	3,465	–

At a meeting of the board of directors of the Company held on 16th August 2004, the directors of the Company recommended a final dividend of HK0.5 cent per share for the year ended 30th April 2004 to be paid in cash to shareholders whose names appear on the Company's register of members on 27th September 2004. This proposed dividend is not reflected as a dividend payable in the accounts. Refer to Note 27 for details.

# Notes to the Accounts

## 10 Earnings/(loss) per share

The calculation of basic earnings/(loss) per share is based on the consolidated profit attributable to shareholders of approximately HK\$15,857,000 (2003: loss of HK\$5,159,000) and the weighted average number of 693,028,811 (2003: 690,047,989) shares in issue during the year.

No information in respect of diluted earnings per share is presented as the exercise of the outstanding options and warrants during the years ended 30th April 2003 and 30th April 2004 would have no dilutive effect.

## 11 Staff costs

	2004 HK\$'000	2003 HK\$'000
Wages, salaries and welfare	100,522	85,213
Unutilised annual leave	433	608
Pension costs – defined contribution plans ( <i>Note 32</i> )	5,358	3,362
	<b>106,313</b>	<b>89,183</b>

## 12 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:

	2004 HK\$'000	2003 HK\$'000
Directors' fees		
– independent non-executive directors	850	600
– non-executive director	50	300
Other emoluments for executive directors		
– basic salaries, allowances and other benefits in kind	4,249	5,451
– contributions to pension schemes	293	285
	<b>5,442</b>	<b>6,636</b>



## 12 Directors' and senior management's emoluments (Continued)

## (a) Directors' emoluments (Continued)

The emoluments of the directors fell within the following bands:

	Number of directors	
	2004	2003
Executive directors		
Nil to HK\$1,000,000	7	6
HK\$1,000,001 to HK\$1,500,000	1	1
HK\$1,500,001 to HK\$2,000,000	–	1
	<b>8</b>	<b>8</b>
Non-executive director		
Nil to HK\$1,000,000	–	1
Independent non-executive directors		
Nil to HK\$1,000,000	3	2

No directors waived any emoluments during the year (2003: Nil). No incentive payment for joining the Group or compensation for loss of office was paid or payable to any directors during the year.

The remuneration of each of the directors (including non-executive director and independent non-executive directors) is set out below:

	Fees HK\$'000	Basic salaries and allowances HK\$'000	Employer's contribution pension schemes HK\$'000	2004	2003
				Total HK\$'000	Total HK\$'000
Mr. Lam Wai Chun	–	968	97	1,065	1,091
Ms. Tang Fung Kwan	–	720	72	792	682
Mr. Huang Kong	–	600	12	612	194
Mr. Law Hoo Shan	–	600	60	660	436
Mr. Saito Misao (resigned on 30th June 2003)	–	234	–	234	1,513
Mr. Ho Kwok Keung (resigned on 14th August 2003)	–	173	17	190	621
Mr. Chiu Chan, Charles (resigned on 21st January 2004)	–	443	9	452	577
Mr. Lam Wing Kin, Sunny (resigned on 21st February 2004)	–	511	26	537	622
Mr. Tang Tin Sek	300	–	–	300	300
Mr. An Son Yiu	300	–	–	300	300
Mr. Lee Wing Kwan, Denis	300	–	–	300	300
	<b>900</b>	<b>4,249</b>	<b>293</b>	<b>5,442</b>	<b>6,636</b>

# Notes to the Accounts

## 12 Directors' and senior management's emoluments (Continued)

### (b) Five highest paid individuals

	2004 HK\$'000	2003 HK\$'000
Basic salaries, allowances and other benefits in kind	3,399	4,299
Contributions to pension schemes	267	230
	<b>3,666</b>	<b>4,529</b>

The five individuals whose emoluments were the highest in the Group for the year include five (2003: five) directors whose emoluments are reflected in the analysis presented above.

