
IMPORTANT

If you are in any doubt about this prospectus, you should consult your stockbroker, bank manager, solicitor, professional accountant or other professional adviser.



MOBICON GROUP LIMITED

萬保剛集團有限公司*

(incorporated in Bermuda with limited liability)

PLACING AND NEW ISSUE

Number of Placing Shares:	20,000,000 (subject to adjustment and reallocation)
Number of New Issue Shares:	30,000,000 (subject to reallocation)
Issue Price:	HK\$1.00 per Share
Nominal value:	HK\$0.10 each
Stock code:	1213

Sponsor and Manager



ORIENTAL PATRON ASIA LIMITED

Underwriters

Oriental Patron Asia Limited

Sanfull Securities Limited

The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited 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.

A copy of this prospectus, having attached thereto the documents specified in the paragraph headed "Documents delivered to the Registrars of Companies" in Appendix 6 to this prospectus, 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 copies of the white and yellow application forms, has also been filed with the Registrar of Companies in Bermuda. The Securities and Futures Commission, the Registrar of Companies in Hong Kong and the Registrar of Companies in Bermuda take no responsibility as to the contents of this prospectus or any of the other documents referred to above.

* For identification purposes only

EXPECTED TIMETABLE

2001

Application lists open (<i>Note 1</i>)	11:45 a.m. on Friday, 27th April
Latest time to lodge WHITE and YELLOW application forms	12:00 noon on Friday, 27th April
Application lists close	12:00 noon on Friday, 27th April
Announcement of the level of indication of interests in the Placing, the results of applications and basis of allotment of the New Issue Shares to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) on or before	Thursday, 3rd May
Refund cheques in respect of wholly or partially unsuccessful applications to be posted on or before (<i>Note 2</i>)	Thursday, 3rd May
Share certificates to be despatched on or before (<i>Note 2</i>)	Thursday, 3rd May
Dealings in Shares on the Stock Exchange to commence on	Monday, 7th May

Notes:

1. If there is a “**black**” rainstorm warning or a tropical cyclone warning signal number 8 or above in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Friday, 27th April, 2001 the application lists will not open and close on that day. See the paragraph headed “Effect of bad weather on the opening of the application lists” in the section headed “How to apply for the New Issue Shares”.
2. Applicants who apply on either WHITE or YELLOW application forms for 500,000 New Issue Shares or more and have indicated on their application forms that they wish to collect their share certificate(s) (where applicable) and refund cheque (if any) in person, they may collect them in person from the Company’s Hong Kong branch share registrar and transfer office, Hong Kong Registrars Limited at 2nd Floor, Vicwood Plaza, 199 Des Voeux Road Central, Hong Kong between 9:00 a.m. to 1:00 p.m. on the date notified by the Company in the newspapers as the date of despatch of share certificates and refund cheques. This is expected to be Thursday, 3rd May, 2001. Applicants being individuals who opt for personal collection must not authorize any other person to make collection on their behalf. They must show their identification documents (which must be acceptable to Hong Kong Registrars Limited) to collect their share certificate(s) (where applicable) and refund cheque (if any) at the time of collection. Applicants being corporations which opt for personal collection must attend by their authorized representatives bearing letters of authorization from their corporations stamped with the corporations’ chop. Their authorized representatives must produce, at the time of collection, evidence of identity acceptable to Hong Kong Registrars Limited. Uncollected share certificates and refund cheques will be sent to the address on your application form by ordinary post at your own risk on Thursday, 3rd May, 2001. Applicants who have applied for less than 500,000 New Issue Shares or applicants who have applied for 500,000 New Issue Shares or more but have not indicated in their application forms that they wish to collect their share certificate(s) (where applicable) and refund cheque (if any) personally within the time specified for collection, then their share certificate(s) (where applicable) and refund cheque (if any) will be sent to the address on their application forms on Thursday, 3rd May, 2001, by ordinary post and at their own risk. For further information, please refer to the section headed “How to apply for the New Issue Shares”.

For details of the structure of the Share Offer, including its conditions, see the section headed “Structure of the Share Offer”.

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You should rely only on the information contained in this prospectus and the application forms to make your investment decision.

The Company has not authorised anyone to provide you with information that is different from what is contained in this prospectus.

Any information or representation not made nor contained in this prospectus must not be relied on by you as having been authorised by the Company, Oriental Patron, the Underwriters, the directors or affiliates of any of them, or any other person involved in the Share Offer.

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SUMMARY

This summary aims to give you an overview of the information contained in this prospectus. Because this is a summary, it does not contain all the information that may be important to you. You should read the whole document before you decide to invest in the Offer Shares.

There are risks associated with any investment. Some of the particular risks in investing in the Offer Shares are set out in the section headed "Risk factors" in this prospectus. You should read that section carefully before you decide to invest in the Offer Shares.

BUSINESS

The Group is principally engaged in the distribution and sourcing of electronic parts and components, as well as computer accessories. The Group's products can be generally divided into two categories, namely (1) computer memory modules and peripherals such as memory modules and computer motherboards; and (2) electronic parts and components such as semi-conductors, quartz crystals, capacitors and resistors. These products may bear no designated brand name, the brand names of the original manufacturers, or the brand names "MEC" (in respect of which applications for registration in Hong Kong and in the PRC as trademarks are in progress) and "MOSP" (one of the registered trade marks of the Group), depending on customers' requirement. During the three years ended 31st March, 2000 and the seven months ended 31st October, 2000, about 3.1%, 4.3%, 6.6% and 16.5% respectively of the products of the Group was sold under the brand name "MEC", and the remainder was either sold without any designated brand names or under the brand names of the original manufacturers. As at the Latest Practicable Date, some of the products of the Group were sold under the brand names of "MEC" and "MOSP". "MOSP" is a registered trademark owned by the Group. Applications have been made for trademark registration of "MEC" in Hong Kong and in the PRC. Such applications were, as at the Latest Practicable Date, under opposition. Accordingly, the applications may or may not be approved for registration by the relevant trademark authorities. Please refer to the details of the Group's trademarks as set out in the section headed "Intellectual property rights of the Group" in Appendix 5 to this prospectus. It is the strategy of the Group to widen the variety of the products bearing the Group's brand names including "MEC" and "MOSP". The Directors believe that this will help to enhance the Group's corporate image as a provider of a wide range of electronic components.

The Group's major market is Hong Kong which accounted for about 50.9%, 55.6%, 63.0% and 73.2% of the turnover of the Group respectively for the three years ended 31st March, 2000 and the seven months ended 31st October, 2000. The Group has a customer base of over 3,000 customers comprising manufacturers, traders, retailers and individual end users, some of which have up to 8 years' business relationship with the Group. No single customer of the Group accounted for more than 15% of the Group's turnover for any of the three financial years ended 31st March, 2000 and the seven months ended 31st October, 2000.

The Group has business relationships with over 800 suppliers, most of whom are located in Hong Kong. For the three years ended 31st March, 2000 and the seven months ended 31st October, 2000, purchases from the top five suppliers represented about 25.1%, 33.9%, 31.4% and 31.2% respectively of the Group's total purchases. For each of the three years ended 31st March, 2000 and the seven months ended 31st October, 2000, the Group's purchases of electronic components from its largest supplier accounted for about 6.7%, 15.2%, 10.9% and 8.8% respectively of the Group's total purchases. The Group has business relationship of up to 8 years with its five largest suppliers for each of the three years ended 31st March, 2000. In addition, the Group has entered into various non-exclusive Distribution Arrangements with a number of manufacturers of electronic components and computer parts, details of which are set out in the paragraph headed "Distribution of brand name products" under the section headed "Business" of this prospectus.

SUMMARY

The Directors consider the following to be the key factors contributing to the Group's success:

- its reputation for providing a wide range of high quality products;
- the extensive experience and expertise of the Group's management team in the distribution and sourcing of electronic parts and components, as well as computer accessories;
- its well-established business relationship with its solid customer base deriving from various sectors in the electronics and computer industries, including manufacturers, traders, retailers and individual end users;
- the widespread application and heavy consumption of the products sold by the Group in the electronics industry, being one of the key industries of Hong Kong;
- its ability to satisfy customers' needs and preference by providing quick response and a wide range of electronic products to its customers; and
- its ability to provide its customers with one-stop sourcing for a wide range of electronic parts and components.

RISK FACTORS

The Directors consider that the business of the Group is subject to a number of risk factors, which can be summarised as follows:

Risks relating to the Group

- sustainability of profit margin
- reliance on key management
- reliance on supplies from unrelated manufacturers
- limited insurance coverage
- dividend
- currency risks
- credit risks
- inventory risks
- trademarks
- profits tax
- reliance on the Hong Kong market

Risks relating to the industry

- competition
- threat of new entrants
- ability to source new products
- uncertain economic outlook

SUMMARY

TRADING RECORD

The following table summarises the Group's combined turnover and results for the three years ended 31st March, 2000 and the seven months ended 31st October, 2000 prepared on the assumption that the current structure of the Group had been in place throughout the period under review. The summary should be read in conjunction with the accountants' report set out in Appendix 1 to this prospectus.

	Year ended 31st March,			Seven months ended 31st October,
	1998 HK\$'000	1999 HK\$'000	2000 HK\$'000	2000 HK\$'000
Turnover (<i>Note 1</i>)	681,164	553,643	588,172	316,390
Cost of sales	(629,204)	(503,368)	(527,298)	(267,935)
Gross profit	51,960	50,275	60,874	48,455
Distribution and selling expenses	(1,837)	(1,551)	(1,523)	(1,236)
General and administrative expenses	(28,598)	(28,953)	(25,390)	(15,662)
Profit from operations	21,525	19,771	33,961	31,557
Interest income	571	468	495	391
Profit before taxation	22,096	20,239	34,456	31,948
Taxation	(3,676)	(3,034)	(5,523)	(5,035)
Profit after taxation				
but before minority interest	18,420	17,205	28,933	26,913
Minority interest	(471)	(598)	(1,110)	(1,391)
Profit attributable to shareholders	<u>17,949</u>	<u>16,607</u>	<u>27,823</u>	<u>25,522</u>
Dividends	<u>–</u>	<u>–</u>	<u>–</u>	<u>(41,718)</u>
Earnings per share – Basic (<i>Note 2</i>)	<u>12.0 cents</u>	<u>11.1 cents</u>	<u>18.5 cents</u>	<u>17.0 cents</u>

Notes:

- Turnover represents (i) the net invoiced value of merchandise sold after allowances for returns and discounts and (ii) commission income.
- The calculation of the basic earnings per share for the three years ended 31st March, 2000 and the seven months ended 31st October, 2000 is based on the profit attributable to shareholders during these periods covered by the accountants' report set out in Appendix 1 to this prospectus and assuming 150,000,000 shares in issue and issuable, comprising 2,000,000 shares in issue as at the date of the Prospectus and 148,000,000 shares to be issued pursuant to the Capitalisation Issue as described in the section headed "Further information about the Company and its subsidiaries" in Appendix 5 to this Prospectus.

SUMMARY

The Directors are aware of the following requirements:

- (i) **Rule 4.04(1) of the Listing Rules which states that the accountants' report must include the combined results of the Group in respect of each of the three financial years immediately preceding the issue of this prospectus i.e. each of the three years ended 31st March, 2001, in this case; and**
- (ii) **Paragraph 27 of the Third Schedule to the Companies Ordinance, which requires the Company to set out in this prospectus a statement as to the gross trading income or sales turnover during the three years preceding the date of this prospectus, including an explanation of the method used for the computation of such income or turnover and a reasonable breakdown between the more important trading activities; and Paragraph 31 of the Third Schedule to the Companies Ordinance which requires the Company to include in the listing document a report by the auditors with respect to the profits and losses and assets and liabilities of the Group in respect of each of the three financial years immediately preceding the issue of this prospectus.**

As the financial year of the Group ends on 31st March and this prospectus includes the combined results of the Group covering each of the three years ended 31st March, 2000 and the seven months ended 31st October, 2000 only, the Company had applied for and was granted waivers from compliance with the requirements referred to in (i) above by the Stock Exchange and in (ii) above by the Securities and Futures Commission. The Directors confirm that they performed sufficient due diligence on the Group to ensure that, save as disclosed in this prospectus, up to the date of this prospectus, there has been no material adverse change in the financial or trading position of the Group since 31st October, 2000 and there is no event which would materially affect the information shown in the accountants' report of the Group set out in Appendix 1.

FUTURE PLANS AND PROSPECTS

The Directors expect that the market for electronic and computer products and equipment will remain strong in the foreseeable future. In particular, the Group will put more effort in the marketing of electronic parts and components. With the Group's established presence in providing high quality and reliable products, and the expertise and extensive experience of its management team, the Directors believe that the sales of the Group's products (electronic parts and components, and computer accessories) will increase in the forthcoming years.

The Directors believe that the recent development of the Internet presents an enormous opportunity for the Group to penetrate into the global electronics market. The Group's existing product database contains information on over 130,000 types of electronic components. With such database, the Directors believe that the Group can satisfy its customers' needs in a more efficient manner. In this regard, the Directors believe that further development of the database is important to the Group's growth.

Expansion of the sales network in the Asia-Pacific region

In order to penetrate into the global market, the Group plans to establish overseas sales offices and set up strategic alliances or partnerships with electronics suppliers in the overseas markets. This will place the Group closer to its existing and potential customers in those markets and will enable the Group to better serve those customers. Initially, the Group plans to set up sales offices in the Asia-Pacific region, such as Malaysia, Singapore and Taiwan and a product database and product development centre in Shenzhen, the PRC.

SUMMARY

Further development of product database

The Directors consider that the Group's product database is crucial to its success by way of providing a full range of electronic products to its customers, the Group will therefore continue to develop its product database and plans to set up a product database and product development centre in Shenzhen, the PRC. The Group will also continue to conduct market research in order to identify new products with good distribution and market potential, for inclusion in its existing database. The Group also plans to acquire new high precision testing machines and instrument for the evaluation of the quality of new products to be added to the database. Additionally, the Group intends to enhance its database management software system.

Promotion of the Group's brand names and corporate image

The Directors believe that a corporate image as a full service provider of a wide range of electronic components and a well recognised brand name are key factors for customers' awareness and, in turn, for the future development of the Group. The Group plans to broaden its sales and marketing channels to promote products bearing the brand names "MEC" and "MOSP". The brand name "MEC" was used during the three years ended 31st March, 2000 and the seven months ended 31st October, 2000, through marketing activities, such as advertising in industry magazines and participating in trade fairs, and to widen the range of products bearing those brand names. The Group is in the process of application for registration of other trademarks in Hong Kong which will be used in the future expansion of its business, details of which are set out in Appendix 5 to this prospectus. The Group also plans to enhance its corporate image as a full service provider by setting up overseas sales offices in the Asia-Pacific region.

Introduction of new products

The Directors believe that the introduction of new products is important for maintaining and advancing the market position of the Group. To cater for customer demands, the new products must be value-added and technologically enhanced. At present, the Group's product development team mainly focuses on identifying new electronic products to be included in the Group's product database.

REASONS FOR THE SHARE OFFER AND USE OF PROCEEDS

With the capital raised from the Share Offer and a more visible corporate profile upon the listing, the Directors believe that the Group will be in a better position to increase the market share in the electronics market.

The net proceeds of the Share Offer (before the exercise of the Over-allotment Option), after deducting the related expenses, are estimated to amount to about HK\$40 million. It is intended that such net proceeds will be applied as follows:

- as to about HK\$15 million for the setting up of sales offices in Malaysia, Singapore and Taiwan to capture the growing Asian market;
- as to about HK\$4 million for the setting up of a product database and product development centre in Shenzhen, the PRC;

SUMMARY

- as to about HK\$15 million for development of new products lines through co-operation with strategic business partners in the electronics industry, most of this HK\$15 million is planned to be used for building up inventory and as working capital of the business; and
- as to the balance of about HK\$6 million as additional general working capital for the Group.

Should the Over-allotment Option be exercised in full, the Company will receive additional net proceeds of about HK\$7.3 million and the total net proceeds of the Share Offer, after deducting the related expenses, will amount to about HK\$47.3 million. The Directors intend to use the additional net proceeds raised from the exercise of the Over-allotment Option as additional working capital of the Group.

To the extent that the net proceeds of the Share Offer are not immediately required for the above purposes, it is the present intention of the Directors that they will be placed on short-term interest-bearing deposits with licensed banks in Hong Kong.

PROFIT ESTIMATE FOR THE YEAR ENDED 31ST MARCH, 2001

Estimated combined profit after taxation but before
extraordinary items of the Group (*Note 1*) not less than HK\$35 million

Estimated earnings per Share

- (a) weighted average (*Note 2*) 23.3 cents
- (b) pro forma diluted (*Note 3*) 18.2 cents

SHARE OFFER STATISTICS

Issue Price HK\$1.00 per Share

Market capitalisation at the Issue Price HK\$200 million

Estimated price/earnings multiple

- (a) weighted average (*Note 4*) 4.3 times
- (b) pro forma diluted (*Note 5*) 5.5 times

Pro forma annual dividend yield (*Note 6*) 8.0%

Adjusted net tangible asset value per Share

(before the Over-allotment Option is exercised) (*Note 7*) 50.8 cents

Adjusted net tangible asset value per Share

(if the Over-allotment Option is exercised in full) (*Note 8*) 52.4 cents

SUMMARY

Notes:

1. The bases on which the estimated combined profit after taxation but before extraordinary items has been prepared are set out in Appendix 2. The Directors are not aware of any extraordinary items which arose during the year ended 31st March, 2001.
2. The calculation of the estimated earnings per Share on a weighted average basis is based on the estimated combined profit after taxation but before extraordinary items of the Group for the year ended 31st March, 2001 and on the assumption that the weighted average number of 150,000,000 Shares had been in issue during that year, but takes no account of any Shares which may fall to be allotted and issued upon the exercise of the Over-allotment Option or options which may be granted under the Share Option Scheme or which may be allotted and issued or purchased by the Company pursuant to the general mandates for the allotment and issue or purchase of Shares referred to in the paragraph headed "Written resolutions passed by all the shareholders of the Company" in Appendix 5 to this prospectus.
3. The calculation of the estimated earnings per Share on a pro forma diluted basis is based on the estimated combined profit after taxation but before extraordinary items of the Group for the year ended 31st March, 2001 assuming that the Company had been listed since 1st April, 2000 and a total of 200,000,000 Shares had been in issue during that year, but takes no account of any Shares which may fall to be allotted and issued upon the exercise of the Over-allotment Option or options which may be granted under the Share Option Scheme or which may be allotted and issued or purchased by the Company pursuant to the general mandates for the allotment and issue or purchase of Shares referred to in the paragraph headed "Written resolutions passed by all the shareholders of the Company" in Appendix 5. For the purpose of this calculation, the estimated combined profit after taxation but before extraordinary items for the year ended 31st March, 2001 has been adjusted to take into account the interest income that would have been earned if the net proceeds of the Share Offer (before the exercise of the Over-allotment Option) had been received on 1st April, 2000 and held on deposit thereafter, based on an interest rate (net of tax) of 3.25% per annum during the year ended 31st March, 2001.
4. The estimated price/earnings multiple on a weighted average basis is based on the estimated earnings per Share on a weighted average basis of 23.3 cents for the year ended 31st March, 2001 and on the Issue Price and assumptions set out in Note 2 above.
5. The estimated price/earnings multiple on a pro forma diluted basis is based on the estimated earnings per Share on a pro forma diluted basis of 18.2 cents for the year ended 31st March, 2001 and on the Issue Price and assumptions set out in Note 3 above.
6. The pro forma annual dividend yield is based on the total dividend of 8.0 cents per Share which the Directors expect would have been paid if the Company had been a listed company throughout the year ended 31st March, 2001 and is arrived at on the basis set out in the paragraph headed "Profit estimate and dividends" in the section headed "Financial information" and on the Issue Price.
7. The adjusted net tangible asset value per Share has been arrived at after making adjustments referred to in the paragraph headed "Adjusted net tangible assets" in the section headed "Financial information", but takes no account of any Shares which may fall to be allotted and issued upon the exercise of the Over-allotment Option or options which may be granted under the Share Option Scheme or which may be allotted and issued or purchased by the Company pursuant to the general mandates for the allotment and issue or purchase of Shares referred to in the paragraph headed "Written resolutions passed by all the shareholders of the Company" in Appendix 5 to this prospectus.
8. If the Over-allotment Option is exercised in full, the adjusted net tangible asset value of the Group and the adjusted net tangible asset value per Share would be approximately HK\$108.8 million and 52.4 cents respectively.
9. If the Over-allotment Option is exercised in full, the estimated earnings per Share on a pro forma diluted basis as well as on a weighted average basis will decrease and the prospective price/earnings multiple, on the same basis, will increase, but such decrease and increase respectively will not be material.

DEFINITIONS

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

“A Plus”	A Plus Electronic Company Limited, a company incorporated in Hong Kong on 7th April, 1993 and a wholly owned subsidiary of the Company
“associate(s)”	has the meaning ascribed thereto in the Listing Rules
“Capitalisation Issue”	the issue of Shares to be made upon the capitalisation of part of the share premium account of the Company referred to in the paragraph headed “Written resolutions of shareholders of the Company dated 18th April, 2001” in Appendix 5
“CCASS”	the Central Clearing and Settlement System established and operated by Hongkong Clearing
“Companies Act”	the Companies Act 1981 of Bermuda
“Companies Ordinance”	Companies Ordinance (Chapter 32 of the Laws of Hong Kong)
“Company”	Mobicon Group Limited, an exempted company incorporated in Bermuda on 11th January, 2001 with limited liability
“Director(s)”	the director(s) of the Company
“Distribution Arrangements”	the distribution arrangements between the Group and some of its suppliers, the principal terms of which are summarised in the paragraph headed “Distribution of brand name products” under the section headed “Business” of this prospectus
“Group”	the Company and its subsidiaries or, where the context so requires, in respect of the period before the Company became the holding company of its present subsidiaries, the companies that are the present subsidiaries of the Company and the business currently operated by MHL
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC
“Hongkong Clearing”	Hong Kong Securities Clearing Company Limited
“Internet”	a global collection of computer networks that exchange information through network protocols
“Issue Price”	a price of HK\$1.00 per Offer Share

DEFINITIONS

“Latest Practicable Date”	18th April, 2001, being the latest practicable date prior to the printing of this prospectus for ascertaining certain information contained in this prospectus
“Listing Rules”	Rules Governing the Listing of Securities on the Stock Exchange
“Major Shareholders”	M2B Holding Limited, Bestmark Management Limited and Mr. Hung Ying Fung
“MESCC”	Mobicon Electronic Supplies Company Limited, a company incorporated in Hong Kong on 24th January, 1991 with limited liability and beneficially owned as to 30% by Mr. Hung, 30% by Ms. Yeung Man Yi, Beryl, 20% by Mr. Hung Ying Fung and 20% by Mr. Yeung Kwok Leung, Allix, the business of trading of electronic components and accessories of which was acquired by MHL with effect from 1st November, 2000
“MHL”	Mobicon Holdings Limited, a company incorporated in Hong Kong on 9th October, 2000 with limited liability and a wholly owned subsidiary of the Company
“M-TEC”	M-Tec Electronic Limited, a company incorporated in Hong Kong on 9th January, 1992 with limited liability and a wholly owned subsidiary of the Company
“Mr. Hung”	Mr. Hung Kim Fung, Measure, the founder of the Group and the chairman of the Company
“New Issue”	the offer of New Issue Shares for subscription by the public in Hong Kong at the Issue Price on and subject to the terms and conditions set out in this prospectus and the application forms relating hereto
“New Issue Shares”	the 30 million new Shares initially being offered for subscription under the New Issue (subject to reallocation as described in the section headed “Structure of the Share Offer” in this prospectus)
“New Issue Underwriters”	Oriental Patron and Sanfull Securities Limited
“Offer Shares”	the New Issue Shares and the Placing Shares
“Oriental Patron” or “Sponsor”	Oriental Patron Asia Limited, an investment adviser and a dealer registered under the Securities Ordinance (Chapter 333 of the Laws of Hong Kong) and the sponsor and manager to the Share Offer

DEFINITIONS

“Over-allotment Option”	the option granted by the Company to Oriental Patron pursuant to the Underwriting Agreement to require the Company to allot and issue (if so exercised) up to an aggregate of 7,500,000 additional new Shares (representing 15% of the Shares initially available under the Share Offer) at the Issue Price solely to cover over-allocations in the Placing
“Placing”	the conditional placing of the Placing Shares by the Company to professional, institutional and private investors as described in the section headed “Structure of the Share Offer” in this prospectus
“Placing Shares”	the 20 million new Shares initially being offered for subscription under the Placing (subject to adjustment and reallocation as described in the section headed “Structure of the Share Offer” in this prospectus), and where relevant, any additional Shares to be issued pursuant to the exercise of the Over-allotment Option
“Placing Underwriter”	Oriental Patron
“PRC” or “Mainland China”	the People’s Republic of China, which for the purpose of this prospectus, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Reorganisation”	the reorganisation of the group of companies now comprising the Group, details of which are set out in the paragraph headed “Group reorganisation” in Appendix 5 to this prospectus
“SDI Ordinance”	Securities (Disclosure of Interests) Ordinance (Chapter 396 of the Laws of Hong Kong)
“Securities Ordinance”	the Securities Ordinance (Chapter 333 of the Laws of Hong Kong)
“Share(s)”	share(s) of HK\$0.10 each in the capital of the Company
“Share Offer”	the New Issue and the Placing
“Share Option Scheme”	the share option scheme conditionally adopted by the Company on 18th April, 2001, the principal terms of which are summarised in the paragraph headed “Share Option Scheme” in Appendix 5 to this prospectus
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Underwriters”	the New Issue Underwriters and the Placing Underwriter

DEFINITIONS

“Underwriting Agreement”	the underwriting agreement dated 23rd April, 2001 entered into between the Company, the executive Directors, the Major Shareholders, Oriental Patron, and the Underwriters in relation to underwriting of the Share Offer, particulars of which are summarised in the section headed “Underwriting” of this prospectus
“US”	the United States of America
“HK\$” and “cents”	Hong Kong dollars and cents respectively, the lawful currency of Hong Kong
“US\$” or “US dollars”	United States dollars, the lawful currency of the US
“sq.ft.”	square feet
“sq.m.”	square metres
“%”	per cent.

