
THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this prospectus or as to the action to be taken, you should consult a stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

A copy of this prospectus, together with a copy of the application form, has been registered by the Registrar of Companies in Hong Kong as required by section 342C of the Companies Ordinance of Hong Kong. A copy of this prospectus, together with a copy of the application form, has also been filed with the Registrar of Companies in Bermuda in accordance with the Companies Act 1981 of Bermuda (as amended). The Securities and Futures Commission, the Registrar of Companies in Hong Kong and the Registrar of Companies in Bermuda take no responsibility for the contents of this prospectus.

The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and Hong Kong Securities Clearing Company Limited ("Hongkong Clearing") take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.



CEC INTERNATIONAL HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

**PRIVATE PLACING
OF
400,000,000 UNITS OF WARRANTS
BEING WARRANTS IN REGISTERED FORM
TO SUBSCRIBE FOR NEW SHARES IN THE CAPITAL OF
CEC INTERNATIONAL HOLDINGS LIMITED
AT AN ISSUE PRICE OF HK\$0.0625 PER UNIT OF WARRANT**

Placing Manager

NJS

New Japan Securities International (H.K.) Ltd.

Placing Agents

NJS

**New Japan Securities
International (H.K.) Ltd.**



Yicko Securities Limited



**Yicko GA
Network Securities Limited**

This prospectus is published for the purpose of obtaining the listing on the Stock Exchange of all the Warrants (as defined herein) to be issued by CEC International Holdings Limited (the "Company") and contains particulars given in compliance with the Rules Governing the Listing of Securities on the Stock Exchange for the purpose of giving information with regard to the Company and the Warrants.

Application has been made to the Stock Exchange for the listing of, and permission to deal in, the Warrants and the New Shares (as defined herein). Commencement of dealings in the Warrants is expected to be on 6th July, 2000.

Subject to the granting of listing of, and permission to deal in, the Warrants and the New Shares on the Stock Exchange as well as compliance with the stock admission requirements of Hongkong Clearing, the Warrants and the New Shares will be accepted as eligible securities by Hongkong Clearing for deposit, clearance and settlement in CCASS (as defined herein) with effect from the commencement date of dealings in the Warrants on the Stock Exchange or such other date as determined by Hongkong Clearing. Settlement of transactions between members of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

21st June, 2000

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ATTENTION

PURSUANT TO SECTION 155C OF THE COMPANIES ORDINANCE, THIS PROSPECTUS IS ALSO SENT OR DELIVERED TO THE SHAREHOLDERS OF THE COMPANY FOR INFORMATION PURPOSES ONLY AND SHAREHOLDERS OF THE COMPANY SHOULD NOTE THAT THIS PROSPECTUS DOES NOT CONSTITUTE AN OFFER BY, OR INVITATION ON BEHALF OF, THE COMPANY, THE PLACING MANAGER, THE PLACING AGENTS OR ANY OF THEM TO APPLY FOR OR TO TAKE UP ANY WARRANTS OR SHARES OF THE COMPANY.

PRELIMINARY

This prospectus includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group and the Warrant Issue. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this prospectus and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement herein misleading.

The Bermuda Monetary Authority has given its consent for the issue of the Warrants and the New Shares. In giving such consent and in accepting this prospectus for filing, the Bermuda Monetary Authority and the Registrar of Companies in Bermuda accept no responsibility for the financial soundness of the Company or any proposal or for the correctness of any of the statements made or opinions expressed herein.

This prospectus is published in connection with the Warrant Placing, being an offer of the Warrants carrying rights to subscribe for the New Shares, subject to the terms and conditions set out or referred to herein.

The Placing Manager and the Placing Agents have not reserved and do not undertake to review the financial condition or affairs of the Company during the term of the Warrants or to advise any investor or potential investor in the Warrants of any information which comes to its attention.

No action has been taken in any jurisdiction other than Hong Kong and Bermuda to permit an offering of the Warrants or the distribution of this prospectus and/or the application form in Hong Kong. Accordingly, this prospectus and/or the application form may not be used for the purpose of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such offer or invitation is not authorised or to any person to whom it is unlawful to make such offer or invitation except under such circumstances that will result in compliance with any applicable laws or regulations. In particular, no invitation may be made directly or indirectly by or on behalf of the Company to the public in Bermuda to subscribe for or acquire any of the Warrants.

The distribution of this prospectus and/or the application form and the offering, sale and delivery of the Warrants in certain jurisdictions may be restricted by law. Persons into whose possession this prospectus and/or the application form come are required by the Company to inform themselves of and to observe any such restrictions.

No person has been authorised to give any information or to make any representation not contained in this prospectus in connection with the Warrant Placing and, if given or made, such information or representation must not be relied upon as having been authorised by the Company, the Placing Manager or the Placing Agents.

PRELIMINARY

Potential Warrantholders should consult their professional advisers if they are in any doubt as to the taxation implications of holding the Warrants or exercising their rights thereunder. It is emphasised that none of the Company, the Directors or any other parties involved in the Warrant Placing accepts responsibility for any tax effects on, or liabilities of, the Warrantholders resulting from the purchase or holding or disposal of the Warrants and/or exercise of any rights attaching to the Warrants.

EACH SUBSCRIBER OR PURCHASER OF THE WARRANTS MUST COMPLY WITH ALL APPLICABLE LAWS AND REGULATIONS IN FORCE IN EACH JURISDICTION IN WHICH IT SUBSCRIBES, PURCHASES, OFFERS OR SELLS THE WARRANTS OR POSSESSES OR DISTRIBUTES THIS PROSPECTUS AND/OR THE APPLICATION FORM AND MUST OBTAIN ANY CONSENT, APPROVAL OR PERMISSION REQUIRED BY IT FOR THE SUBSCRIPTION, PURCHASE, OFFER OR SALE BY IT OF THE WARRANTS UNDER THE LAWS AND REGULATIONS IN FORCE IN ANY JURISDICTION TO WHICH IT IS SUBJECT OR IN WHICH IT MAKES SUCH SUBSCRIPTION, PURCHASE, OFFER OR SALE, AND NONE OF THE COMPANY, THE PLACING MANAGER AND THE PLACING AGENTS SHALL HAVE ANY RESPONSIBILITY THEREFOR. BY MAKING AN APPLICATION OF THE WARRANTS UNDER THE WARRANT PLACING, THE APPLICANT IS DEEMED TO HAVE REPRESENTED TO THE COMPANY, THE PLACING MANAGER AND THE PLACING AGENTS THAT IT HAS OBTAINED ALL CONSENTS, APPROVALS OR PERMISSION RECEIVED TO BE OBTAINED BY IT IN CONNECTION WITH EACH APPLICATION.

EXPECTED TIMETABLE

2000

Latest time for submitting the application forms
for the Warrants accompanied by appropriate
remittances 12:00 noon on Tuesday, 27th June

Allotment to the Placees on Monday, 3rd July

Warrant certificates available on* Monday, 3rd July

Commencement of dealings in the Warrants
on the Stock Exchange Thursday, 6th July

* *The Warrant certificates are expected to be issued in the name of HKSCC Nominees Limited and deposited into CCASS on Monday, 3rd July, 2000 for credit to the CCASS participants' stock accounts of the Placees or the stock accounts of the designated CCASS participants of the Placees.*

DEFINITIONS

In this prospectus, unless the context otherwise requires, the following expressions have the following meanings:

“associates”	shall have the meaning ascribed to it in the Listing Rules
“business day”	any day (excluding a Saturday) on which banks in Hong Kong are generally open for business
“Board”	the board of Directors
“CCASS”	the Central Clearing and Settlement System established and operated by Hongkong Clearing
“CMPP”	CMPP Investment Holdings Limited, a company incorporated in the British Virgin Islands with limited liability
“Companies Act”	the Companies Act 1981 of Bermuda (as amended)
“Companies Ordinance”	Companies Ordinance (Chapter 32 of the Laws of Hong Kong)
“Company”	CEC International Holdings Limited, an exempted company incorporated in Bermuda with limited liability, the Shares of which are listed on the Stock Exchange
“Completion”	completion of the Warrant Placing in accordance with clause 3.1 of the Warrant Placing Agreement
“Controlling Shareholder”	Ka Yan China Development (Holding) Company Limited, a company incorporated in the British Virgin Islands with limited liability
“Director(s)”	the director(s) of the Company
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hongkong Clearing”	Hong Kong Securities Clearing Company Limited
“Instrument”	the instrument by way of deed poll to be executed by the Company constituting the Warrants
“Latest Practicable Date”	16th June, 2000, being the latest practicable date prior to the printing of this prospectus for ascertaining certain information contained in this circular

DEFINITIONS

“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Mr. Lam”	Mr. Lam Wai Chun, the chairman and the managing director of the Company
“New Issue Mandate”	a new issue mandate to be granted to the Directors to allot and issue Shares
“New Share(s)”	new Share(s) which may fall to be issued upon the exercise of the subscription rights attached to the Warrants
“Placees”	not less than 100 selected independent professional, institutional and/or other investors
“Placing Agents”	New Japan Securities International (Hong Kong) Limited (an investment adviser and a dealer registered with the Securities and Futures Commission under the Securities Ordinance (Chapter 333 of the Laws of Hong Kong)), Yicko Securities Limited (a dealer registered with the Securities and Futures Commission under the Securities Ordinance (Chapter 333 of the Laws of Hong Kong)) and Yicko GA Network Securities Limited (a dealer registered with the Securities and Futures Commission under the Securities Ordinance (Chapter 333 of the Laws of Hong Kong))
“Placing Manager”	New Japan Securities International (Hong Kong) Limited
“PRC”	the People’s Republic of China
“Registrars”	Central Registration Hong Kong Limited in Hong Kong or such other person, firm or company situated in Hong Kong or in Bermuda as may be approved from time to time by the Directors to act as registrar in relation to the Warrants and transfer of the Warrants
“SDI Ordinance”	the Securities (Disclosure of Interests) Ordinance (Chapter 396 of the Laws of Hong Kong)
“Share(s)”	share(s) of HK\$0.10 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)

DEFINITIONS

“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Warrant(s)”	warrant(s) to be issued by the Company in registered form by way of deed poll in units of subscription rights of HK\$1.475 for every 10 units of Warrants entitling the holder(s) thereof to subscribe up to a maximum aggregate amount of HK\$59,000,000 in cash for New Shares at an initial subscription price of HK\$1.475 per New Share (subject to adjustment) at any time from the date of the issue of the Warrants, which is expected to be on or about 3rd July, 2000, to 30th September, 2003, both dates inclusive, constituted by the Instrument, details of which are set out in Appendix I to this prospectus
“Warrant Issue”	the proposed issue of 400,000,000 units of Warrants by the Company by way of private placement
“Warrant Placing”	a private placing of the Warrants at the Warrant Placing Price to the Placees pursuant to the Warrant Placing Agreement on a best effort basis
“Warrant Placing Agreement”	a conditional placing agreement dated 16th May, 2000 made between the Company, the Placing Manager and the Placing Agents in relation to the Warrant Placing
“Warrant Placing Price”	HK\$0.0625 per unit of Warrant to be issued pursuant to the Warrant Placing
“Warrant Subscription Price”	an initial subscription price of HK\$1.475 per New Share (subject to adjustment) at which the Warrantholders may subscribe for New Shares, and such price may from time to time be adjusted in accordance with the terms of the Instrument
“Warrantholder(s)”	registered holder(s) of the Warrant(s)
“HK\$” and “cents”	Hong Kong dollars and cents respectively
“RMB”	Renminbi, the lawful currency of the PRC
“US\$”	the United States dollars, the lawful currency of the United States of America
“Yen”	Japanese yen, the lawful currency of Japan
“%”	per cent.

SUMMARY OF THE WARRANT ISSUE

The information in this section is only a summary of the Warrant Issue and should be read in conjunction with, and is qualified by reference to, the other information set out in this prospectus.

Issuer	:	CEC International Holdings Limited
Placing Manager	:	New Japan Securities International (Hong Kong) Limited
Placing Agents	:	New Japan Securities International (Hong Kong) Limited, Yicko Securities Limited and Yicko GA Network Securities Limited
Form	:	The 400,000,000 Warrants will be issued in registered form by way of deed poll in units of subscription rights of HK\$1.475 for every 10 units of Warrants entitling their holders thereof to subscribe for the New Shares at an initial subscription price of HK\$1.475 per New Share (subject to adjustment) during the period from the date of the issue of the Warrants, which is expected to be on or about 3rd July, 2000, to 30th September, 2003, both dates inclusive.

Assuming that the subscription rights attached to the Warrants are exercised in full at an initial subscription price of HK\$1.475 per New Share, the total number of 40,000,000 New Shares will be allotted and issued, representing 20% of the Company's existing issued share capital of 200,000,000 Shares as at the Latest Practicable Date and approximately 16.7% of the Company's issued share capital of 240,000,000 Shares as enlarged by the allotment and issue of the New Shares.

The initial Warrant Subscription Price of HK\$1.475 per New Share represents (i) a discount of approximately 29.8% to the closing price of HK\$2.1 per Share quoted on the Stock Exchange on 15th May, 2000, being the last trading day prior to the date of the release of the announcement relating to the Warrant Placing; (ii) a discount of approximately 28% to the average closing price of HK\$2.0495 per Share quoted on the Stock Exchange for the ten trading days up to and including 15th May, 2000; (iii) a discount of approximately 48.2% to the closing price of HK\$2.85 per Share quoted on the Stock Exchange on the Latest Practicable Date; and (iv) a discount of approximately 42.3% to the average closing price of HK\$2.555 per Share quoted on the Stock Exchange for the ten trading days up to and including the Latest Practicable Date.

SUMMARY OF THE WARRANT ISSUE

The aggregate of the Warrant Placing Price and the initial Warrant Subscription Price of HK\$2.1 per New Share (i) was the same as the closing price of HK\$2.1 per Share quoted on the Stock Exchange on 15th May, 2000; and (ii) represents a discount of approximately 26.3% to the closing price of HK\$2.85 per Share quoted on the Stock Exchange on the Latest Practicable Date.