## 13 Fixed assets

### Group

	Investment properties HK\$'000	Construction in progress HK\$'000	Land and buildings HK\$'000	Machinery HK\$'000	Furniture and equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Cost or valuation:							
Beginning of year	–	–	75,532	541,725	52,465	6,039	675,761
Additions	2,291	1,662	941	45,384	3,094	2,053	55,425
Disposals	(438)	–	–	(76)	(365)	(770)	(1,649)
Reclassification	230	(941)	(230)	941	–	–	–
Translation adjustments	–	3	105	1,322	166	21	1,617
End of year	2,083	724	76,348	589,296	55,360	7,343	731,154
Accumulated depreciation:							
Beginning of year	–	–	2,258	171,907	37,284	3,843	215,292
Charge for the year	–	–	1,482	50,757	5,778	1,168	59,185
Disposals	–	–	–	(18)	(262)	(756)	(1,036)
Translation adjustments	–	–	5	384	99	12	500
End of year	–	–	3,745	223,030	42,899	4,267	273,941
Net book value:							
End of year	2,083	724	72,603	366,266	12,461	3,076	457,213
Beginning of year	–	–	73,274	369,818	15,181	2,196	460,469

## 13 Fixed assets (Continued)

The analysis of the cost or valuation as at 30th April 2004 and 30th April 2003 is as follows:

	Investment properties HK\$'000	Construction in progress HK\$'000	Land and buildings HK\$'000	Machinery HK\$'000	Furniture and equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
At cost	-	724	2,448	589,296	55,360	7,343	655,171
At valuation	2,083	-	73,900	-	-	-	75,983
As at 30th April 2004	2,083	724	76,348	589,296	55,360	7,343	731,154

	Investment properties HK\$'000	Construction in progress HK\$'000	Land and buildings HK\$'000	Machinery HK\$'000	Furniture and equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
At cost	-	-	1,402	541,725	52,465	6,039	601,631
At valuation	-	-	74,130	-	-	-	74,130
As at 30th April 2003	-	-	75,532	541,725	52,465	6,039	675,761

The Group's interests in the properties (including investment properties) are analysed as follows:

	2004 HK\$'000	2003 HK\$'000
In Hong Kong, held on:		
Leases of between 10 to 50 years	10,053	8,436
In Mainland China, held on:		
Leases of between 10 to 50 years	64,127	64,321
Leases of over 50 years	506	517
	74,686	73,274

Investment properties were located in Hong Kong and were stated at open market value as at 30th April 2004 as determined by LCH (Asia-Pacific) Surveyors Limited, independent qualified valuers.

# Notes to the Accounts

## 13 Fixed assets (Continued)

The Group leased out its investment properties under operating leases, for an initial period of one to two years, with an option to renew on renegotiated terms. During the year, gross rental income from investment properties amounted to approximately HK\$211,000 (2003: Nil). As at 30th April 2004, the Group had future aggregate minimum lease receipts under non-cancellable operating leases as follows:

	2004 HK\$'000	2003 HK\$'000
Not later than one year	250	–
Later than one year and not later than five years	139	–
	<b>389</b>	<b>–</b>

Approximately HK\$64,127,000 (2003: HK\$64,321,000) of land and buildings located in Mainland China are held under land use rights for 50 years up to 2048, while approximately HK\$506,000 (2003: HK\$517,000) of land and buildings located in Mainland China are held under land use rights for 70 years up to 2072.

Approximately HK\$7,681,000 (2003: HK\$7,910,000) 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\$63,271,000 (2003: HK\$64,400,000) 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 revaluation surplus net of applicable deferred taxes was credited to reserves in shareholders' equity (Note 27).

The carrying amount of land and buildings would have been approximately HK\$52,531,000 (2003: HK\$53,108,000) if stated at cost less accumulated depreciation.

At 30th April 2004, the net book value of land and buildings pledged as security for the Group's banking facilities amounted to approximately HK\$5,821,000 (2003: HK\$6,005,000) (Note 33).