Note: For the purposes of this prospectus, unless otherwise indicated, the following exchange rates have been used, where applicable, for purposes of illustration only and do not constitute a representation that any amounts have been, could have been, or may be, exchanged at these or any other rates:

HK\$7.78 = US\$1.00

GLOSSARY OF TECHNICAL TERMS

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

“BGA”	ball grid array
“CPLD”	complex programmable logic device
“CPU”	central processing unit, the part of a computer that controls and processes data
“DRAM”	dynamic random access memory, a type of computer memory which functions as the computer’s primary workspace
“FPGA”	field programmable gate array
“IC”	integrated circuit, which is a semiconductor device that combines a number of transistors and electronic circuits onto a piece of silicon
“LED”	light emitting diode
“MCU”	micro control unit
“MOS”	metal-oxide semiconductor
“PROM”	programmable read only memory
“QDI”	brand name of the computer mother board manufactured by Legend Computer Group
“USB”	universal serial bus

RISK FACTORS

Potential investors should carefully consider all of the information set out in this prospectus and, in particular, should consider the following risks and special considerations associated with an investment in the Company before making any investment decision in relation to the Company.

RISK RELATING TO THE GROUP

Sustainability of profit margin

Notwithstanding an increase of net profit margin from about 2.6% for the year ended 31st March, 1998 to about 4.7% for the year ended 31st March, 2000, the Directors consider that should competition from other distributors become more intense or the costs of electronic components and computer parts increase, the net profit margin of the Group may be adversely affected.

For each of the three years ended 31st March, 2000 and the seven months ended 31st October, 2000, the turnover of computer memory modules and peripherals accounted for approximately 69.3%, 62.3%, 51.9% and 29.8% respectively of the Group's total turnover, while the turnover of electronic parts and components accounted for 30.7%, 37.7%, 48.1% and 70.2% respectively of the Group's total turnover. As the sales of electronic parts and components generally commanded a higher profit margin, the product mix of the Group during the three years ended 31st March, 2000 and the seven months ended 31st October, 2000 were shifted from computer memory modules and peripherals to electronic parts and components. There is, however, no assurance that profit margin attributable to electronic parts and components will remain at its current level. If such profit margin falls and other products distributed by the Group are not able to command a profit margin at the existing level attributable to electronic parts and components, the Group's profitability may be adversely affected.

Reliance on key management

The Group's success is, to an extent, attributable to the strategy and vision of Mr. Hung, the Chairman. Mr. Hung is responsible for overseeing the overall operation and development of the Group including the launching of new products bearing the brand names "MEC" and "MOSP" and the sales activities. There could be a material adverse impact on the Group's operations should Mr. Hung cease to be involved in the business of the Group.

Each of the executive Directors has entered into a three-year service contract with the Company, details of which are set out in the sub-paragraph headed "Particulars of service contracts" in the section headed "Further information about directors, management, staff and experts" in Appendix 5 to this prospectus. However, the Group's financial performance and position may be adversely affected if, for whatever reason, the executive Directors and the senior management cease to play an active role in the management of the Group's business.

Reliance on supplies from unrelated manufacturers

The Group does not have its own manufacturing facilities. The products which are distributed or sold by the Group are sourced from traders and manufacturers located in Hong Kong or imported from the PRC, the US, Asia-Pacific region and Europe. In the event that the Group fails to obtain sufficient supply of products from these suppliers or manufacturers to meet the demand of its customers or for whatever reason, the supply of these products is delayed or not available, the Group's business and its profitability will be severely affected.

RISK FACTORS

In addition, if these manufacturers and traders decide to engage in direct distribution of their products to end users, thereby by-passing the Group, the Group's profitability and prospect will also be adversely affected. The Group does not have any exclusive arrangements for the distribution of any products. For the three years ended 31st March, 2000 and the seven months ended 31st October, 2000, approximately 6.2%, 9.5%, 15.2% and 25.4% respectively of the Group's turnover is attributable to products provided to the Group pursuant to certain non-exclusive Distribution Arrangements, details of which are set out on pages 30 to 32 of this prospectus. In the event that these manufacturers or suppliers cease to appoint the Group to distribute their products, the Group's business will be adversely affected.

Limited insurance coverage

The Group currently maintains only limited insurance cover for burglary and fire against its stock and shop, IC Master Shop and liability against employee compensation. The Group does not maintain any insurance for third party liability or product liability claims. Although the Group has not experienced any third party liability claims nor product liability claims in respect of its products sold in the past, if in the future there occurs any substantial claim in respect of the products distributed by the Group which is not covered by any insurance, the Group's business and profitability will be adversely affected.

Dividend

For the seven months ended 31st October, 2000, the Group declared and paid an interim dividend in the amount of about HK\$42 million. The Group declared and paid a special dividend of about HK\$75 million in March 2001. The payment of dividend was financed by internal resources of the Group.

Potential investors should be aware that the above dividend payments should not be used as a reference for the Company's dividend policy nor as an indication of the amount of dividends which the Company may declare. Further details on the dividend policy of the Company are set out in the paragraph headed "Profit estimate and dividends" in the section headed "Financial information".

Currency risks

During the three years ended 31st March, 2000 and the seven months ended 31st October, 2000, the Group's purchases and sales were principally made in US dollars and Hong Kong dollars. The Group may in the future transact in other foreign currencies. Accordingly, the Group's profitability could be adversely affected in the event of any unfavourable fluctuation in the trading currencies of the Group's product sales and material purchases. The Group has not entered into any foreign currency forward exchange contracts for the purpose of hedging against foreign exchange risks involved in the Group's operation, although the Group may do so in the future. As such, the Group is exposed to risk associated with currency conversion in the foreign exchange market and this can adversely affect the profitability of the Group.

Credit risks

Most of the sales of the Group are made on an open account basis with credit terms being offered to customers depending on their creditworthiness and their business relationship with the Group. Accordingly, the Group faces credit risks in collecting sales receivables due from its customers. Although the Group closely monitors its credit policy and the amount due from its customers, there is no assurance that all of its customers will settle their accounts receivable due to the Group, in which case the performance and profitability of the Group will be adversely affected.

RISK FACTORS

Inventory risks

As at 31st March, 2000, the Group had inventories of about HK\$47.4 million comprising of electronic parts and components, computer memories and peripherals, and electronic equipment. The Group's inventories represent approximately 32.6% of the total net assets of the Group as at 31st March, 2000. It is essential for the Group's business to maintain sufficient inventory to meet the demands of its customers and any unexpected orders for a particular product. In the event that the Group does not maintain sufficient level of inventory to meet the demand of its customers, the Group's profitability and prospects will be adversely affected.

On the other hand, if the level of inventory is too high, the Group's performance will be affected by slow moving and obsolete stocks. The products which the Group distributes are subject to continuous upgrading and development and new products utilising more advanced technology are constantly being developed to replace existing products. In the event that any existing stocks of the Group become obsolete, the Group's profitability and results will be adversely affected. There is no assurance that the Group will be able to keep its inventory at an optimum level to ensure that demands of its customers are being met whilst the risk of its products becoming obsolete are kept to minimal.

Trademarks

During each of the three years ended 31st March, 2000 and the seven months ended 31st October, 2000, about 3.1%, 4.3%, 6.6% and 16.5% respectively of the products of the Group was sold under the brand name of "MEC", and the remainder was either sold without any designated brand names or under the brand names of the original manufacturers. As at the Latest Practicable Date, some of the products of the Group were sold under the brand names of "MEC" and "MOSP". "MOSP" is a registered trademark owned by the Group. Applications have been made for trademark registration of "MEC" in Hong Kong and in the PRC. Such applications were, as at the Latest Practicable Date, under opposition. Accordingly, the applications may or may not be approved for registration by the relevant trademark authorities. If the applications are not approved, the Group may not take enforcement measures against any infringement of the "MEC" brand name under the statutory trademark law in the relevant jurisdictions, but may only rely on common law remedy of passing off or other regulations to protect such brand name.

Profits tax

A Plus has failed to file its tax returns in respect of the financial years ended 31 March 1998 and 31 March 1999 on time as required under the Inland Revenue Ordinance (Cap.112 of the Laws of Hong Kong). According to the Directors, no notices requesting for the filing of profits tax returns were received by A Plus in respect of these two financial years. These profits tax returns were voluntarily filed with the Inland Revenue Department in December 2000.

Pursuant to Section 80(2) of the Inland Revenue Ordinance, a company which fails to complete and file tax returns in accordance with the requirements set out in the Inland Revenue Ordinance may, if convicted, be subject to the penalty of a fine. The Commissioner of the Inland Revenue Department has the discretion to determine the amount of penalty to be imposed on the Group for such failure to file these profits tax returns. Up to the Latest Practicable Date, A Plus had not received any notice from the Inland Revenue Department indicating the amount of penalty to be imposed.

A provision of approximately HK\$1.4 million has been made in the accounts of the Group, representing the potential additional taxation which may be payable as a result of such failure. Such HK\$1.4 million represents 100% of the total taxation payable by A Plus for these two financial years.

RISK FACTORS

Reliance on the Hong Kong market

The major market of the Group is Hong Kong. For each of the three years ended 31st March, 2000 and the seven months ended 31st October, 2000, sales in Hong Kong accounted for approximately 50.9%, 55.6%, 63.0% and 73.2% respectively of the Group's total turnover. In the event of any adverse changes in the Hong Kong economy, the profitability and performance of the Group may be adversely affected.

RISK RELATING TO THE INDUSTRY

Competition

The Group's principal business is the distribution and sourcing of electronic and computer products of different brand names. The Directors consider that all companies engaged in the trading of electronic and computer products in Hong Kong are, to a certain extent, competitors of the Group. The Group's future growth and profitability may be adversely affected if the competitors become more successful than the Group in their distribution network, relationship with their suppliers and customers, product range or quality.

Threat of new entrants

Although barriers to entry to the sector of distribution of electronic components and computer accessories exist in terms of management's technical expertise and experience in electronics distribution, difficulties relating to building customer relationships and a large and broad customer base required for the establishment of enterprises having a size comparable to the Group, such barriers are low. Distributors in Hong Kong cannot be precluded from developing or acquiring the required technical capability and customer base through substantial investments in the necessary technology and market development to compete with the Group's existing business. If these new entrants become more successful than the Group, the Group's performance may be adversely affected.

Ability to source new products

Electronic and computer products are subject to continuous development and upgrade and new products utilising more up-to-date and advanced technology are constantly being developed. The Group's ability to maintain its competitiveness in the market is largely dependent on its ability to continue to source new and advanced products which meet customers' requirements. The Group may encounter difficulties in identifying, sourcing and marketing appropriate products in the future. The Group's profits may be adversely affected in the event that the Group is unable to respond to rapid changing market trend or innovative product development in the electronic and computer products market.

Uncertain economic outlook

Following the Asian financial crisis in the fourth quarter of 1997, Hong Kong which is the major market of the Group experienced a significant downturn in economic growth and a rise in unemployment rate. Many retailers in Hong Kong have streamlined their operations by either downsizing or closing their outlets. The economic outlook for Hong Kong in the near future may continue to remain uncertain and there is no assurance that the retail market will recover in the near future. As a result, the Group's performance may be adversely affected.

INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus contains particulars given in compliance with the Companies Ordinance, the Securities (Stock Exchange Listing) Rules and the Listing Rules for the purpose of giving information to the public with regard to the Group. 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 in this prospectus misleading.

PERMISSION OF THE BERMUDA MONETARY AUTHORITY

The Bermuda Monetary Authority has given its consent to, inter alia, the issue of Shares pursuant to the Share Offer and the Capitalisation Issue, the issue of Shares upon the exercise of the Over-allotment Option and the exercise of options granted under the Share Option Scheme. In granting such consent and in accepting this prospectus for filing, neither the Bermuda Monetary Authority nor the Registrar of Companies in Bermuda accepts any responsibility for the financial soundness of the Group or for the correctness of any of the statements made or opinions expressed in this prospectus or in the related application forms.

FULLY UNDERWRITTEN

The Share Offer is sponsored and managed by Oriental Patron, and is fully underwritten by the Underwriters. For full information about the Underwriters and the underwriting arrangements, see the section headed "Underwriting".

The Share Offer comprises the New Issue and the Placing. The New Issue is an offer for subscription of the New Issue Shares by the Company to the public in Hong Kong at the Issue Price, payable in full on application. The Placing is a placing by the Placing Underwriters, acting as agent for the Company, of the Placing Shares at the Issue Price. This prospectus and the related application forms set out the terms and conditions of the Share Offer.

PROSPECTUS TO BE DISTRIBUTED IN HONG KONG ONLY

No action has been taken in any jurisdiction other than Bermuda and Hong Kong to permit the offering of the Offer Shares or the distribution of this prospectus in any jurisdiction other than Hong Kong. This prospectus is not an offer or invitation, nor is it calculated to invite or solicit offers in any jurisdiction in which it is not authorised, and is not an offer or invitation to any person to whom it is unlawful to make an unauthorised offer or invitation.

APPLICATION FOR LISTING ON THE STOCK EXCHANGE

The Company has applied to the Listing Committee of the Stock Exchange for the listing of and permission to deal in its existing Shares, the Offer Shares, the Shares which are to be issued pursuant to the Capitalisation Issue and which may fall to be issued pursuant to the exercise of the Over-allotment Option and pursuant to the exercise of options which may be granted under the Share Option Scheme.

No part of the Shares or loan capital is listed or dealt in on any other stock exchange. At present, the Company is not seeking or proposing to seek listing or permission to deal on any other stock exchange.

INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

EXCLUSION OF EXTRANEOUS INFORMATION

The Shares offered under the Share Offer are offered solely on the basis of the information contained and the representations made in this prospectus. No person has been or is authorised in connection with the Share Offer to give any information or to make any representation not contained herein and any information or representation not contained herein must not be relied upon as having been authorised by the Company, the Sponsor, the Underwriters, any of their respective directors or any other persons involved in the Share Offer.

PROFESSIONAL TAX ADVICE RECOMMENDED

If you are unsure about the taxation implications of subscribing for, purchasing, holding or dealing in the Offer Shares, you should consult an expert.

The Company, Oriental Patron, the Underwriters, their respective directors and any other person involved in the Share Offer do not accept responsibility for any tax effects on, or liability of, any person resulting from subscribing for, purchasing, holding or disposing of or dealings in the Shares.

STAMP DUTY

Dealings in Shares registered on the Company's Hong Kong branch register of members will be subject to Hong Kong stamp duty.

PROCEDURES FOR APPLICATION FOR THE NEW ISSUE SHARES

The procedures for applying for New Issue Shares are set out in the section headed "How to apply for the New Issue Shares" in this prospectus and on the relevant application forms.

STRUCTURE OF THE SHARE OFFER

Details of the structure of the Share Offer, including its conditions, are set out in the section headed "Structure of the Share Offer" in this prospectus.

DIRECTORS

Name	Address	Nationality
<i>Executive Directors</i>		
Hung Kim Fung, Measure <i>(Chairman)</i>	House No 4 Conwell Villa 1 Cassia Road Yau Yat Chuen Kowloon Hong Kong	Chinese
Yeung Man Yi, Beryl <i>(Deputy Chairman)</i>	House No 4 Conwell Villa 1 Cassia Road Yau Yat Chuen Kowloon Hong Kong	Chinese
Hung Ying Fung	Block 43 7D Savanna Garden Tai Po Kau TPTL 72 New Territories Hong Kong	Chinese
Yeung Kwok Leung, Allix	3B Marigold Garden 12-14 Marigold Road Yau Yat Chuen Kowloon Hong Kong	Chinese
<i>Independent non-executive Directors and members of the audit committee</i>		
Charles E. Chapman	Flat B, 10th Floor Percival House 83 Percival Street Hong Kong	British
Leung Wai Cheung	Flat E, 9th Floor Block 6 Avon Park 15 Yat Ming Road Fanling New Territories Hong Kong	Chinese

PARTIES INVOLVED IN THE SHARE OFFER

Sponsor and Manager	Oriental Patron Asia Limited 42nd Floor, COSCO Tower 183 Queen's Road Central Hong Kong
New Issue Underwriters	Oriental Patron Asia Limited 42nd Floor, COSCO Tower 183 Queen's Road Central Hong Kong Sanfull Securities Limited 20th Floor, Far East Consortium Building 121 Des Voeux Road Central Hong Kong
Placing Underwriter	Oriental Patron Asia Limited 42nd Floor, COSCO Tower 183 Queen's Road Central Hong Kong
Legal advisers to the Company	<i>As to Hong Kong law</i> Chiu & Partners 41st Floor, Jardine House 1 Connaught Place Hong Kong <i>As to PRC law</i> Guangzhou Foreign Economic Law Office 15th Floor, Chengyue Plaza No. 448 Dongfeng Zhong Road Guangzhou PRC <i>As to Bermuda law</i> Conyers Dill & Pearman 2901 One Exchange Square 8 Connaught Place Hong Kong
Legal advisers to the Underwriters	Lovells 23rd Floor, Cheung Kong Center 2 Queen's Road Central Hong Kong

PARTIES INVOLVED IN THE SHARE OFFER

Auditors and reporting accountants

Arthur Andersen & Co
Certified Public Accountants
21st Floor, Edinburgh Tower
The Landmark
15 Queen's Road Central
Hong Kong

Property valuer

DTZ Debenham Tie Leung Limited
10th Floor, Jardine House
1 Connaught Place
Central
Hong Kong

Receiving bankers

Standard Chartered Bank
15th Floor, Standard Chartered Tower
388 Kwun Tong Road
Kwun Tong
Kowloon
Hong Kong

CORPORATE INFORMATION

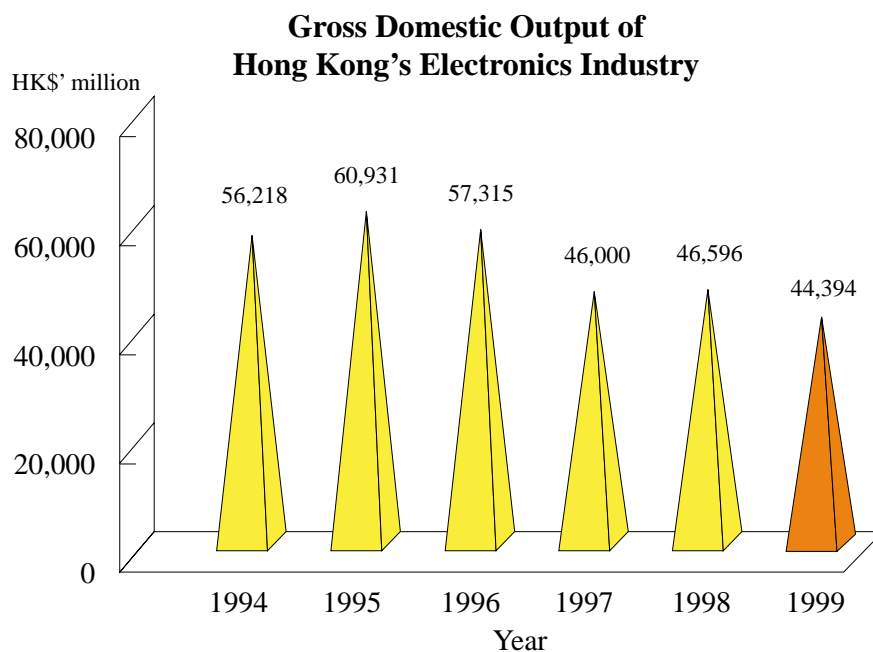
Registered office	Clarendon House 2 Church Street Hamilton HM 11 Bermuda
Head office and principal place of business	7th Floor, New Trend Centre 704 Prince Edward Road East San Po Kong Kowloon Hong Kong
Company homepage/website	http://www.mobicon.com (information on this website does not form part of this prospectus)
Company secretaries	Mr. Yeung Kin Kwan, Alvan, <i>FCCA, AHKSA, ATIHK</i> Mr. Ira Stuart OUTERBRIDGE III* <i>FCIS</i> * Mr. Ira Stuart Outerbridge III will resign as secretary of the Company immediately after the listing of the Shares on the Stock Exchange.
Authorised representatives	Mr. Hung Kim Fung, Measure Ms. Yeung Man Yi, Beryl
Bermuda resident representative	Mr. John Charles Ross COLLIS
Bermuda deputy resident representative	Mr. Anthony Devon WHALEY
Bermuda principal share registrar	Butterfield Corporate Services Limited Rosebank Centre 11 Bermudiana Road Pembroke Bermuda
Hong Kong branch share registrar and transfer office	Hong Kong Registrars Limited 2nd Floor Vicwood Plaza 199 Des Voeux Road Central Hong Kong
Principal banker	The Hongkong and Shanghai Banking Corporation Limited 2nd Floor 673 Nathan Road Mongkok Kowloon Hong Kong

INDUSTRY OVERVIEW

The information presented in this section is identified as having been extracted from publicly available documents and has not been prepared or independently verified by the Company, Oriental Patron, the Underwriters or any of their respective advisers or affiliates, or any other parties involved in the Share Offer. The Company makes no representation as to the accuracy or completeness of this information, which may not be consistent with information compiled from other sources, and accordingly the information contained in this section may not be accurate and should not be unduly relied upon.

According to the Trade Development Council of Hong Kong, Hong Kong's electronics industry is the largest merchandise export earner, accounting for 32% of Hong Kong total exports in 1999. The industry mainly comprises two product categories, namely parts and components, and finished goods. With respect to parts and components, which constitute about half of Hong Kong's electronics exports, the largest export items are parts and accessories for computers. Hong Kong also re-exports a large amount of integrated circuits and micro-assemblies, in particular, to the PRC for outward processing production. In addition, Hong Kong produces and exports a variety of parts and accessories for telecommunications items, audio-visual equipment, office machines, calculators and electronic watches and clocks, as well as components like resistors, capacitors, diodes and transistors. Finished goods constitute the other half of Hong Kong's electronics exports, a majority of which is audio-visual equipment, such as radios and cassette recorders.

Nowadays, most manufacturers have relocated the labour-intensive production processes to the PRC to maintain cost competitiveness. Their Hong Kong offices are mainly responsible for product development, quality control, management, marketing and logistic support. As such, the gross domestic output attributable to the electronics industry has remained stagnant over the years as shown in the chart below. Yet a number of companies are still maintaining the high value-added and/or capital-intensive production in Hong Kong, such as integrated circuits packaging and the production of multi-layer printed circuit boards.

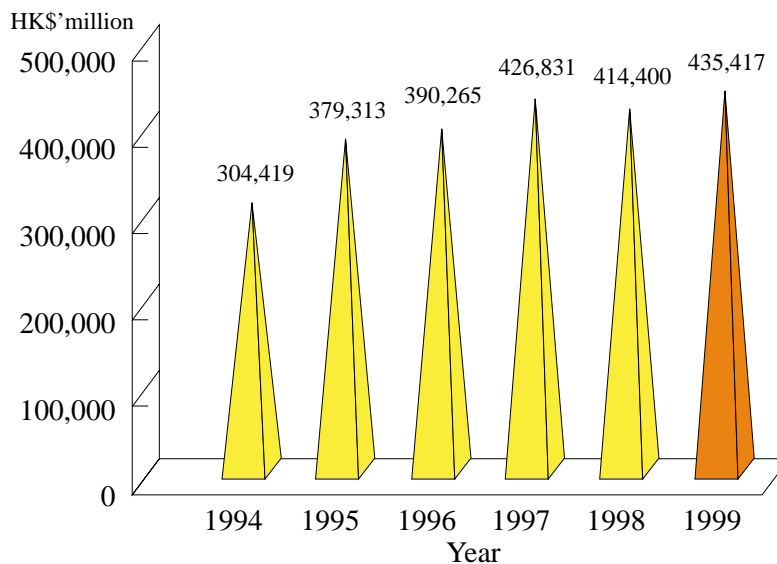


Source: Census and Statistics Department

INDUSTRY OVERVIEW

Hong Kong plays an important role as a trading centre of electronic parts and components in the Asia-Pacific region. Given its free port status and the advanced telecommunications infrastructure, Hong Kong in general allows companies to source electronic parts and components freely worldwide. As shown in the chart below, Hong Kong exports of electronic products grew by 5% in 1999, after a 3% decline in the preceding year. The rebound was due to a 13% surge in sales of parts and components, stemming from the revival of export production in Asia. The increased sales of telecommunication products and information technology equipment arising from the sustained demand for telecommunication services also added to the improvement in the Hong Kong exports of electronic products.

