

# Report of the Directors

(Amounts expressed in Hong Kong dollars unless otherwise stated)

The Directors have the pleasure of presenting their annual report together with the audited financial statements of CEC International Holdings Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) for the year ended 30th April, 2001.

## PRINCIPAL ACTIVITIES

The Company is an investment holding company. Its subsidiaries are principally engaged in the design, development, manufacture and sale of a wide range of coils, capacitors and other electronic components. The Group’s products are generally used in the manufacture of various kinds of electronic and electrical products.

An analysis of the Group’s turnover by product category and geographical location, together with their respective contributions to profit (loss) from operations for the year ended 30th April, 2001 is as follows:

	<b>Turnover</b>	<b>Profit (loss)</b>
	\$’000	\$’000
<b>a. By product category</b>		
Sales of merchandise		
– Coils	309,886	51,908
– Capacitors	21,899	332
– Other electronic components	15,219	(495)
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	347,004	51,745
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(Amounts expressed in Hong Kong dollars unless otherwise stated)

	<b>Turnover*</b>
	\$'000
<b>b. By geographical location</b>	
Hong Kong	271,532
Mainland China	23,210
Taiwan	16,409
Europe	15,849
Singapore	15,320
Others	4,684
	<hr/>
	347,004

\* Turnover by geographical location is determined on the basis of the location where merchandise is delivered.

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

### MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 30th April, 2001, the five largest suppliers of the Group accounted for approximately 32% of the Group's total purchases with the largest supplier accounted for approximately 10% of the Group's total purchases and the five largest customers of the Group accounted for less than 30% of the Group's total turnover. None of the Directors, their associates, or any shareholders (which, to the knowledge of the Directors owned more than 5% of the Company's share capital) had a beneficial interest in the Group's five largest suppliers.

### RESULTS AND APPROPRIATIONS

Details of the Group's results for the year ended 30th April, 2001 are set out in the consolidated income statement on page 34 of this annual report.

No interim dividend was declared during the year. The Directors have recommended the payment of a final dividend of 1 cent per share for the year ended 30th April, 2001 to shareholders whose names appear on the Company's register of members on 14th September, 2001 (the "Proposed Final Dividend"). The Proposed Final Dividend will be paid in cash with an option to receive new fully paid shares in lieu of cash in respect of part or all of their dividend entitlement for the year ended 30th April, 2001.

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### SHARE CAPITAL, SHARE OPTIONS AND WARRANTS

Movements in share capital and details of the share option scheme and warrants of the Company are set out in Notes 23, 24 and 25, respectively, to the accompanying financial statements.

### BONUS ISSUE OF SHARES

On 31st July, 2001, the Directors recommended a bonus issue of new shares of \$0.10 each in the share capital of the Company (the "Bonus Shares") to shareholders whose names appear on the Company's register of members on 14th September, 2001 (the "Proposed Bonus Share Issue").

The Proposed Bonus Share Issue will be made on the basis of one Bonus Share for every five existing shares held on 14th September, 2001. The Bonus Shares will be credited as fully paid at par and will rank pari passu with the existing shares in all respects when issued, save in respect of the entitlement to the Proposed Final Dividend.

The Proposed Bonus Share Issue is subject to (i) the approval of the Company's shareholders at the forthcoming annual general meeting; (ii) the Listing Committee of The Stock Exchange of Hong Kong Limited granting the listing of, and permission to deal in, the Bonus Shares on The Stock Exchange of Hong Kong Limited; and (iii) (if required) the Bermuda Monetary Authority granting permission for the issue and transfer of the Bonus Shares.

### RESERVES AND RETAINED PROFIT

Movements in reserves of the Group and the Company during the year are set out in Note 26 to the accompanying financial statements. Movements in retained profit of the Group during the year are set out in the consolidated income statement on page 34 of this annual report.