Warrant Placing Price	:	HK\$0.0625 per unit of Warrant
Denomination	:	Unit of HK\$0.1475 of subscription rights
Exercise of subscription rights	:	The subscription rights under the Warrants are exercisable in units of HK\$1.475 for every 10 units of Warrants. The subscription rights under the Warrants may be exercised by the delivery of a completed and signed subscription form together with the relevant Warrant certificate to the Registrars and a remittance for the aggregate Warrant Subscription Price for the New Shares in respect of which the subscription rights are being exercised.
Condition of the Warrant Placing	:	The Warrant Placing is conditional upon the satisfaction of the conditions set out in the paragraph headed “Conditions of the Warrant Placing” in the section headed “The Warrant Issue” in this prospectus.
Board lot	:	The board lot for trading in the Warrants is 40,000 units of Warrants carrying rights to subscribe for 4,000 New Shares on the basis of an initial Warrant Subscription Price of HK\$1.475 per New Share (subject to adjustment).
Warrant Subscription Price	:	HK\$1.475 per New Share (subject to adjustment)
Subscription period	:	From the date of the issue of the Warrants, which is expected to be on or about 3rd July, 2000, to 4:00 p.m. (Hong Kong time) on 30th September, 2003, both dates inclusive
Transfer of Warrants	:	Warrants may only be transferred in whole amounts or integral multiples of HK\$0.1475 by instrument of transfer in any usual or common form or such other form may be approved by the Directors

SUMMARY OF THE WARRANT ISSUE

Listing and dealings : Application has been made to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Warrants and the New Shares on the Stock Exchange. It is expected that dealings in the Warrants on the Stock Exchange will commence on 6th July, 2000.

Subject to the granting of listing of, and permission to deal in, the Warrants and the New Shares on the Stock Exchange as well as compliance with the stock admission requirements of Hongkong Clearing, the Warrants and the New Shares will be accepted as eligible securities by Hongkong Clearing for deposit, clearance and settlement in CCASS with effect from the commencement date of dealings in the Warrants on the Stock Exchange or such other date as determined by Hongkong Clearing. Settlement of transactions between members of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Governing Law : The laws of Hong Kong

Registrars : Central Registration Hong Kong Limited

**DIRECTORS, CORPORATE INFORMATION AND OTHER PARTIES
INVOLVED IN THE WARRANT ISSUE**

Directors:

Name	Address	Nationality
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Executive Directors:

Mr. LAM Wai Chun	Unit 8, 4th Floor Block 43, Heng Fa Chuen No. 100 Shing Tai Road Chai Wan Hong Kong	Chinese
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Mr. SAITO Misao	3rd Floor, Block C Skyscraper Mansion 136 Tin Hau Temple Road Hong Kong	Japanese
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Ms. TANG Fung Kwan	4H, Block 45 City One Shatin New Territories Hong Kong	Chinese
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Ms. HU Yan Huan	10 Cun, Dong Qu Xiao Lan Zhen Zhong Shan Shi Guangdong Province, the PRC	Chinese
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Mr. IWATA Kenji	No. 3-6-24 Shimoochiai Shinjuku-ku, Tokyo Japan	Japanese
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Non-executive Director:

Mr. TANG Tin Sek	10B Tower 11, Pacific Palisades 1 Braemar Hill Road North Point Hong Kong	Australian
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Independent non-executive Directors:

Mr. AU Son Yiu	31C, Broadway 6th Floor, Mei Foo Sun Chuen Kowloon Hong Kong	British
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Mr. LEE Wing Kwan, Denis	Flat A, 24th Floor Winway Court 3 Tai Hang Road Hong Kong	Chinese
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**DIRECTORS, CORPORATE INFORMATION AND OTHER PARTIES
INVOLVED IN THE WARRANT ISSUE**

Authorised representatives:	Mr. Lam Wai Chun Ms. Tang Fung Kwan
Company secretary:	Ms. Li Lai Sheung <i>ACIS</i>
Auditors:	Arthur Andersen & Co <i>Certified Public Accountants</i> 21st Floor, Edinburgh Tower The Landmark 15 Queen's Road Central Hong Kong
Registered office:	Cedar House 41 Cedar Avenue Hamilton HM 12 Bermuda
Head office and principal place of business in Hong Kong:	Flats A and B, 2nd Floor Hing Win Factory Building No. 110 How Ming Street Kwun Tong Kowloon Hong Kong
Principal share registrar and transfer office:	Butterfield Corporate Services Limited Rosebank Centre 11 Bermudiana Road Pembroke Bermuda
Branch share registrars, warrant registrars and transfer office in Hong Kong:	Central Registration Hong Kong Limited Rooms 1901-5, 19th Floor Hopewell Centre 183 Queen's Road East Hong Kong
The Placing Manager:	New Japan Securities International (Hong Kong) Limited Room 4701, Manulife Plaza The Lee Gardens 33 Hysan Avenue Causeway Bay Hong Kong

**DIRECTORS, CORPORATE INFORMATION AND OTHER PARTIES
INVOLVED IN THE WARRANT ISSUE**

The Placing Agents:

New Japan Securities International
(Hong Kong) Limited
Room 4701, Manulife Plaza
The Lee Gardens
33 Hysan Avenue
Causeway Bay
Hong Kong

Yicko Securities Limited
19th Floor, Tung Ning Building
125-127 Connaught Road
Central
Hong Kong

Yicko GA Network Securities Limited
1704-05 Tung Ning Building
125-127 Connaught Road
Central
Hong Kong

Legal advisers to the Company:

On Hong Kong law:
F. Zimmern & Co.
7th Floor, Central Building
1 Pedder Street
Central
Hong Kong

On Bermuda law:
Appleby Spurling & Kempe
5511 The Center
99 Queen's Road Central
Central
Hong Kong

Principal bankers:

Dao Heng Bank Limited
11th Floor, The Center
99 Queen's Road Central
Hong Kong

Dah Sing Bank Limited
35th Floor, Dah Sing Financial Centre
108 Gloucester Road
Hong Kong

**DIRECTORS, CORPORATE INFORMATION AND OTHER PARTIES
INVOLVED IN THE WARRANT ISSUE**

Standard Chartered Bank
13th Floor, Standard Chartered Tower
388 Kwun Tong Road
Kwun Tong
Hong Kong

The Hongkong and Shanghai Banking
Corporation Limited
2nd Floor, 673 Nathan Road
Mongkok
Kowloon
Hong Kong

THE WARRANT ISSUE

THE WARRANT PLACING AGREEMENT

The Warrant Placing Agreement was entered into on 16th May, 2000 between the Company, the Placing Manager and the Placing Agents. Pursuant to the Warrant Placing Agreement, the Placing Agents, jointly and severally agreed to procure, on a best effort basis, the Placees to subscribe for the Warrants at the Warrant Placing Price, payable in full on application, subject to the fulfilment of the conditions contained in the Warrant Placing Agreement. The Placing Manager and Placing Agents are, and the Placees will be, independent of, not connected with and not acting in concert with any of the directors, chief executive and substantial shareholders of the Company and any of its subsidiaries, or any of their respective associates (as defined in the Listing Rules). The Warrant Placing will comply with the requirements set out in Appendix 6 to and Chapter 15 of the Listing Rules. Pursuant to the Warrant Placing Agreement, the Company will pay to the Placing Agents a placing commission of 3.5% on the total Warrant Placing Price and to the Placing Manager a documentation and advisory fee, and the expenses relating to the Warrant Placing.

It should be noted that the Warrant Placing is not underwritten by the Placing Manager and/or the Placing Agents. If the Warrant Placing is not fully subscribed by the Placees, the Warrant Placing will not proceed.

CONDITIONS OF THE WARRANT PLACING

Completion of the Warrant Placing Agreement shall be subject to and conditional upon:–

- (a) the Placing Agents having successfully introduced the Placees to subscribe for all the Warrants;
- (b) the Shareholders passing at a special general meeting of the Company ordinary resolutions approving the Warrant Issue and the allotment and issue of the New Shares;
- (c) the Listing Committee of the Stock Exchange granting listing of, and permission to deal in, the Warrants and the New Shares;
- (d) the Bermuda Monetary Authority granting its consent to the issue of the Warrants and the allotment and issue of the New Shares;
- (e) the listing on the Stock Exchange of the Shares at Completion not having been revoked and such listing not being withdrawn as a result of the completion of the Warrant Placing Agreement;
- (f) (i) the delivery to the Stock Exchange a copy of the prospectus relating to the Warrant Placing, duly certified by two Directors (or by their agents duly authorised in writing) as having been approved by resolution of the Board and having annexed to it all documents required to be annexed thereto; and (ii) the filing and registration

THE WARRANT ISSUE

by the Registrar of Companies in Hong Kong of a copy of such prospectus and such documents as annexed thereto in accordance with Section 342C of the Companies Ordinance; and

- (g) the filing with the Registrar of Companies in Bermuda of a copy of the prospectus relating to the Warrant Placing (and all documents required to be annexed thereto) in accordance with the Companies Act.

The Placing Manager and the Placing Agents may waive the condition mentioned under sub-paragraph (e) above by notice in writing to the Company. As at the Latest Practicable Date, save and except for the condition mentioned under sub-paragraph (d) above, none of the conditions precedent for completion of the Warrant Placing has been fulfilled or waived.

TERMS OF THE WARRANTS

The 400,000,000 Warrants will be issued in registered form by way of deed poll in units of subscription rights of HK\$1.475 for every 10 units of Warrants entitling holders thereof to subscribe for the New Shares at an initial subscription price of HK\$1.475 per New Share (subject to adjustment) during the period from the date of the issue of the Warrants, which is expected to be on or about 3rd July, 2000, to 30th September, 2003, both dates inclusive. The amount payable on the exercise of the subscription rights of each board lot of Warrants at the initial Warrant Subscription Price will be HK\$5,900.

The 40,000,000 New Shares falling to be issued upon full exercise of the subscription rights attached to the Warrants represent 20% of the Company's existing issued share capital of 200,000,000 Shares as at the Latest Practicable Date and approximately 16.7% of the Company's issued share capital of 240,000,000 Shares as enlarged by the allotment and issue of the New Shares.

The New Shares, when fully paid, will rank *pari passu* in all respects with the then existing issued Shares save for any rights or entitlements to dividends or other rights or distributions on the record date for which precedes the date on which the subscription rights attached to the Warrants are exercised in accordance with the terms of the Warrants.

The initial Warrant Subscription Price of HK\$1.475 per New Share represents (i) a discount of approximately 29.8% to the closing price of HK\$2.1 per Share quoted on the Stock Exchange on 15th May, 2000, being the last trading day prior to the date of the release of the announcement relating to the Warrant Placing; (ii) a discount of approximately 28% to the average closing price of HK\$2.0495 per Share quoted on the Stock Exchange for the ten trading days up to and including 15th May, 2000; (iii) a discount of approximately 48.2% to the closing price of HK\$2.85 per Share quoted on the Stock Exchange on the Latest Practicable Date; and (iv) a discount of approximately 42.3% to the average closing price of HK\$2.555 per Share quoted on the Stock Exchange for the ten trading days up to and including the Latest Practicable Date.

THE WARRANT ISSUE

The aggregate of the Warrant Placing Price and the initial Warrant Subscription Price of HK\$2.1 per New Share (i) was the same as the closing price of HK\$2.1 per Share quoted on the Stock Exchange on 15th May, 2000; and (ii) represents a discount of approximately 26.3% to the closing price of HK\$2.85 Share quoted on the Stock Exchange on the Latest Practicable Date.

LISTING AND DEALINGS

An application has been made to the Stock Exchange for the listing of, and permission to deal in, the Warrants and the New Shares. Subject to the satisfaction of the conditions of the Warrant Placing as detailed in the section headed “Conditions of the Warrant Placing” above, dealings and trading in the Warrants are expected to commence on 6th July, 2000. The proposed board lot for trading in the Warrants is 40,000 units of Warrants carrying rights to subscribe for a total of 4,000 New Shares on the basis of an initial Warrant Subscription Price of HK\$1.475 per New Share (subject to adjustment) in accordance with the terms of the Instrument.

Subject to the granting of the listing of, and permission to deal in, the Warrants and the New Shares on the Stock Exchange as well as compliance with the stock admission requirements of Hongkong Clearing, the Warrants and the New Shares will be accepted as eligible securities by Hongkong Clearing for deposit, clearance and settlement in CCASS with effect from the commencement date of dealings in the Warrants on the Stock Exchange or such other date as may be determined by Hongkong Clearing. Settlement of transactions between members of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

All necessary arrangements will be made to enable the Warrants to be admitted into CCASS.

Dealings in the Warrants and the New Shares in Hong Kong will be subject to Hong Kong stamp duty.

No part of the New Shares or the Warrants is listed on or dealt in on any other stock exchange except the Stock Exchange, and no such listing or permission to deal is being or is currently proposed to be sought.

REASONS FOR THE WARRANT PLACING AND USE OF PROCEEDS

The Board considers that the Warrant Placing is an appropriate means of raising additional capital for the Company since the placement of Warrants will not have an instant dilutive effect on the shareholding of the existing Shareholders. In addition to the net proceeds that will be raised immediately upon the issue of the Warrants, further share capital will be raised upon exercise of the subscription rights attached to the Warrants by the Warrantholders during the subscription period.

THE WARRANT ISSUE

It is the present intention of the Directors that the total net proceeds from the Warrant Placing of approximately of HK\$22.9 million are intended to be used as to HK\$10 million for repayment of bank loans, as to HK\$2 million for the development of e-commerce functionality for its “on-line sales” systems and product specification simulation system as stated in the announcement of the Company dated 14th March, 2000, and as to the balance of HK\$10.9 million as general working capital. The “on-line sales” system allows the Group’s customers to place orders, request for samples, and set their product specifications through the Internet, thus enabling the Group to provide more tailor-made and value-added services to its customers. The estimated expenses in relation to the Warrant Placing are approximately HK\$2.1 million.

As at 16th May, 2000, the net proceeds of approximately HK\$45 million raised at the time of its listing as disclosed in the prospectus of the Company dated 3rd November, 1999 had almost been fully applied on those plans as disclosed therein.

The Directors are of the view that part of the additional capital to be raised from the Warrant Placing helps reduce the interest expenses and the gearing level of the Group.

GENERAL INFORMATION ON THE GROUP

PRINCIPAL ACTIVITIES

The Group is principally engaged in the design, development, manufacture and sale of a wide range of coils. The Group's products are generally manufactured to the order and specifications of its customers and used in the manufacture of various kinds of electronic and electrical products.

BUSINESS REVIEW

For the nine months ended 31st January, 2000, the Group's unaudited turnover and profit attributable to shareholders were approximately HK\$196,942,000 and HK\$31,910,000 respectively, representing an increase of 27.8% and 58.3% respectively as compared to the corresponding period in 1999. The gross profit margin and net profit margin were approximately 34.5% (1999: 29.5%) and 16.2% (1999: 13.1%) respectively.

The nine months ended 31st January, 2000 represented a period of good harvest marked with high growth in business and profitability due to the Group's continual dedication to strategic business development. The Group was able not only to further reduce its overall production cost as a result of rising automation level in production, but also to market its products more effectively and efficiently during the period.

