

# Report of the Directors

The directors submit their report together with the audited accounts for the year ended 30th April 2005.

## Principal activities and geographical analysis of operations

The Company is an investment holding company. Its subsidiaries are principally engaged in design, development, manufacture and sale of a wide range of coils, capacitors, ferrite powder and other electronic components, which are generally used in the manufacture of various kinds of electronic and electrical products. Details of the principal activities of subsidiaries are set out in note 14 to the accounts.

An analysis of the Group's performance for the year by business and geographical segment is set out in note 4 to the accounts.

## Results and appropriations

The results of the Group for the year are set out in the consolidated income statement on page 40.

No interim dividend was declared for the year ended 30th April 2005 (2004: Nil). The Board of Directors (the "Board") of the Company has resolved to recommend the payment of a final dividend of HK0.7 cent (2004: HK0.5 cent) per share for the year ended 30th April 2005 (the "Proposed Final Dividend") to shareholders whose names appear on the Company's register of members on 23rd September 2005. 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 2005.

## Reserves

Movements in the reserves of the Group and of the Company during the year are set out in note 28 to the accounts.

## Donations

Charitable and other donations made by the Group during the year amounted to approximately HK\$942,550 (2004: HK\$220,000).

## Fixed assets

Details of the movements in fixed assets of the Group during the year are set out in note 13 to the accounts.

## Share capital

Details of the share capital of the Company are set out in note 27 to the accounts.

## Distributable reserves

As at 30th April 2005, the Company's contributed surplus of approximately HK\$131,338,000 (2004: HK\$131,338,000) (subject to provisions under the Companies Act 1981 of Bermuda (as amended)) and retained profits of approximately HK\$16,701,000 (2004: HK\$20,166,000) were available for distribution to the Company's shareholders.

# Report of the Directors

## Pre-emptive rights

There is no provision for pre-emptive rights under the Company's Bye-laws and the Companies Act 1981 of Bermuda which would oblige the Company to offer new shares on a pro-rata basis to the existing shareholders.

## Purchase, sale or redemption of the Company's listed shares

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares during the year ended 30th April 2005.

## Share options

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") and the termination of the share option scheme adopted by the Company on 26th October 1999 (the "Old Scheme").

### **The Old Scheme**

The Old Scheme was designed to provide incentives to the participants although no such purpose was mentioned in the terms of the Old Scheme. The major terms of the Old Scheme are summarised as follows:

1. The participants of the Old Scheme include any employees or executives (including any executive directors) of the Company or any of its subsidiaries (but excluding the independent non-executive directors of the Company).
2. The maximum number of shares of the Company in respect of which options might be granted under the Old Scheme and/or under any other share option schemes of the Company must not exceed 10% of the issued share capital of the Company from time to time.
3. The maximum number of shares of the Company in respect of which options might be granted to a participant, when aggregated with shares issued and issuable under any option granted to the same participant under the Old Scheme, must not exceed 25% of the maximum shares under the Old Scheme from time to time.
4. Any option may be exercised in whole or in part within a period which is determined and notified by the Board when making an offer of option and in any event shall not be later than 10 years from the date of adoption of the Old Scheme.
5. Unless otherwise determined by the Board in its absolute discretion, there is no general requirement in respect of the minimum period for which an option must be held before it can be exercised.
6. The acceptance of an option, if accepted, must be made not more than 40 days after the date of offer of the option with a non-refundable payment of HK\$1.00 as consideration for the grant of the option from the grantee to the Company. The full amount of the subscription price for shares must be paid upon exercise of an option.

# Report of the Directors

## Share options (Continued)

### The Old Scheme (Continued)

7. The subscription price per share in respect of an option shall not be less than the higher of:
- a price not less than 80% of the average closing price of the Company's shares quoted on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") for the 5 trading days immediately preceding the date of offer of the option; and
  - the nominal value of the Company's share.
8. As the Old Scheme was terminated 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. All the outstanding share options granted under the Old Scheme had lapsed during the year ended 30th April 2005 according to their respective expiry dates.