As at 30th April, 2001, the Company's reserves of approximately \$131,338,000 (subject to provisions under the Companies Act 1981 of Bermuda (as amended)) and retained profit of approximately \$4,576,000 were available for distribution to the Company's shareholders.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 30th April, 2001.

### PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Bye-laws and the laws of Bermuda which would oblige the Company to offer new shares on a pro-rata basis to the existing shareholders.

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## PROPERTY, PLANT AND EQUIPMENT

Movements in property, plant and equipment during the year are set out in Note 11 to the accompanying financial statements.

## SUBSIDIARIES

Particulars of the Company's subsidiaries are set out in Note 13 to the accompanying financial statements.

## BORROWINGS

Particulars of borrowings as at 30th April, 2001 are set out in Notes 18, 19 and 20 to the accompanying financial statements.

## COMMITMENTS AND CONTINGENT LIABILITIES

Details of commitments and contingent liabilities as at 30th April, 2001 are set out in Note 28 to the accompanying financial statements.

## CHARITABLE DONATIONS

During the year, the Group made charitable donations of approximately \$78,000 (2000 – \$142,000).

## SUBSEQUENT EVENT

Details of significant subsequent event are set out in Note 32 to the accompanying financial statements.

## PENSION SCHEMES

Particulars of the Group's pension schemes are set out in Note 29 to the accompanying financial statements.

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### DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

The directors who held office during the year and up to the date of this report are:

#### Executive directors

Mr. Lam Wai Chun (Chairman and Managing Director)

Mr. Saito Misao (Deputy Chairman)

Ms. Tang Fung Kwan

Ms. Hu Yan Huan

Mr. Iwata Kenji

#### Non-executive director

Mr. Tang Tin Sek

#### Independent non-executive directors

Mr. Au Son Yiu

Mr. Lee Wing Kwan, Denis

In accordance with Bye-law 87 of the Company's Bye-laws, Ms. Hu Yan Huan and Mr. Iwata Kenji will retire by rotation at the forthcoming annual general meeting of the Company. Ms. Hu Yan Huan will, being eligible, offer herself for re-election and Mr. Iwata Kenji does not offer himself for re-election.

Each of the executive directors has entered into a service agreement with the Company on 27th September, 1999 for an initial period of, in the case of Mr. Lam Wai Chun, three years and in the cases of Mr. Saito Misao, Ms. Tang Fung Kwan, Ms. Hu Yan Huan and Mr. Iwata Kenji, two years, each commencing on 1st October, 1999, the term of which is to continue thereafter unless and until terminated by either party giving not less than six months' notice to the other, which notice may expire at any time on or after the expiry of the initial term.

Pursuant to a service agreement entered into between the Company and Mr. Tang Tin Sek dated 27th September, 1999 as amended by two supplemental agreements to service agreement dated 30th December, 1999 and 10th October, 2000, respectively, Mr. Tang Tin Sek was appointed as a non-executive director for the period from 1st January, 2000 to 30th September, 2001 unless the same is terminated by either party by giving to the other party not less than three months' prior notice in writing.

Save as disclosed above, none of the directors who are proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not terminable by the Company within one year without payment of compensation (other than statutory compensation).

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### DIRECTORS' INTERESTS IN SECURITIES

As at 30th April, 2001, the Directors of the Company had the following beneficial interests in the share capital of the Company and its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance")) and in the warrants of the Company as recorded in the register required to be kept by the Company pursuant to Section 29 of the SDI Ordinance or otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Companies:

#### a. The Company

	Number of shares of \$0.10 each			Number of
	Family interests	Personal interests	Corporate interests	Personal warrants
Mr. Lam Wai Chun ( <i>Note 1</i> )	332,574,381	2,000,000	–	–
Mr. Saito Misao ( <i>Note 2</i> )	–	–	42,125,000	–
Ms. Tang Fung Kwan ( <i>Note 2</i> )	–	–	42,125,000	–
Ms. Hu Yan Huan ( <i>Note 2</i> )	–	–	42,125,000	–
Mr. Au Son Yiu	–	–	–	1,000,000