In view of the rapid convergence of the telecommunications sector and the Group's strategic promotion in the field, a remarkable rise in turnover to the telecommunications sector has been achieved during the nine months ended 31st January 2000 as compared to the corresponding period in 1999. Following the great business opportunities emerging in the telecommunications industry, further rooms for expansion are expected in the near future.

FUTURE PLANS AND PROSPECTS

Looking forward to the coming year, the Group will adhere to its principles and strive to materialise its existing plans.

Research and Development

Focusing on the world's rapidly growing technologies: Local Area Networking (LAN), wireless broadband communications, and interactive voice, data and video applications, the Group's research and development centre in Tokyo, Japan, plans to work more closely with its customers to capture opportunities arising from the fields and develop "design-in" components of information technology products such as LAN hubs, routers and switches, high-speed personal computer data interfaces, cable modems and power converters.

GENERAL INFORMATION ON THE GROUP

New Products Development

The new millenium is expected to be an age of explosive growth in information technology. In order to meet the new challenges and simultaneously capture the new sphere for development, the Group plans to invest into new production facilities for the manufacture of ferrite cores-manganese zinc series to manufacture line filters, EMI filters and switching mode power supply (SMPS), which are indispensable components in computers, telecommunications equipment and household electrical appliances.

E-commerce

Entering into the Internet era, the Group is developing e-commerce functionality for its “on-line sales” system and product specification simulation system. System testing is underway and positive responses from sample customers have been received. Upon its completion, customers will be able to place orders, request for samples, and set their product specification through the Internet, which enables the Group to provide more tailor-made and value-added services to its customers. The Group also plans to extend the system to provide platforms for its over 6,000 business partners, customers and suppliers for business to business solutions in the electronic component field.

Further Vertical Integration

The Group is cooperating with the local authority in Shaoguan, Guangdong Province, the PRC to develop the technology in refining ferrite powder. The project is now at the stage of development and experiment, the result of which is expected to be available in the coming three months. An abundant supply of high-quality and low-cost ferrite powder to the Group is expected for the manufacture of ferrite cores, which will save considerable production cost and further improve the quality of the Group’s products.

Overseas Markets



To better serve the Group’s prestigious multinational customers who envisioned the booming industries of India and set up production facilities in the country, a new representative office in Bangalore, India, was set up in January 2000. Besides, the Group is also actively considering the feasibility of setting up new representative offices and manufacturing facilities around the world, in a bid to exploit the unique competitive edges, such as technology and human resources in different countries. Meanwhile, the Group will continue to explore more overseas markets and establish a much wider customer base.

GENERAL INFORMATION ON THE GROUP

MAJOR CUSTOMERS AND SUPPLIERS

For the financial year ended 30th April, 1999, the Group's five largest customers accounted for less than 22.5% of the Group's turnover and the Group's five largest suppliers of raw materials and components accounted for approximately 34.8% of the Group's purchases. None of the Shareholders owning more than 5% of the issued share capital of the Company or the Directors or their respective associates have any interests in the top five customers or the top five suppliers of the Group.

INTELLECTUAL PROPERTY RIGHTS

The Group owns or has registered the trademarks  and  in Hong Kong, and “高雅” in the PRC.

DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Mr. LAM Wai Chun, aged 41, was appointed as the chairman and the managing director of the Company with effect from 4th October, 1999 and 27th October, 1999 respectively. Mr. Lam is also the founder of the Group and has over 28 years of experience in coils sale and manufacturing industry. Mr. Lam is responsible for formulating the overall business strategy and plans of the Group. Mr. Lam was awarded the 1999 Young Industrialist of Hong Kong.

Mr. SAITO Misao, aged 64, was appointed as the deputy chairman of the Company with effect from 4th October, 1999. He is responsible for the sales and marketing and product development of the Group. He holds a bachelor degree of electric communication from Tokyo Denki University in 1958 and has over 35 years of experience of sales and manufacture of coils as well as sales of other electronic components. He has extensive experience in international coils manufacturing and sales markets including Hong Kong and Japan. He joined the Group as an adviser in 1994.

Ms. TANG Fung Kwan, aged 30, was appointed as the executive Director with effect from 29th September, 1999. She is responsible for the Group's overall strategic planning and development, as well as formulation of corporate policy and marketing. She holds a bachelor degree in economics from the University of Hong Kong and a master degree in business administration from the University of South Australia, Australia. She joined the Group in 1993.

Ms. HU Yan Huan, aged 50, was appointed as the executive Director with effect from 29th September, 1999. She is responsible for the overall production planning and manufacturing operations for the Group's production facilities. She has over 17 years of experience in the coils manufacturing industry. She joined the Group in 1982.

GENERAL INFORMATION ON THE GROUP

Mr. IWATA Kenji, aged 61, was appointed as the executive Director with effect from 29th September, 1999. He is responsible for the sales and marketing, strategic planning as well as business and product development of the Group. He holds a bachelor degree in engineering from the Tokai University, Japan and has over 33 years of experience in the sales and manufacture of coils and other electronic components as well as product design and development. He joined the Group in August 1999.

Non-executive Director

Mr. TANG Tin Sek, aged 41, has been appointed as the non-executive Director since 1st January, 2000. He is a Certified Public Accountant and has over 19 years' auditing, accounting and financial management experience in Hong Kong and Australia. Mr. Tang is a graduate of the University of Hong Kong with a bachelor of science degree and holds a master degree of business administration from the University of Sydney, Australia. He is also a Chartered Certified Accountant in the United Kingdom, a Chartered Accountant in Australia and a Certified Public Accountant of China. Mr. Tang is also an independent non-executive director for several companies listed on the Stock Exchange.

Independent non-executive Directors

Mr. AU Son Yiu, aged 54, was appointed as an independent non-executive Director with effect from 29th September, 1999. He is a registered investment adviser and has extensive experience in the securities industry. He is also a dealing director of HLG Securities (HK) Limited, a director of China Point Stock Brokers Limited and I & P Securities Limited, a consultant to Dao Heng Securities Limited and a member of the Election Committee for the financial services subsector election for the 1998 Legislative Council. Mr. Au is also a non-executive director for several public companies listed on the Stock Exchange. In addition, he was the Ex-Deputy Chairman of Hongkong Clearing (1992-1994) and Ex-Council member of the Stock Exchange (1988-1994).

Mr. LEE Wing Kwan, Denis, aged 55, was appointed as an independent non-executive Director with effect from 29th September, 1999. He is the chairman of the Hong Kong Special Administrative Region Small & Medium Enterprises Committee, Council & General Committee member of The Hong Kong General Chamber of Commerce, executive member of Hong Kong Coalition of Service Industries and member of Hong Kong/Japan Business Co-operation Committee. He is the managing director of Futaba Discount Stores Limited and advisor to the OMAC Group of companies.

Senior Management

Mr. HO Kwok Keung, aged 42, is the head of the engineering department. He is responsible for the overall management and coordination of the research and development functions. He has over 23 years of experience in the electronics and electrical field. He joined the Group in 1996.

GENERAL INFORMATION ON THE GROUP

Mr. HUANG Da Lin, aged 37, is the head of quality assurance department. He is responsible for the overall quality assurance functions of the Group's operations in the Municipality of Zhongshan, Guangdong Province, the PRC. He holds a bachelor degree of engineering from the Haerbin University of Science & Technology, the PRC. He joined the Group in 1994.

Mr. LAW Hoo Shan, aged 40, is the general manager of the sales and marketing department. He has over 14 years of experience in sales and marketing of coils. He joined the Group in 1985.

Ms. LI Hong, aged 31, is the general manager of Xiamen Coils Electronic Co., Ltd. She is responsible for the overall management of the Group's operation in the Municipality of Xiamen, Fujian Province, the PRC. She holds a bachelor degree of literature in English from Changchun Teacher College, the PRC. She joined the Group in 1994.

Ms. ZENG Ping Xin, aged 36, is the senior manager of the production department. She is responsible for the overall manufacturing operations and general management of the Group's production facilities in the Municipality of Zhongshan, the PRC. She has over 17 years of experience in coils manufacturing industry. She joined the Group in 1982.

Mr. CHENG Yong, aged 54, is the senior manager of the Group's sales office in Shanghai, the PRC. He is responsible for the sales and engineering functions of the Group in Shanghai, the PRC. He has over 30 years of experience in product design and development. He holds a bachelor degree of engineering in the Shanghai University of Science & Technology, the PRC. He joined the Group in 1993.

Mr. CHEUNG Man Ho, aged 26, is the senior manager of the internal audit department. He is responsible for the internal audit of the Group. He has over 3 years of audit experience in an international audit firm. He holds a bachelor degree of arts (Honours) in accountancy from the City University of Hong Kong. He is an associate member of the Hong Kong Society of Accountants and an associate member of the Association of Chartered Certified Accountants. He joined the Group in January 1999.

Ms. MAI Shao Ling, aged 36, is the senior manager of the Group. She is responsible for the general administration of the Group's production facilities in the Municipality of Zhongshan, Guangdong Province, the PRC. She has over 16 years of experience in administration. She joined the Group in 1983.

Mr. WANG Ming, aged 36, is the senior manager of the engineering department. He is responsible for the design and development of moulds. He graduated from Xinjiang Institute of Industry, the PRC and is a mechanical engineer. He joined the Group in 1994.

GENERAL INFORMATION ON THE GROUP

Mr. LI Jian, aged 28, is the senior manager of the general administration department. He is responsible for the general administration of the quality assurance system of the Group. He holds a bachelor degree in history from the Renmin University of China, the PRC. He joined the Group in 1995.

Mr. IIDA Kazuo, aged 52, is the chief engineer of the Group's research and development center in Japan. He graduated from Ikuie Technical College in Japan and has over 29 years of experience in coil design and development. He joined the Group in October 1999.

Mr. CHAN Yuk Lun, aged 32, is the accounting manager of the Group. He is responsible for the Group's accounting function. He joined the Group in 1992.

Mr. CHAN Kwong Keung, aged 36, is the deputy general manager of the sales and marketing department. He is responsible for the Group's sales and marketing functions in Hong Kong. He joined the Group in 1985.

Ms. WANG Chun Hong, aged 29, is the deputy general manager of the sales and marketing department. She is responsible for the Group's sales and marketing functions in the PRC and overseas. She holds a bachelor degree in literature from Ningxia University, the PRC. She joined the Group in 1994.

Ms. ZENG Jian Ling, aged 31, is the senior manager of the customer service department. She is responsible for the Group's sale support and customer services. She has over 15 years of experience in sales and marketing of coils. She joined the Group in 1983.

Mr. HUANG Guo Xiang, aged 30, is the senior manager of the engineering department. He is responsible for the research and development of new formulae for the manufacture of ferrite cores. He holds a bachelor degree in engineering from the University of Electronic Science and Technology of China, the PRC. He joined the Group in 1994.

Ms. LI Lai Sheung, aged 36, the secretary of the Company. She is an associate member of The Institute of Chartered Secretaries and Administrators. She joined the Group in October 1999.

The Warrants will be issued subject to and with the benefit of an instrument by way of deed poll (the “Instrument”) to be executed by the Company and they will be issued in registered form and will form one class with and rank *pari passu* in all respects with each other.

The principal terms and conditions of the Warrants will be set out in the Warrant certificates and will include provisions to the effect set out below. Holders of Warrants will be entitled to the benefit of, be bound by, and be deemed to have notice of all such terms and conditions and of the provisions of the Instrument, copies of which will be available from the principal place of business for the time being of the Company in Hong Kong.

1. SUBSCRIPTION RIGHTS

- (a) The registered holder for the time being of a Warrant will have the rights (the “Subscription Rights”) for every 10 units of Warrants to subscribe in cash the whole or part (in unit of HK\$0.1475) of the amount in respect of which the Warrant is issued for fully paid New Shares at an initial subscription price of HK\$1.475 per New Share (subject to the adjustments referred to below) (the “Subscription Price”). The Subscription Rights attached to the Warrants may be exercised from the date of the issue of the Warrants, which is expected to be on or about 3rd July, 2000, to 4:00 p.m. (Hong Kong time) on 30th September, 2003 (both dates inclusive) (the “Subscription Period”). The business day falling during the Subscription Period on which any of the Subscription Rights are duly exercised is referred to in this summary as a “Subscription Date”. Any Subscription Rights which have not been exercised during the Subscription Period will lapse and the relevant Warrant certificates will cease to be valid for any purpose. References in the this summary to “Shares” are to the existing Shares of the Company and all other (if any) Shares from time to time and for the time being ranking *pari passu* therewith.
- (b) Each Warrant certificate will contain a subscription form. In order to exercise his Subscription Rights, a holder of Warrants must complete and sign the subscription form (which will be irrevocable) and deliver the Warrant certificate (and, if the subscription form used is not the form endorsed on the Warrant certificate, the separate subscription form) to Central Registration Hong Kong Limited in Hong Kong or such other person, firm or company situated either in Hong Kong or in Bermuda as may be approved from time to time by the Directors to act as the registrar in relation to the Warrants and transfer of the Warrants (the “Registrars”) together with a remittance for the relevant subscription monies (or in case of partial exercise, the relevant portion of the subscription monies) for the New Shares in respect of which the Subscription Rights are being exercised. In each case compliance must also be made with any exchange control, fiscal or other laws or regulations for the time being applicable.

- (c) No fraction of a New Share will be allotted but any balance representing fractions of the subscription monies paid on the exercise of the Subscription Rights will be refunded to the person or persons whose name(s) stand(s) in the register of holders of Warrants as the holder(s) of the relevant Warrants, provided always that if the Subscription Rights comprised in one or more Warrant certificates are exercised on the same Subscription Date by the same holder of Warrants then, for the purpose of determining whether any (and if so what) fraction of a Share arises, the Subscription Rights represented by such Warrant certificates will be aggregated.
- (d) The Company undertakes in the Instrument that any New Shares will be allotted and issued not later than 28 days (or, if applicable, such other period as prescribed by the Stock Exchange) after the relevant Subscription Date and all New Shares so allotted shall, taking account of any adjustment which may have been made pursuant to paragraph 2, rank *pari passu* in all respects with the then existing fully issued shares on the relevant Subscription Date and shall accordingly entitle the holders to participate in full in all dividends or other distributions declared, paid or made on the New Shares on or after the relevant Subscription Date other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date therefor shall be before the relevant Subscription Date and notice of the amount and record date for which shall have been given to the Stock Exchange prior to the relevant Subscription Date.
- (e) As soon as practicable after the relevant allotment and issue of New Shares (and, in any event, not later than 28 days (or, if applicable, such other period as prescribed by the Stock Exchange) after the relevant Subscription Date) there will be issued free of charge to the holder(s) of Warrants:–
 - (i) a certificate (or certificates) for the relevant New Shares in the name(s) of such holder(s) of Warrants;
 - (ii) (if applicable) a balancing Warrant certificate is registered form in the name(s) of such holder(s) of Warrants in respect of any Subscription Rights remaining unexercised;
 - (iii) (if applicable) a cheque representing any fractional entitlement to New Shares not allotted as mentioned in sub-paragraph (c) above; and
 - (iv) (if applicable) a certificate mentioned in clause 6(A)(4) of the Instrument.