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

Date of grant	Vesting period	Exercisable period	Subscription price per share	Number of shares under options			
				Beginning of year	Exercised during the year	Lapsed during the year	End of year
<i>(i) Directors</i>							
<i>Mr. Lam Wai Chun</i>							
21st September 2000	21st September 2000 to 21st September 2003	22nd September 2003 to 21st June 2004	HK\$1.02	1,322,698	-	(1,322,698)	-
21st September 2000	21st September 2000 to 21st June 2004	22nd June 2004 to 21st January 2005	HK\$1.02	1,322,698	-	(1,322,698)	-
				2,645,396	-	(2,645,396)	-
<i>Ms. Tang Fung Kwan</i>							
21st September 2000	21st September 2000 to 21st September 2003	22nd September 2003 to 21st June 2004	HK\$1.02	1,322,698	-	(1,322,698)	-
21st September 2000	21st September 2000 to 21st June 2004	22nd June 2004 to 21st January 2005	HK\$1.02	1,322,698	-	(1,322,698)	-
				2,645,396	-	(2,645,396)	-
<i>Mr. Law Hoo Shan (resigned on 1st May 2005)</i>							
1st November 2000	1st November 2000 to 31st October 2003	1st November 2003 to 31st July 2004	HK\$0.75	630,000	-	(630,000)	-
1st November 2000	1st November 2000 to 31st July 2004	1st August 2004 to 28th February 2005	HK\$0.75	630,000	-	(630,000)	-
				1,260,000	-	(1,260,000)	-

## Report of the Directors

## Share options (Continued)

## The Old Scheme (Continued)

Date of grant	Vesting period	Exercisable period	Subscription price per share	Number of shares under options			
				Beginning of year	Exercised during the year	Lapsed during the year	End of year
(ii) Employees							
21st September 2000	21st September 2000 to 21st September 2003	22nd September 2003 to 21st June 2004	HK\$1.02	1,322,698	-	(1,322,698)	-
21st September 2000	21st September 2000 to 21st June 2004	22nd June 2004 to 21st January 2005	HK\$1.02	1,322,698	-	(1,322,698)	-
				2,645,396	-	(2,645,396)	-
1st November 2000	1st November 2000 to 31st October 2003	1st November 2003 to 31st July 2004	HK\$0.75	9,112,500	-	(9,112,500)	-
1st November 2000	1st November 2000 to 31st July 2004	1st August 2004 to 28th February 2005	HK\$0.75	9,112,500	-	(9,112,500)	-
				18,225,000	-	(18,225,000)	-
				27,421,188	-	(27,421,188)	-

## The New Scheme

The major terms of the New Scheme are summarised as follows:

- The purpose of the New Scheme is to provide participants with the opportunity to acquire proprietary interest in the Company and to encourage participants to work towards enhancing the value of the Company and its shares for the benefit of the Company and its shareholders as a whole.
- The participants include:
  - any full-time employees of the Company or its subsidiary, including executive directors; and
  - any non-executive directors of the Company or its subsidiary, including independent non-executive directors of 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 total number of shares available for issue under the New Scheme as at 15th August 2005, the date of this annual report, was 69,302,881, representing approximately 10% of the issued share capital of the Company.

# Report of the Directors

## Share options (Continued)

### The New Scheme (Continued)

4. The total number of shares issued and to be issued upon exercise of the options granted and to be granted to each participant (including exercised, cancelled and outstanding options) in any twelve-month period up to the date of grant must not exceed 1% of the Company's shares in issue. Any further grant of options in excess of this limit is subject to separate shareholders' approval in general meeting of the Company in advance.

Any grant of options to a substantial shareholder or an independent non-executive director of the Company, or any of their respective associates, which would result in the shares issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) to such person in the twelve-month period up to and including the date of such grant, in aggregate exceed 0.1% of the shares of the Company in issue and with an aggregate value in excess of HK\$5 million (based on the closing price of the Company's shares at the date of each grant), is subject to the prior approval by the shareholders of the Company in general meeting.