At 30th April 2004, the net book value of certain machinery and motor vehicles purchased under finance leases amounted to approximately HK\$30,212,000 (2003: HK\$55,092,000).

## 14 Investment in subsidiaries

	2004 HK\$'000	2003 HK\$'000
Unlisted shares/investments, at cost	137,348	137,348
Due from subsidiaries	229,985	194,617
	<b>367,333</b>	<b>331,965</b>

The following is a list of the subsidiaries as at 30th April 2004:

Name	Place of incorporation/ operation	Principal activities	Particulars of issued and fully paid share capital/ registered capital	Interest held (a)
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%
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%
CEC-Unitech Electronics Limited	Hong Kong	Dormant	Ordinary HK\$10,000	100%
重慶高雅科技有限公司 (Chongqing CEC-Technology Limited) (c)	Mainland China	Provision of information technology services	Registered capital HK\$500,000	100%
Coils Electronic Co., Limited	Hong Kong	Investment holding; manufacture and sale of coils and other electronic components	Ordinary HK\$2	100%
			Non-voting deferred HK\$14,000,000 (b)	–

# Notes to the Accounts

## 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)
Coils Electronic (Zhong Shan) Co., Ltd. (c)	Mainland China	Manufacture and sale of coils and other electronic components	Registered capital US\$2,587,557 (d)	100%
Coils International Holdings Limited	British Virgin Islands	Investment holding	Ordinary US\$10,000	100%
Coils Investment (BVI) Limited	British Virgin Islands	Investment holding	Ordinary US\$1	100%
Coils Property Management Limited (formerly known as CEC-Coils International Limited)	Hong Kong	Property investment holding	Ordinary HK\$200,000	100%
Good Signal Holdings Limited	British Virgin Islands	Investment holding	Ordinary US\$100	100%
Jin Yuan Moulds Limited	Hong Kong	Dormant	Ordinary HK\$100	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%
南京國仲磁性材料製品有限公司 (Nanjing Guo Zhong Magnetic Material Co., Ltd.) (c)	Mainland China	Manufacture and sale of ferrite powder	Registered capital US\$2,445,147 (d)	100%
Qingdao Coils Electronic Co., Ltd. (c)	Mainland China	Dormant	Registered capital US\$40,000 (d)	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%

## 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)
Tonichi Ferrite Co., Ltd. (c)	Mainland China	Manufacture and sale of coils and other electronic components	Registered capital HK\$81,600,000	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 Coils Metalwork Co., Ltd. (c)	Mainland China	Manufacture of coils	Registered capital US\$66,185 (d)	100%
珠海國仲電子材料 有限公司 (Zhuhai Guozhong Electronic Co., Ltd.) (c)	Mainland China	Dormant	Registered capital HK\$723,232 (d)	100%

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 2004.

As at 30th April 2004, the Company had given guarantees to banks and financial institutions of approximately HK\$207,536,000 (2003: HK\$264,818,000) to secure banking and finance lease facilities of certain subsidiaries (Note 31(c)).

None of the subsidiaries had any loan capital in issue at any time during the year ended 30th April 2004 (2003: Nil).

## 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 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, whereas 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. Holders of the non-voting deferred shares have no voting rights, are not entitled to dividends unless the net profit of each of Coils Electronic Co., Limited and CEC-Coils Hong Kong 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.

## 14 Investment in subsidiaries (Continued)

- (c) 重慶高雅科技有限公司 (Chongqing CEC-Technology Limited), Coils Electronic (Zhong Shan) Co., Ltd., Tonichi Ferrite Co., Ltd., Xiamen Coils Electronic Co., Ltd. and Zhongshan Coils Metalwork Co., Ltd. are wholly foreign owned enterprises established in Mainland China to be operated for 15 years up to August 2017, April 2016, September 2008, December 2012 and February 2016 respectively.

Kunshan CEC-Ferrite Manufacturing Co., Ltd. and 珠海國仲電子材料有限公司 (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.