The certificate(s) for the New Shares, the balancing Warrant certificate (if any) and the cheque (if any) will be sent by post at the risk of such holder(s) of Warrants to the address of such holder(s) of Warrants or (in the case of a joint holding to that one of them whose name stands first in the register of holders of Warrants). If the Company agrees, such certificates and cheques may by prior arrangement be retained by the Registrars to await collection by the relevant holder(s) of Warrants.

2. ADJUSTMENTS OF SUBSCRIPTION PRICE

The Instrument contains detailed provisions relating to the adjustment of the Subscription Price in specified circumstances. The following is a summary of, and is subject to, the adjustment provisions of the Instrument:–

- (a) The Subscription Price will (except as mentioned in sub-paragraphs (b) and (c) below) be adjusted as provided in the Instrument in each of the following cases:–
 - (i) an alteration of the nominal amount of each Share by reason of any consolidation, subdivision or re-classification;
 - (ii) an issue (other than pursuant to a scrip dividend scheme in lieu of a cash dividend) by the Company of Shares credited as fully paid by way of capitalisation of profits or reserves (including any share premium account of capital redemption reserve fund);
 - (iii) a capital distribution (as defined in the Instrument) being made by the Company, whether on a reduction of capital or otherwise, to holders of Shares (in their capacity as such);
 - (iv) a grant by the Company to holders of the Shares (in their capacity as such) of rights to acquire for cash assets of the Company or any of its Subsidiaries (as defined in the Instrument);
 - (v) an offer or grant being made by the Company to holders of its Shares by way of rights or of options or warrants to subscribe for Shares at a price which is less than 90 per cent. of the market price (calculated as provided in the Instrument) provided that no such adjustment is to be made if the Company also makes a like offer or grant (as the case may be) at the same time to each holder of Warrant (subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or any stock exchange) as if he had exercised the Subscription Rights represented by his Warrant certificate in full on the day immediately preceding the record date for such offer or grant;
 - (vi) an issue wholly for cash being made by the Company or any of its subsidiaries of securities convertible into or exchangeable for or carrying rights of subscription for new Shares, if in any case the total Effective Consideration (as defined in the Instrument) per new Share is less than 90 per cent. of the market price (calculated as provided in the Instrument), or the conversion, exchange or subscription rights attaching to any such securities being altered so that the total Effective Consideration per new Share is less than 90 per cent. of the market price;

- (vii) an issue being made wholly for cash of Shares (other than pursuant to a Share Option Scheme (as defined in the Instrument)) at a price less than 90 per cent. of the market price (calculated as provided in the Instrument); and
 - (viii) the purchase by the Company of Shares or securities convertible into Shares or any rights to acquire the Shares (excluding any such purchases made on the Stock Exchange or any recognised stock exchange, being a stock exchange recognised for this purpose by the Securities and Futures Commission and the Stock Exchange) in circumstances where the Directors consider that it may be appropriate to make an adjustment to the Subscription Price.
- (b) Except as mentioned in sub-paragraph (c) below, no such adjustment as is referred to in sub-paragraphs (ii) to (vii) of paragraph (a) above will be made in respect of:–
 - (i) an issue of fully paid Shares upon the exercise of any conversion, exchange or subscription rights attached to securities wholly or partly convertible into or exchangeable for Shares or upon the exercise of any rights (including the Subscription Rights) to acquire Shares;
 - (ii) an issue by the Company of Shares or by the Company or any Subsidiary (as defined in the Instrument) of securities wholly or partly convertible into or exchangeable for or carrying rights to acquire Shares, in any such case in consideration or part consideration for the acquisition of any other securities, assets or business;
 - (iii) an issue of fully paid Shares by way of capitalisation of all or part of the Subscription Right Reserve (as defined in the Instrument) to be established in certain circumstances pursuant to the terms and conditions contained in the Instrument provided that implementation of such terms and conditions is not prohibited by or inconsistent with any laws, rules or regulations to which the Company and the Warrants are subject from time to time (or other profits or reserves or any similar reserve which has been or may be established pursuant to the terms of any other securities wholly or partly convertible into, or exchangeable for, or carrying rights to acquire, Shares);
 - (iv) an issue of Shares pursuant to a scrip dividend scheme in lieu of a cash dividend whereby an amount of not less than the nominal amount of the Shares so issued is capitalised and the market value (calculated as provided in the Instrument) of such Shares is not more than 110 per cent. of the amount of dividend which holders of Shares could elect to or would otherwise receive in cash; and

- (v) an issue by the Company of Shares or by the Company or any Subsidiary (as defined in the Instrument) of securities wholly or partly convertible into or exchangeable for or carrying rights of subscription for Shares to the full time employees or executives of the Company or any of its subsidiaries pursuant to a Share Option Scheme (as defined in the Instrument).
- (c) Notwithstanding the provisions referred to in sub-paragraphs (a) and (b) above, in any circumstances where the Directors shall consider that an adjustment to the Subscription Price provided for under the said provisions should not be made or should be calculated on a different basis or that an adjustment to the Subscription Price should be made notwithstanding that no such adjustment is required under the said provisions or that an adjustment should take effect on a different date or with a different time from that provided for under the said provisions, the Directors may appoint either an approved merchant bank or the Auditors (as defined in the Instrument) to consider whether for any reason whatever the adjustment to be made (or the absence of adjustment) would or might not fairly and appropriately reflect the relative interests of the persons affected thereby and, if such an approved merchant bank or the Auditors (as the case may be) shall consider this to be the case, the adjustment shall be modified or nullified, or an adjustment made instead of no adjustment in such manner (including, without limitation, making an adjustment calculated on a different basis and/or the adjustment shall take effect from such other date and/or time) as shall be certified by such approved merchant bank or the Auditors (as the case may be) to be in its opinion appropriate.
- (d) Any adjustment to the Subscription Price shall be made to the nearest one cent (HK\$0.005 being rounded up) and in no event shall any adjustment be made to the Subscription Price in any case in which the amount by which the same would be reduced would be less than one cent and any adjustment which would otherwise then be required shall not be carried forward. In no event shall an adjustment be made (otherwise than upon the consolidation of Shares into shares of a larger nominal amount each or upon a repurchase of Shares) which would increase the Subscription Price.
- (e) Every adjustment to the Subscription Price shall be certified by the Auditors or an approved merchant bank and notice of each such adjustment (giving the relevant particulars) shall be given to the holders of Warrants. In giving any certificate or making any adjustment under the Instrument, the Auditors or the approved

merchant bank shall be deemed to be acting as experts and not as arbitrators and in the absence of manifest errors, their decision shall be conclusive and binding on the Company and the holders of Warrants and all persons claiming through or under them respectively. Any such certificate of the Auditors and/or approved merchant bank will be available for inspection at the principal place of business for the time being of the Company in Hong Kong, where copies may be obtained.

- (f) No adjustments or modifications to the Subscription Price shall become effective unless and until the event(s) triggering such adjustments or modifications shall become unconditional and effective.

3. REGISTERED WARRANTS

The Warrants are issued in registered form. The Company shall be entitled to treat the registered holder of any Warrant as the absolute owner thereof and accordingly shall not, except as ordered by a court of competent jurisdiction or required by law, be bound to recognise any equitable or other claim to or interest in such Warrant on the part of any other person, whether or not it shall have express or other notice thereof.

4. TRANSFER, TRANSMISSION AND REGISTER

The Warrants shall be in registered form and the Subscription Rights shall be transferable, in whole amounts or integral multiples of HK\$0.1475, by instrument of transfer in any usual or common form or such other form which may be approved by the Directors, or where the transferor or the transferee is HKSCC Nominees Limited or its successor thereto (or such other company as may be approved by the Directors for this purpose), by an instrument of transfer executed on behalf of HKSCC Nominees Limited by machine imprinted signature or under hand(s) by authorised person(s). For this purpose, the Company shall maintain a register of the holders of Warrants in Hong Kong (or in such other place as the Directors consider appropriate, having regard to applicable rules governing the listing of Warrants). The provisions of the bye-laws of the Company relating to the transfer, transmission and registration of the Shares and the register of members shall, save as provided in this paragraph 4, *mutatis mutandis*, apply to the transfer, transmission and registration of the Warrants and the register of the holders of Warrants. Transfers of Warrants must be executed by both the transferor and the transferee.

Since the Warrants will be admitted to the Central Clearing and Settlement System, so far as applicable laws or regulations of relevant regulatory authorities, terms of the Instrument and circumstances permit, the Company may determine the last trading day of the Warrants to be a date falling at least three dealing days before 30th September, 2003.

Persons who hold the Warrants and have not registered the Warrants in their own names and wish to exercise the Warrants may incur additional costs and expenses in connection with any expedited re-registration of the Warrant(s) prior to the transfer or exercise of the Warrant(s) in particular during the period commencing on the date falling 10 business days prior to and including the last day of the Subscription Period.

5. CLOSURE OF REGISTER OF WARRANTHOLDERS

The registration of transfers may be suspended and the register of holders of Warrants may be closed for such period as the Directors may from time to time direct, provided that the same may not be closed for a period, or for periods together, of more than 60 days in any one year. Any transfer or exercise of the Subscription Rights attached to the Warrants made while the register of holders of Warrants is so closed shall, as between the Company and the person claiming under the relevant transfer of Warrants or, as the case may be, as between the Company and the holder of Warrant(s) who has so exercised the Subscription Rights attached to his Warrants (but not otherwise), be considered being made immediately after the reopening of the register of holders of Warrants.

6. PURCHASE AND CANCELLATION

The Company or any of the Subsidiaries (as defined in the Instrument) may at any time purchase Warrants:—

- (a) in the open market or by tender (available to all holders of Warrants alike) at any price; or
- (b) by private treaty at a price per Warrant, exclusive of expenses, not exceeding 110 per cent. of the closing price on the Stock Exchange per Warrant for one or more board lots of Warrants prior to the date of purchase of the Warrants on the Stock Exchange

but not otherwise. All Warrants purchased as aforesaid shall be cancelled forthwith and may not be re-issued or re-sold.

7. MEETINGS OF WARRANTHOLDERS AND MODIFICATION OF RIGHTS

- (a) The Instrument contains provisions for convening meetings of holders of Warrants to consider any matter affecting the interests of holders of Warrants, including the modification by Special Resolution (as defined in the Instrument) of the provisions of the Instrument and/or of the conditions endorsed on the Warrant certificates. A Special Resolution duly passed at any such meeting shall be binding on the holders of Warrants, whether present or not.
- (b) All or any of the rights for the time being attached to the Warrants (including any of the provisions of the Instrument) may from time to time, subject to subparagraph (a) above (whether or not the Company is being wound up), be altered or abrogated (including, but without prejudice to that generality by waiving compliance with, or by waiving or authorising any past or proposed breach of, any of the provisions of the conditions endorsed on the Warrant certificate and/or the Instrument) with the prior sanction of a Special Resolution and may be effected only by deed poll executed by the Company and expressed to be supplemental to the Instrument.

- (c) Where the holder of the Warrant(s) is a recognised clearing house (within the meaning of the Securities and Futures (Clearing Houses) Ordinance (Chapter 420 of the Laws of Hong Kong)) or its nominee(s), it may authorise such person or persons as it thinks fit to act as its representative (or representatives) or proxy (or proxies) at any Warrantholders' meeting provided that, if more than one person is so authorised, the authorisation or proxy form must specify the number and class of Warrants in respect of which each such person is so authorised. The person so authorised will be entitled to exercise the same power on behalf of the recognised clearing house as that clearing house or its nominee(s) could exercise if it were an individual holder of the Warrant(s) of the Company.

8. REPLACEMENT OF WARRANT CERTIFICATES

If a Warrant certificate is mutilated, defaced, lost or destroyed, it may, at the discretion of the Company, be replaced at the principal office of the Registrars (unless the Directors otherwise determine) on payment of such costs as may be incurred in connection therewith and on such terms as to evidence, indemnity and/or security as the Company may require and on payment of such fee not exceeding HK\$2.50 (or such other amount as may from time to time be permitted under the rules prescribed by the Stock Exchange) as the Company may determine. Mutilated or defaced Warrant certificates must be surrendered before replacements will be issued.

In the case of lost Warrant certificates, Section 71A (2), (3), (4), (6), (7) and (8) of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) shall apply as if "shares" referred to therein included Warrants.

9. PROTECTION OF SUBSCRIPTION RIGHTS

The Instrument contains undertakings by and restrictions on the Company designed to protect the Subscription Rights.

10. CALL

If at any time during the Subscription Period Warrants which have not been exercised carry rights to subscribe less than 10% of the amount of the exercise monies attached to the aggregate of all the Warrants issued under the Instrument, the Company may, on giving not less than three calendar months' notice to the holders of Warrants, require the holders of Warrants either to exercise their Subscription Rights represented thereby or to allow the Warrants held by them to lapse. On expiry of such notice, all unexercised Warrants will be automatically cancelled without compensation to the holders of Warrants.

11. ISSUE OF FURTHER WARRANTS

The Company shall be at liberty to issue further warrants to subscribe for Shares in such manner and on such terms as it may in its absolute discretion think fit.

12. UNDERTAKINGS BY THE COMPANY

In addition to the undertakings given by it in relation to the grant and exercise of the Subscription Rights and the protection thereof, the Company has undertaken in the Instrument that:–

- (a) it will send to each holder of Warrant(s) (or, in the case of joint holders of Warrants, to the holder of Warrant(s)) whose name stands first in the register of the holders of Warrants in respect of the Warrant(s) held by such joint holder of Warrant(s), at the same time as the same are sent to the holders of Shares, its audited accounts and all other notices, reports and communications despatched by it to the holders of Shares generally;
- (b) it will pay all stamp and capital duties, registration fees or similar charges (whether in Bermuda or Hong Kong or elsewhere), if any, payable in respect of the execution of the Instrument, the creation and initial issue of the Warrants in registered form, the exercise of the Subscription Rights and the issue of the New Shares;
- (c) it will keep available for issue sufficient Ordinary Capital (as defined in the Instrument) to satisfy in full all rights for the time being outstanding of subscription for and conversion into New Shares; and
- (d) it will use its best endeavours to procure that:–
 - (i) at all times during the Subscription Period, the Warrants may be dealt in on the Stock Exchange (save that this obligation will lapse in the event that the listing of the Warrants on the Stock Exchange is withdrawn following an offer for all or any of the Warrants (whether by way of proposal to the holders of Warrants or by way of a scheme of arrangement or otherwise)); and
 - (ii) all New Shares may, upon allotment or as soon as reasonably practicable thereafter, be dealt in on the Stock Exchange (save that this obligation will lapse in the event that the listing of the Shares on the Stock Exchange is withdrawn following an offer for all or any of the Shares (whether by way of a scheme of arrangement or otherwise) where a like offer is extended to holders of the Warrants or to holders of any shares issued on exercise of the Warrants during the period of the offer (whether by way of proposal to the holders of Warrant or by way of a scheme of arrangement or otherwise)).