5. The period within which an option may be exercised will be determined and notified by the Board at the time of grant, but in any event shall not exceed 10 years from the date of grant.
6. Unless otherwise determined by the Board in its absolute discretion, there is no general requirement in respect of the minimum period for which an option must be held before it can be exercised.
7. The acceptance of an option, if accepted, must be made within 28 days from the date of offer of the option with a non-refundable payment of HK\$1.00 as consideration for the grant of the option from the grantee to the Company. The full amount of the subscription price for shares must be paid upon exercise of an option.
8. The subscription price per share in respect of an option shall not be less than the highest of:
  - (a) 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;
  - (b) 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
  - (c) the nominal value of the Company's share on the date of grant.
9. The New Scheme is valid and effective for a period of 10 years commencing on its date of adoption until 25th September 2012.

During the year ended 30th April 2005, no option was granted under the New Scheme (2004: Nil).

# Report of the Directors

## Directors

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

### Executive directors

Mr. Lam Wai Chun	<i>(Chairman)</i>
Ms. Tang Fung Kwan	<i>(Deputy Chairman and Managing Director)</i>
Mr. Chua You Sing	<i>(appointed on 1st May 2005)</i>
Ms. Li Hong	<i>(appointed on 1st May 2005)</i>
Mr. Huang Kong	<i>(Deputy Managing Director, resigned on 6th December 2004)</i>
Mr. Law Hoo Shan	<i>(resigned on 1st May 2005)</i>

### Independent non-executive directors

Dr. Tang Tin Sek  
Mr. Au Son Yiu  
Mr. Lee Wing Kwan, Denis

Pursuant to Bye-law 87(1) of the Company's Bye-laws, at each annual general meeting one-third of the directors of the Company for the time being (or, if their number is not multiple of three, the number nearest to but not greater than one-third) shall retire from office by rotation provided that the Chairman of the board and/or the managing director of the Company shall not, whilst holding his office, be subject to retirement by rotation or be taken into account in determining the number of directors to retire each year. Pursuant to the said Bye-laws 87(1), Dr. Tang Tin Sek will retire by rotation at the forthcoming annual general meeting of the Company. In view of good corporate governance practices, Mr. Lam Wai Chun, Chairman of the Company, and Ms. Tang Fung Kwan, the Deputy Chairman and Managing Director of the Company, will voluntarily retire from their offices at the forthcoming annual general meeting of the Company notwithstanding that they are not required by the Company's Bye-laws to do so.

Accordingly, Mr. Lam Wai Chun, Ms. Tang Fung Kwan and Dr. Tang Tin Sek will retire at the forthcoming annual general meeting of the Company, and will, being eligible, offer themselves for re-election.

In accordance with Bye-law 86(2) of the Company's Bye-laws, Ms. Li Hong and Mr. Chua You Sing will hold office until the forthcoming annual general meeting of the Company and will, being eligible, offer themselves for re-election.

The term of office of each Independent Non-Executive Director is for the period up to his retirement by rotation in accordance with the Company's Bye-Laws.

The Company has received from each independent non-executive director an annual written confirmation of his independence pursuant to rule 3.13 of Chapter 3 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and the Company still considers such directors to be independent.

# Report of the Directors

## Biographical details of directors and senior management

Brief biographical details of directors and senior management are set out on pages 16 to 23 of this annual report.

## Directors' service contracts

Mr. Lam Wai Chun entered into a service agreement with the Company on 27th September 1999 for an initial period of three years commencing on 1st October 1999 and thereafter until terminated by either party giving to the other not less than six months' notice in writing terminating on or after the expiry of the initial term of three years. This service agreement is exempt from the shareholders' approval requirement pursuant to rule 13.69 of the Listing Rules.

Ms. Tang Fung Kwan entered into a service agreement with the Company on 30th April 2005, which was amended by a supplemental agreement to service agreement dated 3rd August 2005, for a term of two years commencing on 1st May 2005 until terminated by either party giving to the other a prior notice of three months in writing (or such other period as the parties may agree in writing from time to time, but in any event not more than three months) before its expiration.