南京國仲磁性材料製品有限公司 (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.

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.

All subsidiaries established in Mainland China have financial accounting year end dated on 31st December in accordance with the local statutory requirements, which is not coterminous with the Group. The consolidated accounts of the Group were prepared based on the accounts of these subsidiaries for the twelve months ended 30th April 2004.

- (d) Coils Electronic (Zhong Shan) Co., Ltd., 南京國仲磁性材料製品有限公司 (Nanjing Guo Zhong Magnetic Material Co., Ltd.), Qingdao Coils Electronic Co., Ltd., Zhongshan Coils Metalwork Co., Ltd. and 珠海國仲電子材料有限公司 (Zhuhai Guozhong Electronic Co., Ltd.) were established with registered capital of US\$8,000,000, US\$2,780,000, US\$500,000, US\$3,000,000 and HK\$35,000,000 respectively. As at 30th April 2004, the Group had outstanding commitments of approximately US\$5,412,000, US\$335,000, US\$460,000, US\$2,934,000 and HK\$34,277,000 respectively, for capital contribution to these five subsidiaries.

## 15 Investment in associates

	Group	
	2004 HK\$'000	2003 HK\$'000
Share of net assets	33	4,193

The following is the details of the associates as at 30th April 2004:

Name	Place of incorporation/ operation	Principal activities	Particulars of issued share capital	Interest held indirectly
Signking Science Ltd.	British Virgin Islands	Investment holding	Ordinary US\$10,000	50%

Investment in associates as at 30th April 2003 represented the Group's investment in (i) Signking Science Ltd. and (ii) Rentz Technologies Co., Ltd. ("Rentz"), a company incorporated in Taiwan. During the year ended 30th April 2004, the Group disposed of its 40% equity interest in Rentz. Refer to Note 30(d) for details of the disposal.



## 16 Deposit for acquisition of land

During the year, the Group paid a deposit of approximately HK\$4,764,000 (2003: Nil) for acquisition of land in Zhongshan, Mainland China. Please refer to Note 31 for details of the Group's capital commitment.

## 17 Inventories

	Group	
	2004 HK\$'000	2003 HK\$'000
Raw materials	62,983	61,254
Work-in-progress	8,712	8,239
Finished goods	14,821	16,687
	<b>86,516</b>	86,180
Less: Provision for slow-moving and obsolete inventories	(2,543)	(2,424)
	<b>83,973</b>	83,756

As at 30th April 2004, no inventories (2003: Nil) were carried at net realisable value.

As at 30th April 2004, certain inventories were held under trust receipts bank loans.

## 18 Trade receivables

The aging analysis of trade receivables is as follows:

	Group	
	2004 HK\$'000	2003 HK\$'000
Current	78,954	52,393
Overdue by 0 – 1 month	7,048	9,472
Overdue by 1 – 2 months	2,648	3,879
Overdue by 2 – 3 months	2,961	5,923
Overdue by more than 3 months	3,686	8,922
	<b>95,297</b>	80,589
Less: Provision for bad and doubtful debts	(3,039)	(2,909)
	<b>92,258</b>	77,680

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.

# Notes to the Accounts

## 19 Investment

	Group	
	2004 HK\$'000	2003 HK\$'000
Guaranteed return fund, at quoted market value	8,580	7,939

As at 30th April 2003 and 2004, the Group's investment was pledged as collateral for the Group's banking facilities (Note 33).

## 20 Cash and bank balances

As at 30th April 2004, the Group's bank deposits of approximately HK\$25,058,000 (2003: HK\$24,983,000) were pledged as collateral for the Group's banking facilities (Note 33).

As at 30th April 2004, approximately HK\$4,465,000 (2003: HK\$8,032,000) of the Group's cash and bank balances were denominated in Renminbi and kept in Mainland China. The conversion of Renminbi denominated balances into foreign currencies is subject to the rules and regulations of foreign exchange promulgated by the government of Mainland China.