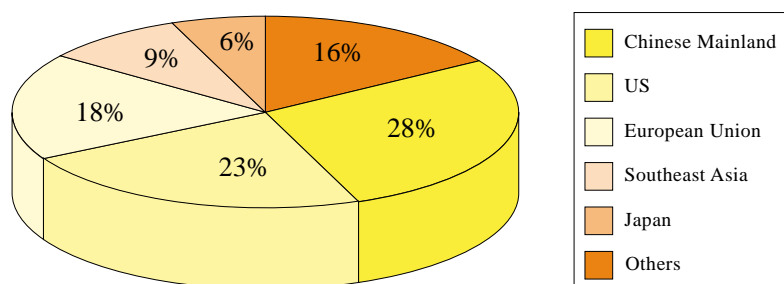
**Total Exports of Electronic Products
in Hong Kong**



Source: Census and Statistics Department

Due to the relocation of Hong Kong's electronics manufacturers and continuous growth of the Chinese economy, the PRC positioned itself as the largest export region in the Hong Kong's electronics industry in 1999, as shown in the graph below. Meanwhile, the robust US economy also generated a large demand for electronics products and thereby the US became the second largest export region of Hong Kong's electronics industry in 1999.

**Hong Kong Exports of Electronic Products
by Region in 1999**

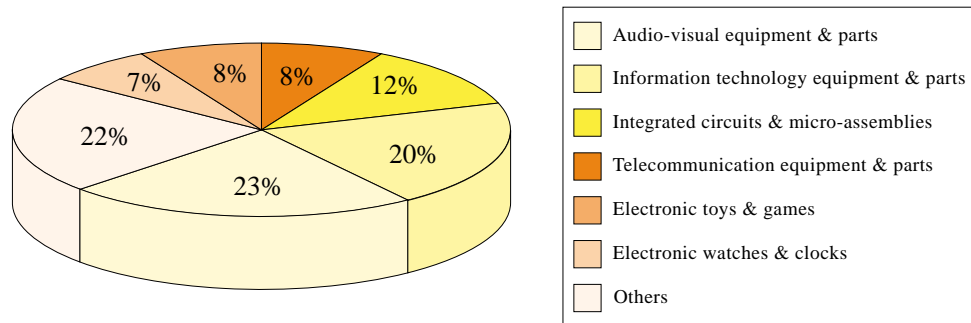


Source: Census and Statistics Department

INDUSTRY OVERVIEW

Audio-visual equipment and parts have maintained itself as one of the major export items of Hong Kong's electronics industry, as shown in the graph below. Meanwhile, due to the rapid development of the information technology industry, information technology equipment and parts became the second largest export item of Hong Kong's electronics industry in 1999.

Hong Kong Exports of Electronic Products by Product Type in 1999



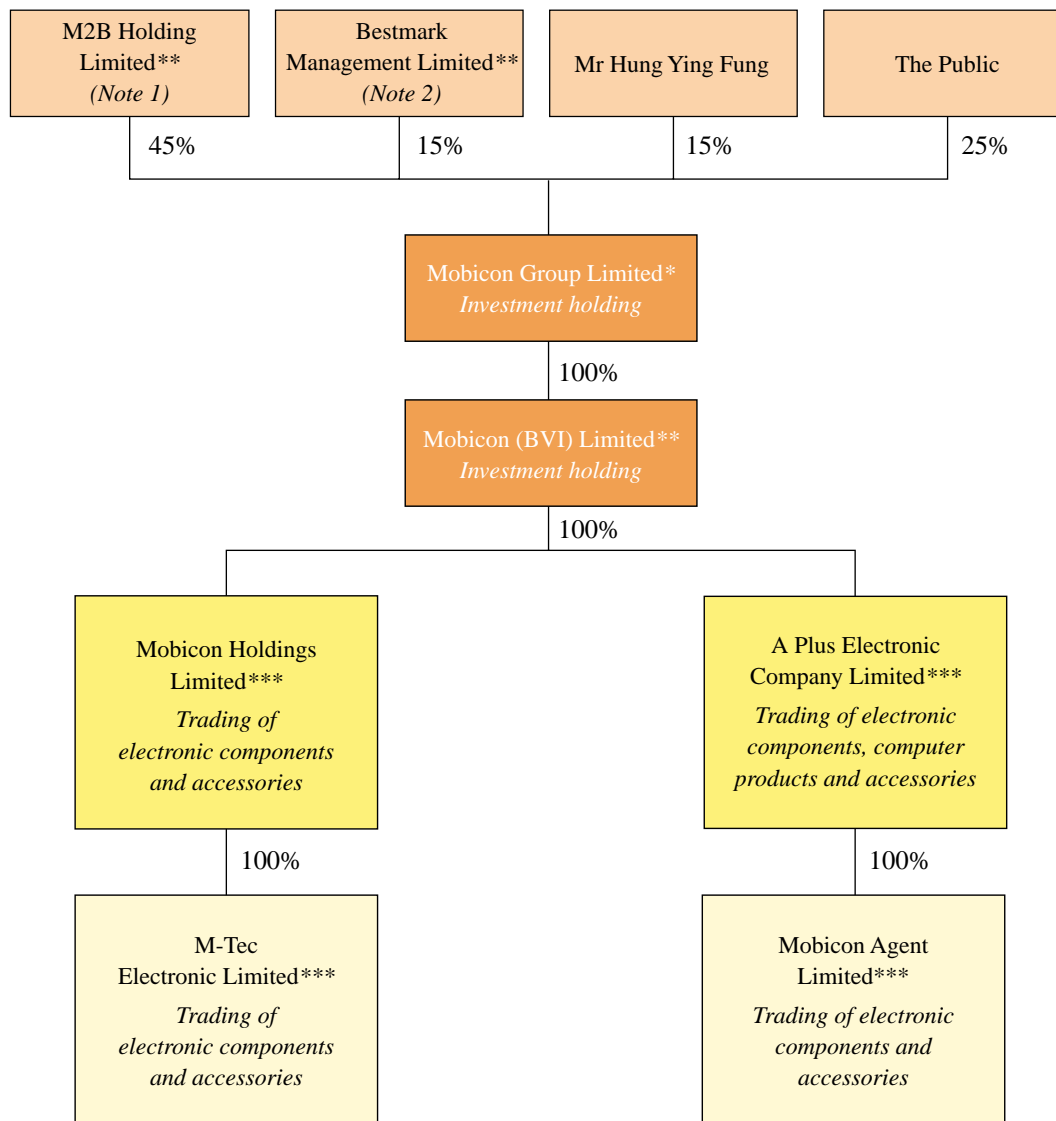
Source: Census and Statistics Department

As competition intensifies, manufacturers and suppliers alike differentiate their products by enhancing product features and enriching their product assortment by exploring new product lines. At the same time, customers become more demanding. In order to satisfy their frequent changes to product feature, shorter product life cycle as well as efficient maintenance of minimum inventory level, customers request manufacturers and/or suppliers to make frequent delivery of products and shorten their delivery times.

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GROUP STRUCTURE

The corporate structure and the main business activities of the principal members of the Group immediately after the listing of the Shares on the Stock Exchange (on the assumption that the Over-allotment Option is not exercised at all) are as follows:



- * incorporated in Bermuda
- ** incorporated in BVI
- *** incorporated in Hong Kong

Notes:

1. These Shares are held by M2B Holding Limited, a wholly-owned subsidiary of Action 2 Limited which, in turn, is wholly and beneficially owned by Mr. Hung and Ms. Yeung Man Yi, Beryl. Action 2 Limited is the trustee of Beryl Unit Trust set up by its shareholders. The assets of Beryl Unit Trust include/comprise the entire issued share capital of M2B Holding Limited, which are ultimately held by Trident Trust Company (Cayman) Limited as trustee for the benefit and upon trust for the Measure & Beryl Trust, which is a discretionary trust.

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2. These Shares are held by Bestmark Management Limited, a wholly-owned subsidiary of Holford Group Corporation which, in turn, is wholly and beneficially owned by Mr. Yeung Kwok Leung, Allix and his spouse, Ms. Wan Lam Keng. Holford Group Corporation is the trustee of A & W Unit Trust set up by its shareholders. The assets of A & W Unit Trust include/comprise the entire issue share capital of Bestmark Management Limited, which are ultimately held by Trident Trust Company (Cayman) Limited as trustee for the benefit and upon trust for the Trinity Trust, which is a discretionary trust.
3. The percentage of shareholdings shown in the above chart does not take account of any Shares which may be issued upon the exercise of the Over-allotment Option. Assuming that the Over-allotment Option is exercised in full, the percentage shareholdings of M2B Holding Limited, Bestmark Management Limited, Mr. Hung Ying Fung and the public in the Company will become approximately 43.3%, 14.5%, 14.5% and 27.7% respectively.

DESCRIPTION OF THE BUSINESS

The Group is principally engaged in the distribution and sourcing of electronic parts and components, as well as computer accessories. The Group's products can be generally divided into two categories, namely (1) computer memory modules and peripherals such as memory modules and computer motherboards; and (2) electronic parts and components such as semi-conductors, quartz crystals, capacitors and resistors. These products may bear no designated brand name, the brand names of the original manufacturers, or the brand names "MEC" (in respect of which applications for registration in Hong Kong and in the PRC as trademarks are in progress) and "MOSP" (one of the registered trademarks of the Group), depending on the customers' requirement. During the three years ended 31st March, 2000 and the seven months ended 31st October, 2000, about 3.1%, 4.3%, 6.6% and 16.5% respectively of the products of the Group was sold under the brand name "MEC", and the remainder was either sold without any designated brand names or under the brand names of the original manufacturers. As at the Latest Practicable Date, some of the products of the Group were sold under the brand names of "MEC" and "MOSP". "MOSP" is a registered trademark owned by the Group. Applications have been made for trademark registration of "MEC" in Hong Kong and in the PRC. Such applications were, as at the Latest Practicable Date, under opposition. Accordingly, the applications may or may not be approved for registration by the relevant trademark authorities. Please refer to the details of the Group's trademarks as set out in the section headed "Intellectual property rights of the Group" in Appendix 5 to this prospectus. It is the strategy of the Group to widen the variety of the products bearing the Group's brand names including "MEC" and "MOSP". The Directors believe that this will help to enhance the Group's corporate image as a provider of a wide range of electronic components.

The Group's major market is Hong Kong which accounted for about 50.9%, 55.6%, 63.0% and 73.2% of the turnover of the Group respectively for the three years ended 31st March, 2000 and the seven months ended 31st October, 2000. The Group has a customer base of over 3,000 customers comprising manufacturers, traders, retailers and individual end users, some of which have up to 8 years' business relationship with the Group. No single customer of the Group accounted for more than 15% of the Group's turnover for any of the three financial years ended 31st March, 2000 and the seven months ended 31st October, 2000.

The Group has business relationships with over 800 suppliers, most of whom are located in Hong Kong. For the three years ended 31st March, 2000 and the seven months ended 31st October, 2000, purchases from the top five suppliers represented about 25.1%, 33.9%, 31.4% and 31.2% respectively of the Group's total purchases. For each of the three years ended 31st March, 2000 and the seven months ended 31st October, 2000, the Group's purchases of electronic components from its largest supplier accounted for about 6.7%, 15.2%, 10.9% and 8.8% respectively of the Group's total purchases. The Group has business relationship of up to 8 years with its five largest suppliers for each of the three years ended 31st March, 2000. In addition, the Group has entered into various non-exclusive Distribution Arrangements with a number of manufacturers of electronic

BUSINESS

components and computer parts, details of which are set out in the paragraph headed “Distribution of brand name products” under the section headed “Business” of this prospectus.

The Directors consider the following to be the key factors contributing to the Group’s success:

- its reputation for providing a wide range of high quality products;
- the extensive experience and expertise of the Group’s management team in the distribution and sourcing of electronic parts and components, as well as computer accessories;
- its well-established business relationship with its solid customer base deriving from various sectors in the electronics and computer industries, including manufacturers, traders, retailers and individual end users;
- the widespread application and heavy consumption of the products sold by the Group in the electronics industry, being one of the key industries of Hong Kong;
- its ability to satisfy customers’ needs and preference by providing quick response and a wide range of electronic products to its customers; and
- its ability to provide its customers with one-stop sourcing for a wide range of electronic parts and components.

HISTORY AND DEVELOPMENT

The business of the Group was founded in 1983 by Mr. Hung, Ms. Yeung Man Yi, Beryl, Mr. Hung Ying Fung and Mr. Yeung Kwok Leung, Allix when they set up Mobicon Electronic Supplies Company as a shop at Sino Center, Mongkok, Hong Kong, aiming at serving local engineering houses and electronics hobbyists.

In August 1990, the Group became a distributor of Fujitsu microelectronics products, a well-known electronics manufacturer in Japan. The shop was subsequently relocated to Tung Choi Street, Kowloon, Hong Kong. In January 1991, MESC was incorporated. It was intended that the Group’s business would become more diversified, and its product range widened.

In 1992, Mobicon Agent Limited was incorporated as a wholly owned subsidiary of MESC. The issued share capital of Mobicon Agent Limited was subsequently transferred as to 70% to A Plus and as to 30% to Mr. Tam Kwok Wai, a senior management of the Group, in July 1999.

Through the distributorship of Fujitsu products, the Group became acquainted with the computer memory market, prompting the incorporation of A Plus in April 1993.

In November 1993, in light of the better profit margins arising from electronic components retailing, the Group invested over US\$1.5 million in setting up a retail branch operated under the name of IC Master Shop (the “Shop”) by MESC. It was intended that the Shop would provide a one-stop sourcing for various electronic parts and components catering for small sized orders from electronic engineers.

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In August 1995, as part of the Group's expansion, the head office was relocated to New Trend Centre, San Po Kong, Hong Kong. At that time, approximately 50 staff were employed.

As technology advanced, toys became more sophisticated, and became equipped with a variety of functions, such as voice, intelligent functions and remote controls, which increased the demand for a lot of electronic parts and components. In 1992, M-TEC was incorporated and through its operation, the Group began to sell electronic parts and components to customers from the electronic toys industry in May 1996. Through the operation of Mobicon Agent Limited, the Group began to provide industrial customers with other industrial components in October 1999.

Between 1998 and 2000, various distributorships were awarded to the Group. Amongst them were Sanwa Meter (HK) Ltd and Fluke South East Asia Pte Ltd, both of which are reputable international manufacturers of electronic measuring instruments. In addition, the Group was appointed a distributor of Legend computer products and QDI motherboards and a master distributor of Kingmax Inc., the world's first tiny BGA technology DRAM module manufacturer in Taiwan. Details of these Distribution Arrangements are set out on pages 30 to 32 of this prospectus.

In 1999, the Group introduced the Urgent Requirement Service to satisfy customers' need of immediate delivery and quick response. In 2000, the Group introduced the Excess Inventory Exchange service to provide an efficient market channel for electronics manufacturers to distribute their excess electronic components. The introduction of these two services was part of the Group's strategy to enhance its business relationship with customers in the electronics industry.

MHL was incorporated in October 2000 and, as part of the Reorganisation, acquired from MESCO its business of trading of electronic components and accessories as from 1st November, 2000.

In April 2001, the Group completed the Reorganisation in preparation for the listing of the Shares on the Stock Exchange and the Company became the holding company of the Group. Details of the Reorganisation are set out in the paragraph headed "Group reorganisation" in Appendix 5 to this prospectus.

PRODUCTS

The products which the Group has been authorised to distribute can be generally divided into two categories, namely (1) computer memory modules and peripherals such as memory modules and computer motherboards; and (2) electronic parts and components such as semi-conductors, quartz crystals, capacitors and resistors. During the three years ended 31st March, 2000 and the seven months ended 31st October, 2000, approximately 3.1%, 4.3%, 6.6% and 16.5% respectively of the products of the Group was sold under the brand name "MEC". The remainder was sold without any designated brand names or under the brand names of original manufacturers. As at the Latest Practicable Date, some of the products of the Group were sold under the brand names of "MEC" and "MOSP". "MOSP" is a registered trademark owned by the Group. Applications have been made for the registration of "MEC" as trademark in Hong Kong and in the PRC. Such applications were, as at the Latest Practicable Date, under opposition. Accordingly, the applications may or may not be approved for registration by the relevant trademark authorities. Please refer to the details of the Group's trademarks as set out in the section headed "Intellectual property rights of the Group" in Appendix 5 to this prospectus.

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The following table shows a breakdown of the Group's turnover by product category for each of the three years ended 31st March, 2000 and the seven months ended 31st October, 2000:

	Year ended 31st March,						Seven months ended	
	1998		1999		2000		31st October, 2000	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
Computer memory modules and peripherals	471,878	69.3	344,906	62.3	304,997	51.9	94,320	29.8
Electronic parts and components	209,286	30.7	208,737	37.7	283,175	48.1	222,070	70.2
	<u>681,164</u>	<u>100</u>	<u>553,643</u>	<u>100</u>	<u>588,172</u>	<u>100</u>	<u>316,390</u>	<u>100</u>

The gross profit margin of the Group increased gradually from 7.6% for the year ended 31st March, 1998 to 15.3% for the seven months ended 31st October, 2000. This is the continuous effort of the Group's strategy in focusing on the sales of electronic parts and components which command a higher profit margin, and providing more value-added services to its electronic parts and components customers (e.g. hiring of personnel with specialised industry knowledge and providing better after-sales services) which allows the Group to quote a higher price for its electronic parts and components products.

Distribution of brand name products

The following table summarises the distribution rights currently held by the Group under the Distribution Arrangements, all of which rights are non-exclusive, which the Group has formally entered into with the relevant suppliers (please refer to Notes 4 and 5) below. For the three years ended 31st March, 2000 and the seven months ended 31st October, 2000, approximately 6.2%, 9.5%, 15.2% and 25.4% respectively of the Group's turnover is attributable to products provided to the Group pursuant to certain non-exclusive Distribution Arrangements. In respect of the relationship with other suppliers, the Group sources and re-distributes their products, and no formal distribution arrangement has been entered into between the Group and those suppliers.

Brand name	Products	Territory	Appointed by	Remarks/Notes
Atmel	MCU Eeprom CPLD PROM Flash Memory FPGA	Hong Kong and the PRC	Atmel Sarl	1, 4, 8 The long stop date falls on 4th September, 2005
Huanyu	Nickel Cadmium Nickel Metal Hydride Lead Acid Battery	Hong Kong	Huanyu Power Source (Shenzhen) Co Ltd	3, 5
Bright Led	LED LED Display	Hong Kong	Bright LED Electronics Corp.	3, 5

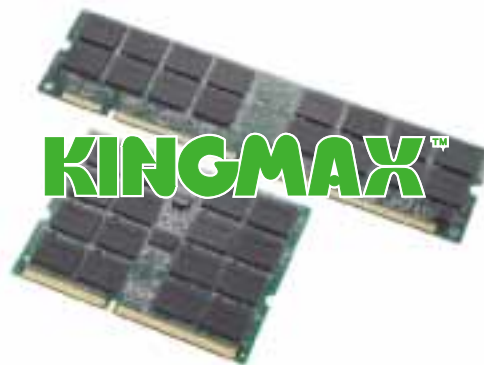
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Brand name	Products	Territory	Appointed by	Remarks/Notes
DC	Diode Bridge Rectifier	Hong Kong	DC Corporation (HK) Ltd	5, 7 The termination date falls on 31st December, 2001
EEMB	Battery Products	Hong Kong	Eemb Co., Ltd	3, 5
Excel Cell	Dip Switch Photo MOS Relay Solid State Relay Terminal Block USB Connector	Hong Kong	Excel Cell Electronic Co. Ltd	3, 5
Yageo	Chip Capacitor Chip Resistor Chip Inductor Electrolytic Capacitor	Hong Kong	Yageo Components (H.K.) Ltd	3, 5
Legend	Personal Computer Product QDI Mother Board	Hong Kong	Quantum Designs (HK) Ltd	3, 5
Legend	QDI Mother Board	Indonesia and Vietnam	Quantum Designs (HK) Ltd	1, 2, 4
Fluke	Test Equipment	Hong Kong	Fluke South East Asia Pte Ltd	1, 4, 7 The termination date falls on 31st December, 2001
Hi-Lo Systems	Universal Programmer	Hong Kong	Hi-Lo System Research Co Ltd	1, 2, 4
System General	Universal Programmer	Hong Kong	System General Corp.	1, 2, 4
Sanwa	Measuring Instruments	Hong Kong the PRC Macau	Sanwa Meter (H.K.) Ltd	1, 4, 7 The termination date falls on 31st May, 2001
Kingmax	Memory Card Memory Module Network Hub Switch	Hong Kong Macau	Kingmax Inc.	3, 5
Transcend	Memory Module Computer Mother Board	Hong Kong	Transcend (H.K.) Ltd	3, 5
Zetex	Discrete and Integrated circuit components	Hong Kong the PRC	Zetex (Asia) Ltd	3, 5
3M	Textool Test Sockets Receptacles Production Sockets	Hong Kong Macau	3M Hong Kong Ltd	4, 6, 7 The termination date falls on 31st December, 2001

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Notes:

1. No provision specifying a minimum amount of purchases during the contractual period is contained in the relevant Distribution Arrangement. The prices at which the products are to be sold under the Distribution agreement or Arrangement are not fixed.
2. The relevant Distribution Arrangement provides for a specific termination date but the Group's right to distribute is automatically renewable for a further period unless notification of termination is served prior to the termination date.
3. The relevant Distribution Arrangement does not provide for a specific termination date and the Group's right to distribute is on-going until terminated.
4. The Group has executed a formal distribution agreement with the supplier.
5. No formal distribution agreement has been made between the Group and the relevant supplier. The distributorship is evidenced by a written confirmation or a certificate given by the relevant supplier that the Group is an authorised distributor of that supplier's products. There is no specific contractual arrangement as to the minimum amount of purchase which the Group is required to make, nor is there any arrangement fixing the price at which products are to be provided to or sold by the Group.
6. The agreement for this Distribution Arrangement stipulates a minimum purchase to be satisfied by the Group during the period of 1st January, 2000 to 31st December, 2000. No minimum purchase amount is specified for subsequent periods.
7. The relevant Distribution Arrangement provides for a specific termination date.
8. The relevant Distribution Arrangement provides for a long stop date.



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PROCUREMENT/SOURCING

As with the products distributed by the Group, the principal products sourced by the Group can be generally divided into two categories, namely (1) computer memory modules and peripherals such as memory modules and computer motherboards; and (2) electronic parts and components such as semi-conductors, quartz crystals, capacitors and resistors. These products are mainly sourced from traders and manufacturers located in Hong Kong or imported from the PRC, the US, Asia-Pacific region and Europe.

The following table sets out the origin of the products sourced by the Group for each of the three years ended 31st March, 2000 and the seven months ended 31st October, 2000.

	Year ended 31st March,						Seven months ended	
	1998		1999		2000		31st October, 2000	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
Hong Kong	488,110	76.7	403,852	79.9	414,600	76.1	180,935	65.9
PRC	13,442	2.1	13,426	2.6	30,555	5.6	36,317	13.3
US	13,813	2.2	5,394	1.1	65,956	12.1	26,128	9.5
Asia-Pacific region	118,610	18.6	78,581	15.5	25,201	4.6	24,396	8.9
Europe	2,613	0.4	4,338	0.9	8,815	1.6	6,590	2.4
Total	<u>636,588</u>	<u>100.0</u>	<u>505,591</u>	<u>100.0</u>	<u>545,127</u>	<u>100.0</u>	<u>274,366</u>	<u>100.0</u>

The Group has business relationships with over 800 suppliers. For each of the three years ended 31st March, 2000 and the seven months ended 31st October, 2000, purchases from the top five suppliers represented about 25.1%, 34.0%, 31.4% and 31.2% respectively of the Group's total purchases. For each of the three years ended 31st March, 2000 and the seven months ended 31st October, 2000, the Group's purchases of electronic components from its largest supplier accounted for about 6.7%, 15.2%, 10.9% and 8.8% respectively of the Group's total purchases. The Group has established business relationships of up to 8 years with its five largest suppliers.

None of the Directors, their respective associates or any shareholder of the Company has any interest in any of the Group's five largest suppliers for each of the three years ended 31st March, 2000 and the seven months ended 31st October, 2000. The Directors consider that the Group's relationships with its suppliers are good and the Group has not experienced any major difficulty in obtaining adequate supply of electronic and computer products to meet its delivery schedules.

The Group does not rely on a single source of supply for most of its electronic and computer products. No single supplier accounted for more than 16% by value of the Group's total purchases for each of the three years ended 31st March, 2000 and the seven months ended 31st October, 2000. In the past, the Group did not encounter any delivery disruption due to the shortage of supply of electronic and computer products. The Directors believe that most of the products traded by the Group can be purchased from a number of different suppliers at prices comparable to those paid to the Group's current suppliers. The Group has not entered into any long term contracts, but only the Distribution Arrangements, with its suppliers.

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The Group's purchases are mainly made in Hong Kong dollars and US dollars. Payments of the Group's purchases are primarily made either on an open account basis with credit terms ranging from 30 days to 60 days or by cash on delivery basis.

The procurement team currently has 11 staff, who are responsible for updating and utilising an extensive database of component supplies information, comprising information in relation to over 130,000 inventory items, by which optimal purchases are made to reduce costs and increase efficiency.

SALES AND MARKETING

Customers

The Group currently has a customer base consisting of over 3,000 customers, including manufacturers, traders, retailers and individual end users, most of which are located in Hong Kong and the PRC.

For each of the three years ended 31st March, 2000 and the seven months ended 31st October, 2000, the top five customers of the Group, which comprised manufacturers and traders, accounted for about 26.0%, 26.2%, 18.8% and 15.5% respectively of the Group's total turnover. For each of the three years ended 31st March, 2000 and the seven months ended 31st October, 2000, the largest customer of the Group accounted for about 9.2%, 12.4%, 6.9% and 5.1% respectively of the Group's total turnover. The Group has over 8 years of business relationship with its largest customer for the year ended 31st March, 2000 and up to 8 years of business relationship with the other top four customers of the Group. None of the Directors, their respective associates or any shareholder of the Company has any interest in any of the Group's top five customers for the year ended 31st March, 2000 or the seven months ended 31st October, 2000.