Each of Ms. Li Hong and Mr. Chua You Sing, entered into a service agreement with the Company on 30th April 2005 for a term of two years, each commencing on 1st May 2005 until terminated by either party giving to the other a prior notice of three months in writing (or such other period as the parties may agree in writing from time to time, but in any event not more than three months) before its expiration. On 30th April 2005, Ms. Li Hong also entered into an employment contract on 30th April 2005, which was amended by the supplemental agreement to employment contract dated 30th April 2005, with Xiamen Coils Electronic Co., Ltd., an indirect wholly-owned subsidiary of the Company, for a term of two years commencing from 1st May 2005 regarding her employment as general manager until terminated by either party giving to the other a 30 days' prior written notice before its expiration.

Mr. Law Hoo Shan entered into a service agreement with the Company on 14th August 2003 for a term of two years, commencing on 1st May 2003 until terminated by either party giving to the other a prior notice of three months in writing (or such other period as the parties may agree in writing from time to time, but in any event not more than three months) before its expiration. As at the date of this Annual Report, Mr. Law Hoo Shan has ceased to act as director of the Company due to resignation with effect from 1st May 2005.

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).

## 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.

## Report of the Directors

## Interests of directors and chief executives in securities

As at 30th April 2005, the interests and short positions of the directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (“SFO”)) as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers were as follows:

## (a) Shares of the Company

	Number of shares of HK\$0.10 each				Total interests	Percentage of issued share capital
	Family interests	Personal interests (Note 2)	Corporate interests	Trusts and similar interests		
Mr. Lam Wai Chun	404,008,996 (Note 3)	11,832,000	404,008,996 (Note 3)	404,008,996 (Note 3)	415,840,996 (Note 3)	60.00%
Ms. Tang Fung Kwan	-	3,502,611	-	-	3,502,611	0.51%
Mr. Law Hoo Shan (resigned on 1st May 2005)	-	546,751	-	-	546,751	0.08%
Mr. Au Son Yiu	-	4,200,000	-	-	4,200,000	0.60%
Dr. Tang Tin Sek	-	1,414,000	-	-	1,414,000	0.20%

## Notes:

- All the above interests in the shares of the Company were long positions.
- Personal interests were interests held by the relevant directors as beneficial owners.
- The 404,008,996 shares were held by and registered in the name of Ka Yan China Development (Holding) Company Limited, a wholly-owned subsidiary of Ka Yan China Investments Limited. The entire issued share capital of Ka Yan China Development (Holding) Company Limited was ultimately held by HSBC International Trustee Limited as trustee of a discretionary trust, namely Ka Yan China Family Trust (the “Trust”). The beneficiaries under the Trust were Mr. Lam Wai Chun’s immediate family members. By virtue of his being a founder of the Trust, Mr. Lam Wai Chun was deemed to be interested in all the shares held by Ka Yan China Development (Holding) Company Limited for the purpose of the SFO. The 404,008,996 shares in the family interests, corporate interests and trusts and similar interests related to the same block of shares in the Company and duplicated each other. Accordingly, the figure of 415,840,996 shares in the total interests column for Mr. Lam Wai Chun was arrived at after eliminating the duplications.



# Report of the Directors

## Interests of directors and chief executives in securities (Continued)

### (b) Shares of associated corporation(s) of the Company

*Coils Electronic Co., Limited*

Name of Director	Number of non-voting deferred shares of HK\$1.00 each				Percentage of issued non-voting deferred shares
	Personal interests	Corporate interests	Family interests	Total interests	
Mr. Lam Wai Chun (Notes 4 and 5)	7,500,000	6,000,000	500,000	14,000,000	100%