## 21 Short-term bank borrowings

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Bank overdrafts	15,409	28,528	–	–
Short-term bank loans	59,129	56,057	–	–
Trust receipts bank loans	48,885	63,214	–	–
Long-term bank loans, current portion (Note 23)	74,936	42,996	55,000	20,000
	198,359	190,795	55,000	20,000

## 22 Trade payables

The aging analysis of trade payables is as follows:

	Group	
	2004 HK\$'000	2003 HK\$'000
Current	41,701	29,248
Overdue by 0 – 1 month	7,322	9,565
Overdue by 1 – 2 months	3,811	4,840
Overdue by 2 – 3 months	1,311	2,656
Overdue by more than 3 months	5,143	5,567
	59,288	51,876

### 23 Long-term bank loans

As at 30th April 2004, the Group's long-term bank loans are repayable as follows:

	Group		Company	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Within one year	74,936	42,996	55,000	20,000
In the second year	71,545	74,936	55,000	55,000
In the third to fifth year	1,381	17,926	–	–
	<b>147,862</b>	135,858	<b>110,000</b>	75,000
Less: Current portion (Note 21)	(74,936)	(42,996)	(55,000)	(20,000)
	<b>72,926</b>	92,862	<b>55,000</b>	55,000

### 24 Finance lease obligations

Finance lease obligations are repayable as follows:

	Group	
	2004	2003
	HK\$'000	HK\$'000
Within one year	6,333	15,346
In the second year	2,486	6,214
In the third to fifth year	670	2,370
	<b>9,489</b>	23,930
Less: Future finance charges on finance leases	(501)	(1,217)
	<b>8,988</b>	22,713

The present value of finance lease obligations is as follows:

	Group	
	2004	2003
	HK\$'000	HK\$'000
Within one year	6,017	14,487
In the second year	2,368	5,929
In the third to fifth year	603	2,297
	<b>8,988</b>	22,713
Less: Current portion	(6,017)	(14,487)
	<b>2,971</b>	8,226

# Notes to the Accounts

## 25 Deferred taxation

Deferred taxation is calculated in full on temporary differences under the liability method using a principal taxation rate of 17.5% (2003: 17.5%).

The movement of the net deferred tax liabilities is as follows:

	Group	
	2004 HK\$'000	2003 HK\$'000 (restated)
Beginning of year	19,440	17,707
Deferred taxation		
– charged to income statement ( <i>Note 7</i> )	3,636	1,707
– charged to equity	–	26
End of year	23,076	19,440

Deferred tax assets are recognised for tax loss carry forwards to the extent that realisation of the related tax benefit through the future taxable profits is probable. The Group has unrecognised tax losses of approximately HK\$719,000 (2003: HK\$847,000) to carry forward against future taxable income. These tax losses have no expiry date.

The movement of the deferred tax assets and liabilities (prior to offsetting of balances within the same taxation jurisdiction) during the year is as follows:

Deferred tax assets	Provisions		Tax losses		Total	
	2004 HK\$'000	2003 HK\$'000 (restated)	2004 HK\$'000	2003 HK\$'000 (restated)	2004 HK\$'000	2003 HK\$'000 (restated)
Beginning of year	801	315	6,994	10,599	7,795	10,914
Credited/(charged) to income statement	39	486	(5,147)	(3,605)	(5,108)	(3,119)
End of year	840	801	1,847	6,994	2,687	7,795

## 25 Deferred taxation (Continued)

Deferred tax liabilities	Accelerated depreciation allowance		Property revaluation		Total	
	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000 (restated)	HK\$'000	HK\$'000 (restated)	HK\$'000	HK\$'000 (restated)
Beginning of year	23,616	25,028	3,619	3,593	27,235	28,621
Credited to income statement	(1,472)	(1,412)	-	-	(1,472)	(1,412)
Charged to equity	-	-	-	26	-	26
End of year	22,144	23,616	3,619	3,619	25,763	27,235