13. NOTICES

The Instrument contains provisions relating to notices to be given to the holders of Warrants.

14. OVERSEAS WARRANTHOLDERS

The Instrument contains provisions giving certain discretion to the Directors in the case of any holder of Warrant(s) who has a registered address in any territory (other than Hong Kong) where, in the opinion of the Directors, the issue of New Shares upon the exercise of any of the Subscription Rights represented by any Warrants held by such holder of Warrant(s) may be unlawful or impracticable.

15. WINDING UP OF THE COMPANY

If an effective resolution is passed during the Subscription Period for the voluntary winding-up of the Company, then:–

- (a) if such winding-up be for the purpose of reconstruction or amalgamation pursuant to a scheme of arrangement to which the holders of Warrants, or some person designated by them for such purpose by a Special Resolution (as defined in the Instrument), shall be a party or in conjunction with which a proposal is made to the holders of Warrants and is approved by a Special Resolution, the terms of such scheme of arrangement or (as the case may be) proposal shall be binding on all holders of Warrants; and
- (b) in the event a notice is given by the Company to its shareholders to convene a general meeting for the purposes of considering, and if thought fit, approving a resolution to voluntarily wind-up the Company, the Company shall forthwith give notice thereof to each holder of the Warrant(s) (or in the case of joint holders of the Warrant(s), to the holder of Warrant(s) whose name stands first in the register of the holders of Warrants in respect of the Warrants(s) held by such joint holders of Warrant(s)) and thereupon, every holder of Warrant shall be entitled by irrevocable surrender of his Warrant certificate(s) to the Registrars (such surrender to occur not less than two business days prior to the date of the proposed general meeting) with the subscription form(s) duly completed, together with payment of the subscription moneys or the relative portion thereof, to exercise the Subscription Rights represented by such Warrants and the Company shall, as soon as possible and in any event not later than the day immediately preceding the date of the proposed general meeting, to allot the Shares which fall to be issued pursuant to the exercise of the Subscription Rights represented by such Warrants to the holder of the Warrants. The Company shall give notice to the holders of Warrants of the passing of such resolution within seven days after the passing thereof.

Subject to the foregoing, if the Company is wound up, all Subscription Rights which have not been exercised at the date of the passing of such resolution shall lapse and the Warrant certificates shall cease to be valid for any purpose.

16. GOVERNING LAW

The Instrument and the Warrants are governed by and will be construed in accordance with the laws of Hong Kong.

1. FINANCIAL STATEMENTS OF THE GROUP

The following is a summary of the combined financial results of the Group for the years ended 30th April, 1997, 1998 and 1999 and the three months ended 31st July, 1999, prepared on the basis set out in Note 1 below together with the combined net tangible assets as at 30th April, 1999 and 31st July, 1999. The following information, except for the combined net tangible assets as at 30th April, 1999, is extracted from the audited combined financial statements of the Group as contained in the Company's prospectus dated 3rd November, 1999:

A. Combined profit and loss accounts

		Year ended 30th April,			Three months ended
		1997	1998	1999	31st July,
	Notes	HK\$'000	HK\$'000	HK\$'000	1999
					HK\$'000
Turnover	3	196,248	233,310	193,943	60,570
Cost of sales		(154,683)	(160,317)	(136,634)	(39,596)
Gross profit		41,565	72,993	57,309	20,974
Distribution and selling costs		(5,382)	(7,721)	(6,368)	(1,853)
Administrative expenses		(14,428)	(20,719)	(15,569)	(4,028)
Profit from operations		21,755	44,553	35,372	15,093
Finance cost, net		(9,949)	(11,306)	(9,396)	(2,524)
Profit before taxation	4	11,806	33,247	25,976	12,569
Taxation	5	(877)	(2,979)	(2,335)	(1,341)
Profit after taxation		10,929	30,268	23,641	11,228
Minority interests		–	–	–	76
Profit attributable to shareholders		10,929	30,268	23,641	11,304
Dividends	6	–	10,920	–	–
Earnings per share					
– Basic	7	HK7.29 cents	HK20.18 cents	HK15.76 cents	HK7.54 cents

B. Combined net tangible assets

		30th April, 1999	31st July, 1999
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Fixed assets	11	145,058	150,937
Current assets			
Inventories	12	25,485	27,142
Accounts receivable		21,674	27,656
Prepayments, deposits and other current assets		2,761	2,710
Due from ultimate holding company	13	–	770
Due from a related company	14	303	304
Due from a director		4,070	–
Cash and bank deposits	15	26,940	34,846
Total current assets		81,233	93,428
Current liabilities			
Short-term bank borrowings	16	(43,955)	(47,481)
Long-term bank loans, current portion	17	(749)	(1,680)
Finance lease obligations, current portion	18	(10,451)	(10,666)
Due to ultimate holding company	13	(3,299)	–
Accounts payable		(15,289)	(18,182)
Bills payable		(999)	(232)
Accruals and other payable		(8,246)	(10,025)
Taxation payable		(2,500)	(3,819)
Total current liabilities		(85,488)	(92,085)
Net current (liabilities) assets		(4,255)	1,343
Total assets less current liabilities		140,803	152,280
Non-current liabilities			
Long-term bank loans, non-current portion	17	(2,460)	(3,180)
Finance lease obligations, non-current portion	18	(11,653)	(11,927)
Deferred taxation	19	(5,567)	(5,407)
Net tangible assets	20	121,123	131,766

C. Notes to the financial statements

The following notes to the combined financial statements of the Group, except for Note 1 and notes relating to the combined net tangible assets as at 30th April, 1999, have been extracted from the Company's prospectus dated 3rd November, 1999:

1. GROUP REORGANISATION AND BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

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. The Company's shares have been listed on The Stock Exchange of Hong Kong Limited since 15th November, 1999.

Pursuant to a group reorganisation scheme ("the Reorganisation") on 28th October, 1999, the Company acquired the entire issued share capital of Coils International Holdings Limited, the then intermediate holding company of the Group, through a share exchange and consequently became the holding company of the Group. The Reorganisation involved companies under common control, and the Company and its subsidiaries resulting from the Reorganisation have been regarded as a continuing group. Accordingly, the Reorganisation has been accounted for on the basis of merger accounting as if the current group structure had been in existence throughout the years ended 30th April, 1997, 1998 and 1999 and the three months ended 31st July, 1999. As part of the Reorganisation, the investment properties, together with the related property rental business of a subsidiary of the Company, were transferred to a director of the Company. Accordingly, all investment properties of the Group as at 30th April, 1999 and 31st July, 1999, together with the related property rental business for the years ended 30th April, 1997, 1998 and 1999 and the three months ended 31st July, 1999, have been excluded.

2. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted by the Group in arriving at the financial information set out in this prospectus, which conform with accounting principles generally accepted in Hong Kong, are as follows:

a. Subsidiaries

A subsidiary is a company in which the Company holds, directly or indirectly, more than 50% of its issued voting share capital as a long-term investment.

b. Goodwill

Goodwill arising on acquisition of a subsidiary, representing the excess of the cost of acquisition over the Group's share of the fair value of the separable net assets of the subsidiary acquired, is eliminated against capital reserve in the year/period of acquisition. Upon disposal of interests in the subsidiary, the underlying goodwill previously eliminated is reversed and included as investment cost in determining the gain or loss on disposal.

c. Turnover and revenue recognition

Turnover comprises the net invoiced value of merchandise sold after allowances for returns and discounts.

Revenue is recognised when the outcome of a transaction can be measured reliably and when it is probable that the economic benefits associated with the transaction will flow to the Group. Sales revenue is recognised when the merchandise is shipped and title has passed. Interest income is recognised on a time proportion basis on the principal outstanding and at the rates applicable.

d. Taxation

Individual companies within the Group provide for profits tax on the basis of their profits for financial reporting purposes, adjusted for income and expense items which are not assessable or deductible for profits tax purposes.

Deferred taxation is provided under the liability method in respect of significant timing differences between profit as computed for taxation purposes and profit as stated in the financial statements, except

when it is considered that no liability will arise in the foreseeable future. Deferred tax assets are not recognised unless the related benefits are expected to crystallise in the foreseeable future.

e. Fixed assets and depreciation

Fixed assets, other than land and buildings, are stated at cost less accumulated depreciation. Land and buildings are stated at valuation less accumulated depreciation. Major expenditures on modifications and betterments of fixed assets which will result in future economic benefits are capitalised, while expenditure on maintenance and repairs are expensed when incurred. Depreciation is provided on a straight-line basis to write off the cost or the revalued amount less estimated residual value of each asset over its estimated useful life. The annual rates of depreciation are as follows:

Land	2% (lease terms)
Buildings	2.5%
Machinery	10%
Furniture and equipment	20%
Motor vehicles	30%

Independent valuations for land and buildings are performed periodically with the latest valuation performed on 31st July, 1999. In the intervening years, the directors review the carrying value of land and buildings and adjustment is made where in the directors' opinion there has been a material change in value. Any increase in valuation of land and buildings is credited to the fixed assets revaluation reserve; any decrease is first offset against increases from earlier valuations in respect of the same land and buildings and is thereafter charged to profit and loss account.

Gains and losses on disposals of fixed assets are recognised in the profit and loss account based on the net disposal proceeds less the then carrying amount of the assets, with previously recognised revaluation surpluses transferred from fixed assets revaluation reserve to retained profit.

Fixed assets held under finance leases are accounted for on the same basis as described above.

f. Inventories

Inventories are carried at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method of costing and includes all costs incurred in bringing the goods to their present location and condition. Net realisable value is based on estimated normal selling prices in the ordinary course of business, less further costs expected to be incurred to completion and disposal. Provision is made for obsolete, slow-moving or defective items where appropriate.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

g. Leases

Finance leases represent those leases under which substantially all the risks and rewards of ownership of the leased assets are transferred to the Group. Fixed assets held under finance leases are initially recorded at the present value of the minimum payments at the inception of the leases, with equivalent liabilities categorised as appropriate under current or non-current liabilities. Interest expense, which represents the difference between the minimum payments at the inception of the finance leases and the corresponding fair value of the assets acquired, is allocated to accounting periods over the period of the relevant leases to produce a constant rate of charge on the outstanding balances.

Operating leases represent those leases under which substantially all the risks and rewards of ownership of the leased assets remain with the lessors. Rental payments under operating leases are charged to the profit and loss account on a straight-line basis over the period of the relevant leases.

h. Foreign currency translation

Individual companies within the Group maintain their books and records in the primary currencies of their respective operations (“functional currencies”). In the accounts of the individual companies, transactions in other currencies during the years/period are translated into the respective functional currencies at the applicable rates of exchange prevailing at the time of the transactions. Monetary assets and liabilities denominated in other currencies are translated into the respective functional currencies at the applicable rates of exchange in effect at the balance sheet date. Exchange gains or losses are dealt with in the profit and loss accounts of the individual companies.

The Group prepares combined financial statements in Hong Kong dollars. For the purpose of combination, all of the assets and liabilities of subsidiaries with functional currencies other than Hong Kong dollars are translated into Hong Kong dollars at the applicable rates of exchange in effect at the balance sheet date; all of the income and expense items of individual companies within the Group with functional currencies other than Hong Kong dollars are translated into Hong Kong dollars at the average applicable exchange rates during the years/period. Exchange differences arising from such transactions are dealt with as movements of cumulative translation adjustments.

i. Staff retirement benefits

Cost of staff retirement benefits are charged to the profit and loss account in the relevant period in which they are incurred.

3. TURNOVER AND REVENUE

Turnover and revenue comprised:

	Year ended 30th April,			Three months ended
	1997	1998	1999	31st July, 1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	196,248	233,310	193,943	60,570
Interest income	1,058	1,749	1,517	314
Total revenue	<u>197,306</u>	<u>235,059</u>	<u>195,460</u>	<u>60,884</u>

4. PROFIT BEFORE TAXATION

Profit before taxation was stated after charging and crediting the following:

	Year ended 30th April,			Three months ended
	1997	1998	1999	31st July, 1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
After charging:–				
Cost of inventories (excluding provision for obsolete and slow-moving inventories)	152,761	160,317	136,634	39,596
Provision for obsolete and slow-moving inventories	1,922	–	–	–
Depreciation of fixed assets				
– owned assets	6,271	8,771	11,247	3,379
– assets held under finance leases	3,823	4,516	5,225	1,361
Interest expense on				
– bank borrowings wholly repayable within five years	4,979	5,984	4,962	1,389
– factoring of accounts receivable	2,051	2,776	2,366	512
– finance leases	1,810	2,298	2,380	508
Operating lease rental of premises	447	617	665	171
Provision for bad and doubtful debts	1,677	3,363	1,700	532
Net loss on disposals of fixed assets	–	19	–	–
Auditors' remuneration	<u>278</u>	<u>278</u>	<u>300</u>	<u>97</u>
After crediting:–				
Interest income on bank deposits	1,058	1,749	1,517	314
Net gain on disposals of fixed assets	–	–	18	–
Net exchange gain	<u>69</u>	<u>7</u>	<u>79</u>	<u>86</u>

5. TAXATION

Taxation charges comprised:

	Year ended 30th April,			Three months ended
	1997	1998	1999	31st July, 1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Current taxation				
– Hong Kong profits tax	–	1,965	953	1,385
– Mainland China enterprise income tax	–	–	68	116
– Special rebate by the Government of Hong Kong Special Administrative Region	–	–	(47)	–
Provision for (Write-back of) deferred taxation	877	1,014	1,361	(160)
	<u>877</u>	<u>2,979</u>	<u>2,335</u>	<u>1,341</u>

Hong Kong profits tax was provided at the rate of 16.5% for the year ended 30th April, 1997 and 16% for the years ended 30th April, 1998 and 1999 and for the three months ended 31st July, 1999 on estimated assessable profit arising in or derived from Hong Kong. Overseas taxation, representing tax charges on the estimated assessable profits of individual companies within the Group operating outside Hong Kong, has been calculated at the rates of taxation applicable in the countries in which the relevant companies within the Group operate.