*Notes:*

4. Mr. Lam Wai Chun held 7,500,000 non-voting deferred shares of HK\$1.00 each, representing approximately 53.57% of the 14,000,000 non-voting deferred shares of HK\$1.00 each issued by Coils Electronic Co., Limited, in which Coils International Holdings Limited, a direct wholly-owned subsidiary of the Company, held 100% of the issued ordinary share capital.
5. 6,000,000 non-voting deferred shares of HK\$1.00 each were held by Ka Yan China Development (Holding) Company Limited and 500,000 non-voting deferred shares of HK\$1.00 each were held by Ms. Law Ching Yee respectively in Coils Electronic Co., Limited, representing approximately 42.86% and approximately 3.57% respectively of the 14,000,000 non-voting deferred shares of HK\$1.00 each in the share capital of Coils Electronic Co., Limited. Mr. Lam Wai Chun was deemed to be interested in all these shares under the SFO by virtue of, in the case of shares held by Ka Yan China Development (Holding) Company Limited, the reasons set out in Note 3 to sub-paragraph (a) 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.
6. All the above interests in the non-voting deferred shares of Coils Electronic Co., Limited held by Mr. Lam Wai Chun were long positions.
7. Mr. Lam Wai Chun held shares in certain subsidiaries as trustee for their holding companies.

Save as disclosed above, as at 30th April 2005, none of the directors or chief executives of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required to be entered in the register kept by the Company pursuant to section 352 of SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

# Report of the Directors

## Directors' rights to acquire shares or debentures

Other than the share option schemes as mentioned above, at no time during the year ended 30th April 2005 was the Company, its subsidiaries, its fellow subsidiaries or its holding companies a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

## Interests of shareholders discloseable under the SFO

As at 30th April 2005, according to the register kept by the Company under Section 336 of the SFO, other than the directors or chief executives of the Company, the following persons had an interests or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

### Substantial shareholders (as defined in the Listing Rules)

Name	Number of shares held				Percentage of issued share capital
	Family interests	Corporate interests	Trusts and similar interests	Beneficial owner	
Ms. Law Ching Yee	415,840,996 (Note 2)	–	–	–	60.00%
Ka Yan China Development (Holding) Company Limited	–	–	–	404,008,996 (Notes 2 and 3)	58.30%
Ka Yan China Investments Limited	–	404,008,996 (Notes 2 and 3)	–	–	58.30%
HSBC International Trustee Limited	–	–	404,008,996 (Notes 3 and 4)	–	58.30%

### Other persons as recorded in the register kept by the Company pursuant to section 336 of the SFO

Name	Number of shares held				Percentage of issued share capital
	Family interests	Corporate interests	Trusts and similar interests	Beneficial owner	
Nittoku Engineering Co., Ltd.	–	–	–	51,093,983	7.37%
Toko, Inc.	–	–	–	36,785,402	5.31%

# Report of the Directors

## Interests of shareholders discloseable under the SFO (Continued)

Notes:

1. All the above interests in shares of the Company were long positions.
2. The 404,008,996 shares were held by and registered in the name of Ka Yan China Development (Holding) Company Limited, a wholly-owned subsidiary of Ka Yan China Investments Limited. The entire issued share capital of Ka Yan China Development (Holding) Company Limited was ultimately held by the Trust. The beneficiaries under the Trust were Mr. Lam Wai Chun's immediate family members. By virtue of Mr. Lam Wai Chun being a founder of the Trust, Ms. Law Ching Yee was deemed to be interested in all the shares held by her spouse, Mr. Lam Wai Chun, for the purpose of the SFO.
3. The interests of Ka Yan China Development (Holding) Company Limited and Ka Yan China Investments Limited, the ultimate holding company of the Company, were in respect of the same 404,008,996 shares and duplicated each other.
4. The 404,008,996 shares in which HSBC International Trustee Limited was interested were the shares referred to in Notes 2 and 3 above.

Save as disclosed above, the Company had not been notified of any other person (other than a director or a chief executive of the Company) who had an interests (whether direct or indirect) in 5% or more of the shares comprised in the relevant share capital or a short position which were required to be recorded in the register kept by the Company pursuant to section 336 of the SFO as at 30th April 2005.

## Management contracts

No contract concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or existed during the year.

## Major suppliers and customers

The percentages of purchases and sales for the year attributable to the Group's major suppliers and customers are as follows:

### Purchases

– the largest supplier	10%
– five largest suppliers combined	30%

### Sales

– the largest customer	15%
– five largest customers combined	49%

At 30th April 2005, Toko, Inc., a shareholder holding more than 5% of the Company's issued share capital, had a beneficial interest in one of the Group's five largest customers and suppliers.