Principal markets

The following table illustrates the breakdown of the Group's turnover by geographical area for each of the three years ended 31st March, 2000 and the seven months ended 31st October, 2000.

	Year ended 31st March,						Seven months ended	
	1998		1999		2000		31st October, 2000	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
Hong Kong	346,787	50.9	307,845	55.6	370,514	63.0	231,623	73.2
Europe	134,864	19.8	129,517	23.4	81,631	13.9	37,289	11.8
US	117,222	17.2	69,921	12.6	77,737	13.2	18,855	6.0
Asia-Pacific region	62,988	9.3	35,660	6.5	41,235	7.0	19,957	6.3
Others	19,303	2.8	10,700	1.9	17,055	2.9	8,666	2.7
Total	<u>681,164</u>	<u>100.0</u>	<u>553,643</u>	<u>100.0</u>	<u>588,172</u>	<u>100.0</u>	<u>316,390</u>	<u>100.0</u>

Note: Others include Africa, Middle East and the PRC.

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Payment terms

All of the Group's sales are denominated in US dollars or Hong Kong dollars. Payments in US dollars represent about 58.3%, 60.0% and 47.1% respectively of the Group's total sales for each of the three years ended 31st March, 2000 and 26.6% for the seven months ended 31st October, 2000, while the remaining payments were made in Hong Kong dollars.

Payment to the Group is principally made by way of cash on delivery and open account basis with credit terms ranging from 30 days to 60 days. Depending on the creditworthiness of the customers and the business relationship with the Group, the Group offers different credit terms and determines the maximum amount of each purchase order allowed to be made on credit and also the total outstanding amount for each customer. The Group administers a credit control policy whereby past payment records and credit rating of customers are centralised in a computer database where information can be retrieved easily to assist the Group in checking the credit rating of an individual customer and determining the amount of order that the Group will accept and the value of goods to be released to an individual customer based on the assigned credit rating, orders on hand and other credit information on the customer. The credit rating of each customer is also reviewed periodically, for example, in response to changes in regional financial conditions.

For the year ended 31st March, 2000, about 21% of the Group's turnover was settled by open credit term, while the remaining 79% by cash on delivery or advance payment.

The management of the Group closely monitors the amounts due from its customers from time to time and will adjust the credit terms granted to its customers. The management of the Group reviews the bad and doubtful debt position on a regular basis. Provision will be made on a specific basis following the identification of any doubtful debts. For the three years ended 31st March, 2000 and the seven months ended 31st October, 2000, provisions for bad and doubtful debt of the Group were HK\$307,000, HK\$2,000, HK\$301,000, and Nil respectively representing 0.05%, 0.0004%, 0.05% and 0% respectively of the Group's total turnover. The Directors believe that the upward trend of the Group's accounts receivable as at 31st October, 2000 is mainly due to an increase in sales of electronic parts and components during the three years ended 31st March, 2000 and the seven months ended on 31st October, 2000, particularly to Hong Kong based customers who generally request for longer credit period. As all of the Group's accounts receivable were settled subsequent to 31st October, 2000, the Directors do not consider any provision for accounts receivable is necessary.

Seasonality

The Directors estimate that it usually takes between 1 and 30 days from receiving an order to delivery for suppliers and customers depending on the quantity involved in the relevant order. The Group generally records a higher turnover during the period from April to October due to the high season of the industry and a slightly lower turnover in February as a result of the stoppage of production of electronic products by most manufacturers in Hong Kong during the Chinese New Year holidays.

Marketing and promotion

The Directors recognise the importance of product image and seek to increase consumer awareness of the Group's brand names through selective use of marketing means including the distribution of catalogues, advertisements in electronics magazines, participation in trade shows and posting of product information on the Group's website. All the marketing channels are carefully

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selected and the Group's management regularly assess cost effectiveness of each channel. Market research of the products was conducted by the Group. New products with good distribution and market potentials are identified and sourced from the manufacturers and suppliers. The Group's marketing and promotion staff maintain contacts with customers by visiting them on a regular basis in order to keep abreast of the market trends and developments. Annually, the Group publishes a two-volume product catalogue which sets out all the products distributed by the Group, together with detailed specifications of such products. In addition to the catalogues, the Group's websites (including those having the domain names of "www.mobicon.com" and "www.mobicon.com.hk") also contains information on the products distributed by the Group, and provides a medium for customers around the world to order goods (by means of email) through those websites.

Besides, the Group operates a retail shop, IC Master shop. In addition to selling electronic products to retail customers, IC Master shop is also a showroom for the promotion of the Group's brand names and products, and a customer service centre providing after-sales services, such as repairs and maintenance for the electronic equipment and computer products sold by the Group.

MESC, for its then business of trading of electronic components and accessories, maintained a representative office in Shenzhen, the PRC. Since 1st November, 2000, such trading business has been transferred to MHL. Pursuant to the terms of the agreement between MESC and MHL, the operations of the representative office was agreed to be transferred to MHL and with effect from 1st November, 2000 have been held on trust by MESC for the benefit of MHL. At present, the Group is in the process of establishing its own representative office. MESC's office will cease operations upon the establishment of the Group's representative office. Such representative office will not carry out any trading activities of the Group, but will perform only general marketing functions and provide administrative and liaison services to the Group's customers in the PRC.

The Group's sales and marketing team comprises 44 staff who are responsible for liaising with its customers. The Group focuses on satisfying customers' needs by providing high quality products and timely delivery at competitive prices. The Group has not experienced any significant disputes with its customers or faced cancellation of any significant orders by its customers.

QUALITY CONTROL AND ASSURANCE

The Directors consider that the Group's ability to maintain the high quality of its products which it provides to its customers is one of the competitive strengths of the Group. The Group conducts quality control exercise on a regular basis for the maintenance of and improvement in the Group's product quality.

Quality control is implemented by the quality assurance department of the Group, which comprises nine staff. In order to ensure that its products comply with standards required by its customers, the Group has adopted the following procedures:

- random samples are selected from each batch of products for inspection; and
- occasional visits to the suppliers' premises, including manufacturing plants and warehouses, in order to ensure proper quality control measures are implemented by the suppliers.

Sub-standard products are handed over by the quality assurance department to the relevant department for return to the relevant supplier.

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As a result of the quality control procedures, the Group experienced few sales return, which accounted for approximately 0.3%, 0.2%, 0.2%, and 0.4% respectively of the total turnover of the Group in each of the three financial years ended 31st March, 2000 and the seven months ended 31st October, 2000. Returned goods are investigated by the quality assurance department for reasons of the defects and recommendations will be given to the suppliers to avoid product defects in the future.

INVENTORY CONTROL

As at 31st October, 2000, the Group had inventories of about HK\$53.9 million comprising electronic parts and components, computer memory modules and peripherals, and electronic equipment. For the year ended 31st March, 2000 and the seven months ended 31st October, 2000, the average number of stock turnover days of the Group were about 26.6 days and 40.3 days respectively. Ordered goods are kept in the Group's warehouses pending delivery.

The Group closely monitors the total level of inventories. As at 31st March, 1998, 1999 and 2000 and 31st October, 2000, provisions of approximately HK\$7.4 million, HK\$8.1 million, HK\$8.8 million and HK\$9.2 million respectively were made against inventories.

INTELLECTUAL PROPERTY RIGHTS

The Group has registered or has been assigned registered trademarks "IC Master 博士 Shop", "M.S@ki 私の良品" and "MOSP" in Hong Kong. Applications for registration of other trademarks are also being made in Hong Kong and the PRC. Among these applications, those made in Hong Kong and in the PRC relating to the trademark of "MEC" were, as at the Latest Practicable Date, under opposition. Accordingly, such applications may or may not be approved for registration by the relevant trademark authorities.

Further details of the intellectual property rights of the Group are set out in the paragraph headed "Intellectual property rights of the Group" in Appendix 5 to this prospectus.

The Group will assess these suppliers through the conduct of the normal product quality assessment, including random sample inspection and regular factory and warehouse visits. In addition, the product quality of these suppliers' goods and the production process control thereof will be fully assessed in order to meet the quality requirement of the Group before the Group's trademark is imprinted on the products of the suppliers. The practice of imprinting trademark or brand name on products of suppliers is generally in line with the industrial practice of OEM (or original equipment manufacturing) or ODM (or original design manufacturing). In general, it is lawful for the Group to imprint the Group's trademark on the products of the suppliers concerned, subject to generally the following conditions being satisfied:

- (a) the products are non-brand products manufactured by the relevant suppliers;
- (b) the products do not infringe any intellectual property right of any third party; and
- (c) the supplier agreed that the non-brand products may be imprinted with the Group's trademark under the supply agreements made between the Group and the supplier concerned.

In the imprinting of the Group's trademarks on the suppliers' products, the above conditions are observed.

COMPETITION

As there is no specific restriction limiting new entrants to the electronics industry, the Directors consider that the entry barrier to this industry is low and that all businesses engaged in the distribution of electronic and computer products are, to a certain extent, competitors of the Group. However, the Directors believe that the Group has certain competitive advantages over its competitors, namely the Group has a wide product range, an established customer base, and the ability to maintain high operating efficiency and consistent product quality. In addition, the Group's product development staff follow closely the latest technological developments in the industry. New products which the Directors consider have good distribution and market potentials are regularly identified and sourced from the manufacturers and suppliers. With such competitive edges, the Directors believe that the Group has maintained a competitive position in the market.

As to competition which may arise from e-commerce, Directors consider that e-commerce may facilitate interaction between manufacturers and customers. However, the Group's key success factors include its ability to provide its customers with one-stop sourcing for a wide range of electronic parts and components and its ability to satisfy customers' needs and preference by providing quick response to the customers. In such perspective, the Directors believe that the Group's competitive edge will not be adversely affected by the emergence of e-commerce for the following reasons:

- (a) the Group sources its electronic and computer products and equipment from a large number of suppliers. It does not unduly rely on any particular suppliers;
- (b) based on the experience of the Directors, a customer normally purchases products or equipment from more than one supplier under the same order. It is neither convenient nor cost/time effective for a customer to purchase, whether through the Internet or otherwise, products from different manufacturers;
- (c) as counterparty risks may arise from electronic transactions (in particular, those involving parties in different jurisdictions), some if not many customers and/or manufacturers may prefer to deal with authorised distributors of good repute, such as the Group; and
- (d) local customers prefer to deal with the Group because overseas manufacturers may not be able to render timely after-sales services to such customers.

CONNECTED TRANSACTIONS

Following the listing of the Shares on the Stock Exchange, transactions between members of the Group and the connected persons to the Company will constitute connected transactions for the Company under the Listing Rules. The connected transactions which are expected to continue following the listing of the Shares on the Stock Exchange are:

(1) Leases between MHL and M-Bar Limited

M-Bar Limited ("M-Bar") is beneficially owned as to 30% by Mr. Hung, 30% by Ms. Yeung Man Yi, Beryl, 20% by Mr. Hung Ying Fung and as to the remaining 20% by Mr. Yeung Kwok Leung, Allix, all of whom are executive Directors. By nine respective lease agreements all dated 2nd April, 2001, M-Bar agreed to lease to MHL various premises for a term of five years commencing from 1st February, 2001 to 31st January, 2006. MHL has an

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option to renew for another three years upon expiry of the initial five-year term at the then prevailing market rent. The same terms shall apply to any renewed lease, except that there will be no option for renewal under the renewed leases.

MHL has the right to terminate any of the nine lease agreements at any time by giving to M-Bar not less than three months' prior notice of termination. The particulars of each of the leased premises, the monthly rental and the use of the premises are set out below:

Premises	Gross Floor Area/ Saleable Area (sq.ft.)	Monthly rental (HK\$) (Notes)	Use
1. Units 601-605 on 6th Floor and Units 701-703 on 7th Floor, Hanley House, 776-778 Nathan Road, Mongkok, Kowloon	2,942 (saleable)	35,000	office
2. Shop F on Ground Floor, Lai Ming Building, 223 Tung Choi Street, Mongkok, Kowloon	1,142 (saleable)	40,000	retailing
3. Private Car Parking Space No. 25 on 3rd Floor, New Trend Centre, 704 Prince Edward Road East, 104 King Fuk Street, San Po Kong, Kowloon	–	2,000	parking
4. Private Car Parking Space No. 6 on 3rd Floor, New Trend Centre, 704 Prince Edward Road East, 104 King Fuk Street, San Po Kong, Kowloon	–	2,000	parking
5. Private Car Parking Space No. 24 on 3rd Floor, New Trend Centre, 704 Prince Edward Road East, 104 King Fuk Street, San Po Kong, Kowloon	–	2,000	parking
6. Private Car Parking Space No. 13 on 4th Floor, New Trend Centre, 704 Prince Edward Road East, 104 King Fuk Street, San Po Kong, Kowloon	–	2,000	parking

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Premises	Gross Floor Area/ Saleable Area (sq.ft.)	Monthly rental (HK\$) (Notes)	Use
7. Units 1-11 on 7th Floor, New Trend Centre, 704 Prince Edward Road East, 104 King Fuk Street, San Po Kong, Kowloon	10,112 (gross)	78,000	office and storage
8. Units 1-4 on 8th Floor and Private Car Parking Space No. 7 on 3rd Floor, New Trend Centre, 704 Prince Edward Road East, 104 King Fuk Street, San Po Kong, Kowloon	5,158 (gross)	42,000	office and (for the car park only) parking
9. Units 5-9 on 23rd Floor and Private Car Parking Space No. 6 on 4th Floor, New Trend Centre, 704 Prince Edward Road East, 104 King Fuk Street, San Po Kong, Kowloon	3,375 (gross)	28,000	storage and (for the car park only) parking

Notes:

1. The monthly rental is exclusive of rates, Government rent and management charges, which are payable by MHL. It is subject to annual adjustment to the market rate prevailing with effect from each anniversary of the commencement date of the lease for both the initial term and any renewed term of the lease.
2. A rental deposit equivalent to two months rental was paid by MHL to M-Bar on the date of the nine respective lease agreements.

(2) Lease between MHL and Mr. Hung and Ms. Yeung Man Yi, Beryl

By a lease agreement dated 2nd April, 2001, Mr. Hung and Ms. Yeung Man Yi, Beryl agreed to lease to MHL the premises at Shop A on Ground Floor, Lai Ming Building, 223 Tung Choi Street, Mongkok, Kowloon, Hong Kong for a term of five years commencing from 1st February, 2001 to 31st January, 2006. The monthly rent is HK\$40,000 and is exclusive of rates, Government rent and management charges, which are payable by MHL. A rental deposit equivalent to two months' rental was paid by MHL to Mr. Hung and Ms. Yeung Man Yi, Beryl as lessors on the date of the lease agreement. The monthly rental is subject to annual adjustment to the market rate prevailing with effect from each anniversary of the commencement date of the lease for both the initial term and any renewed term of the lease.

MHL has an option to renew for another three years upon expiry of the initial five-year term at the then prevailing market rent. The same terms shall apply to any renewed lease, except for that there will be no option for renewal under the renewed lease.

MHL has the right to terminate the lease at any time by giving to Mr. Hung and Ms. Yeung Man Yi, Beryl not less than three months' prior notice of termination.

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The premises have a saleable area of approximately 1,129 sq.ft. and are currently occupied by the Group for its retail business.

The initial rentals of the premises under the leases referred to correspond to their fair market rentals as set out in the valuation report prepared by DTZ Debenham Tie Leung Limited (an independent professional valuer) in Appendix 3 to this prospectus.

Under the Listing Rules, for so long as Mr. Hung, Ms. Yeung Man Yi, Beryl, Mr. Hung Ying Fung and Mr. Yeung Kwok Leung, Allix (together with their respective associates, whether individually or taken together) remain Directors and for 12 months afterwards, the leases would constitute “connected transactions” of the Company upon the listing of the Shares and, unless applicable exceptions under the Listing Rules apply, the leases (“Transactions”) would normally require disclosure by way of press notice, circular to shareholders and, depending on the value of the Transactions involved, prior approval by independent shareholders of the Company on each occasion as they are entered into. The respective prescribed maximum amounts stated in item (v) below do not exceed HK\$10 million. Accordingly, the waiver application referred to below only relates to a waiver from the strict compliance with Rule 14.25(1) of the Listing Rules which, had such rule applied, would have required the Company to disclose the above of the Transactions by way of announcement published in the newspapers. Upon the expiry of the first three years of the lease period specified in the agreements governing the Transactions, the Transactions during the remaining two years of the lease period will be subject to the then relevant applicable provisions of the Listing Rules.

In the opinion of the Directors, including the independent non-executive Directors, having reviewed the terms of the leases and the report by DTZ Debenham Tie Leung Limited mentioned above, the Transactions have been entered into in the ordinary course of business of the Group, on normal commercial terms and are fair and reasonable so far as the shareholders of the Company are concerned.

Based on documents and information provided by the Company, and in reliance upon the representations and confirmation from DTZ Debenham Tie Leung Limited, the property valuer, the Sponsor is of the view that the Transactions have been entered into in the ordinary and usual course of the Group’s business and on normal commercial terms which are fair and reasonable so far as the shareholders of the Company are concerned.

As the Transactions were entered into in the normal and ordinary course of business of the Group and will be conducted on an arm’s length basis on normal commercial terms which are fair and reasonable, the Directors consider that it would not be practicable to make disclosure of, or (where necessary) to obtain shareholders’ approval for the Transactions.

Accordingly, the Company has applied to the Stock Exchange for a waiver from the disclosure requirement under the “connected transaction” provisions of Rule 14.25(1) of the Listing Rules in respect of the Transactions for the first three years under the terms of the agreements governing such Transactions. The conditions to the grant of such waiver are as follows:

- (i) the Transactions are and will be:
 - (a) entered into in the ordinary and usual course of business of the Group;
 - (b) conducted on (A) normal commercial terms (which expression will be applied by reference to transactions of a similar nature and to be made by similar entities) or, (B) if there is no available comparison, on terms that are fair and reasonable so far as the shareholders of the Company are concerned;

BUSINESS

- (c) entered into either (A) in accordance with the terms of the agreements governing the Transactions or (B) if there are no such agreements, on terms no less favourable than those available to or from independent third parties;
- (ii) details of the Transactions in each financial year shall be disclosed as required under Rule 14.25(1)(A) to (D) of the Listing Rules in the Company's annual report in the relevant financial year together with a statement of the opinion of the audit committee of the Company and the auditors of the Company referred to in items (iii) and (iv) below;
- (iii) the auditors of the Company shall review annually the Transactions for which waiver has been sought and confirm in a letter ("Auditors Letter") to the Directors of the Company (a copy of which shall be provided to the Stock Exchange) in respect of the Transactions during each financial year stating whether:
 - (aa) the Transactions have received the approval of the Company's board of Directors;
 - (bb) the Transactions are made in accordance with the terms of the agreements relating to each of the respective Transactions; and
 - (cc) the aggregate value of the Transactions in each of the three years under the terms of the agreements governing the Transactions does not exceed the respective amount set out in item (v) below.

Where, for whatever reason, the auditors decline to accept the engagement or are unable to provide the Auditors Letter, the Directors shall contact the Listing Division of the Stock Exchange immediately;

- (iv) the audit committee of the Company shall review the Transactions annually and confirm in the Company's next annual report that these were conducted in the manner as stated in items (i) and (v);
- (v) the aggregate value of the Transactions in each of the first three years under the terms of the agreements governing the Transactions does not exceed HK\$3,252,000, HK\$3,577,200 and HK\$3,934,920 respectively; and
- (vi) each of the Company, M-Bar and the abovenamed connected persons shall provide to the Stock Exchange an undertaking to the effect that, for so long as the Company's shares are listed on the Stock Exchange, it/he will provide the Company's auditors with full access to its/his relevant records for the purpose of the auditors' review of the Transactions.

As the rental payable under each of the Transactions will be adjusted on an annual basis by reference to the prevailing market rate, it is possible that the aggregate value of the Transactions may exceed HK\$10 million or three per cent. of the book value of the consolidated net tangible assets of the Group, whichever is higher, for any remaining years of the term not covered by the waiver.

The above waiver granted by the Stock Exchange will not continue to apply if there is any change in the terms of the relevant lease agreements (save as provided under such agreements) upon renewal.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

DIRECTORS

Executive Directors

Hung Kim Fung, Measure, aged 40, is the founder of the Group and the Chairman of the Company. He has about 20 years of experience in the electronics industry. Mr. Hung is responsible for the Group's strategic planning and corporate policies. He joined the Hong Kong Electronic Industries Association Limited ("HKEIA") as an Executive Committee member in 1995. In 1997–1999, Mr. Hung was nominated vice-chairman of the China Affair Sub-Committee of HKEIA. In 1999–2001, Mr. Hung was nominated vice-chairman of the Promotions and Membership Sub-committee of HKEIA.

Yeung Man Yi, Beryl, aged 39, is the founder of the Group and the Deputy Chairman of the Company. Ms. Yeung is responsible for the Group's finance, administration and internal control. She has over 20 years of experience in the electronics industry. She is the wife of Mr. Hung.

Hung Ying Fung, aged 37, is the founder of the Group and an executive Director. He is responsible for the management and the business development of the Group and has over 15 years of experience in the electronics industry. In March 2001, he was nominated as the director of the Chamber of Hong Kong Computer Industry Company Limited. He is the brother of Mr. Hung.

Yeung Kwok Leung, Allix, aged 38, is the founder of the Group and an executive Director. Mr. Yeung is responsible for the management and business development of the retail business of the Group. He has over 15 years of experience in the electronics and computer industry. He is the brother of Ms. Yeung Man Yi, Beryl.

Each of the executive Directors, has entered into a service contract with the Company for an initial fixed term of three years commencing from 1st April, 2001, and will continue thereafter until terminated by not less than three months' notice in writing served by either party on the other, which notice shall not expire until after the fixed term. The aggregate amount of fees and other emoluments payable to all the executive Directors under the existing contracts for the year ending 31st March, 2002 (before any annual increment referred to below) are HK\$4,338,000 (subject in each case to an annual increment after 31st December, 2001 at the discretion of the Directors of not more than 10% of the annual salary immediately prior to such increase). In addition, for the financial year ending 31st March, 2002 and each of the financial years thereafter, the executive Directors are also entitled to a discretionary bonus provided that the aggregate amount of the bonuses payable to all the executive Directors for any financial year of the Company may not exceed 5% of the audited consolidated or combined net profit of the Group (after taxation and minority interests and payment of such bonuses but excluding extraordinary and exceptional items) in respect of that financial year of the Group. An executive Director may not vote on any resolution of the Directors regarding the amount of the discretionary bonus payable to him or her. The current basic annual salaries of the executive Directors are as follows:

Name	Amount
Mr. Hung Kim Fung Measure	HK\$1,300,000
Ms. Yeung Man Yi, Beryl	HK\$1,300,000
Mr. Hung Ying Fung	HK\$845,000
Mr. Yeung Kwok Leung, Allix	HK\$845,000

Pursuant to the service contracts mentioned above, each of the executive Directors is entitled to an aggregate sum not exceeding HK\$50,000 as medical allowances and a motor car provided by the Company.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

Non-executive Directors

Charles E. Chapman, aged 52, is an independent non-executive director of the Company. He joined the HKEIA as Executive Director in May 1988 and is also the Managing Director of the Association's subsidiary publishing company, the Hong Kong Electronics Promotions Ltd. which published the annual "Directory of Hong Kong Electronics Industry". Prior to joining HKEIA, Mr. Chapman worked for 11 years as Economics Editor at the Hong Kong Trade Development Centre and for eight years as Business Editor in a local English-language newspaper.

Leung Wai Cheung, aged 36, is currently the executive director and chief financial officer of FlexSystem Holdings Limited, a company listed in Hong Kong. Mr. Leung is a qualified accountant and chartered secretary with over 14 years of experience in accounting, auditing and financial management. He graduated from Curtin University with a Bachelor of Commerce degree majoring in accounting and subsequently obtained a postgraduate diploma in corporate administration and Master of Professional Accounting from the Hong Kong Polytechnic University. He is an associate member of each of the Hong Kong Society of Accountants, Australian Society of Certified Practising Accountants, the Institute of Chartered Secretaries and Administrators, the Hong Kong Institute Secretaries and The Taxation Institute of Hong Kong and a fellow member of the Association of Chartered Certified Accountants. Mr. Leung is also a visiting lecturer of the Open University of Hong Kong and is one of the founding members of IT Accountants Association in Hong Kong.

No service contracts were or will be entered into between the Company and the independent non-executive Directors.

AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference in compliance with the Code of Best Practice as set out in appendix 14 to the Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control systems of the Group.

The audit committee has two members comprising the two independent non-executive Directors.

SENIOR MANAGEMENT

Cheung Chiu Hing, Marcel, aged 41, is the founder of M-TEC and the head of the Group's marketing division. Mr. Cheung is mainly responsible for sourcing new products for the Group from Taiwan. He joined the Group in May 1996 and has over 14 years of experience in the sales of electronic components used in toy and watch industries.

Tam Kwok Wai, Lawrence, aged 41, is the head of the Group's technical division and procurement and product development team. Mr. Tam graduated from Hong Kong Polytechnic with higher certificate in electronic engineering. Mr. Tam joined the Group in January 1992 and has over 7 years' experience in consumer products design and 10 years experience in sales and marketing of electronic components business. He is responsible for creating and developing new product lines.