Zhongshan Tonichi Ferrite Products Co., Ltd., a wholly foreign owned enterprise established in Zhongshan, the open coastal area of Mainland China, is subject to Mainland China enterprise income tax at a rate of 24%, while Xiamen Coils Electronic Co., Ltd., a wholly foreign owned enterprise established in Xiamen, a special economic zone in Mainland China, is subject to Mainland China enterprise income tax at a rate of 15%. However, these wholly foreign owned enterprises are exempted from state income tax and local income tax for two years starting from the first year of profitable operations after offsetting accumulated losses carried forward, followed by a 50% reduction in state income tax for the next three years. Zhongshan Tonichi Ferrite Products Co., Ltd. was entitled to tax exemption during the period from 1st January, 1997 to 31st December, 1998 and it was subject to state income tax at the rate of 12% for the four months ended 30th April, 1999 and the three months ended 31st July, 1999. Xiamen Coils Electronic Co., Ltd. was still in a tax loss position as at 31st July, 1999.

CEC-Coils Singapore Pte Ltd., a company incorporated in Singapore, is subject to Singapore income tax at the rate of 26% on the income accruing in or derived from Singapore or remitted into Singapore. CEC-Coils Singapore Pte Ltd. was still in a tax loss position as at 31st July, 1999.

The representative office of the Group established in Taiwan is not subject to Taiwan tax as there was no assessable profit arising in or derived from Taiwan.

6. DIVIDENDS

No dividend has been paid or declared by the Company since its incorporation.

The following final dividends were paid by Coils Electronic Co., Limited, a member of the Group, out of its retained profit to its then shareholders during the years ended 30th April, 1997, 1998 and 1999 and the three months ended 31st July, 1999.

	Year ended 30th April,			Three months ended
	1997	1998	1999	31st July, 1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Coils Electronic Co., Limited	<u>–</u>	<u>10,920</u>	<u>–</u>	<u>–</u>

The rates of dividend and the number of shares ranking for dividends are not presented as such information is not meaningful having regard to the purpose of this prospectus.

7. EARNINGS PER SHARE

The calculation of the basic earnings per share for the years ended 30th April, 1997, 1998 and 1999 and the three months ended 31st July, 1999 is based on the profit attributable to shareholders during these years/period and on the 150,000,000 shares in issue and issuable, comprising 2,000,000 shares in issue as at the date of the Company's prospectus dated 3rd November, 1999 and 148,000,000 shares to be issued pursuant to the Capitalisation Issue as described more fully in the section headed "Further Information About The Company" in Appendix V to the Company's prospectus dated 3rd November, 1999.

8. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS

a. Details of emoluments paid to directors of the Company were:

	Year ended 30th April,			Three months ended
	1997	1998	1999	31st July, 1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Fees	–	–	–	–
Other emoluments				
– Basic salaries and allowances	<u>980</u>	<u>1,016</u>	<u>1,310</u>	<u>348</u>
	<u>980</u>	<u>1,016</u>	<u>1,310</u>	<u>348</u>

The number of directors whose remuneration fall within the following band are as follows:

	Year ended 30th April,			Three months ended
	1997	1998	1999	31st July, 1999
Nil – HK\$1,000,000	<u>3</u>	<u>3</u>	<u>3</u>	<u>3</u>

No directors waived any emolument during the years ended 30th April, 1997, 1998 and 1999 and the three months ended 31st July, 1999.

Under the arrangements currently in force, the aggregate amount of fees and other emoluments payable to the directors of the Company for the year ending 30th April, 2000 is estimated to be approximately HK\$3,945,000.

- b. Details of emoluments paid to the five highest paid individuals (including directors and other employees) were:

	Year ended 30th April,			Three months ended
	1997	1998	1999	31st July, 1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Basic salaries and allowances	<u>1,976</u>	<u>2,338</u>	<u>2,746</u>	<u>605</u>
Number of directors	2	2	2	2
Number of employees	<u>3</u>	<u>3</u>	<u>3</u>	<u>3</u>
	<u>5</u>	<u>5</u>	<u>5</u>	<u>5</u>

During the years ended 30th April, 1997, 1998 and 1999 and the three months ended 31st July, 1999, no emoluments were paid to the five highest paid individuals (including directors and other employees) as inducement to join or upon joining the Group or as compensation for loss of office.

The remuneration of all the highest paid individuals falls within the band of Nil to HK\$1,000,000 during the years ended 30th April, 1997, 1998 and 1999 and the three months ended 31st July, 1999.

9. PROVIDENT FUND

As stipulated by the rules and regulations in Mainland China, the Group contributes to a state-sponsored retirement plan for its employees in Mainland China. The Group contributes to the retirement plan approximately 15% of the average basic salary of its employees, and has no further obligations for the actual pension payments or post-retirement benefits. The state-sponsored retirement plan is responsible for the entire pension obligations payable to retired employees.

The Group has arranged for its employees in Hong Kong and certain selected employees in Mainland China defined contribution provident funds under a pension scheme, which is managed by independent trustees. The Group and its employees in Hong Kong and certain selected employees in Mainland China make monthly contributions to the scheme with an amount of 5% to 10% and 5%, respectively, of the employees' basic salaries. The employees are entitled to receive their entire contribution and the accrued interest thereon, and 100% of the Group's (employer) contribution and the accrued interest thereon upon retirement or leaving the Group after completing ten years of service, or at a reduced scale of 30% to 90% after completing three to nine years of service. The forfeited contributions made by the Group and related accrued interests are used to reduce the Group's (employer) contribution.

For the years ended 30th April, 1997, 1998 and 1999 and the three months ended 31st July, 1999, the aggregate amount of the Group's (employer) contribution was approximately HK\$357,000, HK\$490,000, HK\$954,000 and HK\$220,000, respectively. The amount of forfeited contributions utilised to reduce the employer contribution was approximately HK\$30,000, HK\$80,000, HK\$115,000 and HK\$34,000 for the years ended 30th April, 1997, 1998 and 1999 and the three months ended 31st July, 1999, respectively.

10. RELATED PARTY TRANSACTIONS

The Group's banking facilities were secured by, among others, mortgages over real estate properties owned by a director, and a personal guarantee provided by a director of the Company.

The relevant banks have indicated that they will release the mortgages over real estate properties owned by a director of the Company and the personal guarantee provided by a director of the Company and replace such mortgages/guarantee by guarantees from the Company and/or certain companies now comprising the Group upon the listing of shares of the Company on The Stock Exchange of Hong Kong Limited.

11. FIXED ASSETS

Fixed assets comprised:

	At Cost or valuation HK\$'000	Accumulated depreciation HK\$'000	Net book value as at 31st July, 1999 HK\$'000
Land and buildings			
– in Hong Kong	5,910	–	5,910
– in Mainland China	40,181	–	40,181
Machinery	136,465	(43,040)	93,425
Furniture and equipment	26,316	(16,047)	10,269
Motor vehicles	3,251	(2,099)	1,152
	<u>212,123</u>	<u>(61,186)</u>	<u>150,937</u>

Land and buildings located in Hong Kong were held under medium-term leases on the basis of the rights of extension provided by the New Territories Leases (Extension) Ordinance (Cap. 150), and were stated at open market value as at 31st July, 1999 as determined by LCH (Asia-Pacific) Surveyors Limited, independent qualified valuers. (note: the open market value as at 31st July, 1999 as determined by LCH (Asia-Pacific) Surveyors Limited is the same as the open market value as at 30th April, 1999.) As at 31st July, 1999, approximately HK\$39,772,000 (as at 30th April, 1999 – HK\$39,772,000) of land and buildings situated in Mainland China were held under land use rights for 50 years up to 2048 and approximately HK\$409,000 (as at 30th April, 1999 – HK\$409,000) of land and buildings situated in Mainland China were held under land use rights for 70 years up to 2068. The land and buildings situated in Mainland China were stated on replacement cost basis as at 31st July, 1999 as determined by LCH (Asia-Pacific) Surveyors Limited, independent qualified valuers.

As at 31st July, 1999, land and buildings with a net book value of approximately HK\$5,910,000 (as at 30th April, 1999 – HK\$5,910,000) were mortgaged as collateral for the Group's banking facilities (see Note 24.a). Also, as at 31st July, 1999, certain machinery and motor vehicles with a net book value of approximately HK\$38,987,000 (as at 30th April, 1999 – HK\$45,864,000) were held under finance leases (see Note 18).

12. INVENTORIES

Inventories comprised:

	30th April, 1999 <i>HK\$'000</i>	31st July, 1999 <i>HK\$'000</i>
Raw materials	19,676	18,647
Work-in-progress	3,927	6,183
Finished goods	3,804	4,234
	<u>27,407</u>	<u>29,064</u>
Less: Provision for obsolete and slow-moving inventories	<u>(1,922)</u>	<u>(1,922)</u>
	<u><u>25,485</u></u>	<u><u>27,142</u></u>

Certain of the Group's inventories were held under trust receipts bank loan arrangements (see Note 24.b).

13. DUE (TO) FROM ULTIMATE HOLDING COMPANY

	Outstanding balance as at 30th April, 1999 <i>HK\$'000</i>	Outstanding balance as at 31st July, 1999 <i>HK\$'000</i>	Maximum balance due from ultimate holding company during the three months ended 31st July, 1999 <i>HK\$'000</i>
Due (to) from Ka Yan China Development (Holding) Company Limited	<u>(3,299)</u>	<u>770</u>	<u>770</u>

The outstanding balance with ultimate holding company was unsecured, non-interest bearing and without pre-determined repayment terms. Had interest been charged on the outstanding balance with ultimate holding company during the years ended 30th April, 1997, 1998 and 1999 and the three months ended 31st July, 1999 based on the Group's borrowing rate of approximately 10.25 per cent. per annum, the Group would have paid interest, net of tax, of approximately Nil, Nil, Nil and HK\$27,000 respectively, for the years ended 30th April, 1997, 1998 and 1999 and the three months ended 31st July, 1999.

The outstanding balance with ultimate holding company was fully settled subsequent to 31st July, 1999.

14. DUE FROM A RELATED COMPANY

	Outstanding balance as at 30th April, 1999 <i>HK\$'000</i>	Outstanding balance as at 31st July, 1999 <i>HK\$'000</i>	Maximum balance due from a related company during the three months ended 31st July, 1999 <i>HK\$'000</i>
Due from Coils Asia (Hong Kong) Company Limited	<u>303</u>	<u>304</u>	<u>304</u>

The outstanding balance with a related company was unsecured, non-interest bearing and without pre-determined repayment terms. Had interest been charged on the outstanding balance with the related company during the years ended 30th April, 1997, 1998, 1999 and the three months ended 31st July, 1999 based on the interest rate earned on the Group's saving deposits of approximately 3.5 per cent. per annum, the Group would have received interest, net of tax, of approximately Nil, Nil, HK\$1,000 and HK\$2,000 respectively, for the years ended 30th April, 1997, 1998 and 1999 and the three months ended 31st July, 1999.

The outstanding balance with the related company was fully settled subsequent to 31st July, 1999.

15. CASH AND BANK DEPOSITS

As at 31st July, 1999, approximately HK\$32,030,000 (as at 30th April, 1999 – HK\$24,001,000) of the Group's bank deposits were pledged to secure certain of the Group's banking facilities (see Note 24.c).

16. SHORT-TERM BANK BORROWINGS

Short-term bank borrowings comprised:

	30th April, 1999 <i>HK\$'000</i>	31st July, 1999 <i>HK\$'000</i>
Bank overdrafts	6,228	2,763
Short-term bank loans	1,342	1,803
Trust receipts bank loans	<u>36,385</u>	<u>42,915</u>
	<u>43,955</u>	<u>47,481</u>

Refer to Note 24 for details of the Group's banking facilities.

17. LONG-TERM BANK LOANS

Details of long-term bank loans, which were secured, were:

	30th April, 1999 HK\$'000	31st July, 1999 HK\$'000
Amounts repayable within a period		
– not exceeding one year	749	1,680
– more than one year but not exceeding two years	776	1,680
– more than two years but not exceeding five years	1,351	1,500
– more than five years	333	–
	<u>3,209</u>	<u>4,860</u>
Less: Amounts repayable within one year included under current liabilities	<u>(749)</u>	<u>(1,680)</u>
	<u>2,460</u>	<u>3,180</u>

Refer to Note 24 for details of the Group's banking facilities.

18. FINANCE LEASE OBLIGATIONS

Obligations under finance leases, net of future finance charges, comprised:

	30th April, 1999 HK\$'000	31st July, 1999 HK\$'000
Amounts repayable within a period		
– not exceeding one year	10,451	10,666
– more than one year but not exceeding two years	6,788	6,838
– more than two years but not exceeding five years	4,865	5,089
	<u>22,104</u>	<u>22,593</u>
Less: Amounts repayable within one year included under current liabilities	<u>(10,451)</u>	<u>(10,666)</u>
	<u>11,653</u>	<u>11,927</u>

19. DEFERRED TAXATION

Deferred taxation represented the taxation effect of accelerated depreciation of fixed assets for taxation purposes. As at 31st July, 1999, the Group had an unprovided deferred tax liability of approximately HK\$3,561,000 (as at 30th April, 1999 – HK\$3,561,000), representing the tax effect on the surplus arising on the revaluation of the Group's land and buildings in Mainland China, which would be recorded as a reduction of surplus on revaluation of fixed assets. The deferred tax liability has not been provided as the Company's directors are of the opinion that the related land and buildings will not be disposed of in the foreseeable future and, accordingly, such deferred tax liability will not crystallise in the foreseeable future. There were no other significant unprovided deferred tax liabilities as at 31st July, 1999.

20. NET TANGIBLE ASSETS OF THE COMPANY

The Company was incorporated on 10th September, 1999. On the basis as set out in Note 1 above, the net tangible assets of the Company as at 31st July, 1999 amounted to approximately HK\$131,766,000, representing investment in subsidiaries.