Save as disclosed above, at no time during the year did a director, an associate of a director or a shareholder of the Company (which to the knowledge of the directors owns more than 5% of the Company's issued share capital) has an interest in any of the Group's five largest suppliers or customers.

## Report of the Directors

### Disclosure pursuant to rule 13.20 of the Listing Rules

Pursuant to rule 13.20 of the Listing Rules, the details of the Group's trade receivables, which exceeded 8% of the Company's market capitalisation (the percentage ratio as defined under the Listing Rules) as at 30th April 2005 are set out below:

The total trade receivables due to the Group from Nanjing Feijin Magnetic Products Co., Ltd. amounted to approximately HK\$11,799,000.

The above-mentioned trade receivables were interest-free and unsecured with credit period of 90 days, and all of which arose in the ordinary course of business of the Group.

### Disclosure pursuant to rule 13.21 of the Listing Rules

In accordance with the disclosure requirements of rule 13.21 of the Listing Rules, the Company makes the following disclosures in relation to the details of the 2003 Agreement (as defined below), the Facility Letter (as defined below) and 2005 Agreement (as defined below), which includes conditions relating to specific performance of the controlling shareholder of the Company:—

- (a) On 30th April 2003, the Company entered into a 3-year transferable term loan facility agreement (the "2003 Agreement") for an aggregate amount of HK\$165,000,000 (the "2003 Facility") with Coils Electronic Co., Limited ("Coils"), an indirect wholly-owned subsidiary of the Company, as original guarantor, and a group of banks.

Under the provisions of the 2003 Agreement, it would be an event of default, inter alia, if any of the following events occurs:

1. Mr. Lam Wai Chun ("Mr. Lam"), Chairman of the Company, and Ka Yan China Development (Holding) Company Limited ("Ka Yan"), the controlling shareholder of the Company, cease to be the beneficial owners, together, of more issued share capital of the Company than any other person (including persons acting in concert); or
2. Mr. Lam and Ka Yan cease to be the beneficial owners, together, of at least 35% of the issued share capital of the Company; or
3. Mr. Lam ceases to be the Chairman of the Company or ceases to be involved actively in the management and business of the Group; or
4. Mr. Lam or Ka Yan sells, transfers, assigns, encumbers or disposes of all or part of their respective beneficial ownership of shares in the Company; or
5. Ka Yan ceases to be wholly and beneficially owned by Ka Yan China Family Trust (the "Trust"), the family trust of Mr. Lam; or
6. Mr. Lam's immediate family members cease to be the only beneficiaries under the Trust.

## Report of the Directors

### Disclosure pursuant to rule 13.21 of the Listing Rules (Continued)

If the aforesaid event of default occurs, upon a notice served to the Company, (i) the 2003 Facility shall immediately be cancelled; (ii) all or part of the loans under the 2003 Facility, together with accrued interest, and all other amounts accrued and outstanding under all finance documents (including the 2003 Agreement) shall immediately become due and payable; and/or (iii) all or part of the loans outstanding under the 2003 Facility shall immediately become payable on demand.

As at 30th April 2005, the aggregate outstanding loan under the 2003 Facility was approximately HK\$55,000,000.

All the outstanding indebtedness under the 2003 Agreement has been prepaid in May 2005.

- (b) On 30th July 2004, Coils accepted an offer of (i) a documentary credit plus trust receipt facility plus invoice financing – import facility of up to HK\$20,000,000 (the “First Facility”) and (ii) a 2-year term loan facility of up to HK\$20,000,000 (the “Second Facility”, together with the First Facility, the “Facilities”) under a facility letter dated 28th July 2004 (the “Facility Letter”) issued by a bank in Hong Kong (the “Bank”). The Company (as corporate guarantor) also countersigned the Facility Letter and has provided a guarantee and indemnity up to the extent of HK\$40,000,000 and accrued interest and default interest thereon and all other costs and expenses to secure the Facilities. The Facilities shall be subject to periodical review as the Bank deems fits and at the Bank’s sole and absolute discretion. The Facilities shall expire and be repayable forthwith as and when the Bank has given Coils notice of termination.