Yeung Kin Kwan, Alvan, aged 33, is the financial controller of the Group and the company secretary of the Company. He is responsible for the financial management and the company secretarial functions of the Group. Mr. Yeung holds a professional diploma in accountancy from

DIRECTORS, SENIOR MANAGEMENT AND STAFF

the Hong Kong Polytechnic University. He is a fellow member of the Association of Chartered Certified Accountants and an associate member of the Hong Kong Society of Accountants and the Taxation Institute of Hong Kong. He joined the Group in September 2000 and has over 10 years of experience in auditing, accounting, taxation and financial management.

Fan Suk Han, aged 40, is the accounting manager of the Group. Ms. Fan joined the Group in July 1995 and has over 10 years experience in accounting. She is responsible for the accounting function of the Group.

Wan Lam Keng, Winnie, aged 37, is the senior business manager of the Group. Ms. Wan joined the Group in June 1988 and has over 17 years' experience in retailing and trading business. She is responsible for the Group's Urgent Requirement Service division. She is the wife of Mr. Yeung Kwok Leung, Allix.

Lee Yiu Kong, Winson, aged 41, is the senior business manager of the Group. Before he joined the Group in June 1991, he had over 12 years' experience in customer service in the banking industry. He is responsible for the sales and marketing of the electronic components of the Group.

Li Yiu Leung, Franky, aged 34, is the senior business manager of the Group. Mr. Lee graduated from the University of Western Ontario with a bachelor degree in electronic engineering. Before he joined the Group in April 2000, he had over 10 years experience in manufacturing, engineering and sales and marketing in various industries. He is responsible for the business development of the Group.

Kong Mei Ling, aged 36, is the business manager of the Group. Ms. Kong has over 11 years' experience in business administration of various industries. Ms. Kong joined the Group in January 1993 and is responsible for the overseas business development.

Chong Lai Chun, aged 37, is the export manager of the Group. Ms. Chong joined the Group in January 1993 and has over 8 years' experience in computer field. She is responsible for the oversea business development in DRAM and CPU section.

Choi Yiu Keung, aged 28, is the sales manager of the Group. Mr. Choi joined the Group in November 1993. He has over 7 years' experience in the electronic components retail business and providing customer-oriented logistic services to the customers. He is responsible for the sales and marketing of the equipment products of the Group.

Lam Yin Ching, aged 32, is the assistant purchasing manager of the Group. Ms. Lam has over 11 years of experience in the electronics industry. She joined the Group in May 1996 and is responsible for the purchasing of semi-conductors of the Group.

Tse Chun Wah, aged 43, is the senior electronic engineer of the Group. Mr. Tse graduated from Hong Kong Polytechnic with a higher certificate in electronic engineering. Before he joined the Group in January 1999, he worked for a number of companies as senior production and quality control engineer. He is responsible for the product quality control of the Group.

Tse Siu Kit, aged 27, is the assistant sales manager of the Group. Mr. Tse has 4 years' experience in trading business and 5 years sales experience in electronic toys industry. He joined the Group in May 1995.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

STAFF

As at the Latest Practicable Date, the Group had over 100 employees. A breakdown of its workforce by function and geographical location is as follows:

	Hong Kong	PRC	Total
Management	4	0	4
Administration	10	0	10
Sales and marketing	42	2	44
Warehouse and delivery	28	0	28
Quality control and product development	9	0	9
Procurement	11	0	11
	<u>104</u>	<u>2</u>	<u>106</u>

The Group has not experienced any significant problems with its employees or disruption in its operations due to labour disputes nor has it experienced any difficulties in the recruitment and retention of experienced staff. The Directors believe that the Group has a good working relationship with its staff.

The Directors confirm that, to the best of their knowledge, the Group complies with all the relevant laws, regulations and requirements in relation to child protection, fair labour standards, working conditions and code of conduct for its employees or workers in Hong Kong and with the contracts with its customers.

The Group established a mandatory provident fund retirement scheme in December 2000. Starting from 31st December, 2000, the Group is liable to contribute 5% of the aggregate the executive Directors' and Hong Kong employees' salaries (up to a maximum of \$1,000 in respect of each executive Director and employee) on a monthly basis to the fund.

The Company has conditionally adopted the Share Option Scheme under which employees of the Group, including the executive Directors, may be granted options to subscribe for Shares. The Directors believe that the Share Option Scheme will assist the Group in the recruitment and retention of high calibre executives and employees. The principal terms of the Share Option Scheme are set out in the paragraph headed "Share Option Scheme" in Appendix 5 to this prospectus.

SUBSTANTIAL SHAREHOLDERS

So far as the Directors are aware, immediately after the completion of the Share Offer and the Capitalisation Issue (but without taking into account any Shares which may be taken up under the Share Offer and assuming that the Over-allotment Option is not exercised), the persons directly or indirectly interested in 10% or more of the voting power at any general meeting of the Company will be as follows:

Name	Number of Shares	Approximate percentage of issued Shares
M2B Holding Limited (<i>Note 1</i>)	90,000,000	45%
Bestmark Management Limited (<i>Note 2</i>)	30,000,000	15%
Mr. Hung Ying Fung	30,000,000	15%

Notes:

1. These Shares are held by M2B Holding Limited, a wholly-owned subsidiary of Action 2 Limited which, in turn, is wholly and beneficially owned by Mr. Hung and Ms. Yeung Man Yi, Beryl. Action 2 Limited is the trustee of Beryl Unit Trust set up by its shareholders. The assets of Beryl Unit Trust include/comprise the entire issued share capital of M2B Holding Limited, which are ultimately held by Trident Trust Company (Cayman) Limited as trustee for the benefit and upon trust for the Measure & Beryl Trust, which is a discretionary trust.
2. These Shares are held by Bestmark Management Limited, a wholly-owned subsidiary of Holford Group Corporation which, in turn, is wholly and beneficially owned by Mr. Yeung Kwok Leung, Allix and his spouse, Ms. Wan Lam Keng. Holford Group Corporation is the trustee of A & W Unit Trust set up by its shareholders. The assets of A & W Unit Trust include/comprise the entire issue share capital of Bestmark Management Limited, which are ultimately held by Trident Trust Company (Cayman) Limited as trustee for the benefit and upon trust for the Trinity Trust, which is a discretionary trust.

SHARE CAPITAL

<i>Authorised:</i>		<i>HK\$</i>
2,000,000,000	Shares	200,000,000
 <i>Issued and to be issued, fully paid or credited as fully paid:</i>		
2,000,000	Shares in issue	200,000
148,000,000	Shares to be issued pursuant to the Capitalisation Issue	14,800,000
<u>50,000,000</u>	Shares to be issued pursuant to the Share Offer	<u>5,000,000</u>
 <u>200,000,000</u>	 Shares	 <u>20,000,000</u>

ASSUMPTIONS

The above table is prepared on the assumption that the Share Offer and the Capitalisation Issue become unconditional.

It takes no account of any Shares which may fall to be allotted and issued upon the exercise of the Over-allotment Option or options that may be granted under the Share Option Scheme, or under the general mandate (see below “General mandate to issue Shares”), or which may be bought back by the Company (see below “General mandate to repurchase Shares”).

RANKING

The Offer Shares will rank *pari passu* in all respects with all Shares in issue or to be issued and, in particular, will qualify for all dividends or other distributions hereafter declared, paid or made on the Shares except that they will not participate in the Capitalisation Issue.

SHARE OPTION SCHEME

The Company has conditionally adopted the Share Option Scheme. A summary of its principal terms is set out in the paragraph headed “Share Option Scheme” in Appendix 5 to this prospectus.

Under the Share Option Scheme, options to subscribe for Shares may be granted to the executive directors and full-time employees of the Group provided that the aggregate nominal value of Shares in respect of which options may be granted under the Share Option Scheme shall not exceed, when aggregated with any Shares subject to any other share option schemes of the Company, 10% of the aggregate nominal value of all the issued Shares from time to time (excluding Shares which may be issued pursuant to the exercise of options granted under the Share Option Scheme).

GENERAL MANDATE TO ISSUE SHARES

A general unconditional mandate has been granted to the Directors to allot, issue and deal with Shares with a total nominal value of not more than the sum of:

- (i) 20% of the aggregate nominal amount of Shares in issue immediately following the completion of the Share Offer and the Capitalisation Issue (such share capital shall include the Shares which may be issued pursuant to the exercise of the Over-allotment Option); and

SHARE CAPITAL

- (ii) the aggregate nominal amount of Shares repurchased by the Company (if any) under the authority referred to in the paragraph headed “General mandate to repurchase Shares” below.

In addition, the Directors are entitled to allot, issue or deal with Shares under a rights issue, scrip dividend scheme or similar arrangement, or on the exercise of options granted under the Share Option Scheme.

This mandate will expire:

- (i) at the end of the Company’s next annual meeting;
- (ii) at the end of the period within which the Company is required by Bermuda law or its bye-laws to hold its next annual general meeting; or
- (iii) when varied or revoked by an ordinary resolution of the Company’s shareholders in general meeting,

whichever occurs first.

For further details of this general mandate, see the paragraph headed “Written Resolutions passed by all the shareholders of the Company” in Appendix 5 to this prospectus.

GENERAL MANDATE TO REPURCHASE SHARES

A general unconditional mandate has been granted to the Directors to exercise all the powers of the Company to repurchase Shares with nominal value of up to 10% of the aggregate nominal amount of the Shares in issue immediately following the completion of the Share Offer and the Capitalisation Issue (such share capital shall include the Shares which may be issued pursuant to the exercise of the Over-allotment Option).

This mandate only relates to purchases made on the Stock Exchange, or on any other stock exchange on which the Shares are listed (and which are recognised by the Securities and Futures Commission and the Stock Exchange for this purpose), and which are in accordance with the Listing Rules. A summary of the relevant Listing Rules is set out in the paragraph headed “Repurchase by the Company of its own securities” in Appendix 5 to this prospectus.

This mandate will expire:

- (i) at the end of the Company’s next annual general meeting;
- (ii) at the end of the period within which the Company is required by Bermuda law or its bye-laws to hold its next annual general meeting; or
- (iii) when varied or revoked by an ordinary resolution of the Company’s shareholders in general meeting,

whichever occurs first.

For further details of this general mandate, see the paragraph headed “Written Resolutions passed by all the shareholders of the Company” in Appendix 5 to this prospectus.

FINANCIAL INFORMATION

INDEBTEDNESS

Borrowings and contingent liabilities

As at the close of business on 28th February, 2001, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this prospectus, the Group did not have any outstanding borrowings or contingent liabilities.

Release from guarantees and mortgages

As the banking facilities of the Group were terminated as at the close of business on 28th February, 2001, the relevant banks and financial institutions, to which certain Directors provided personal guarantees and mortgages to secure the banking facilities have released these mortgages and personal guarantees.

Disclaimers

Save as aforesaid or otherwise disclosed in this prospectus, and apart from intra-group liabilities and normal trade payables, the Group did not have any outstanding mortgages, charges, debentures or other loan capital issued or outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, or hire purchase contracts or any guarantees or other material contingent liabilities outstanding at the close of business on 28th February, 2001.

The Directors have confirmed that, save as disclosed above, there has not been any material change in the indebtedness and contingent liabilities of the companies comprising the Group since 28th February, 2001.

DISCLOSURE UNDER PRACTICE NOTE 19 TO THE LISTING RULES

Except for the balances due from Directors amounting to approximately HK\$54,641,000, which were settled fully in March 2001 by offsetting dividend payable to the directors (also the shareholders and Directors of the Company) of A Plus, a subsidiary of the Company, amounting to approximately HK\$52,537,000 and by cash of HK\$2,104,000, the Group has not advanced any money to any entity which exceeds 25% of the Group's audited combined net tangible assets, or provided any financial assistance and guarantees to affiliated companies which exceed 25% of the Group's audited combined net tangible assets, and the controlling shareholders have not pledged any Shares to secure debts, guarantees or support of other obligations of the Group; and the Group has not entered into any loan agreement imposing specific performance obligation on the controlling shareholders. The Directors have confirmed that as at 28th February, 2001, they were not aware of any circumstances which would give rise to a disclosure requirement under the Practice Note 19 of the Listing Rules.

FINANCIAL INFORMATION

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Net current assets

As at 28th February, 2001, the Group had net current assets of about HK\$140.2 million comprising cash and bank deposits of about HK\$46.2 million, inventories of about HK\$58.5 million, accounts receivable of about HK\$25.0 million, due from directors of about HK\$52.5 million, prepayments, deposits and other current assets of about HK\$1.0 million, accounts payable, accruals and other payables of about HK\$37.5 million and taxation payable of about HK\$5.5 million.

These current assets were financed by internal resources of the Group.

Borrowings and banking facilities

The Group generally finances its operations with internally generated resources and banking facilities provided by its principal bankers in Hong Kong.

As at 28th February, 2001, all the banking and loan facilities of the Group were terminated.

Directors' opinion of the working capital position

The Directors are of the opinion that, after taking into consideration the existing financial resources available to the Group including internally generated funds since 28th February, 2001, the expected internally generated funds and the estimated net proceeds of the Share Offer, the Group has sufficient working capital for its present requirements.

FINANCIAL INFORMATION

TRADING RECORD

Summary of combined results of the Group

The following table summarises the Group's combined turnover and results for the three years ended 31st March, 2000 and the seven months ended 31st October, 2000 prepared on the assumption that the current structure of the Group had been in place throughout the period under review. The summary should be read in conjunction with the accountants' report set out in Appendix 1 to this prospectus.

	Year ended 31st March,			Seven months ended
	1998	1999	2000	31st October, 2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover (<i>Note 1</i>)	681,164	553,643	588,172	316,390
Cost of sales	(629,204)	(503,368)	(527,298)	(267,935)
Gross profit	51,960	50,275	60,874	48,455
Distribution and selling expenses	(1,837)	(1,551)	(1,523)	(1,236)
General and administrative expenses	(28,598)	(28,953)	(25,390)	(15,662)
Profit from operations	21,525	19,771	33,961	31,557
Interest income	571	468	495	391
Profit before taxation	22,096	20,239	34,456	31,948
Taxation	(3,676)	(3,034)	(5,523)	(5,035)
Profit after taxation				
but before minority interest	18,420	17,205	28,933	26,913
Minority interest	(471)	(598)	(1,110)	(1,391)
Profit attributable to shareholders	<u>17,949</u>	<u>16,607</u>	<u>27,823</u>	<u>25,522</u>
Dividends	<u>–</u>	<u>–</u>	<u>–</u>	<u>(41,718)</u>
Earnings per share – Basic (<i>Note 2</i>)	<u>12.0 cents</u>	<u>11.1 cents</u>	<u>18.5 cents</u>	<u>17.0 cents</u>

Notes:

- Turnover represents (i) the net invoiced value of merchandise sold after allowances for returns and discounts and (ii) commission income.
- The calculation of the basic earnings per Share for the three years ended 31st March, 2000 and the seven months ended 31st October, 2000 is based on the profit attributable to shareholders during these periods and assuming 150,000,000 Shares were in issue, comprising 2,000,000 Shares in issue as at the date of the Prospectus and 148,000,000 Shares to be issued pursuant to the Capitalisation Issue.

FINANCIAL INFORMATION

The Directors are aware of the following requirements:

- (i) **Rule 4.04(1) of the Listing Rules which states that the accountants' report must include the combined results of the Group in respect of each of the three financial years immediately preceding the issue of this prospectus i.e. each of the three years ended 31st March, 2001, in this case; and**
- (ii) **Paragraph 27 of the Third Schedule to the Companies Ordinance, which requires the Company to set out in this prospectus a statement as to the gross trading income or sales turnover during the three years preceding the date of this prospectus, including an explanation of the method used for the computation of such income or turnover and a reasonable breakdown between the more important trading activities; and Paragraph 31 of the Third Schedule to the Companies Ordinance which requires the Company to include in the listing document a report by the auditors with respect to the profits and losses and assets and liabilities of the Group in respect of each of the three financial years immediately preceding the issue of this prospectus.**

As the financial year of the Group ends on 31st March and this prospectus includes the combined results of the Group covering each of the three years ended 31st March, 2000 and the seven months ended 31st October, 2000 only, the Company had applied for and was granted waivers from compliance with the requirements referred to in (i) above by the Stock Exchange and in (ii) above by the Securities and Futures Commission. The Directors confirm that they performed sufficient due diligence on the Group to ensure that, save as disclosed in this prospectus, up to the date of this prospectus, there has been no material adverse change in the financial or trading position of the Group since 31st October, 2000 and there is no event which would materially affect the information shown in the accountants' report of the Group set out in Appendix 1.

The Group experienced a declining turnover during the three financial years ended 31st March, 2000. Turnover decreased from about HK\$681.2 million for the financial year ended 31st March, 1998 to about HK\$588.2 million for the financial year ended 31st March, 2000, representing a decline of about 13.7%. The decline was mainly due to: (1) the Group devoted some of its resources to the development of the new products line, namely electronic components business; and (2) the fall in demand for its computer memory modules. As a result, less resources were placed on the existing computer products line, which gives rise to a declining turnover during the three years ended 31st March, 2000.

For the year ended 31st March, 1998

For the financial year ended 31st March, 1998, the Group recorded a turnover of about HK\$681.2 million. Sales of electronic components and computer products accounted for about 26.3% and 73.7% respectively of the total turnover of the Group.

The gross profit for this year was about HK\$52.0 million, representing a gross profit margin of about 7.6%. The Group achieved a profit attributable to shareholders of about HK\$17.9 million for the financial year ended 31st March, 1998 and the net profit margin was about 2.6%.

Debtors' turnover period, creditors' turnover period and inventory turnover period for the year were 10.9 days, 8.8 days and 13.6 days respectively.

FINANCIAL INFORMATION

For the year ended 31st March, 1999

For the financial year ended 31st March, 1999, the Group recorded a turnover of about HK\$553.6 million, representing a decrease of about 18.7% from the previous financial year. During the year, turnover of computer products decreased by about 31.3% as a result of the Group's strategy of diversifying its product lines into other electronic components business. Sales of electronic components and computer products accounted for about 37.7% and about 62.3%, respectively, of the total turnover of the Group for the same period.

Gross profit for this year decreased to about HK\$50.3 million, representing a slight decrease of about 3.2% from the previous financial year. During the year, the Group improved its gross profit margin to about 9.1%. This was mainly due to the increase in sales of electronic components, which generally command a higher profit margin.

The Group achieved a profit attributable to shareholders of about HK\$16.6 million for the financial year ended 31st March, 1999, representing a slight decrease of about 7.5% from the previous financial year. During the year, the net profit margin increased to about 3.0% from about 2.6% in the previous year.

Debtors' turnover period, creditors' turnover period and inventory turnover period for the year were 14.5 days, 11.7 days and 20.6 days respectively. The debtors' turnover period increased as the Group offered longer credit terms to its customers. During the year, the Group was granted longer credit terms by its suppliers, which led to a rise in creditors' turnover period. The increase in inventory turnover period was due to a higher inventory level being kept to cope with the expansion of the electronic components business.

For the year ended 31st March, 2000

For the financial year ended 31st March, 2000, the Group recorded a turnover of about HK\$588.2 million, representing an increase of about 6.2% from the previous financial year. During the year, sales of electronic components increased substantially by about 35.7% as a result of the Group's effort to further diversify the business to the electronic components division. Sales of electronic components and computer products accounted for 48.1% and 51.9%, respectively, of the total turnover of the Group.

The gross profit for this year increased to about HK\$60.9 million, representing an increase of about 21.1% from the previous financial year. During the year, the Group maintained a similar level of gross profit margin of about 10.4%.

The Group achieved a profit attributable to shareholders of about HK\$27.8 million for the financial year ended 31st March, 2000, representing an increase of about 67.5% from the previous financial year. During the year, net profit margin increased to about 4.7% from about 3.0% of the previous year. Such increase was mainly due to the increased sales of the high margin electronic parts and components during the year.

Debtors' turnover period, creditors' turnover period and inventory turnover period for the year ended 31st March, 2000 were 15.5 days, 14.6 days and 26.6 days respectively. There was no material fluctuation in the debtors' turnover period. The creditors' turnover period increased as a result of the longer credit terms granted by the suppliers. The increase in inventory turnover period was due to a higher inventory level being kept to cater for the expansion of the business.

FINANCIAL INFORMATION

For the seven months ended 31st October, 2000

For the seven months ended 31st October, 2000, the Group recorded a turnover of about HK\$316.4 million. During the period, the turnover of electronic components increased significantly and accounted for about 70.2% of the total turnover of the Group. This was mainly due to the Group's strategy of continuous focus on the electronic parts and components business which provided sound business opportunities to the Group; and that the period from April to October is the high season of this business. As a result, a high sales amount was recorded.

During the period, the Group achieved a gross profit of about HK\$48.5 million, representing a gross profit margin of about 15.3%. Such increase was mainly attributable to the increased sales of high margin electronic components during the period.

The Group achieved a profit attributable to shareholders of about HK\$25.5 million for the period. During the period, the net profit margin increased to about 8.1% from about 4.7% in the previous year. The significant improvement in net profit margin was mainly attributable to the increased gross profit margin of the Group.

Debtors' turnover period, creditors' turnover period and inventory turnover period for the seven months ended 31st October, 2000 were 21.8 days, 20.6 days and 40.3 days respectively. The debtors' turnover period increased further as a result of tighter cash control implemented by the Group's customers, i.e. the Group was requested by its customers for longer credit terms and it in turn arranged with its suppliers for longer credit period and therefore increased the creditors' turnover period. The increase in stock turnover period was as a result of a more comprehensive range of products being kept by the Group to meet its customers' demand and expansion of the Group's business.

Taxation

The effective tax rates of the Group for the three years ended 31st March, 2000 and the seven months ended 31st October, 2000 were about 16.6%, 15.0%, 16.0% and 15.8% respectively, representing provision for Hong Kong taxation.

The Company was incorporated under the laws of Bermuda and, under current Bermuda law, is not subject to tax on profit or on capital gains. The Company obtained from the Minister of Finance of Bermuda an assurance, under the Exempted Undertakings Tax Protection Act 1966 of Bermuda, that no such taxes shall be so payable until 28th March, 2016.

Hong Kong profits tax was provided at the rate of 16.5% for the year ended 31st March, 1998 and 16% for the years ended 31st March, 1999 and 2000 and for the seven months ended 31st October, 2000 on estimated assessable profit arising in or derived from Hong Kong.

A Plus failed to file its tax returns in respect of the financial years ended 31 March 1998 and 31 March 1999 on time as required under the Inland Revenue Ordinance (Cap.112 of the Laws of Hong Kong). According to the Directors, no notices requesting for the filing of profits tax returns were received by A Plus in respect of these two financial years. These profits tax returns were voluntarily filed with the Inland Revenue Department in December 2000.

FINANCIAL INFORMATION

Pursuant to Section 80(2) of the Inland Revenue Ordinance, a company which fails to complete and file tax returns in accordance with the requirements set out in the Inland Revenue Ordinance may, if convicted, be subject to the penalty of a fine. The Commissioner of the Inland Revenue Department has the discretion to determine the amount of penalty to be imposed on the Group for such failure to file these profits tax returns. Up to the Latest Practicable Date, A Plus had not received any notice from the Inland Revenue Department indicating the amount of penalty to be imposed.

A provision of approximately HK\$1.4 million has been made in the accounts of the Group, representing the potential additional taxation which may be payable as a result of such failure. Such HK\$1.4 million represents 100% of the total taxation payable by A Plus for these two financial years.

The Group will ensure compliance with the relevant taxation rules in the future. With the supervision of Mr. Yeung Kin Kwan, Alvan, the financial controller of the Group, who is responsible for the internal control of the Group, the Directors believe that the internal control system of the Group is adequate.

Special dividend

On 15th March, 2001, A Plus declared and paid a special dividend of approximately HK\$67,059,000 to its then shareholders, who are also Directors of the Company. Approximately HK\$52,537,000 of the dividend payable was settled by offsetting balances due from directors of the same amount. The remaining balance of HK\$14,522,000 was settled in cash.

On 15th March, 2001, M-TEC declared and paid a special dividend of approximately HK\$7,900,000 to its then shareholders.

PROPERTY INTERESTS

Properties rented by the Group in Hong Kong

The Group rents a total of 8 office units on the 6th and 7th floors in Hanley House which is situated at 776-778 Nathan Road, Mongkok, Kowloon. The property is currently occupied by the Group for office use and has a total saleable area of approximately 273.32 sq.m. (2,942 sq.ft.).

The Group also rents a shop unit, namely Shop F on the ground floor in Lai Ming Building, which is situated at 223 Tung Choi Street, Mongkok, Kowloon. The property has a saleable area of approximately 106.09 sq.m. (1,142 sq.ft.). It is currently occupied by the Group for retailing purpose.

The Group also rents six car parking spaces on the 3rd and 4th floors, the whole of the 7th floor and 9 industrial/office units on the 8th and 23rd floors in New Trend Centre which is situated at 704 Prince Edward Road East, San Po Kong, Kowloon. The property (excluding the car parking spaces) has a total gross floor area of approximately 1732.17 sq.m. (18,645 sq.ft.). The industrial/office units are currently occupied by the Group for storage and office purposes and the car parking spaces are currently occupied by the Group for parking purpose.

FINANCIAL INFORMATION

The above mentioned properties are rented by the Group from M-Bar Limited, a company beneficially owned as to 30% by Mr. Hung, 30% by Ms. Yeung Man Yi, Beryl, 20% by Mr. Hung Ying Fung and as to the remaining 20% by Mr. Yeung Kwok Leung, Allix, all of whom are executive Directors.