21. RESERVES

Movements of reserves of the companies now comprising the Group during the years ended 30th April, 1997, 1998 and 1999 and the three months ended 31st July, 1999 were:

	Year ended 30th April,			Three months ended 31st July, 1999
	1997	1998	1999	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Fixed assets revaluation reserve:				
As at the beginning of the years/period	–	16,189	16,189	17,242
Surpluses (Deficit) on revaluation	16,189	–	1,053	(575)
As at the end of the year/period	<u>16,189</u>	<u>16,189</u>	<u>17,242</u>	<u>16,667</u>
Cumulative translation adjustments:				
As at the beginning of the years/period	–	–	–	(28)
Translation adjustments	–	–	(28)	(21)
As at the end of the years/period	<u>–</u>	<u>–</u>	<u>(28)</u>	<u>(49)</u>

22. DISTRIBUTABLE RESERVES

The Company has not carried on any business since its incorporation, except for the acquisition on 28th October, 1999 of the subsidiaries set out in Note 1 above. Accordingly, the Company had no reserve available for distribution to shareholders as at 31st July, 1999.

23. COMMITMENTS AND CONTINGENT LIABILITIES

The Group had the following significant commitments which were not provided for in the summary of the combined net tangible assets of the Group set out in Section 1B above:

a. Capital commitments

As at 31st July, 1999, the Group had authorised and contracted capital expenditures of approximately HK\$41,803,000 (as at 30th April, 1999 – HK\$3,273,000) for acquisition of fixed assets.

b. Operating lease commitments

As at 31st July, 1999, the Group had commitments in respect of rented premises under various non-cancellable operating lease agreements extending to December 2000 amounting to approximately HK\$555,000 (as at 30th April, 1999 – HK\$407,000). The amount of commitments payable within the next twelve months were analysed as follows:

	30th April, 1999	31st July, 1999
	HK\$'000	HK\$'000
Leases expiring within a period		
– not exceeding one year	115	89
– more than one year but not exceeding five years	174	294
	<u>289</u>	<u>383</u>

c. Contingent liabilities

As at 31st July, 1999, contingent liabilities not provided for in the summary of the combined net tangible assets of the Group set out in Section 1B above were as follows:

	30th April, 1999 HK\$'000	31st July, 1999 HK\$'000
Factoring of accounts receivable with recourse	18,929	25,334
Shipping guarantees	1,559	492
	<u>20,488</u>	<u>25,826</u>

24. BANKING FACILITIES AND PLEDGE OF ASSETS

As at 31st July, 1999, the Group had aggregate banking facilities of approximately HK\$137,660,000 (as at 30th April, 1999 – HK\$111,396,000) from several banks for overdrafts, loans, factoring of accounts receivable, leasing of equipment and trade financing. Unused facilities as at the same date amounted to approximately HK\$27,998,000 (as at 30th April, 1999 – HK\$32,927,000). These facilities were secured by:

- a. mortgages over certain of the Group's land and buildings with an aggregate net book value of approximately HK\$5,910,000 (as at 30th April, 1999 – HK\$5,910,000) (see Note 11);
- b. certain of the Group's inventories held under trust receipts bank loan arrangements (see Note 12);
- c. pledges of the Group's bank deposits of approximately HK\$32,030,000 (as at 30th April, 1999 – HK\$24,001,000) (see Note 15);
- d. mortgages over real estate properties owned by Mr. Lam Wai Chun, a director of the Company (see Note 10); and
- e. personal guarantee provided by Mr. Lam Wai Chun, a director of the Company (see Note 10).

The relevant banks have indicated that they will release the mortgages over real estate properties owned by a director of the Company and the personal guarantee provided by a director of the Company and replace such mortgages/guarantee by guarantees from the Company and/or certain companies now comprising the Group upon the listing of shares of the Company on The Stock Exchange of Hong Kong Limited.

25. ULTIMATE HOLDING COMPANY

The directors of the Company consider Ka Yan China Development (Holding) Company Limited, a company incorporated in the British Virgin Islands, to be the ultimate holding company,

26. SUBSEQUENT EVENTS

The following transactions took place subsequent to 31st July, 1999 and up to the date of the Company's prospectus dated 3rd November, 1999:

- a. on 14th October, 1999, Coils International Holdings Limited declared an interim dividend for the year ending 30th April, 2000 of HK\$1,088,000 to its then shareholders, which was paid in October 1999;
- b. the Group completed a reorganisation in preparation for a listing of shares of the Company on The Stock Exchange of Hong Kong Limited, the details of which are set out in the subsection headed "Reorganisation" of Appendix V to the Company's prospectus dated 3rd November, 1999; and
- c. on 26th October, 1999, resolutions were passed to effect the transactions set out in the subsection headed "Resolutions of the sole shareholder of the Company passed on 26th October, 1999" of Appendix V to the Company's prospectus dated 3rd November, 1999.

27. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of the companies now comprising the Group in respect of any period subsequent to 31st July, 1999. In addition, except as described in section 6 above, no dividend has been declared, made or paid by the Company or any of the companies now comprising the Group in respect of any period subsequent to 31st July, 1999.

2. ADJUSTED NET TANGIBLE ASSETS

The following pro forma statement of adjusted net tangible assets of the Group is based on the audited combined net tangible assets of the Group as at 31st July, 1999 and is adjusted as follows:

	<i>HK\$'000</i>
Audited combined net tangible assets of the Group as at 31st July, 1999	131,766
Unaudited combined profit attributable to shareholders for the period from 1st August, 1999 to 31st January, 2000 (<i>Note 1</i>)	20,606
Surplus arising on revaluation of the Group's property interests as at 31st August, 1999	810
Interim dividend paid	(1,088)
Net proceeds of the initial public offering (<i>Note 2</i>)	44,407
Pro forma unaudited adjusted combined net tangible assets before the Warrant Placing	196,501
Estimated net proceeds of the Warrant Placing	22,900
Pro forma unaudited adjusted combined net tangible assets immediately after the Warrant Placing	219,401
Proceeds from full exercise of the subscription rights assuming all subscription rights are exercised in full immediately after the Warrant Placing	59,000
Pro forma unaudited adjusted combined net tangible assets assuming full exercise of all the subscription rights immediately after the Warrant Placing	278,401
Pro forma unaudited adjusted combined net tangible assets per Share before the Warrant Placing (based on 200,000,000 Shares in issue)	HK\$0.98
Pro forma unaudited adjusted combined net tangible assets per Share immediately after the Warrant Placing (based on 200,000,000 Shares in issue)	HK\$1.10
Pro forma unaudited adjusted combined net tangible assets per Share assuming full exercise of all the subscription rights immediately after the Warrant Placing (based on 240,000,000 Shares in issue and to be issued assuming full exercise of all subscription rights)	HK\$1.16

Note:

1. The Group's unaudited combined profit attributable to shareholders for the nine months ended 31st January, 2000 was approximately HK\$31,910,000. In the Directors' opinion, the Group is able to meet its forecast combined profit after taxation but before extraordinary items of not less than HK\$40 million for the year ended 30th April, 2000 as disclosed in the Company's prospectus dated 3rd November, 1999.
2. In November 1999, the Company launched its initial public offering by way of the new issue of 13,000,000 Shares being offered for public subscription and the placing of 37,000,000 Shares, and net proceeds in the sum of approximately HK\$44,407,000 was raised.

3. INDEBTEDNESS

As at the close of business on 30th April, 2000, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this document, the Group had aggregate outstanding borrowings of approximately HK\$97,234,000, comprising long-term bank loans of approximately HK\$8,447,000, trust receipts bank loans of approximately HK\$29,416,000, bank overdrafts of approximately HK\$6,030,000 and obligations under finance leases of approximately HK\$53,341,000.

As at 30th April, 2000, the Group had contingent liabilities in respect of factoring of accounts receivable with recourse of approximately HK\$31,803,000 and shipping guarantees executed in favour of various banks of HK\$315,000.

As at 30th April, 2000, the Group's banking facilities amounted to approximately HK\$199,896,000 in aggregate and were secured by mortgages over the Group's land and buildings with a net book value of approximately HK\$6,500,000, the Group's inventories with a net book value of approximately HK\$31,911,000 held under trust receipts bank loans arrangements, pledges of the Group's bank deposits of approximately HK\$43,201,000 and a guarantee provided by the Company.

Save as aforesaid and as otherwise mentioned herein and apart from intra-group liabilities and normal trade payables, the Group did not have any mortgages, charges, debentures, loan capital, bank loans and overdrafts, debt securities or other similar indebtedness, finance leases or hire purchase commitments, liabilities under acceptances or acceptance credits or any guarantees or other material contingent liabilities outstanding at the close of business on 30th April, 2000.

The Directors have confirmed that there has been no material change to the Group's indebtedness since 30th April, 2000.

4. WORKING CAPITAL

The Directors are of the opinion that after taking into account the existing banking facilities available and the estimated net proceeds of the Warrant Placing, the Group has sufficient working capital for its present requirements.

5. MATERIAL ADVERSE CHANGE

The Directors are not aware of any material adverse change in the financial or trading position of the Group since 31st July, 1999, the date to which the latest published audited financial statements of the Group were made up.

6. UNAUDITED INTERIM RESULTS OF THE GROUP

The following information is extracted from the unaudited interim report of the Group for the six months ended 31st October, 1999 together with comparative unaudited figures for the corresponding period of the previous year:

		Six months ended	
		31st October,	
		1999	1998
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover		133,282	113,934
Cost of sales		(86,981)	(78,942)
Gross profit		46,301	34,992
Distribution and selling costs		(4,174)	(2,324)
Administrative expenses		(9,866)	(8,439)
Profit from operations		32,261	24,229
Finance cost, net		(5,760)	(5,033)
Profit before taxation		26,501	19,196
Taxation	2	(2,699)	(1,647)
Profit after taxation		23,802	17,549
Minority interests		76	–
Profit attributable to shareholders		23,878	17,549
Earnings per share – Basic	3	15.92 cents	11.70 cents

Notes:

1. Basis of preparation

The Company was incorporated as an exempted company in Bermuda on 10th September, 1999. In preparation for a listing of the Company's shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), a share exchange took place on 28th October, 1999 whereby the Company became the holding company of the Group. The Company's shares were listed on the Stock Exchange on 15th November, 1999.

The above results have been prepared as if the current structure of the Group had been in existence throughout the reporting periods or since the Company's subsidiaries' respective dates of incorporation where this is a shorter period and exclude the results of property rental business of a subsidiary of the Company as more fully described in the Company's prospectus dated 3rd November, 1999 (the "Prospectus").

2. Taxation

	Six months ended 31st October,	
	1999	1998
	HK\$'000	HK\$'000
Current taxation		
– Hong Kong profits tax	2,683	1,647
– Mainland China enterprise income tax	176	–
Write-back of deferred taxation	(160)	–
	<u>2,699</u>	<u>1,647</u>

Hong Kong profits tax was provided at the rate of 16% (1998 – 16%) on the estimated assessable profits for the period. Mainland China enterprise income tax was provided at the applicable rate relating to the profit of a subsidiary of the Company established in Zhongshan, the People's Republic of China.

3. Earnings per share

The calculation of the basic earnings per share for the six months ended 31st October, 1999 is based on the profit attributable to shareholders for the period of approximately HK\$23,878,000 (1998 – HK\$17,549,000), and on the assumption that 150,000,000 shares had been in issue during the period and the previous period. These 150,000,000 shares comprised 2,000,000 shares in issue as at 31st October, 1999 and 148,000,000 shares issued in November 1999 pursuant to the Capitalisation Issue as described in the Prospectus.

As there were no dilutive potential shares as at 31st October, 1999, diluted earnings per share is not applicable.

4. Dividends

In October 1999, an interim dividend of HK\$1,088,000 was paid by a subsidiary of the Company to its then shareholders prior to the Group's reorganisation and the listing of the Shares on the Stock Exchange.

The Directors do not recommend the payment of any further dividend in respect of the six months ended 31st October, 1999 (1998 - Nil).

7. UNAUDITED THIRD QUARTER RESULTS OF THE GROUP

The following information is extracted from the unaudited third quarter report of the Group for the three months and nine months ended 31st January, 2000 together with comparative figures for the corresponding periods of the previous year:

	<i>Notes</i>	Three months ended 31st January, 2000		Nine months ended 31st January, 2000	
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover		63,660	40,150	196,942	154,084
Cost of sales		(42,009)	(29,761)	(128,990)	(108,703)
Gross profit		21,651	10,389	67,952	45,381
Distribution and selling costs		(2,589)	(2,392)	(6,763)	(4,716)
Administrative expenses		(6,877)	(2,656)	(16,744)	(11,095)
Profit from operations		12,185	5,341	44,445	29,570
Finance cost, net		(3,294)	(2,396)	(9,054)	(7,429)
Profit before taxation		8,891	2,945	35,391	22,141
Taxation	2	(859)	(339)	(3,557)	(1,986)
Profit after taxation		8,032	2,606	31,834	20,155
Minority interests		—	—	76	—
Profit attributable to shareholders		<u>8,032</u>	<u>2,606</u>	<u>31,910</u>	<u>20,155</u>
Earnings per share – Basic	3	<u>4.13 cents</u>	<u>1.74 cents</u>	<u>19.36 cents</u>	<u>13.44 cents</u>

Notes:

1. Basis of preparation

The Company was incorporated in Bermuda on 10th September, 1999 as an exempted company with limited liability under the Companies Act 1981 of Bermuda. In preparation for a listing of the Company's shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), a share exchange took place on 28th October, 1999 whereby the Company became the holding company of the Group. The Company's shares were listed on the Stock Exchange on 15th November, 1999.

The above results have been prepared as if the current structure of the Group had been in existence throughout the reporting periods or since the Company's subsidiaries' respective dates of incorporation where this is a shorter period and exclude the results of the property rental business of a subsidiary of the Company as more fully described in the Company's prospectus dated 3rd November, 1999 (the "Prospectus").

2. Taxation

	Three months ended 31st January, 2000		Nine months ended 31st January, 1999	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Current taxation				
– Hong Kong profits tax	857	339	3,539	1,986
– Mainland China enterprise income tax	2	–	178	–
Write-back of deferred taxation	–	–	(160)	–
	<u>859</u>	<u>339</u>	<u>3,557</u>	<u>1,986</u>

Hong Kong profits tax was provided at the rate of 16% (1999 – 16%) on the estimated assessable profits for the periods. Mainland China enterprise income tax was provided at the applicable rate relating to the profit of a subsidiary of the Company established in Zhongshan, the People's Republic of China.

3. Earnings per share

The calculation of basic earnings per share for the three months ended 31st January, 2000 is based on the profit attributable to shareholders for the period of approximately HK\$8,032,000 and the weighted average of 194,565,217 shares in issue during the period.

The calculation of basic earnings per share for the nine months ended 31st January, 2000 is based on the profit attributable to shareholders for the period of approximately HK\$31,910,000 and the weighted average of 164,855,072 shares in issue during the period.