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred taxes relate to the same fiscal authority. The following amounts, determined after appropriate offsetting, are shown in the consolidated balance sheet:

	2004 HK\$'000	2003 HK\$'000 (restated)
Deferred tax assets	-	(415)
Deferred tax liabilities	23,076	19,855
	23,076	19,440

## 26 Share capital

Movements in share capital are as follows:

	2004		2003	
	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 of shares of HK\$0.10 each				
Beginning of year	693,028,811	69,303	661,028,811	66,103
Issue of new shares	-	-	32,000,000	3,200
End of year	693,028,811	69,303	693,028,811	69,303

# Notes to the Accounts

## 27 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 China statutory reserve HK\$'000	Cumulative translation adjustments HK\$'000	Retained profits HK\$'000	Total HK\$'000
<b>Group</b>								
At 1st May 2002, as previously reported	29,561	13,934	17,214	21,066	-	(138)	146,266	227,903
Effect of adoption of the revised SSAP 12 (Note 2(f))	-	-	-	(3,593)	-	-	823	(2,770)
At 1st May 2002, as restated	29,561	13,934	17,214	17,473	-	(138)	147,089	225,133
Premium arising from issue of new shares	6,560	-	-	-	-	-	-	6,560
Share issue expense	(3)	-	-	-	-	-	-	(3)
Effect of deferred taxation	-	-	-	(26)	-	-	-	(26)
Loss for the year	-	-	-	-	-	-	(5,159)	(5,159)
Transfer from retained profits to								
Mainland China statutory reserve	-	-	-	-	137	-	(137)	-
Translation adjustments	-	-	-	-	-	1,443	-	1,443
At 30th April 2003	36,118	13,934	17,214	17,447	137	1,305	141,793	227,948
As at 1st May 2003, as previously reported	36,118	13,934	17,214	21,066	137	1,305	141,182	230,956
Effect of adoption of the revised SSAP 12 (Note 2(f))	-	-	-	(3,619)	-	-	611	(3,008)
At 1st May 2003, as restated	36,118	13,934	17,214	17,447	137	1,305	141,793	227,948
Profit for the year	-	-	-	-	-	-	15,857	15,857
Transfer from subscription right reserve to retained profits (Note 28)	-	-	(17,214)	-	-	-	17,214	-
Transfer from retained profits to								
Mainland China statutory reserve	-	-	-	-	953	-	(953)	-
Translation adjustments	-	-	-	-	-	654	-	654
At 30th April 2004	36,118	13,934	-	17,447	1,090	1,959	173,911	244,459
Representing:								
2004 final dividend proposed							3,465	
Others							170,446	
Retained profits as at 30th April 2004							173,911	

## 27 Reserves (Continued)

Retained profits comprised:

	2004 HK\$'000	2003 HK\$'000 (restated)
Company	20,166	2,995
Subsidiaries	153,745	138,722
Associate	–	76
	<b>173,911</b>	<b>141,793</b>

	Share premium HK\$'000	Contributed surplus HK\$'000	Subscription right reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
<b>Company</b>					
At 1st May 2002	29,561	131,338	17,214	3,621	181,734
Premium arising from issue of new shares	6,560	–	–	–	6,560
Share issue expense	(3)	–	–	–	(3)
Loss for the year	–	–	–	(626)	(626)
At 30th April 2003	36,118	131,338	17,214	2,995	187,665
At 1st May 2003	36,118	131,338	17,214	2,995	187,665
Transfer from subscription right reserve to retained profits (Note 28)	–	–	(17,214)	17,214	–
Loss for the year	–	–	–	(43)	(43)
At 30th April 2004	36,118	131,338	–	20,166	187,622
Representing:					
2004 final dividend proposed				3,465	
Others				16,701	
Retained profits as at 30th April 2004				20,166	

## 27 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.

## 28 Warrants

As at 1st May 2003, the Company had outstanding warrants of 300,800,000 units, which carried subscription rights of HK\$1.475 for every 10 units of warrants entitling the holders to subscribe in cash for 90,546,938 new shares in the Company at an adjusted subscription price of HK\$0.49 (subject to adjustment) per new share from the date of issue (3rd July 2000) to 30th September 2003 (both dates inclusive).