The Group also rents a shop unit from Mr. Hung, the Chairman, and Ms. Yeung Man Yi, Beryl, namely Shop A on the ground floor in Lai Ming Building which is situated at 223 Tung Choi Street, Mongkok, Kowloon for retailing purpose. It has a saleable area of approximately 104.89 sq.m. (1,129 sq.ft.).

In addition, the Group also rents 2 industrial units from an independent third party who is not connected with the Directors, the substantial shareholders of the Company, nor any of their respective associates. These units are workshops D1 and D2 on the 5th floor in Kai Tak Factory Building Stage II which is situated at 99 King Fuk Street and 39-41 Tseuk Luk Street, San Po Kong, Kowloon for storage purpose. It has a saleable area of approximately 217.02 sq.m. (2,336 sq.ft.).

Details of the properties and the tenancy agreements under which the properties are respectively occupied by the Group are set out in the valuation report in Appendix 3 to this prospectus.

Property rented by the Group in the PRC

The Group rents an office unit from an independent third party who is not connected with the Directors, the substantial shareholders of the Company, nor any of their respective associates. The office unit is located at Unit No. 807 on the 8th level in Dongfang Plaza which is situated at 1072 Jianshe Road, Luohu District, Shenzhen, Guangdong Province the PRC. The property has a gross floor area of approximately 39 sq.m. (420 sq.ft.) and is occupied by the Group for office use.

Details of the properties and the tenancy agreements under which the premises are occupied by the Group are set out in the valuation report in Appendix 3 to this prospectus.

Property valuation

The property interests of the Group have been valued at no commercial value as at 28th February, 2001 by DTZ Debenham Tie Leung Limited, an independent property valuer. The texts of the letter with a summary of valuation and valuation certificates of these property interests prepared by DTZ Debenham Tie Leung Limited are set out in Appendix 3 to this prospectus.

PROFIT ESTIMATE AND DIVIDENDS

Profit estimate

The Directors estimate that, in the absence of unforeseen circumstances and on the bases set out in Appendix 2 to this prospectus, the combined profit after taxation but before extraordinary items of the Group for the year ended 31st March, 2001 will not be less than HK\$35 million. The Directors are not aware of any extraordinary items which arose during the year ended 31st March, 2001.

FINANCIAL INFORMATION

On the basis of the above estimated combined profit after taxation but before extraordinary items of HK\$35 million and on the assumption that the weighted average number of 150,000,000 Shares had been in issue during the year ended 31st March, 2001, the estimated earnings per Share will amount to 23.3 cents, representing a weighted average estimated price/earnings multiple of 4.3 times based on the Issue Price.

The above estimated earnings per Share and price/earnings multiples do not take into account any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option or the exercise of the options which may be granted under the Share Option Scheme or which may be allotted and issued or purchased by the Company pursuant to the general mandates for the allotment and issue and purchase of Shares granted to the Directors referred to in the paragraph headed "Written resolutions passed by all the shareholders of the Company" in Appendix 5 to this prospectus. On the assumption that the Share Offer had been completed and a total of 200,000,000 Shares were in issue on 1st April, 2000 and taking into account the interest income that would have been earned if the net proceeds of the Share Offer (before the exercise of the Over-allotment Option) had been received on 1st April, 2000 and held on deposit thereafter, based on an interest rate (net of tax) of 3.25% per annum during the year ended 31st March, 2001, the estimated pro forma diluted earnings per Share will be 18.2 cents, representing a pro forma diluted price/earnings multiple of 5.5 times based on the Issue Price.

The texts of the letters from the auditors and reporting accountants of the Company, Arthur Andersen & Co, and from the Sponsor in respect of the profit estimate are set out in Appendix 2.

Dividends

In the absence of unforeseen circumstances, the Directors at present do not intend to recommend the payment of a final dividend in respect of the year ended 31st March, 2001. However, had the Company been listed throughout the year ended 31st March, 2001, the Directors would have expected to pay an aggregate dividend of 8.0 cents per Share, representing an annual dividend yield of 8.0% based on the Issue Price.

The Directors expect that, in the future, interim and final dividends will be paid in or around January and September respectively and that interim dividends will represent approximately one-third of the expected total dividends for the relevant full year.

WORKING CAPITAL

The Directors are of the opinion that, after taking into consideration the existing financial resources available to the Group, the expected internally generated funds and the estimated net proceeds of the Share Offer, the Group has sufficient working capital for its present requirements.

DISTRIBUTABLE RESERVES

As at 31st October, 2000, the Company had not been incorporated. There was accordingly no reserve available for distribution to the shareholders of the Company as at that date.

FINANCIAL INFORMATION

ADJUSTED NET TANGIBLE ASSETS

The following pro forma statement of adjusted net tangible assets of the Group is based on the audited combined net assets of the Group as at 31st October, 2000 as shown in the accountants' report, the text of which is set out in Appendix 1 to this prospectus, and adjusted as follows:

	<i>HK\$'000</i>
Audited combined net tangible assets of the Group as at 31st October, 2000	129,246
Unaudited combined profit after taxation of the Group for the four months ended 28th February, 2001 based on its unaudited management accounts (<i>Note 1</i>)	7,252
Dividend declared and paid (<i>Note 2</i>)	(74,959)
Estimated net proceeds of the Share Offer	<u>40,000</u>
Adjusted net tangible assets	<u><u>101,539</u></u>
Adjusted net tangible asset value per Share (based on 200,000,000 Shares in issue and to be issued as mentioned herein) (<i>Note 3</i>)	<u><u>50.8 cents</u></u>

Notes:

1. For the four months ended 28th February, 2001, the Group recorded an unaudited result with turnover and net profit of about HK\$110.6 million and HK\$7.3 million respectively. During the four months ended 28th February, 2001, the gross profit margin was further increased to 19.3% and the net profit margin was maintained at about 6.6% which is mainly due to the continuous focus on sales of electronic parts and components with higher gross profit margin.
2. For details, please refer to the sub-paragraph headed "Special dividend" on page 56 of the prospectus.
3. The adjusted net tangible asset value per Share is based on the 200,000,000 Shares in issue and to be issued immediately following completion of the Share Offer and the Capitalisation Issue but taking into no account of any Shares which may be allotted and issued upon the exercise of the Over-allotment Option or the exercise of options which may be granted under the Share Option Scheme or which may be allotted and issued or repurchased by the Company pursuant to the general mandates for the allotment and issue or repurchase of Shares granted to the Directors as referred to in the section headed "Further information about the Company" in Appendix 5.

NO MATERIAL ADVERSE CHANGE

The Directors confirm that since 31st October, 2000 (being the date to which the latest audited combined financial statements of the Group were made up), there has been no material adverse change in the financial or trading position or prospects of the Group.

FUTURE PLANS AND PROSPECTS

FUTURE PLANS AND PROSPECTS

The Directors expect that the market for electronic and computer products and equipment will remain strong in the foreseeable future. In particular, the Group will put more effort in the marketing of electronic parts and components. With the Group's established presence in providing high quality and reliable products, and the expertise and extensive experience of its management team, the Directors believe that the sales of the Group's products (electronic parts and components, and computer accessories) will increase in the forthcoming years.

The Directors believe that the recent development of the Internet presents an enormous opportunity for the Group to penetrate into the global electronics market. The Group's existing product database contains information on over 130,000 types of electronic components. With such database, the Directors believe that the Group can satisfy its customers' needs in a more efficient manner. In this regard, the Directors believe that further development of the database is important to the Group's growth.

Expansion of the sales network in the Asia-Pacific region

In order to penetrate into the global market, the Group plans to establish overseas sales offices and set up strategic alliances or partnerships with electronics suppliers in the overseas markets. This will place the Group closer to its existing and potential customers in those markets and will enable the Group to better serve those customers. Initially, the Group plans to set up sales offices in the Asia-Pacific region, such as Malaysia, Singapore and Taiwan and a product database and product development centre in Shenzhen, the PRC.

Further development of product database

The Directors consider that the Group's product database is crucial to its success by way of providing a full range of electronic products to its customers, the Group will therefore continue to develop its product database and plans to set up a product database and product development centre in Shenzhen, the PRC. The Group will also continue to conduct market research in order to identify new products with good distribution and market potential, for inclusion in its existing database. The Group also plans to acquire new high precision testing machines and instrument for the evaluation of the quality of new products to be added to the database. Additionally, the Group intends to enhance its database management software system.

Promotion of the Group's brand names and corporate image

The Directors believe that a corporate image as a full service provider of a wide range of electronic components and a well recognised brand name are key factors for customers' awareness and, in turn, for the future development of the Group. The Group plans to broaden its sales and marketing channels to promote products bearing the brand names "MEC" and "MOSP". The brand name "MEC" was used during the three years ended 31st March, 2000 and the seven months ended 31st October, 2000, through marketing activities, such as advertising in industry magazines and participating in trade fairs, and on a growing volume of products for the promotion of their sale. The Group is in the process of application for registration of other trademarks in Hong Kong which will be used in the future expansion of its business, details of which are set out in Appendix 5 to this prospectus. The Group also plans to enhance its corporate image as a full service provider by setting up overseas sales offices in the Asia-Pacific region.

FUTURE PLANS AND PROSPECTS

Introduction of new products

The Directors believe that the introduction of new products is important for maintaining and advancing the market position of the Group. To cater for customer demands, the new products must be value-added and technologically enhanced. At present, the Group's product development team mainly focuses on identifying new electronic products to be included in the Group's product database.

REASONS FOR THE SHARE OFFER AND USE OF PROCEEDS

With the capital raised from the Share Offer and a more visible corporate profile upon the listing, the Directors believe that the Group will be in a better position to increase the market share in the electronics market.

The net proceeds of the Share Offer (before the exercise of the Over-allotment Option), after deducting the related expenses, are estimated to amount to about HK\$40 million. It is intended that such net proceeds will be applied as follows:

- as to about HK\$15 million for the setting up of sales offices in Malaysia, Singapore and Taiwan to capture the growing Asian market;
- as to about HK\$4 million for the setting up of a product database and product development centre in Shenzhen, the PRC;
- as to about HK\$15 million for development of new products lines through co-operation with strategic business partners in the electronics industry, most of this HK\$15 million is planned to be used for building up inventory and as working capital of the business; and
- as to the balance of about HK\$6 million as additional general working capital for the Group.

Should the Over-allotment Option be exercised in full, the Company will receive additional net proceeds of about HK\$7.3 million and the total net proceeds of the Share Offer, after deducting the related expenses, will amount to about HK\$47.3 million. The Directors intend to use the additional net proceeds raised from the exercise of the Over-allotment Option as additional working capital of the Group.

To the extent that the net proceeds of the Share Offer are not immediately required for the above purposes, it is the present intention of the Directors that they will be placed on short-term interest-bearing deposits with licensed banks in Hong Kong.

UNDERWRITING

UNDERWRITERS

The New Issue Underwriters

The New Issue Underwriters are Oriental Patron and Sanfull Securities Limited.

The Placing Underwriter

The Placing Underwriter is Oriental Patron.

UNDERWRITING ARRANGEMENTS AND EXPENSES

Underwriting Agreement

Pursuant to the Underwriting Agreement, the Company has agreed to offer the Offer Shares for subscription under the New Issue and the Placing on and subject to the terms and conditions set out in this prospectus and (where applicable) the related application forms. Subject to, among other matters, listing of and permission to deal in the Shares in issue and to be issued as mentioned in this prospectus being granted by the Listing Committee of the Stock Exchange on or before 24th May, 2001 (or such later date as Oriental Patron on behalf of the Underwriters may agree in writing with the Company):

- (i) the New Issue Underwriters have severally agreed to subscribe or procure subscribers to subscribe for on the terms and conditions of this prospectus and the related application forms, the New Issue Shares; and
- (ii) the Placing Underwriter has agreed to subscribe or procure subscribers to subscribe for the Placing Shares.

Grounds for termination

The obligations of the Underwriters to subscribe or procure subscribers to subscribe for the Offer Shares are subject to termination if certain events arise prior to 9:00 a.m. on the second business day following the close of application list. The grounds for termination include, among other circumstances, where:

- (a) there shall develop, occur, exist or come into effect:
 - (i) any event, or series of events, beyond the control of the Underwriters (including, without limitation, acts of government, strikes, lock-outs, fire, explosion, flooding, civil commotion, acts of war, acts of God); or
 - (ii) any new law or any change in existing laws or any change in the interpretation or application thereof by any court or other competent authority; or
 - (iii) any change in, or any event or series of events resulting or likely to result in any adverse change in local, national, regional or international financial, political, military, industrial or economic conditions; or

UNDERWRITING

- (iv) any adverse change in the conditions of Hong Kong or international securities markets (or in conditions affecting a sector only of such market) including, for the avoidance of doubt, any significant adverse change in the index level or volume of turnover of any such markets; or
- (v) the imposition of any moratorium, suspension or material restriction on trading in securities generally on the Stock Exchange due to exceptional financial circumstances or otherwise; or
- (vi) a change or development involving a prospective change in taxation or exchange control (or the implementation of any exchange control) in Hong Kong, the PRC, the British Virgin Islands or Bermuda; or
- (vii) the imposition of economic sanctions or the introduction of any other trade protection or restrictive practice on Hong Kong or the PRC by or for the US, the European Union (or any member thereof), Japan or other countries or territories to which the Group exports any of its products or imports any of its inventories; or
- (viii) any litigation or claim of material importance by any third party being threatened or instigated against any member of the Group; or
- (ix) any adverse change in the business or in the financial or trading position of the Group or any other events whatsoever,

which, in the absolute opinion of Oriental Patron (for itself and on behalf of the Underwriters):

- (aa) is or will or is likely to be materially adverse to the business, financial condition or prospect of the Group taken as a whole; or
 - (bb) has or will have or is likely to have a material adverse effect on the success of the Share Offer or the full subscription of all Offer Shares; or
 - (cc) make it inadvisable or inexpedient to proceed with the Share Offer; or
- (b) there comes to the notice of Oriental Patron or the Underwriters:
- (i) any information, matter or event which, in the absolute opinion of Oriental Patron (for itself and on behalf of the Underwriters) shows any of the warranties contained in the Underwriting Agreement to be untrue or inaccurate in any material respect to the Share Offer; or is inconsistent with any information contained in any Form B given by any Director pursuant to the Share Offer; or may cast any doubt on the integrity or reputation of any Director or the reputation of the Group in any material respect; or
 - (ii) any statement contained in this prospectus which in the absolute opinion of Oriental Patron (for itself and on behalf of the Underwriters) is or has become untrue, incorrect or misleading in any material respect; or

UNDERWRITING

- (iii) matters have arisen or have been discovered which would, if this prospectus was to be issued at that time, constitute in the absolute opinion of Oriental Patron (for itself and on behalf of the Underwriters) a material omission therefrom; or
- (iv) any material breach, in the absolute opinion of Oriental Patron (for itself and on behalf of the Underwriters) of any obligations imposed on any party to the Underwriting Agreement (other than on the Underwriters); or
- (v) any event, act or omission which in the absolute opinion of Oriental Patron (for itself and on behalf of the Underwriters) would or would likely give rise to any material liability pursuant to the Underwriting Agreement.

Undertakings

Each of the Major Shareholders has jointly and severally undertaken to and covenanted with each of the Company, the Sponsor and the Underwriters that:

- (a) without the prior written consent of Oriental Patron (for itself and on behalf of the Underwriters), which it may withhold in its absolute discretion regardless of whether or not the Stock Exchange shall have consented thereto, he and it will not, and will procure that none of his or its associates will, within the period of six months from the date on which dealings in the Shares first commence on the Stock Exchange (“First Six Month Period”), dispose of (including the creation of any option in respect of) any Shares owned by him or it immediately after the completion of the Share Offer and the exercise of the Over-allotment Option (if applicable), or dispose of (including the creation of any option in respect of) any shares in any company controlled by him or it which is the beneficial owner of any of such Shares, provided that the foregoing restriction shall not apply to any Shares which he or it or any of his or its associates may acquire following the date on which the dealings in the Shares first commence on the Stock Exchange, and provided further that such restriction shall not apply to a pledge or charge of any Shares owned by him or it or any shares in any company controlled by him or it that owns any Shares immediately after the Share Offer to an authorised institution under the Banking Ordinance as security for a bona fide commercial loan;
- (b) without the prior written consent of Oriental Patron (for itself and on behalf of the Underwriters), which it may withhold in its absolute discretion, within a further six months commencing on the expiry of the First Six Month Period (“Second Six Month Period”), he and it will not, and will procure that none of his or its associates will, dispose of any Shares or dispose of any shares in any company controlled by him or it which is the beneficial owner of such Shares if, immediately following such disposal, any of them, either (in respect of M2B Holding Limited) individually or taken together with the others, would cease to be a controlling shareholder (as defined in the Listing Rules) of the Company or hold a controlling interest in any of the companies controlled by him or it which owns any Shares; and
- (c) in the event of any disposal of Shares or any shares in any company that owns any Shares at any time after the expiry of the First Six Month Period, all reasonable steps will be taken to ensure that such disposal will not create a false or disorderly market in the Shares.

UNDERWRITING

Each of the Company, the Major Shareholders and the executive Directors has undertaken to and covenanted with the Sponsor and Underwriters to procure that, without the prior written consent of Oriental Patron (for itself and on behalf of the Underwriters), the Company will not, save pursuant to the Share Offer, the Capitalisation Issue, the Share Option Scheme, or pursuant to the exercise of the Over-allotment Option or any options which may be granted under the Share Option Scheme (i) during the First Six Month Period issue or agree to issue any shares or securities (which, for the avoidance of doubt, shall not include debentures granted as security or collateral for borrowings in the ordinary course of business) in the Company or any of the member of the Group or grant or agree to grant any options, or warrants or other rights carrying the right to subscribe for securities (which, for the avoidance of doubt, shall not include debentures granted as security or collateral for borrowings in the ordinary course of business) of the Company or any member of the Group; and (ii) during the Second Six Month Period, issue or agree to issue any of the shares or securities (which, for the avoidance of doubt, shall not include debentures granted as security or collateral for borrowings in the ordinary course of business) or other interests in shares and securities referred to in (i) above in this paragraph so as to result in, any of the Major Shareholders either (in respect of M2B Holding Limited only) individually or taken together with the others would cease to be a controlling shareholder (as defined in the Listing Rules) of the Company.

Each of the Company, the Major Shareholders and the executive Directors has undertaken to and covenanted with the Underwriters that save with the prior written consent of the Oriental Patron (for itself and on behalf of the Underwriters), no company in the Group will within the First Six Month Period purchase any securities of the Company.

Each of the Major Shareholders jointly and severally undertakes to the Company and the Underwriters that it will within the period of 12 months commencing from the date on which dealings in the Shares first commence on the Stock Exchange:

- (a) where he/it pledges or charges any securities in the Company beneficially owned by him/it, whether directly or indirectly, immediately inform the Company in accordance with the Listing Rules in writing of such pledge or charge and the number of such securities so pledged or charged; and
- (b) when he/it receives indications, either verbal or written, from any pledgee or chargee that any securities in the Company pledged or charged by he/it will be disposed of, immediately inform the Company in accordance with the Listing Rules in writing of such indications.

Commission

The Underwriters will receive a commission of 2.5% on the aggregate Issue Price for all the Offer Shares now being offered, out of which they will pay any sub-underwriting commissions. Oriental Patron will in addition receive a documentation fee. The underwriting commission, documentation fee, the Stock Exchange transaction levy, legal and other professional fees together with printing and other expenses relating to the Share Offer are estimated to amount to about HK\$10 million in total (assuming that the Over-allotment Option is not exercised) and will be payable by the Company.

Underwriters' interest in the Group

Save for their obligations under the Underwriting Agreement, none of the Underwriters has any shareholding in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

STRUCTURE OF THE SHARE OFFER

PRICE PAYABLE ON APPLICATION

Issue Price of HK\$1.00 per Share plus 1% brokerage and a 0.01% Stock Exchange transaction levy make up the total price payable on application of HK\$2,020.20 for every 2,000 Offer Shares.

CONDITIONS OF THE SHARE OFFER

Acceptance of your application for the New Issue Shares is conditional upon:

1. Listing

the Listing Committee of the Stock Exchange granting listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus including the Shares to be issued pursuant to the Share Offer and the Capitalisation Issue and any additional Shares which may be issued pursuant to the exercise of the Over-allotment Option or options which may be granted under the Share Option Scheme (and such listing and permission not subsequently being revoked prior to the commencement of dealings in the Shares on the Stock Exchange); and

2. Underwriting Agreement

the obligations of the Underwriters under the Underwriting Agreement becoming unconditional and not being terminated in accordance with the terms of that agreement or otherwise. Details of the Underwriting Agreement, its conditions and grounds for termination, are set out in the section headed “Underwriting”.

If any of these conditions is not fulfilled on or before 24th May, 2001, your application money will be returned to you, without interest. The terms on which your money will be returned to you are set out under the paragraph headed “Refund of your money” on the application forms.

In the meantime, your application money will be held in one or more separate bank accounts in Hong Kong with any bank(s) in Hong Kong licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong).

OVER-ALLOCATION

In connection with the Placing, Oriental Patron may over-allocate Shares and cover such over-allocations by exercising the Over-allotment Option no later than 30 days after the date of this prospectus. The number of Shares (“Over-allotment Shares”) over-allocated will not be greater than the number of Shares which may be issued upon the exercise of the Over-allotment Option in full, being 7.5 million Shares, which represents 15% of the Shares initially available under the Share Offer. The Over-allotment Shares (if any) will be issued at the Issue Price. If the Over-allotment Option is exercised, the Over-allotment Shares issued will be allocated to placees at the sole discretion of Oriental Patron.

If the Over-allotment Option is exercised in full, the Over-allotment Shares will represent about 3.6% of the Company’s enlarged issued share capital immediately following completion of the Share Offer, the Capitalisation Issue and the allotment and issue of the Over-allotment Shares. If the Over-allotment Option is exercised, a press announcement will be made.

STRUCTURE OF THE SHARE OFFER

THE SHARE OFFER

There will be initially a total of 50 million Offer Shares to be offered for subscription under the Share Offer, which comprise 30 million New Issue Shares and 20 million Placing Shares. In addition, the Company has granted to Oriental Patron the Over-allotment Option at any time within 30 days after the date of this prospectus to require the Company to issue up to an aggregate of 7.5 million Shares, representing 15% of the Shares initially available under the Share Offer.

The New Issue is an offer for subscription initially of 30 million New Issue Shares, subject to adjustment as set out in this section, at the Issue Price, payable in full on application.

The Placing is a placing by the Placing Underwriter initially of 20 million Placing Shares, subject to adjustment as set out in this section, also at the Issue Price.

References herein to application forms, application monies and the procedure for application relate solely to the New Issue.

Investors are free to select whether to apply for Shares under the New Issue or the Placing, but may not apply under both these methods. **In particular, all applications of an investor for Shares will be rejected as multiple applications if he/it (whether by himself/itself or any person(s) for the investor's benefit is making the application), or he/it or his/its joint applicants together, among other circumstances, lodges white or yellow application form(s) under the New Issue and at the same time participate in the Placing or indicate an interest for any Placing Shares.**

THE NEW ISSUE

The Company is initially offering 30 million New Issue Shares, representing 60% of the total number of Shares initially being offered in the Share Offer, for subscription by members of the public in Hong Kong. The New Issue is sponsored and managed by Oriental Patron, and is fully underwritten by the New Issue Underwriters.

All the 30 million New Issue Shares will be available for public subscription on **white** or **yellow** application forms. For allocation purposes only, these New Issue Shares will be divided into two pools: pool A and Pool B. The New Issue Shares in pool A will consist of not less than 15 million Shares and will be allocated on an equitable basis to applicants who have applied for New Issue Shares with an aggregate value (excluding the brokerage and the Stock Exchange transaction levy payable thereon) of HK\$5 million or less. The New Issue Shares in pool B will consist of not less than 15 million Shares and will be allocated on an equitable basis to applicants who have applied for New Issue Shares with an aggregate value (excluding the brokerage and the Stock Exchange transaction levy payable thereon) of more than HK\$5 million and up to the total value of pool B. Investors should be aware that allocation ratios for applications in the two pools, as well as the allocation ratios for applications in the same pool, are likely to be different. If one (but not both) of the pools is undersubscribed, the surplus New Issue Shares in that pool will be transferred to satisfy demand in the other pool and be allocated accordingly. Applicants can only receive an allocation of New Issue Shares from either pool A or pool B but not from both pools. No applications will be accepted from investors applying for more than the total number of the New Issue Shares originally allocated to each pool.

STRUCTURE OF THE SHARE OFFER

Each applicant under the New Issue will also be required to give an undertaking and confirmation in the application form submitted by him that he and any person(s) for such applicant's benefit is making the application have not indicated an interest for and will not indicate an interest for, and have not received or been placed or allotted (including conditionally and/or provisionally) any Placing Shares, and such applicant's application is liable to be rejected if the said undertaking and/or confirmation is breached and/or untrue (as the case may be).

THE PLACING

The Company is initially offering 20 million Placing Shares, representing 40% of the total number of Shares initially being offered in the Share Offer, for subscription by way of the Placing. The Placing is managed and is fully underwritten by Oriental Patron.