The calculation of basic earnings per share for the corresponding three-month period and nine-month period in 1999 are based on the profits attributable to shareholders for these periods of approximately HK\$2,606,000 and HK\$20,155,000 respectively, and the assumption that 150,000,000 shares had been in issue during these periods. These 150,000,000 shares comprised the 2,000,000 shares in issue as at 3rd November, 1999 and the 148,000,000 shares issued in November 1999 pursuant to the Capitalisation Issue as described in the Prospectus.

There is no diluted earnings per share as the Company has no dilutive potential shares.

4. Dividends

In October 1999, an interim dividend of HK\$1,088,000 was paid by a subsidiary of the Company to its then shareholders prior to the Group's reorganisation and the listing of the Shares on the Stock Exchange.

The Directors do not recommend the payment of any further dividend in respect of the nine months ended 31st January, 2000 (1999 - Nil).

1. RESPONSIBILITY STATEMENT

This prospectus includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept the full responsibility for the accuracy of the information contained in this prospectus and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

2. SHARE CAPITAL

As at the Latest Practicable Date, the authorised and issued share capital of the Company was as follows:

		<i>HK\$</i>
<i>Authorised:</i>		
1,000,000,000	Shares	100,000,000
		<i>HK\$</i>
<i>Issued and fully paid:</i>		
200,000,000	Shares	20,000,000

All of the existing issued Shares rank equally in all respects including all rights as to dividends, distributions, voting and interests in capital.

Upon the exercise in full of the subscription rights attached to the Warrants and on the basis of an initial subscription price of HK\$1.475 per New Share (subject to adjustment), 40,000,000 New Shares will be issued, representing 20% of Company's existing issued share capital of 200,000,000 Shares as at the Latest Practicable Date and approximately 16.7% of the Company's issued share capital of 240,000,000 Shares as enlarged by the allotment and issue of the New Shares.

Save as disclosed herein, no member of the Group has any share or loan capital under option or agreed conditionally or unconditionally to be put under option, nor have any conversion rights attached to the convertible bonds affecting shares in any company of the Group been issued or granted or agreed conditionally or unconditionally to be issued or granted by any of such companies.

3. DISCLOSURE OF INTERESTS

(a) Interests in the share capital of the Company and its associated corporations

As at the Latest Practicable Date, the interests of the Directors in the share capital of the Company and its associated corporations (within the meaning of the SDI Ordinance) which were required to be notified to the Company and the Stock Exchange pursuant to Section 28 of the SDI Ordinance (including the interests which they were deemed or taken to have under Section 31 or Part I of the Schedule to the SDI Ordinance) or which were required pursuant to Section 29 of the SDI Ordinance, to be entered in the register referred to therein or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

Director	Type of interest	Number of shares
<i>The Company</i>		
Mr. Lam	(Note 1)	131,550,000
Mr. Saito Misao	(Note 2)	16,450,000
Ms. Tang Fung Kwan	(Note 2)	16,450,000
Ms. Hu Yan Huan	(Note 2)	16,450,000

Note:

1. The 131,550,000 Shares were held by the Controlling Shareholder, the entire issued share capital of which is ultimately beneficially owned by Mr. Lam's family trust. The beneficiaries under this family trust were Mr. Lam's spouse, Ms. Law Ching Yee ("Ms. Law") and his children who were under the age of 18 years and accordingly Mr. Lam was deemed under the SDI Ordinance to be interested in all the Shares held by the Controlling Shareholder.
2. CMPP held 16,450,000 Shares in the Company, representing 8.225% of the existing issued share capital of 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 executive Directors, respectively held 700 shares, 3,514 shares and 1,230 shares of US\$0.01 each.

Mr. Lam held 7,500,000 non-voting deferred shares of HK\$1.00 each in Coils Electronic Co., Limited, representing approximately 53.57% of the 14,000,000 non-voting deferred shares of HK\$1.00 each in the share capital of Coils Electronic Co., Limited.

In respect of the 6,000,000 non-voting deferred shares of HK\$1.00 each held by the Controlling Shareholder and the remaining 500,000 non-voting deferred shares of HK\$1.00 each held by Ms. Law 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 was deemed to be interested in all those shares under the SDI Ordinance by virtue of, in the case of the Controlling Shareholder, the reasons set out in Note 1 above and, in the case of Ms. Law, the fact that Ms. Law is the spouse of Mr. Lam.

(b) Interests in share options granted by the Company and its associated corporations

As at the Latest Practicable Date, no share options had been granted by the Company and its associated corporations to any of the Directors and chief executive of the Company under the Company's share option scheme.

Save as disclosed herein, as at the Latest Practicable Date, none of the Directors and any chief executive of the Company had or were deemed to have any interest in the equity or debt securities of the Company or any of its associated corporations (within the meaning of the SDI Ordinance) which were required to be notified to the Company and the Stock Exchange pursuant to Section 28 of the SDI Ordinance (including interests which any such Directors were deemed or taken to have under Section 31 of, or Part 1 of the Schedule to, the SDI Ordinance) or which be required, pursuant to Section 29 of the SDI Ordinance, to be entered in the register maintained by the Company, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules, to be notified to the Company and the Stock Exchange.

4. SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at the Latest Practicable Date, so far as is known to the Directors, other than the Directors, the following persons were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company as recorded in the register maintained by the Company under Section 16(1) of the SDI Ordinance:

Name	Number of Shares held	Percentage of shareholding
The Controlling Shareholder (<i>Notes 1&2</i>)	131,550,000	65.775%
Ka Yan China Investments Limited (<i>Note 2</i>)	131,550,000	65.775%

Name	Number of Shares held	Percentage of shareholding
HSBC Holdings plc (<i>Note 3</i>)	131,550,000	65.775%
HSBC Finance (Netherlands) (<i>Note 3</i>)	131,550,000	65.775%
HSBC Holdings B.V. (<i>Note 3</i>)	131,550,000	65.775%
HSBC Investment Bank Holdings B. V. (<i>Note 3</i>)	131,550,000	65.775%
HSBC International Trustee Limited (<i>Note 3</i>)	131,550,000	65.775%

Notes:

1. The 131,550,000 Shares were held by the Controlling Shareholder, the entire issued share capital of which was ultimately beneficially owned by Ka Yan China Family Trust, the family trust of Mr. Lam, a Director.
2. The interests of the Controlling Shareholder and Ka Yan China Investments Limited in respect of 131,550,000 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., HSBC International Trustee Limited in respect of 131,550,000 Shares in the Company duplicated with each other.

The 131,550,000 Shares in which HSBC International Trustee Limited was interested were the Shares referred to in Note 2 above.

Save as disclosed herein, as at the Latest Practicable Date, so far as the Directors were aware, there were no persons who, directly or indirectly, interested in more than 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company.

Save as disclosed herein, as at the Latest Practicable Date, none of the Directors has or has had any direct or indirect interest in any assets which have been, since the date of which the latest published audited accounts of the Company were made up, acquired or disposed of by or leased to, or proposed to be acquired or disposed of by or leased to any member of the Group.

Save as disclosed herein, none of the Directors is materially interested in any contracts or arrangements subsisting at the date of this prospectus which is significant in relation to the business of the Group taken as a whole.

5. EXPENSES

The expenses in connection with the Warrant Placing, including financial advisory and documentation fees, legal fees, placing commissions, Stock Exchange transaction levy, Stock Exchange listing fees, printing, registration, translation, accounting charges and other related expenses, are estimated to amount to approximately HK\$2.1 million in aggregate and are payable by the Company.

6. SERVICE CONTRACTS

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, 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.

Under the service agreements, the annual remuneration of Mr. Lam, Mr. Saito Misao, Ms. Tang Fung Kwan, Ms. Hu Yan Huan and Mr. Iwata Kenji is HK\$1,001,000.00, HK\$1,500,000.00, HK\$585,000.00, RMB180,000.00 and Yen 13,200,000.00 respectively. The remuneration of each of the executive Directors shall be increased annually by not more than the percentage by which the Consumer Price Index (B) (the "Index") as published in the Hong Kong Digest of Statistics shall have increased over the figure of the Index of the month in which such executive Director's salary was fixed or increased in the previous year and with reference to, inter alia, inflation market rate and the performance of such executive Director.

Mr. Lam shall also be entitled to an annual management bonus equivalent to 2% of the audited consolidated profit of the Group attributable to shareholders (after taxation but before extraordinary items and before such management bonus) the ("Net Profit") if the Net Profit for the relevant financial year exceeds HK\$50,000,000.00 and 4% of the Net Profit if the Net Profit for the relevant financial year exceeds HK\$70,000,000.00, whilst Mr. Saito Misao shall be entitled to an annual management bonus equivalent to 1% of the Net Profit if the Net Profit for the relevant financial year exceeds HK\$50,000,000.00.

Pursuant to a service agreement entered into between the Company and Mr. Tang Tin Sek dated 27th September, 1999 as amended by a supplemental agreement to service agreement dated 30th December, 1999, 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 3 months' prior notice in writing at an annual remuneration of HK\$768,000.00.

Save as disclosed herein, as at the Latest Practicable Date, there are no existing or proposed service contracts (excluding contracts expiring or terminable by the employer within one year without payment of compensation (other than statutory compensation)) between any member of the Group and any of the Directors.

7. MATERIAL CONTRACTS

The following contracts (not being contracts in the ordinary course of business) have been entered into by members of the Group within the two years preceding the date of this prospectus and are or may be material:

- (a) A supplemental agreement dated 21st December, 1998 made between Xiamen Qiao Tai Industrial Co. (“Qiao Tai”) (as vendor) and Coils Electronic Co., Limited (as purchaser) pursuant to which the entire equity interest (representing 10% of and in the registered capital) of and in Xiamen Coils Electronic Co., Ltd. held by Qiao Tai was transferred to Coils Electronic Co., Limited at nil consideration.
- (b) An agreement dated 17th July, 1999 made between Mr. Lam and Mr. Li Chi Wei (as vendors) and Coils Electronic Co., Limited (as purchaser) pursuant to which the entire issued share capital of Supreme Luck International Limited (subsequently renamed as CEC-Cap Limited) was sold and transferred to Coils Electronic Co., Limited in consideration of HK\$1.00.
- (c) A memorandum for sale and purchase dated 20th August, 1999 made between Coils Electronic Co., Limited (as vendor) and Mr. Lam (as purchaser) in respect of Workshop A on the 4th Floor, Workshop D on the 5th Floor including All That Portion of the Flat Roof and Workshop I on the 7th Floor, Hing Win Factory Building, No. 110 How Ming Street, Kwun Tong, Kowloon, Hong Kong (collectively “the Properties”) pursuant to which Coils Electronic Co., Limited agreed to sell the Properties to Mr. Lam at a consideration of HK\$1,860,000.00.
- (d) An assignment dated 20th August, 1999 made between Coils Electronic Co., Limited (as vendor) and Mr. Lam (as purchaser) in respect of the Properties pursuant to which Coils Electronic Co., Limited assigned the Properties to Mr. Lam at a consideration of HK\$1,860,000.00.
- (e) A mortgage over the Properties dated 20th August, 1999 executed by Mr. Lam (as mortgagor) and Coils Electronic Co., Limited (as borrower) in favour of The Hongkong And Shanghai Banking Corporation Limited (“HSBCL”) (as lender) to secure all moneys in respect of general banking facilities granted by HSBCL to Coils Electronic Co., Limited and interest thereon.
- (f) A deed of undertaking and indemnity dated 26th October, 1999 executed by Mr. Lam in favour of the Company and its subsidiaries containing, inter alia, indemnities against all claims, losses and costs arising from the breach of the user restrictions set out in the Government Lease of the premises owned by the Group in Hong Kong.

- (g) A reorganization agreement dated 28th October, 1999 between, inter alia, the Company, the Controlling Shareholder and CMPP in relation to the acquisition by the Company of Coils International Holdings Limited.
- (h) The service agreements referred to in the above paragraph headed “Service Contracts” of this Appendix.
- (i) A deed of indemnity dated 2nd November, 1999 executed by Mr. Lam and the Controlling Shareholder in favour of the Company and its subsidiaries containing indemnities with respect to, amongst other things, potential Hong Kong estate duty, tax and other liabilities.
- (j) An underwriting and placing agreement dated 2nd November, 1999 made between, inter alia, (i) the Company, (ii) the then executive Directors, and (iii) the Underwriters.
- (k) The Warrant Placing Agreement dated 16th May, 2000 made between the Company, the Placing Manager and the Placing Agents.

8. LITIGATION

No member of the Group is engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened by or against any member of the Group.

9. THE WARRANT PLACING AGREEMENT

The Warrant Placing Agreement was entered into on 16th May, 2000 between the Company, the Placing Manager and the Placing Agents. Pursuant to the Warrant Placing Agreement, the Placing Agents jointly and severally agreed to procure, on a best effort basis, the Placees to subscribe for the Warrants at the Warrant Placing Price, payable in full on application, subject to the fulfilment of the conditions contained in the Warrant Placing Agreement. The Placing Manager and Placing Agents are, and the Placees will be, independent of, not connected with and not acting in concert with any of the directors, chief executive and substantial shareholders of the Company and any of its subsidiaries, or any of their respective associates (as defined in the Listing Rules). The Warrant Placing will comply with the requirements set out in Appendix 6 to and Chapter 15 of the Listing Rules.

10. BINDING EFFECT

This prospectus shall have the effect, if an application is made in pursuant hereon, of rendering all persons concerned bound by all the provisions (other than the penal provisions) of sections 44A and 44B of the Companies Ordinance so far as applicable.

11. MISCELLANEOUS

- (a) The minimum subscription which must be raised by the Warrant Issue in order to provide the sums required to cover the matters referred to in section 28 of the Companies Act is nil.
- (b) No commissions, discounts, brokerages or other special terms have been granted or agreed to be granted by any member of the Group to any Directors or proposed Directors, promoters in connection with the issue or sale of any capital by any such member of the Group.

12. DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG

A copy of this prospectus, together with a copy of the application form, has been registered by the Registrar of Companies in Hong Kong as required by section 342C of the Companies Ordinance.

13. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at the office of F. Zimmern & Co., 7th Floor, Central Building, 1 Pedder Street, Central, Hong Kong, during normal business hours up to and including 6th July, 2000:

- (i) memorandum of association and bye-laws of the Company;
- (ii) the Warrant Placing Agreement;
- (iii) the audited combined financial statements of the Group for the years ended 30th April, 1997, 1998 and 1999 and the three months ended 31st July, 1999;
- (iv) the interim report of the Company for the six months ended 31st October, 1999 and the third quarterly report of the Company for the three months and nine months ended 31st January, 2000;
- (v) the material contracts referred to the paragraph headed “Material Contracts” in this appendix; and
- (vi) the draft Instrument (subject to amendments).