During the year, no warrant was exercised (2003: Nil). Upon expiry of the warrants on 30th September 2003, net proceeds arose from issue of such warrants amounting to HK\$17,214,000 were transferred from subscription right reserve to retained profits.

## 29 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 requirement of the amended Listing Rules and 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.



## 29 Share options (Continued)

### The Old Scheme (Continued)

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.

### 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 under the New Scheme was granted during the year ended 30th April 2004.

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

Date of grant	Subscription price per share	Exercisable period	Number of shares under options			
			Beginning of year	Exercised during the year	Lapsed during the year	End of year
21st September 2000	HK\$1.02	22nd September 2002 to 21st January 2005	14,108,776	–	(6,172,588)	7,936,188
1st November 2000	HK\$0.75	1st November 2002 to 28th February 2005	33,660,000	–	(14,175,000)	19,485,000
			47,768,776	–	(20,347,588)	27,421,188

# Notes to the Accounts

## 30 Consolidated cash flow statement

### (a) Reconciliation of profit/(loss) before taxation to net cash inflow generated from operations

	2004 HK\$'000	2003 HK\$'000 (restated)
Profit/(loss) before taxation	21,650	(3,042)
Interest income	(156)	(341)
Interest expense	17,240	18,223
Depreciation of fixed assets	59,185	55,856
Loss on disposal of fixed assets	29	119
Amortisation of distribution right	–	1,067
Amortisation of goodwill	–	1,793
Impairment loss on intangible assets	–	8,940
Gain on disposal of investment properties	(42)	–
Loss on disposal of an associate	83	–
Share of profits less losses of associates	20	(76)
Share of profits less losses of jointly controlled entities	–	(140)
Unrealised gain on investment	–	(569)
Gain on disposal of investment	(321)	–
<b>Operating profit before working capital changes</b>	<b>97,688</b>	<b>81,830</b>
Increase in inventories	(217)	(13,404)
Increase in trade receivables	(14,578)	(35,152)
Increase in bills receivable	(1,598)	(583)
Decrease in prepayments, deposits and other current assets	1,311	758
Increase in trade payables	7,412	10,169
Increase/(decrease) in bills payable	2,230	(1,730)
Increase in accruals and other payables	3,499	6,533
<b>Net cash inflow generated from operations</b>	<b>95,747</b>	<b>48,421</b>

## 30 Consolidated cash flow statement (Continued)

## (b) Analysis of changes in financing during the year

	Share capital and share premium HK\$'000	Subscription right reserve HK\$'000	Short-term bank borrowings HK\$'000	Long-term bank loans HK\$'000	Finance lease obligations HK\$'000	Minority interests HK\$'000	Total HK\$'000
At 1st May 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	-	-	307,963	-	-	-	307,963
Repayment of short-term bank borrowings	-	-	(257,352)	-	-	-	(257,352)
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
At 30th April 2003	105,421	17,214	119,271	135,858	22,713	61	400,538
Transfer from subscription right reserve to retained profits	-	(17,214)	-	-	-	-	(17,214)
New short-term bank borrowings	-	-	398,695	-	-	-	398,695
Repayment of short-term bank borrowings	-	-	(409,952)	-	-	-	(409,952)
New long-term bank loans	-	-	-	165,000	-	-	165,000
Repayment of long-term bank loans	-	-	-	(152,996)	-	-	(152,996)
Inception of finance leases	-	-	-	-	1,231	-	1,231
Repayment of capital element of finance leases	-	-	-	-	(14,956)	-	(14,956)
Minority interests' share in net loss of subsidiaries	-	-	-	-	-	(61)	(61)
At 30th April 2004	105,421	-	108,014	147,862	8,988	-	370,285

# Notes to the Accounts

## 30 Consolidated cash flow statement (Continued)

### (c) Major non-cash transactions

During the year, the Group entered into finance lease arrangements of approximately HK\$1,231,000 (2003: HK\$9,451,000) in respect of new machinery.

