

Report of the Directors

The directors submit their report together with the audited financial statements for the year ended 30 April 2006.

Principal activities and geographical analysis of operations

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, ferrite powder and other electronic components, which are generally used in the manufacture of various kinds of electronic and electrical products.

An analysis of the Group's performance for the year by business and geographical segment is set out in note 5 to the financial statements.

Results and appropriations

The results of the Group for the year are set out in the consolidated income statement on page 43.

No interim dividend was declared for the year ended 30 April 2006 (2005: Nil). The board of directors (the "Board") of the Company has resolved to recommend, subject to the approval of the shareholders at the forthcoming Annual General Meeting, the payment of a final dividend of HK0.9 cent (2005: HK0.7 cent) per share for the year ended 30 April 2006 payable on 10 October 2006 to shareholders whose names appear on the Company's register of members on 27 September 2006.

Reserves

Movements in the reserves of the Group and of the Company during the year are set out in note 18 to the financial statements.

Donations

Charitable and other donations made by the Group during the year amounted to HK\$969,000 (2005: HK\$942,550).

Property, plant and equipment

Details of the movements in property, plant and equipment of the Group during the year are set out in note 7 to the financial statements.

Share capital

Details of the share capital of the Company are set out in note 17 to the financial statements.

Distributable reserves

As at 30 April 2006, the Company's contributed surplus of approximately HK\$131,338,000 (2005: HK\$131,338,000) (subject to provisions under the Companies Act 1981 of Bermuda (as amended)) and retained profits of approximately HK\$11,845,000 (2005: HK\$16,701,000) were available for distribution to the Company's shareholders.

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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.

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

The Company has not redeemed any of its listed shares during the year ended 30 April 2006. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's listed shares during the year ended 30 April 2006.

Share option scheme

On 26 September 2002, a share option scheme (the "Scheme") was adopted by the Company.

The major terms of the Scheme are summarised as follows:

1. The purpose of the 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.
2. The participants include:
 - (i) any full-time employees of the Company or its subsidiary, including executive directors; and
 - (ii) any non-executive directors of the Company or its subsidiary, including independent non-executive directors of the Company.
3. The total number of shares available for issue upon exercise of all options to be granted under the 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 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 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 Scheme as at 15 August 2006, the date of this annual report, was 69,302,881, representing approximately 9.67% of the issued share capital of the Company.

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Share option 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 of Hong Kong Limited (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 Scheme is valid and effective for a period of 10 years commencing on its date of adoption until 25 September 2012.

During the year ended 30 April 2006, no option was granted under the Scheme (2005: Nil).

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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 1 May 2005)</i>
Ms. Li Hong	<i>(appointed on 1 May 2005)</i>
Mr. Law Hoo Shan	<i>(resigned on 1 May 2005)</i>

Independent non-executive directors

Dr. Tang Tin Sek	
Mr. Au Son Yiu	
Mr. Lee Wing Kwan, Denis	
Mr. Goh Gen Cheung	<i>(appointed on 1 December 2005)</i>

Pursuant to Bye-law 87 of the Company's Bye-laws, Mr. Lam Wai Chun, Mr. Au Son Yiu and Mr. Lee Wing Kwan, Denis shall retire by rotation at the forthcoming annual general meeting of the Company and, being eligible, offer themselves for re-election.

In accordance with Bye-law 86(2) of the Company's Bye-laws, Mr. Goh Gen Cheung will hold office until the forthcoming annual general meeting of the Company and, being eligible, offers himself for re-election.

The Company has received from each independent non-executive director an annual 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.

Biographical details of directors and senior management

Brief biographical details of directors and senior management are set out on page 16 to 20 of this annual report.

Directors' services contracts

Mr. Lam Wai Chun entered into a service agreement with the Company on 27 September 1999 for an initial period of three years commencing on 1 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.

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Directors' services contracts *(continued)*

Ms. Tang Fung Kwan entered into a service agreement with the Company on 30 April 2005, which was amended by two supplemental agreements to service agreement dated 3 August 2005 and 7 April 2006 respectively, for a term of two years commencing on 1 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 30 April 2005 for a term of two years, each commencing on 1 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 30 April 2005, Ms. Li Hong also entered into an employment contract, which was amended by the supplemental agreement to employment contract dated 30 April 2005, with Xiamen Coils Electronic Co., Ltd., an indirect wholly-owned subsidiary of the Company, for a term of two years commencing from 1 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.