#### Notes:

- As at 30th April, 2001, Ka Yan China Development (Holding) Company Limited held 332,574,381 shares in the Company. The entire issued share capital of Ka Yan China Development (Holding) Company Limited was ultimately beneficially owned by Ka Yan China Family Trust, the family trust of Mr. Lam Wai Chun. The beneficiaries under this family trust were Mr. Lam Wai Chun's spouse, Ms. Law Ching Yee, and his children who were under the age of 18 years, and accordingly Mr. Lam Wai Chun was deemed under the SDI Ordinance to be interested in all the shares held by Ka Yan China Development (Holding) Company Limited.
- As at 30th April, 2001, CMPP Investment Holdings Limited ("CMPP") held 42,125,000 shares in the Company. The issued share capital of CMPP was US\$471.49 divided into 47,149 shares of US\$0.01 each, of which Mr. Saito Misao, Ms. Tang Fung Kwan and Ms. Hu Yan Huan, the directors of the Company, respectively held 700 shares, 3,514 shares and 1,230 shares of US\$0.01 each.

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### b. Associated corporation

*Coils Electronic Co., Limited*

	Number of non-voting deferred shares of \$1.00 each (Note 5)		
	Personal interests	Family interests	Total
Mr. Lam Wai Chun (Notes 3 and 4)	7,500,000	6,500,000	14,000,000

*Notes:*

- Mr. Lam Wai Chun held 7,500,000 non-voting deferred shares of \$1.00 each in Coils Electronic Co., Limited, a wholly-owned subsidiary of the Company, representing approximately 53.57% of the 14,000,000 non-voting deferred shares of \$1.00 each in the share capital of Coils Electronic Co., Limited.
- In respect of the 6,000,000 non-voting deferred shares of \$1.00 each held by Ka Yan China Development (Holding) Company Limited and the remaining 500,000 non-voting deferred shares of \$1.00 each held by Ms. Law Ching Yee in Coils Electronic Co., Limited, representing approximately 42.86% and approximately 3.57% respectively of the 14,000,000 non-voting deferred shares of \$1.00 each in the share capital of Coils Electronic Co., Limited, Mr. Lam Wai Chun was deemed to be interested in all those shares under the SDI Ordinance by virtue of, in the case of Ka Yan China Development (Holding) Company Limited, the reasons set out in Note (a)1 above and, in the case of Ms. Law Ching Yee, the fact that Ms. Law Ching Yee is the spouse of Mr. Lam Wai Chun.
- Holder of the non-voting deferred shares have no voting rights, are not entitled to dividends unless the net profit of Coils Electronic Co., Limited exceeds \$100,000,000,000,000, and are not entitled to any distributions upon winding up unless a sum of \$100,000,000,000,000 has been distributed to the holders of ordinary shares.

Save as disclosed above, as at 30th April, 2001, none of the Directors of the Company or any of their associates (as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules")) had any interests in the securities of the Company or its associated corporations (within the meaning of the SDI Ordinance) which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to Section 28 of the SDI Ordinance, or pursuant to the Model Code for Securities Transactions by Directors of Listed Companies or which were required, pursuant to Section 29 of the SDI Ordinance, to be entered in the register referred to therein.

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### DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

The Company has adopted a share option scheme, under which it may grant options to any full-time employees or executives of the Company or any of its subsidiaries, including executive directors (but excluding independent non-executive directors of the Company) of the Company or any of its subsidiaries, to subscribe for shares in the Company. Details of the scheme are set out in Note 24 to the accompanying financial statements.