In prior year, deposit of approximately HK\$8,577,000 was paid to Rentz, a former associate of the Group, for construction of a production plant in Nanjing, Mainland China. Such deposit was transferred to fixed assets upon completion of the construction during the year.

### (d) Disposal of an associate

During the year, the Group disposed of its 40% equity interest in Rentz. The consideration of such disposal was satisfied by machineries with fair value of approximately HK\$4,020,000 (2003: Nil). Net loss from disposal of approximately HK\$83,000 (2003: Nil) was recognised in the income statement in the current year.

## 31 Commitments and contingent liabilities

### (a) Capital commitments

	Group	
	2004 HK\$'000	2003 HK\$'000
Contracted but not provided for		
– construction of a production plant in Nanjing, Mainland China	–	8,023
– purchase of land in Zhongshan, Mainland China (Note 16)	2,954	–
– purchase of other fixed assets	42	1,872
	<b>2,996</b>	<b>9,895</b>

The Company had no capital commitment as at 30th April 2004 (2003: Nil).

### (b) Operating lease commitments

As at 30th April 2004, the Group had future aggregate minimum lease payments in respect of rented premises under various non-cancellable operating leases as follows:

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Not later than one year	2,552	2,133	–	–
Later than one year and not later than five years	818	1,971	–	–
	<b>3,370</b>	<b>4,104</b>	<b>–</b>	<b>–</b>

## 31 Commitments and contingent liabilities (Continued)

## (c) Contingent liabilities

	Group		Company	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Discounted bills with recourse	2,484	–	–	–
Factoring of trade receivables with recourse	35,568	25,286	–	–
Guarantees given to banks and financial institutions in respect of banking and finance lease facilities of its subsidiaries	–	–	207,536	264,818
	<b>38,052</b>	25,286	<b>207,536</b>	264,818

## 32 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.

## 32 Pension schemes (Continued)

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 2004, aggregate contributions made by the Group to the aforementioned schemes amounted to approximately HK\$5,358,000 (2003: HK\$3,362,000), with no deduction of forfeited contributions (2003: Nil). As at 30th April 2004, there were no material forfeitures available to offset the Group's future contributions.

## 33 Banking facilities and pledge of assets

As at 30th April 2004, the Group had aggregate banking facilities of approximately HK\$385,620,000 (2003: HK\$539,426,000) for overdrafts, loans, factoring of trade receivables and trade financing. Unused facilities as at the same date amounted to approximately HK\$67,615,000 (2003: HK\$222,320,000). These facilities were secured by:

- (a) mortgages over certain of the Group's land and buildings with net book value of approximately HK\$5,821,000 (2003: HK\$6,005,000) (Note 13);
- (b) pledge of the Group's investment of approximately HK\$8,580,000 (2003: HK\$7,939,000) (Note 19);
- (c) pledges of the Group's bank deposits of approximately HK\$25,058,000 (2003: HK\$24,983,000) (Note 20); 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.

## 34 Related party transaction

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.

Particulars of a related party transaction during the year are as follows:

	2004 HK\$'000	2003 HK\$'000
Construction cost paid to Rentz, a former associate of the Group, in respect of construction of a production plant in Nanjing, Mainland China	9,023	8,577

## 34 Related party transaction (Continued)

*Note:*

In the opinion of the Directors, the above transaction was entered into in the ordinary course of business and in accordance with the terms as agreed by the Group and Rentz. In November 2003, Rentz transferred the construction project to a company, a third party, who had undertaken to complete the construction of the Nanjing plant for the Group.

## 35 Ultimate holding company

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

## 36 Approval of accounts

The accounts were approved by the board of directors on 16th August 2004.