Under the provisions of the Facility Letter, there are conditions, among other things, that (1) Mr. Lam and Ka Yan shall remain the beneficial owners, together, of the largest proportion of the issued share capital of the Company at all times and, Mr. Lam and Ka Yan shall not sell, transfer, assign, encumber or dispose of all or part of their respective beneficial shareholdings in the Company and (2) the aggregate beneficial shareholdings of Mr. Lam and Ka Yan shall not fall below 35% of the issued share capital of the Company throughout the life of the Facilities. Should there be any breach of such conditions, the Bank shall have the right to demand for repayment of all outstanding amounts due by Coils under the Facilities.

As at 30th April 2005, the aggregate outstanding loan under the Facilities was approximately HK\$22,634,000.

- (c) On 27th April, 2005, the Company (as borrower) entered into a 3-year transferable term loan and revolving credit facility agreement (the “2005 Agreement”) for an aggregate amount of HK\$243,000,000 (the “2005 Facility”) with a group of banks and Coils and CEC-Coils Singapore Pte Ltd., being two indirect wholly-owned subsidiaries of the Company (collectively, as original guarantors). The 2005 Facility consist of (1) a term loan for an aggregate amount of HK\$194,400,000 and (2) a revolving credit facility for an aggregate amount of HK\$48,600,000.

# Report of the Directors

## Disclosure pursuant to rule 13.21 of the Listing Rules (Continued)

Under the provisions of the 2005 Agreement, it would be an event of default, inter alia, if Mr. Lam, the Chairman of the Company and a controlling shareholder of the Company, ceases to be the Chairman of the Company or ceases to be involved actively in the management and business of the Group. If the aforesaid event of default occurs, upon a notice served to the Company, (i) the 2005 Facility shall immediately be cancelled; (ii) all or part of the loans under the 2005 Facility, together with accrued interest, and all other amounts accrued and outstanding under all finance documents (including the 2005 Agreement) shall immediately become due and payable; and/or (iii) all or part of the loans outstanding under the 2005 Facility shall immediately become payable on demand.

As at 30th April 2005, the 2005 Facility has not yet been drawn down by the Company.

## Audit Committee

The Audit Committee of the Company presently comprises the three independent non-executive directors. One of the independent non-executive directors is a Certified Public Accountant practising in Hong Kong with substantial experience in corporate finance, auditing and financial management. Regular meetings have been held by the Audit Committee since its establishment and it meets at least twice each financial year. The Audit Committee met six times during the year ended 30th April 2005.

The Audit Committee has reviewed the accounting principles and practices adopted by the Group and the Annual Report for the year ended 30th April 2005.

## Corporate Governance

In the opinion of the directors, the Company has complied with the Code of Best Practice (the "Code") set out in Appendix 14 to the Listing Rules, which was in force prior to 1st January 2005 and remains applicable to the accounting periods commencing before 1st January 2005, throughout the year ended 30th April 2005, 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. The Company will report on its compliance with the Code on Corporate Governance Practices, which replaced the Code and has become effective for accounting periods commencing on or after 1st January 2005, in accordance with the applicable regulatory requirements in due course.

## Code for Securities Transactions By Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules as its own code of conduct regarding directors' securities transactions for the year ended 30th April 2005. Following specific enquiry by the Company, all of the directors (including the resigned director, Mr. Huang Kong, but excluding those directors appointed with effect from 1st May 2005) confirmed compliance with the required standard set out in the Model Code at the applicable times for the period from 1st May 2004 to 30th April 2005.

# Report of the Directors

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## Public float

As at 15th August 2005, the latest practicable date, based on information that is publicly available to the Company and within the knowledge of its directors, the Company has maintained the prescribed amount of public float as required under the Listing Rules during the year ended 30th April 2005 and up to the date of this report.

## Summary financial information

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

## Auditors

The accounts of the Company have been audited by PricewaterhouseCoopers who will retire and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting of the Company.

On behalf of the Board  
**LAM WAI CHUN**  
*Chairman*

Hong Kong, 15th August 2005