Pursuant to the Placing, it is expected that the Placing Underwriter or certain of its affiliates will conditionally place on behalf of the Company the Placing Shares at the Issue Price payable by the investors acquiring the Placing Shares plus 1% brokerage and 0.01% Stock Exchange transaction levy. The Placing Shares will be placed with selected professional, institutional and individual investors in Hong Kong and other jurisdiction to the extent that the relevant securities laws and requirements are complied with. Professional and institutional investors generally include brokers, dealers and fund managers whose business involves dealing in shares and other securities and corporate entities which regularly invest in shares and securities. In Hong Kong, individual investors may apply for the New Issue Shares through the New Issue or the Placing Shares under the Placing. Each investor who is offered Placing Shares in the Placing will be required to undertake and confirm that such investor has not applied for any New Issue Shares under the New Issue. Completion of the Placing is also subject to and conditional upon the Share Offer becoming unconditional.

REALLOCATION BETWEEN THE NEW ISSUE AND THE PLACING

The allocation of the Shares between the New Issue and the Placing is subject to adjustment.

If the New Issue is not fully subscribed, Oriental Patron may, in its absolute discretion, reallocate all or any of the New Issue Shares originally included in the New Issue but not applied for to the Placing in such number as it deems appropriate.

BASIS OF ALLOCATION OF THE NEW ISSUE SHARES AND THE PLACING SHARES

Allocation of the New Issue Shares to investors under the New Issue will be based solely on the level of valid applications received. The basis of allocation may vary, depending on the number of New Issue Shares validly applied for by each applicant, but will otherwise be made on a strictly pro-rata basis. However and subject to the pooling and reallocation arrangements described in the paragraph headed "Reallocation between the New Issue and the Placing" above, the allocation of New Issue Shares may involve balloting in the event that the number of New Issue Shares for which valid applications are received under the New Issue exceed the number of New Issue Shares initially comprised in the New Issue. Such balloting may result in some applicant being allotted more Shares than others who have applied for the same number of New Issue Shares and applicants who are not successful in the ballot may not receive any New Issue Shares. Multiple applications and suspected multiple applications will be rejected.

STRUCTURE OF THE SHARE OFFER

Allocation of the Placing Shares will be based on a number of factors, including the level and timing of demand and whether or not it is expected that the relevant investor is likely to purchase further Shares or hold or sell its Shares after the listing of the Shares on the Stock Exchange. Such allocation is intended to result in a distribution of the Placing Shares which would lead to the establishment of a solid professional and institutional shareholder base to the benefit of the Company and its shareholders as a whole. The Company, its Directors, Oriental Patron and the Underwriters will take reasonable steps to identify and reject multiple applications or suspected multiple applications.

The total number of Placing Shares to be allotted and issued pursuant to the Placing may be adjusted pursuant to any reallocation of Shares originally offered under the New Issue but not taken up, as described in the paragraph headed “Reallocation between the New Issue and the Placing” above.

HOW TO APPLY FOR THE NEW ISSUE SHARES

WHICH APPLICATION FORM TO USE

Use a **WHITE** application form if you want the New Issue Shares issued in your own name.

Use a **YELLOW** application form if you want the New Issue Shares issued in the name of HKSCC Nominees Limited and deposited directly into CCASS for credit to your investor participant stock account or the stock account of your designated CCASS participant maintained in CCASS.

Note: The New Issue Shares are not available to any Directors or chief executive of the Company or existing beneficial owner(s) of the Company or their respective associates.

WHERE TO COLLECT THE APPLICATION FORMS

You can collect a **WHITE** application form and a prospectus from:

- any participant of the Stock Exchange;
- **Oriental Patron Asia Limited**, 42nd Floor, COSCO Tower, 183 Queen's Road Central, Hong Kong;
- **Sanfull Securities Limited**, 20th Floor, Far East Consortium Building, 121 Des Voeux Road Central, Hong Kong;

or any of the following branches of **Standard Chartered Bank**

Hong Kong Island:	The Landmark Branch	The Landmark, 15 Queen's Road Central
	Des Voeux Road Branch	Standard Chartered Bank Building 4-4a Des Voeux Road Central
	CIG Building Branch	Shop B, Ground Floor, CIG Building 141 Des Voeux Road Central
	Leighton Centre Branch	Shop 12-16, Upper Ground Floor Leighton Centre, 77 Leighton Road Causeway Bay
	North Point Centre Branch	284 King's Road, North Point
	Taikoo Place Branch	Ground Floor, 969 King's Road, Quarry Bay
Kowloon:	Kwun Tong Branch	88-90 Fu Yan Street, Kwun Tong
	Mongkok Bank Centre Branch	Bank Centre, 630-636 Nathan Road Mongkok
	Tsimshatsui Branch	10 Granville Road, Tsimshatsui
	Cheung Sha Wan Branch	828 Cheung Sha Wan Road Cheung Sha Wan
New Territories:	Tsuen Wan Branch	Basement 1st Floor, Emperor Plaza 263 Sha Tsui Road, Tsuen Wan

HOW TO APPLY FOR THE NEW ISSUE SHARES

You can collect a **YELLOW** application form and a prospectus from:

**Hongkong Clearing
Depository Counter
2nd Floor, Vicwood Plaza
199 Des Voeux Road Central
Hong Kong**

or

**Hongkong Clearing
Customer Service Centre
Upper Ground Floor
V-Heun Building
128-140 Queen's Road Central
Hong Kong**

or your stockbroker may have **YELLOW** application forms available.

HOW TO COMPLETE THE APPLICATION FORMS

There are detailed instructions on each application form. You should read these instructions carefully. If you do not follow the instructions, your application may be rejected.

If your application is made through a duly authorised attorney, the Company and Oriental Patron (on behalf of the Underwriters) as agent for the Company may accept it at their discretion, and subject to any conditions they think fit, including evidence of the authority of your attorney. Oriental Patron in its capacity as agent for the Company has full discretion to reject or accept any application, in full or in part, without assigning any reason.

NUMBER OF APPLICATIONS YOU MAY MAKE

You may make more than one application for New Issue Shares if you are a nominee. You may lodge more than one application in your own name on behalf of different owners. In the box on the application form marked "For nominees", you must include (i) an account number; or (ii) some other identification code for **each** beneficial owner. If you do not include this information, the application will be treated as being made for your benefit. ***Multiple applications are not otherwise allowed and will be rejected.***

It will be a term and condition of all applications that by completing and delivering an application form, you give a warranty to the effect that:

- no other application is made for your benefit by you or by anyone applying as your agent or by any other person, if the application is made for your benefit;
- if the application is made by you as agent for the benefit of another person, no other application is being made by you as agent for or for the benefit of that person or by that person or by other person as agent for that person; and you have due authority to sign the application as agent for the person who is to benefit from the application.

HOW TO APPLY FOR THE NEW ISSUE SHARES

All of your applications will be rejected as multiple applications if you, or you and your joint applicants or any of your joint applicants together:

- make more than one application on a **WHITE** or **YELLOW** application form (save in case of applications being made by nominees in accordance with the terms herein); or
- apply on one **WHITE** or **YELLOW** application form for more than 50% of the New Issue Shares; or
- have been allotted Placing Shares under the Placing; or
- make one application (whether individually or jointly with others) on a **WHITE** or **YELLOW** application form AND make any application for Placing Shares.

All of your applications will also be rejected as multiple applications if more than one application is made for **your benefit**. If an application is made by an unlisted company and

- the only business of that company is dealing in securities; and
- you exercise statutory control over that company,

then the application will be treated as being for your benefit.

Unlisted company means a company with no equity securities listed on the Stock Exchange.

Statutory control means you:

- control the composition of the board of directors of the company; or
- control more than one half of the voting power of the company; or
- hold more than one half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

HOW MUCH ARE THE NEW ISSUE SHARES

The Issue Price of the Offer Shares is HK\$1.00 each. You must also pay the brokerage of 1% and a Stock Exchange transaction levy of 0.01% on application. This means that for every 2,000 New Issue Shares you want to apply for, you have to pay HK\$2,020.20. The application forms have tables showing the exact amount payable for multiples of Shares.

You must pay the Issue Price, brokerage and the Stock Exchange transaction levy in full when you apply for the New Issue Shares. Your payment must be made by one cheque or one cashier order and must comply with the terms of the application forms. Your cheque or cashier order will not be presented for payment before 12:00 noon on Friday, 27th April, 2001.

If your application is successful, brokerage is paid to participants of the Stock Exchange and the transaction levy is paid to the Stock Exchange.

HOW TO APPLY FOR THE NEW ISSUE SHARES

MEMBERS OF THE PUBLIC – TIME FOR APPLYING FOR THE NEW ISSUE SHARES

Completed **WHITE** or **YELLOW** application forms, with payment in Hong Kong dollars for the full amount payable on application attached, must be lodged by **12:00 noon on Friday, 27th April, 2001** or, if the application lists are not open on that day, then by 12:00 noon on the day the lists are open.

Your completed application form with payment in Hong Kong dollars for the full amount payable on application attached, should be deposited in the special collection boxes provided at any of the branches of Standard Chartered Bank under the sub-section headed “Where to collect the application forms” of this section at the following times:

Tuesday, 24th April, 2001 – 9:00 a.m. to 4:00 p.m.
Wednesday, 25th April, 2001 – 9:00 a.m. to 4:00 p.m.
Thursday, 26th April, 2001 – 9:00 a.m. to 4:00 p.m.
Friday, 27th April, 2001 – 9:00 a.m. to 12:00 noon

The application lists will be open **from 11:45 a.m. to 12:00 noon on Friday, 27th April, 2001**

EFFECT OF BAD WEATHER ON THE OPENING OF THE APPLICATION LISTS

The application lists will not open if there is:

- a tropical cyclone warning signal number 8 or above; or
- a “black” rainstorm warning signal

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Friday, 27th April, 2001. Instead they will open between 11:45 a.m. and 12:00 noon on the next business day which does not have either of those warnings in force at any time between 9:00 a.m. and 12:00 noon.

Business day means a day that is not a Saturday, Sunday or public holiday in Hong Kong.

CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED NEW ISSUE SHARES

Full details of the circumstances in which you will not be allotted any of the New Issue Shares are set out in the notes attached to the application forms, and you should read them carefully. You should note in particular the following two situations in which the New Issue Shares will not be allotted to you:

- **If your application is revoked:**

By completing an application form, you agree that you cannot revoke your application before the fifth day (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) after the time of opening of the application lists. This agreement will take effect as a collateral contract with the Company, and will become binding when you lodge your application form. In consideration of your agreement not to revoke your application, the Company agrees not to offer any Shares for subscription prior to 24th May, 2001 by any means other than those described in this prospectus.

HOW TO APPLY FOR THE NEW ISSUE SHARES

You may only revoke your application if a person responsible for this prospectus under section 40 of the Companies Ordinance (as applied by section 342E of the Companies Ordinance) gives a public notice under that section which excludes or limits the responsibility of that person for this prospectus.

If your application has been accepted, it cannot be revoked. Acceptance of application will be constituted by notification to the press of the basis of allocation and, where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to satisfaction of such conditions or the results of such ballot, respectively.

- **If the allocation of New Issue Shares is void:**

Your allotment of New Issue Shares will be void if the Listing Committee of the Stock Exchange does not grant permission to list the Shares either:

- within three weeks from the closing of the application lists of the Share Offer; or
- within a longer period of up to six weeks if the Listing Committee of the Stock Exchange notifies the Company of that longer period within three weeks of the closing of the application lists of the Share Offer.

COLLECTION/POSTING OF SHARE CERTIFICATES/REFUND CHEQUES AND DEPOSIT OF SHARE CERTIFICATES INTO CCASS

WHITE application form:

If you have applied for 500,000 New Issue Shares or more and you have indicated on your application form that you wish to collect your share certificate(s) and refund cheques (if any) in person, you may collect them in person from:

Hong Kong Registrars Limited
2nd Floor
Vicwood Plaza
199 Des Voeux Road Central
Hong Kong

between 9:00 a.m. to 1:00 p.m. on the date notified by the Company in the newspapers as the date of despatch of share certificates and refund cheques. This is expected to be Thursday, 3rd May, 2001.

If you are an individual applicant and opt for personal collection you may not authorize any other person to make collection on their behalf. You must show your identification documents (which must be acceptable to Hong Kong Registrars Limited) to collect your share certificate(s) and refund cheques (if any) at the time of collection. If you are a corporate applicant and opt for personal collection, you must attend by your authorized representatives bearing letters of authorization from your corporation stamped with the corporation's chop. Your authorized representative must produce, at the time of collection, evidence of identity acceptable to Hong Kong Registrars Limited. Uncollected share certificates and refund cheques will be sent to the address on your application form by ordinary post at your own risk on Thursday, 3rd May, 2001.

HOW TO APPLY FOR THE NEW ISSUE SHARES

If you have applied for less than 500,000 New Issue Shares or if you have applied for 500,000 New Issue Shares or more but have not indicated in your application form that you wish to collect your share certificate(s) and refund cheque (if any) personally within the time specified for collection, then your share certificate(s) and refund cheque (if any) will be sent to the address on your application form on Thursday, 3rd May, 2001, by ordinary post and at your own risk.

No receipt will be issued for application monies paid. The Company will not issue temporary documents of title.

YELLOW application form:

Your share certificate(s) will be issued in the name of HKSCC Nominees Limited and deposited into CCASS for credit to your investor participant stock account or the stock account of your designated CCASS participant as instructed by you at the close of business on Thursday, 3rd May, 2001, or under contingent situation, on any other date as shall be determined by Hongkong Clearing or HKSCC Nominees Limited.

If you are applying through a designated CCASS participant (other than an investor participant):

- for New Issue Shares credited to the stock account of your designated CCASS participant (other than an investor participant), you can check the number of New Issue Shares allotted to you with that CCASS participant.

If you are applying as an investor participant:

- the Company will publish the results of investor participants' applications together with the results of the Share Offer in the newspapers on Thursday, 3rd May, 2001. You should check against the announcement published by the Company and report any discrepancies to Hongkong Clearing before 5:00 pm on Thursday, 3rd May, 2001 or such other date as shall be determined by Hongkong Clearing or HKSCC Nominees Limited. On Friday, 4th May, 2001 (the next day following the credit of the New Issue Shares to your stock account) you can check your new account balance via the CCASS Phone System and CCASS Internet System (under the procedures contained in Hongkong Clearing's "An Operating Guide for Investor Participants" in effect from time to time). Hongkong Clearing will also mail to you an Activity Statement showing the number of New Issue Shares credited to your stock account.

If you have applied for 500,000 New Issue Shares or more and you have indicated on your application form that you wish to collect your refund cheque (if any) in person, you may collect them in person from:

Hong Kong Registrars Limited
2nd Floor
Vicwood Plaza
199 Des Voeux Road Central
Hong Kong

between 9:00 a.m. to 1:00 p.m. on the date notified by the Company in the newspapers as the date of despatch of refund cheques. This is expected to be Thursday, 3rd May, 2001.

HOW TO APPLY FOR THE NEW ISSUE SHARES

If you are an individual applicant and opt for personal collection, you may not authorize any other person to make collection on their behalf. You must show your identification documents (which must be acceptable to Hong Kong Registrars Limited) to collect your refund cheque (if any) at the time of collection. If you are a corporate applicant and opt for personal collection, you must attend by your authorized representatives bearing letters of authorization from your corporation stamped with the corporation's chop. Your authorized representatives must produce, at the time of collection, evidence of identity acceptable to Hong Kong Registrars Limited. Uncollected refund cheques will be sent to the address on your application form by ordinary post at your own risk on Thursday, 3rd May, 2001.

If you have applied for less than 500,000 New Issue Shares or if you have applied for 500,000 New Issue Shares or more but have not indicated in your application form that you wish to collect your refund cheque (if any) personally within the time specified for collection, then your refund cheque (if any) will be sent to the address on your application form on Thursday, 3rd May, 2001, by ordinary post and at your own risk.

No receipt will be issued for application monies paid. The Company will not issue temporary documents of title.

COMMENCEMENT OF DEALINGS IN THE SHARES

Dealings in the Shares are expected to commence on Monday, 7th May, 2001.

Shares will be traded in board lots of 2,000 Shares each.

The Stock Exchange stock code for the Shares is 1213.

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

If the Stock Exchange grants the listing of and permission to deal in the Shares and the Company complies with the stock admission requirements of Hongkong Clearing, the 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 Shares on the Stock Exchange or on any other date as determined by Hongkong Clearing. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day.

All necessary arrangements have been made for the Shares to be admitted into CCASS.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

The following is the text of a report, prepared for incorporation in this prospectus, received from Arthur Andersen & Co, Certified Public Accountants, Hong Kong, the auditors of, and reporting accountants to, the Company.

**ARTHUR ANDERSEN****Arthur Andersen & Co**

21st Floor, Edinburgh Tower
The Landmark
15 Queen's Road Central
Hong Kong

24th April, 2001

The Directors
Mobicon Group Limited
Oriental Patron Asia Limited

Dear Sirs,

We set out below our report on the financial information relating to Mobicon Group Limited (“the Company”) and its subsidiaries (hereinafter collectively referred to as “the Group”) for inclusion in the prospectus of the Company dated 24th April, 2001 (“the Prospectus”).

The Company was incorporated in Bermuda on 11th January, 2001 as an exempted company under the Companies Act 1981 of Bermuda. The Company has not carried on any business since its incorporation, except that on 18th April, 2001 it acquired the entire issued share capital of Mobicon (BVI) Limited through a share exchange and consequently became the holding company of the Group. Mobicon (BVI) Limited acts as an intermediate holding company of the other companies comprising the Group.

As at the date of this report, no audited financial statements have been prepared by the Company and Mobicon (BVI) Limited as these companies were not subject to any statutory audit requirements in their jurisdictions of incorporation, and no audited financial statements have been prepared by Mobicon Holdings Limited as this company was newly incorporated. We have, however, reviewed all relevant transactions of these companies for each of the years/period covered by this report, and carried out such procedures as we considered necessary for inclusion of the financial information relating to these companies in this report.

Mobicon Electronic Supplies Company Limited (“MESC”), a company incorporated in Hong Kong and beneficially owned by Mr. Hung Kim Fung, Measure, Ms. Yeung Man Yi, Beryl, Mr. Hung Ying Fung and Mr. Yeung Kwok Leung, Allix, all being directors and shareholders of the Company, was principally engaged in (i) trading of electronic parts and components (“MESC-Trading Division”); and (ii) investment holding business (“MESC – Investment Holding Division”). As part of a group reorganisation, Mobicon Holdings Limited acquired the entire assets (including, among others, a 60% interest in M-Tec Electronic Limited), liabilities and operations of MESC-Trading Division at consideration of approximately HK\$53,926,000 based on the net asset value of MESC-Trading Division as at 31st October, 2000, and thereafter Mobicon Holdings Limited became principally engaged in the trading of electronic parts and components.

Prior to 12th April, 2001, MESC-Trading Division had a 60% interest in M-Tec Electronic Limited and A Plus Electronic Company Limited had a 70% interest in Mobicon Agent Limited. Effective 12th April, 2001, Mobicon Holdings Limited (the successor of MESC-Trading Division) and A Plus Electronic Company Limited acquired the remaining 40% interest in M-Tec Electronic Limited from Mr. Cheung Chiu Hing, senior management of the Group, and A Plus Electronic Company Limited acquired the remaining 30% interest in Mobicon Agent Limited from Mr. Tam Kwok Wai, senior management of the Group, for an aggregated cash consideration of approximately \$531,000, based on the net asset value of M-Tec Electronic Limited and Mobicon Agent Limited as at 31st October, 2000. Thereafter, M-Tec Electronic Limited and Mobicon Agent Limited became wholly owned by the Group.

We have acted as auditors of the entities/companies comprising the Group for each of years/period covered by this report or since their respective dates of incorporation where this is a shorter period, except for MESC-Trading Division, M-Tec Electronic Limited, A Plus Electronic Company Limited and Mobicon Agent Limited, for the years ended 31st March, 1998 and 1999, which were audited by Wong Man Yin, Margaret, Certified Public Accountant, Hong Kong.

The auditors' reports on the financial statements of Mobicon Electronic Supplies Company Limited and M-Tec Electronic Limited for the years ended 31st March, 1998 and 1999 were qualified in respect of a scope limitation relating to the existence of inventories as at 31st March, 1998 and 1999 as a result of non-attendance of the physical inventory count by their then auditors. For the purpose of this report, we have carried out such procedures as we considered necessary with respect to the existence of inventories of the Group as at 31st March, 1998 and 1999 and appropriate adjustments have been made and reflected in the combined results of operations and cash flows of the Group for the years ended 31st March, 1998 and 1999 and of the combined financial position of the Group as at 31st March, 1998 and 1999. Therefore, the circumstances giving rise to the qualifications no longer exist at the date of this report.

We have examined the audited financial statements or management accounts of the entities/companies now comprising the Group for the years ended 31st March, 1998, 1999 and 2000 and the seven months ended 31st October, 2000, or since their respective dates of incorporation where this is a shorter period. Our examinations were made in accordance with the Auditing Guideline "Prospectuses and the Reporting Accountant" issued by the Hong Kong Society of Accountants.

The summaries of the combined results of operations and cash flows of the Group for the years ended 31st March, 1998, 1999 and 2000 and the seven months ended 31st October, 2000, and of the combined financial position of the Group as at 31st March, 1998, 1999 and 2000 and 31st October, 2000 ("the Summaries") set out in this report have been prepared from the audited financial statements or, where appropriate, management accounts of the companies now comprising the Group, after making such adjustments as are appropriate and are presented on the basis set out in Section 1 below.

The directors of the respective companies now comprising the Group are responsible for preparing financial statements of the respective companies which give a true and fair view. In preparing these financial statements, it is fundamental that appropriate accounting policies are selected and applied consistently. The directors of the Company are also responsible for the summaries of the combined results of operations and cash flows of the Group for the years ended 31st March, 1998, 1999 and 2000 and the seven months ended 31st October, 2000 and of the combined financial position of the Group as at 31st March, 1998, 1999 and 2000 and 31st October, 2000. It is our responsibility to form an independent opinion on the summaries of the combined results of operations, cash flows and financial position of the Group.

In our opinion, the Summaries, together with the notes thereon, give, for the purpose of this report, a true and fair view of the combined results of operations and cash flows of the Group for the years ended 31st March, 1998, 1999 and 2000 and the seven months ended 31st October, 2000 and of the combined financial position of the Group as at 31st March, 1998, 1999 and 2000 and 31st October, 2000.

1. BASIS OF PRESENTATION

As at the date of this report, the Company has direct or indirect interests in the following subsidiaries (all these companies being private limited companies or, if incorporated outside Hong Kong, having substantially the same characteristics as a Hong Kong private limited company):

Name	Place and date of incorporation	Issued and fully paid share capital	Percentage of equity interest attributable to the Group	Principal activities
Mobicon (BVI) Limited	British Virgin Islands 28th December, 2000	US\$10,000	100%	Investment holding
Mobicon Holdings Limited	Hong Kong 9th October, 2000	HK\$10	100%	Trading of electronic components and accessories
M-Tec Electronic Limited	Hong Kong 9th January, 1992	HK\$100,000	100%	Trading of electronic components and accessories
A Plus Electronic Company Limited	Hong Kong 7th April, 1993	HK\$1,000,100	100%	Trading of electronic components, computer products and accessories
Mobicon Agent Limited	Hong Kong 18th February, 1992	HK\$10,000	100%	Trading of electronic components and accessories

The summary of the combined results of operations and cash flows of the Group for the years ended 31st March, 1998, 1999 and 2000 and the seven months ended 31st October, 2000 include the results of operations and cash flows of the companies now comprising the Group as if the current structure of the Group had been in existence throughout the years/period covered by this report or since their respective dates of incorporation where this is a shorter period, together with that of MESC-Trading Division for the years ended 31st March, 1998, 1999 and 2000 and the seven months ended 31st October, 2000. The summary of the combined financial position of the Group as at 31st March, 1998, 1999 and 2000 and 31st October, 2000 has been prepared to present the financial position of the companies now comprising the Group as at the respective dates as if the current group structure had been in existence as at 1st April, 1997 or their respective dates of

incorporation where they are incorporated after 1st April, 1997, together with that of MESC-Trading Division as at 31st March, 1998, 1999 and 2000 and 31st October, 2000. The acquisition of the remaining 40% and 30% interests in M-Tec Electronic Limited and Mobicon Agent Limited from the minority shareholders by the Group have been accounted for using acquisition method of accounting. Accordingly, the minority interests' share of results of operation and net assets of these two companies prior to the acquisition have been deducted in arriving at the Group's profit attributable to shareholders and net assets in the Summaries.

Significant transactions and balances between companies comprising the Group have been eliminated on combination.

2. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted by the Group in arriving at the financial information set out in this report, which conform with Statements of Standard Accounting Practice issued by the Hong Kong Society of Accountants and accounting principles generally accepted in Hong Kong, are as follows:

a. Basis of measurement

The financial statements have been prepared on the historical cost basis.

b. 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.

c. Turnover and revenue recognition

Turnover represented the invoiced value of merchandise sold, after allowances for returns and discounts and commission income.

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. Commission income is recognised when the related services are rendered. Interest income is recognised on a time proportion basis on the principal outstanding and at the rate 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, at the current tax rate, 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 are stated at cost less accumulated depreciation. Major expenditures on modifications and betterments of fixed assets which will result in future economic benefits are capitalised, while expenditures on maintenance and repairs are expensed when incurred. Depreciation for fixed assets is provided on a straight-line basis to write off the cost of each asset over its estimated useful life. The annual rates of depreciation are as follows:

Furniture and fixtures	25%
Office equipment	25%
Motor vehicles	25%

Management assesses the recoverability of the carrying amount of fixed assets periodically. When the recoverable amount of fixed assets has declined below the carrying amount, the carrying amount is reduced to the recoverable amount with the difference charged to the income statement. In determining the recoverable amount of fixed assets, expected future cash flows have not been discounted to their present values.