As at 30th April, 2001, the Directors had the following personal interests in share options to subscribe for shares in the Company granted under the share option scheme, as recorded in the register required to be kept under Section 29 of the SDI Ordinance:

Name	Date of grant	Exercisable period	Subscription price per share	Number of shares under options outstanding
Mr. Lam Wai Chun	21st September, 2000	22nd September, 2002 to 21st January, 2005	\$1.22	2,948,966
Mr. Saito Misao	21st September, 2000	22nd September, 2002 to 21st January, 2005	\$1.22	2,948,966
Ms. Tang Fung Kwan	21st September, 2000	22nd September, 2002 to 21st January, 2005	\$1.22	2,948,966
Ms. Hu Yan Huan	21st September, 2000	22nd September, 2002 to 21st January, 2005	\$1.22	2,948,966

Save as disclosed above, at no time during the year was the Company or any of its associated corporations (within the meaning of the SDI Ordinance) a party to any arrangement to enable the Directors of the Company or any of their associates (as defined in the Listing Rules) to acquire benefits by means of the acquisition of shares in, or debt securities of, the Company or any other body corporate.



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### DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contracts of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which any of the Company's directors had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

### SUBSTANTIAL SHAREHOLDERS

As at 30th April, 2001, according to the register kept by the Company under Section 16(1) of the SDI Ordinance, other than the Directors of the Company, the following persons were interested or taken or deemed to be interested in 10% or more of the issued share capital of the Company:

Name	Number of issued shares	Percentage holding
Ka Yan China Development (Holding) Company Limited ( <i>Notes 1 and 2</i> )	332,574,381	62.984%
Ka Yan China Investments Limited ( <i>Note 2</i> )	332,574,381	62.984%
HSBC Holdings plc ( <i>Note 3</i> )	332,574,381	62.984%
HSBC Finance (Netherlands) ( <i>Note 3</i> )	332,574,381	62.984%
HSBC Holdings B.V. ( <i>Note 3</i> )	332,574,381	62.984%
HSBC Investment Bank Holdings B.V. ( <i>Note 3</i> )	332,574,381	62.984%
HSBC International Trustee Limited ( <i>Note 3</i> )	332,574,381	62.984%

*Notes:*

- The 332,574,381 shares were held by Ka Yan China Development (Holding) Company Limited, a wholly-owned subsidiary of Ka Yan China Investments Limited, the entire issued share capital of which was ultimately beneficially owned by Ka Yan China Family Trust, the family trust of Mr. Lam Wai Chun, a director of the Company.

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2. The interests of Ka Yan China Development (Holding) Company Limited and Ka Yan China Investments Limited, the ultimate holding company of the Company, in respect of 332,574,381 shares duplicated with each other.
3. The interests of HSBC Holdings plc, HSBC Finance (Netherlands), HSBC Holdings B.V., HSBC Investment Bank Holdings B.V. and HSBC International Trustee Limited in respect of 332,574,381 shares in the Company duplicated with each other. The 332,574,381 shares in which HSBC International Trustee Limited was interested were the shares referred to in Note 2 above.

Save as disclosed above, the Company had not been notified of any other interests representing 10% or more of the issued share capital of the Company which was required to be recorded under Section 16(1) of the SDI Ordinance as at 30th April, 2001.

## CODE OF BEST PRACTICE

In the opinion of the Directors, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules throughout the year ended 30th April, 2001, except that the independent non-executive directors have not been appointed for a specific term but are subject to retirement by rotation and re-election at the annual general meetings of the Company in accordance with the Company's Bye-laws.

## AUDIT COMMITTEE

The Company established an Audit Committee on 30th September, 1999 with written terms of reference in compliance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules. The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control of the Group. The Audit Committee presently comprises three non-executive directors, two of them being independent.

## SUMMARY FINANCIAL INFORMATION

A summary of the Group's financial information for the last five financial years is set out on page 5 of this annual report.

## AUDITORS

The accompanying financial statements were audited by Messrs. Arthur Andersen & Co. A resolution for the re-appointment of Messrs. Arthur Andersen & Co as the Company's auditors for the ensuing year is to be proposed at the forthcoming annual general meeting.

On behalf of the Board,

**LAM WAI CHUN**

*Chairman*

Hong Kong, 31st July, 2001.