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.

Related party transaction

Details of the significant related party transaction entered into by the Group are set out in note 34 to the financial statements which do not constitute connected transaction under Chapter 14A of the Listing Rules.

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Interests of directors and chief executive in securities

As at 30 April 2006, the interests and short positions of the directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its 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 (the “Model Code”) were as follows:

(a) Shares of the Company

Name of director	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	423,785,660 (Note 3)	14,409,188	423,785,660 (Note 3)	423,785,660 (Note 3)	438,194,848 (Note 3)	61.15%
Ms. Tang Fung Kwan	-	3,502,611	-	-	3,502,611	0.49%
Ms. Li Hong	-	548,000	-	-	548,000	0.08%
Mr. Au Son Yiu	-	6,767,440	-	-	6,767,440	0.94%
Dr. Tang Tin Sek	-	3,714,000	-	-	3,714,000	0.52%

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 423,785,660 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 423,785,660 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, Mr. Lam Wai Chun’s total interests of 438,194,848 shares in the Company was arrived at after eliminating the duplications.

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Interests of directors and chief executive 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 the entire 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 30 April 2006, none of the directors or chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of 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.

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Interests of directors and chief executive in securities *(continued)*

Save as disclosed above, as at 30 April 2006, neither the directors or chief executive of the Company nor their spouses or children under the age of 18 had been granted any rights to subscribe for any equity or debt securities of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), or had exercised such rights.

Directors' rights to acquire shares or debentures

Other than the Scheme, at no time during the year ended 30 April 2006 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 30 April 2006, according to the register kept by the Company under Section 336 of the SFO, the following persons, other than the directors or chief executive of the Company, had an interest 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:

Shares of the Company

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	438,194,848 (Note 2)	-	-	-	61.15%
Ka Yan China Development (Holding) Company Limited	-	-	-	423,785,660 (Notes 2 and 3)	59.14%
Ka Yan China Investments Limited	-	423,785,660 (Notes 2 and 3)	-	-	59.14%
HSBC International Trustee Limited	-	-	423,785,660 (Note 4)	-	59.14%

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Interests of shareholders discloseable under the SFO *(continued)*

Shares of the Company *(continued)*

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	7.13%*
Toko, Inc.	-	-	-	36,785,402	5.13%*

Notes:

- All the above interests in shares of the Company were long positions.
 - The 423,785,660 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.
 - The interests of Ka Yan China Development (Holding) Company Limited, Ka Yan China Investments Limited, the ultimate holding company of the Company, and HSBC International Trustee Limited were in respect of the same 423,785,660 shares and duplicated each other.
 - The 423,785,660 shares in which HSBC International Trustee Limited was interested were the shares referred to in Note 2 above.
- * The percentage has been adjusted based on the total number of shares of the Company in issue as at 30 April 2006 (i.e. 716,610,798 shares).

Same 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 30 April 2006.

Management contracts

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

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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	11%
– five largest suppliers combined	29%
Sales	
– the largest customer	24%
– five largest customers combined	52%

At 30 April 2006, Toko, Inc., a shareholder holding more than 5% of the Company's share capital, had a beneficial interest in one of the Group's five largest customers.

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 share capital) have an interest in any of the Group's five largest suppliers or customers.

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 30 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

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Disclosure pursuant to rule 13.21 of the Listing Rules (*continued*)

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.

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.

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

- (b) On 30 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 28 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 (a) 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 (b) 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 30 April 2006, the aggregate carrying value of the outstanding loan under the Facility Letter was approximately HK\$2,500,000.

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Disclosure pursuant to rule 13.21 of the Listing Rules *(continued)*

- (c) On 27 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.

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 30 April 2006, the aggregate carrying value of the outstanding loan under the 2005 Agreement was approximately HK\$176,653,000.

Public Float

As at 15 August 2006, 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 30 April 2006 and up to the date of this report.

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 financial statements 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, 15 August 2006