Gains and losses on disposal of fixed assets are recognised in the income statement based on the net disposal proceeds less the then carrying amount of the assets.

f. Inventories

Inventories are stated 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. Operating leases

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

h. Employee retirement benefits

The costs of employee retirement benefits are recognised as an expense in the years/period in which they are incurred.

i. Foreign currency translation

Individual entities within the Group maintain their books and records in the primary currencies of their respective operations (“functional currencies”). In the accounts of the individual entities, 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 and losses are dealt with in the income statement of the individual entities.

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 translations are dealt with as movements of cumulative translation adjustments.

3. INCOME STATEMENTS

The following is a summary of the combined results of operations of the Group for the years ended 31st March, 1998, 1999 and 2000 and the seven months ended 31st October, 2000, prepared on the basis set out in Section 1 above:

	Note	Year ended 31st March,			Seven months ended
		1998	1999	2000	31st October, 2000
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	(a)	681,164	553,643	588,172	316,390
Cost of sales		<u>(629,204)</u>	<u>(503,368)</u>	<u>(527,298)</u>	<u>(267,935)</u>
Gross profit		51,960	50,275	60,874	48,455
Distribution and selling expenses		(1,837)	(1,551)	(1,523)	(1,236)
General and administrative expenses		<u>(28,598)</u>	<u>(28,953)</u>	<u>(25,390)</u>	<u>(15,662)</u>
Profit from operations		21,525	19,771	33,961	31,557
Interest income		<u>571</u>	<u>468</u>	<u>495</u>	<u>391</u>
Profit before taxation	(b)	22,096	20,239	34,456	31,948
Taxation	(c)	<u>(3,676)</u>	<u>(3,034)</u>	<u>(5,523)</u>	<u>(5,035)</u>
Profit after taxation but before minority interests		18,420	17,205	28,933	26,913
Minority interests		<u>(471)</u>	<u>(598)</u>	<u>(1,110)</u>	<u>(1,391)</u>
Profit attributable to shareholders		17,949	16,607	27,823	25,522
Retained profit, beginning of year/period		82,063	100,012	116,619	144,442
Dividend	(d)	<u>–</u>	<u>–</u>	<u>–</u>	<u>(41,718)</u>
Retained profit, end of year/period		<u><u>100,012</u></u>	<u><u>116,619</u></u>	<u><u>144,442</u></u>	<u><u>128,246</u></u>
Earnings per share – Basic	(e)	<u><u>12.0 cents</u></u>	<u><u>11.1 cents</u></u>	<u><u>18.5 cents</u></u>	<u><u>17.0 cents</u></u>

Statements of recognised gains and losses are not presented because the Group had no recognised gains or losses other than profit attributable to shareholders for the years ended 31st March, 1998, 1999 and 2000 and the seven months ended 31st October, 2000.

Notes:

a. Turnover and revenue

Turnover and revenue consisted of:

	Year ended 31st March,			Seven months ended
	1998	1999	2000	31st October, 2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Sales of merchandise	674,669	549,983	587,850	316,286
Commission income	6,495	3,660	322	104
	<u>681,164</u>	<u>553,643</u>	<u>588,172</u>	<u>316,390</u>
Total turnover	681,164	553,643	588,172	316,390
Interest income	571	468	495	391
	<u>681,735</u>	<u>554,111</u>	<u>588,667</u>	<u>316,781</u>

An analysis of the Group's turnover by geographical location for the years ended 31st March, 1998, 1999 and 2000 and the seven months ended 31st October, 2000 is as follows:

	Year ended 31st March,			Seven months ended
	1998	1999	2000	31st October, 2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	346,787	307,845	370,514	231,623
Europe	134,864	129,517	81,631	37,289
America	117,222	69,921	77,737	18,855
Asia Pacific (other than Hong Kong)	62,988	35,660	41,235	19,957
Others	19,303	10,700	17,055	8,666
	<u>681,164</u>	<u>553,643</u>	<u>588,172</u>	<u>316,390</u>

Turnover by geographical location is determined on the basis of the destination of delivery of merchandise for the Group's sales of merchandise and the place where the related services are rendered for the Group's commission income.

b. Profit before taxation

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

	Year ended 31st March,			Seven months ended
	1998	1999	2000	31st October, 2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
After charging –				
Staff costs (including directors' emolument)	20,850	22,234	18,451	10,402
Bad debt expense	307	2	301	–
Provision for obsolete and slow-moving inventories	1,191	780	651	444
Provision for possible tax penalty*	980	469	–	–
Depreciation of fixed assets	1,117	1,056	723	990
Net exchange loss	195	166	–	–
Operating lease rentals of premises	138	138	246	204
Auditors' remuneration	38	62	495	280
	<u>38,806</u>	<u>37,167</u>	<u>30,866</u>	<u>15,320</u>
After crediting –				
Interest income from bank deposits	571	468	495	391
Net exchange gain	–	–	276	69
	<u>571</u>	<u>468</u>	<u>771</u>	<u>460</u>

* This represented provision for possible tax penalty arising from delay in tax filing of a subsidiary in the respective years.

c. Taxation

Taxation consisted of:

	Year ended 31st March,			Seven months ended
	1998	1999	2000	31st October, 2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Current taxation – Hong Kong profits tax	3,676	3,034	5,302	5,035
Deferred taxation	–	–	221	–
	<u>3,676</u>	<u>3,034</u>	<u>5,523</u>	<u>5,035</u>

The Company and its subsidiaries are subject to income taxes on an entity basis on income arising in or derived from the tax jurisdictions in which they operate.

The Company was incorporated under the laws of Bermuda and is not subject to tax on profit or on capital gains. The Company has obtained from the Minister of Finance of Bermuda for an assurance, under the Exempted Undertakings Tax Protection Act 1966 of Bermuda, that no such taxes shall be so payable until 28th March, 2016.

Provision for taxation for the years ended 31st March, 1998, 1999 and 2000 and the seven months ended 31st October, 2000 represented provision for Hong Kong profits tax at the rate of 16.5%, 16%, 16% and 16%, respectively, on estimated assessable profit arising in or derived from Hong Kong.

Deferred taxation mainly represent the taxation effect of accelerated depreciation of fixed assets for taxation purposes. There was no significant unprovided deferred taxation as at 31st March, 1998, 1999 and 2000 and 31st October, 2000.

d. Dividend

On 30th October, 2000, MESC-Trading Division declared an interim dividend of approximately HK\$41,718,000 to its then shareholders (who are also directors and shareholders of the Company), which was settled by offsetting approximately HK\$34,118,000 due from directors, with the remaining balance of approximately HK\$7,600,000 to be settled by cash subsequent to 31st October, 2000.

e. Earnings per share

The calculation of the basic earnings per share for the years ended 31st March, 1998, 1999 and 2000 and the seven months ended 31st October, 2000 is based on the profit attributable to shareholders during the years/period covered by this report and assuming 150,000,000 shares in issue and issuable, comprising 2,000,000 shares in issue as at the date of the Prospectus and 148,000,000 shares to be issued pursuant to the Capitalisation Issue as described in the section headed “Written resolutions passed by all the shareholders of the Company” in Appendix 5 to the Prospectus.

f. Directors' and senior executives' emoluments

(i) Details of emoluments paid to directors of the Company were:

	Year ended 31st March,			Seven months ended
	1998	1999	2000	31st October, 2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Fees				
Other emoluments				
– Basic salaries and allowances	4,225	4,225	4,225	2,275
– Bonuses	5,000	5,000	–	–
	<u>9,225</u>	<u>9,225</u>	<u>4,225</u>	<u>2,275</u>

No directors waived any emolument during the years/period covered by this report.

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 31st March, 2001 is estimated to be approximately HK\$4,255,000.

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

	Year ended 31st March,			Seven months ended
	1998	1999	2000	31st October, 2000
Nil – HK\$1,000,000	–	–	2	2
HK\$1,000,001 – HK\$1,500,000	–	–	2	2
HK\$1,500,001 – HK\$2,000,000	2	2	–	–
HK\$2,000,001 – HK\$2,500,000	2	2	–	–
	<u>4</u>	<u>4</u>	<u>4</u>	<u>4</u>

During the years/period covered by this report, no emoluments were paid to the director as inducement to join or upon joining the Group or as compensation for loss of office.

- (ii) Out of the five highest paid individuals, four of them were directors of the Group, whose emoluments have been included in Section 3.f.(i) above. Details of emoluments paid to the other one highest paid individual were:

	Year ended 31st March,			Seven months ended
	1998	1999	2000	31st October, 2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Basic salaries and allowances	356	380	386	214
Bonuses	350	280	225	–
Retirement benefits	12	12	12	7
	<u>718</u>	<u>672</u>	<u>623</u>	<u>221</u>

During the years/period covered by this report, no emoluments were paid to the one highest paid individual as inducement to join or upon joining the Group or as compensation for loss of office.

The number of highest paid non-director individual whose remuneration falls within the following band is as follows:

	Year ended 31st March,			Seven months ended
	1998	1999	2000	31st October, 2000
Nil – HK\$1,000,000	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>

g. Retirement benefits

The Group has arranged for its employees (including certain executive directors) provident funds under a defined contribution scheme managed by independent trustee. The employees make monthly contributions to the schemes with an amount of 5% of their basic salaries, while the Group makes monthly contributions to this scheme with an amount of 5% of the employees' basic salaries. The employees are entitled to receive their entire contribution and the accrued interest thereon, and 100% of the employers' contribution and the accrued interest thereon upon retirement or leaving the Group after completing 10 years of service or at a reduced scale of between 30% and 100% after completing 3 to 10 years of service. The forfeited contributions made by the Group and related accrued interest are used to reduce the employer's contribution.

For the years ended 31st March, 1998, 1999 and 2000 and the seven months ended 31st October, 2000, the aggregate amount of the Group's (employer's) contributions was approximately HK\$233,000, HK\$243,000, HK\$266,000 and HK\$144,000, respectively. The amount of forfeited contributions utilised to reduce the Group's (employer's) contributions were approximately HK\$69,000, HK\$6,000, HK\$46,000 and HK\$32,000, respectively. As at 31st October, 2000, there was no material forfeited contributions available to reduce the Group's (employer's) contribution payable in future periods.

h. Related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

- i. Particulars of significant transactions between the Group and the related party was summarised below:

	Year ended 31st March,			Seven months ended
	1998	1999	2000	31st October, 2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Sales to PCUSER Limited ("PCUSER")*	—	—	388	2,862

- * PCUSER was beneficially owned by Mr. Hung Kim Fung, Measure (18%), Ms. Yeung Man Yi, Beryl (18%), Mr. Hung Ying Fung (12%) and Mr. Yeung Kwok Leung, Allix (12%), directors of the Company.

- ii. The Group's banking facilities were secured by, among others, personal guarantees provided by Mr. Hung Kim Fung, Measure, Ms. Yeung Man Yi, Beryl, Mr. Hung Ying Fung and Mr. Yeung Kwok Leung, Allix, directors of the Company, fixed deposits of Mr. Hung Ying Fung and Ms. Yeung Man Yi, Beryl and mortgages over properties owned by Mr. Hung Kim Fung, Measure and Ms. Yeung Man Yi, Beryl (see Section 7). Subsequent to 31st October, 2000, all of the Group's banking facilities were cancelled and as a result, all guarantees and mortgages provided by the directors were released.
- iii. During the years ended 31st March, 1998, 1999 and 2000 and the seven months ended 31st October, 2000, MESC-Investment Holding division provided office premises for use by the Group at no charge. Had rental expense been charged on the office premises during the years/period covered by this report based on the fair market value of rental, the Group would have paid rental expenses, net of tax, of approximately HK\$1,929,000, HK\$1,791,000, HK\$1,905,000 and HK\$1,416,000, respectively, for the years ended 31st March, 1998, 1999 and 2000 and the seven months ended 31st October, 2000.

On 1st February, 2001, the directors of the Company have disposed of their entire shareholding interest in PCUSER to an independent third party. The Directors have confirmed that except for Section 3.h. (ii) as mentioned above, the other transactions will continue subsequent to the listing of the shares of the Company on 7th May, 2001. In the opinion of the Directors, the above related party transactions were carried out in the usual course of business of the Group and on normal commercial terms.

4. BALANCE SHEETS

The following is a summary of the combined financial position of the Group as at 31st March, 1998, 1999 and 2000 and 31st October, 2000, prepared on the basis set out in Section 1 above:

		As at 31st March,		As at	
		1998	1999	2000	31st October,
Note	HK\$'000	HK\$'000	HK\$'000	HK\$'000	2000
					HK\$'000
NON-CURRENT ASSETS					
Fixed assets	(a)	1,716	1,192	1,183	1,026
CURRENT ASSETS					
Inventories	(b)	27,241	29,567	47,431	53,862
Prepayments, deposits and other receivables		616	388	861	2,567
Accounts receivable	(c)	21,980	21,969	27,792	37,053
Due from a related company	(d)	–	–	921	1,829
Due from directors	(e)	58,419	73,963	82,352	54,641
Cash and bank deposits		11,653	16,422	25,079	34,596
Total current assets		119,909	142,309	184,436	184,548
CURRENT LIABILITIES					
Accounts payable	(f)	(14,593)	(17,912)	(25,782)	(27,328)
Accruals and other payables		(3,473)	(4,026)	(6,544)	(7,123)
Taxation payable		(1,959)	(2,758)	(5,330)	(10,365)
Dividend payable		–	–	–	(7,600)
Total current liabilities		(20,025)	(24,696)	(37,656)	(52,416)
Net current assets		99,884	117,613	146,780	132,132
Total assets less current liabilities		101,600	118,805	147,963	133,158
NON-CURRENT LIABILITIES					
Deferred taxation		–	–	(221)	(221)
MINORITY INTERESTS					
		(588)	(1,186)	(2,300)	(3,691)
Net assets		101,012	117,619	145,442	129,246
CAPITAL AND RESERVE					
Paid-in capital	(g)	1,000	1,000	1,000	1,000
Retained profit	(h)	100,012	116,619	144,442	128,246
Shareholders' equity		101,012	117,619	145,442	129,246

Notes:

a. Fixed assets

Movements in fixed assets were:

	For the year ended 31st March, 1998			
	Furniture and fixtures HK\$'000	Office equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Cost				
As at 1st April, 1997	3,980	1,009	2,121	7,110
Additions	228	–	–	228
As at 31st March, 1998	4,208	1,009	2,121	7,338
Accumulated depreciation				
As at 1st April, 1997	2,827	642	1,036	4,505
Provision for the year	575	166	376	1,117
As at 31st March, 1998	3,402	808	1,412	5,622
Net book value				
As at 31st March, 1998	806	201	709	1,716
As at 1st April, 1997	1,153	367	1,085	2,605
	For the year ended 31st March, 1999			
	Furniture and fixtures HK\$'000	Office equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Cost				
As at 1st April, 1998	4,208	1,009	2,121	7,338
Additions	29	503	–	532
As at 31st March, 1999	4,237	1,512	2,121	7,870
Accumulated depreciation				
As at 1st April, 1998	3,402	808	1,412	5,622
Provision for the year	583	78	395	1,056
As at 31st March, 1999	3,985	886	1,807	6,678
Net book value				
As at 31st March, 1999	252	626	314	1,192
As at 1st April, 1998	806	201	709	1,716

	For the year ended 31st March, 2000			
	Furniture and fixtures HK\$'000	Office equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Cost				
As at 1st April, 1999	4,237	1,512	2,121	7,870
Additions	389	125	200	714
Disposals	–	–	(122)	(122)
As at 31st March, 2000	<u>4,626</u>	<u>1,637</u>	<u>2,199</u>	<u>8,462</u>
Accumulated depreciation				
As at 1st April, 1999	3,985	886	1,807	6,678
Provision for the year	227	290	206	723
Disposals	–	–	(122)	(122)
As at 31st March, 2000	<u>4,212</u>	<u>1,176</u>	<u>1,891</u>	<u>7,279</u>
Net book value				
As at 31st March, 2000	<u>414</u>	<u>461</u>	<u>308</u>	<u>1,183</u>
As at 1st April, 1999	<u>252</u>	<u>626</u>	<u>314</u>	<u>1,192</u>
	For the seven months ended 31st October, 2000			
	Furniture and fixtures HK\$'000	Office equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Cost				
As at 1st April, 2000	4,626	1,637	2,199	8,462
Additions	427	66	340	833
As at 31st October, 2000	<u>5,053</u>	<u>1,703</u>	<u>2,539</u>	<u>9,295</u>
Accumulated depreciation				
As at 1st April, 2000	4,212	1,176	1,891	7,279
Provision for the period	447	196	347	990
As at 31st October, 2000	<u>4,659</u>	<u>1,372</u>	<u>2,238</u>	<u>8,269</u>
Net book value				
As at 31st October, 2000	<u>394</u>	<u>331</u>	<u>301</u>	<u>1,026</u>
As at 1st April, 2000	<u>414</u>	<u>461</u>	<u>308</u>	<u>1,183</u>

b. Inventories

Inventories, comprising electronic parts and components and computer products and accessories, consisted of:

	1998	As at 31st March,		As at
	1998	1999	2000	31st October,
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	2000
				<i>HK\$'000</i>
Inventories	34,594	37,700	56,215	63,090
Less: Provision for obsolete and slow-moving inventories	(7,353)	(8,133)	(8,784)	(9,228)
	<u>27,241</u>	<u>29,567</u>	<u>47,431</u>	<u>53,862</u>

The amount of inventories (included above) carried at net realisable value was approximately HK\$997,000, HK\$3,006,000, HK\$10,152,000 and HK\$10,193,000, respectively as at 31st March, 1998, 1999 and 2000 and 31st October, 2000.

c. Accounts receivable

The credit terms of the Group range from 14 to 60 days. The aging analysis of accounts receivable is stated as follows:

	1998	As at 31st March,		As at
	1998	1999	2000	31st October,
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	2000
				<i>HK\$'000</i>
0 to 60 days	21,689	21,043	25,715	30,572
61 to 120 days	96	545	1,619	6,112
121 to 180 days	40	208	451	199
Over 180 days	155	173	7	170
	<u>21,980</u>	<u>21,969</u>	<u>27,792</u>	<u>37,053</u>

d. Due from a related company

	1998	As at 31st March,		As at
	1998	1999	2000	31st October,
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	2000
				<i>HK\$'000</i>
PCUSER*	<u>–</u>	<u>–</u>	<u>921</u>	<u>1,829</u>

Maximum balance due from PCUSER during the years/period was as follows:

	Year ended 31st March,			Seven months
	1998	1999	2000	ended
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	31st October,
				2000
				<i>HK\$'000</i>
PCUSER*	<u>–</u>	<u>–</u>	<u>921</u>	<u>1,829</u>

* PCUSER was beneficially owned by Mr. Hung Kim Fung, Measure (18%), Ms. Yeung Man Yi, Beryl (18%), Mr. Hung Ying Fung (12%) and Mr. Yeung Kwok Leung, Allix (12%), directors of the Company. Approximately HK\$533,000 of the balance due from such related company as at 31st March, 2000 resulted from short-term advance granted by the Group to PCUSER, whereas the other balances represented trade receivable from such related company.

The outstanding balance due from PCUSER was unsecured, non-interest bearing and without pre-determined repayment terms. The balance due from PCUSER has been settled in cash subsequent to 31st October, 2000.

e. Due from directors

	As at 31st March,			As at
	1998	1999	2000	31st October,
	HK\$'000	HK\$'000	HK\$'000	2000
				HK\$'000
Mr. Hung Kim Fung, Measure	29,027	33,636	35,726	28,237
Ms. Yeung Man Yi, Beryl	21,170	29,957	33,470	23,234
Mr. Hung Ying Fung	4,111	5,185	6,578	1,585
Mr. Yeung Kwok Leung, Allix	4,111	5,185	6,578	1,585
	<u>58,419</u>	<u>73,963</u>	<u>82,352</u>	<u>54,641</u>

Maximum balances due from directors during the years/period were as follows:

	Year ended 31st March,			Seven months
	1998	1999	2000	ended
	HK\$'000	HK\$'000	HK\$'000	31st October,
				2000
				HK\$'000
Mr. Hung Kim Fung, Measure	29,027	33,636	35,726	38,472
Ms. Yeung Man Yi, Beryl	21,170	29,957	33,470	33,471
Mr. Hung Ying Fung	4,111	5,185	6,578	8,408
Mr. Yeung Kwok Leung, Allix	4,111	5,185	6,578	8,408
	<u>4,111</u>	<u>5,185</u>	<u>6,578</u>	<u>8,408</u>

The outstanding balances due from directors were unsecured, non-interest bearing and without pre-determined repayment terms. Had interest been charged on the outstanding balances with the directors during the years/period covered by this report based on the interest rate charged on the Group's saving deposits ranging from 3.5% to 5.5% per annum, the Group would have received interest, net of tax, of approximately HK\$2,118,000, HK\$2,676,000, HK\$2,245,000 and HK\$1,994,000, respectively, for the years ended 31st March, 1998, 1999 and 2000 and the seven months ended 31st October, 2000.

The balances due from directors have been fully settled by offsetting the dividend payable declared subsequent to 31st October, 2000 (see Section 9.a) amounting to approximately HK\$52,537,000 and by cash of approximately HK\$2,104,000.

f. Accounts payable

The credit terms of the Group range from 2 to 60 days. The aging analysis of accounts payable is stated as follows:

	As at 31st March,			As at
	1998	1999	2000	31st October,
	HK\$'000	HK\$'000	HK\$'000	2000
				HK\$'000
0 to 60 days	13,808	16,753	25,025	25,478
61 to 120 days	626	881	621	1,440
121 to 180 days	104	–	62	303
Over 180 days	55	278	74	107
	<u>14,593</u>	<u>17,912</u>	<u>25,782</u>	<u>27,328</u>

g. Paid-in capital

The paid-in capital represented the aggregate amount of the nominal value of the share capital of the companies comprising the Group as at that date.

h. Distributable reserve

As at 31st October, 2000, the Company had not been incorporated. There was accordingly no reserve available for distribution to the shareholders of the Company as at that date.

5. CASH FLOW STATEMENTS

The following is a summary of the combined cash flows of the Group for the years ended 31st March, 1998, 1999 and 2000 and the seven months ended 31st October, 2000 prepared on the basis set out in Section 1 above:

	Year ended 31st March,			Seven months ended
	1998	1999	2000	31st October, 2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
OPERATING ACTIVITIES	11,257	22,612	19,991	16,366
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE				
Interest received	571	468	495	391
TAXATION				
Hong Kong profits tax paid	(5,295)	(2,235)	(2,730)	–
INVESTING ACTIVITIES				
Purchase of fixed assets	(228)	(532)	(714)	(833)
Disposal of investment in a subsidiary	–	–	4	–
Amounts advanced to directors (a)	(26,104)	(20,579)	(8,554)	(6,407)
Repayment from directors	15,184	5,035	165	–
	(11,148)	(16,076)	(9,099)	(7,240)
NET CASH (OUTFLOW) INFLOW BEFORE FINANCING	(4,615)	4,769	8,657	9,517
FINANCING ACTIVITY				
Repayment of long-term bank loan	(1,259)	–	–	–
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(5,874)	4,769	8,657	9,517
CASH AND CASH EQUIVALENTS				
Beginning of year/period	17,527	11,653	16,422	25,079
End of year/period	11,653	16,422	25,079	34,596

Note:

- a. Major non-cash transaction:

On 30th October, 2000, MESC-Trading Division declared an interim dividend of approximately HK\$41,718,000 to its then shareholders (who are also directors and shareholders of the Company). Approximately HK\$34,118,000 was settled by offsetting balances due from directors on the same date.

Reconciliation of profit before taxation to net cash inflow from operating activities:

	Year ended 31st March,			Seven months ended
	1998	1999	2000	31st October, 2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Profit before taxation	22,096	20,239	34,456	31,948
Interest income	(571)	(468)	(495)	(391)
Depreciation of fixed assets	1,117	1,056	723	990
Increase in inventories	(7,384)	(2,326)	(17,864)	(6,431)
(Increase) Decrease in prepayments, deposits and other receivables	(182)	228	(473)	(1,706)
(Increase) Decrease in accounts receivable	(3,281)	11	(5,823)	(9,261)
Increase in due from a related company	–	–	(921)	(908)
(Decrease) Increase in accounts payable	(1,452)	3,319	7,870	1,546
Increase in accruals and other payables	914	553	2,518	579
	<u>11,257</u>	<u>22,612</u>	<u>19,991</u>	<u>16,366</u>
Net cash inflow from operating activities	<u><u>11,257</u></u>	<u><u>22,612</u></u>	<u><u>19,991</u></u>	<u><u>16,366</u></u>

6. OPERATING LEASE COMMITMENTS

As at 31st October, 2000, the Group had commitment in respect of rented premise under various non-cancellable operating lease agreements extending to April 2002 of approximately HK\$265,000. The amount of commitment payable within the next twelve months were analysed as follows:

	As at 31st March,			As at
	1998	1999	2000	31st October, 2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Lease expiring within a period				
– not exceeding one year	–	–	–	–
– more than one year but not exceeding two years	–	–	–	187
– more than two years but not exceeding five years	138	69	187	–
	<u>138</u>	<u>69</u>	<u>187</u>	<u>187</u>
	<u><u>138</u></u>	<u><u>69</u></u>	<u><u>187</u></u>	<u><u>187</u></u>

7. BANKING FACILITIES AND PLEDGE OF ASSETS

The Group had aggregate banking facilities of approximately HK\$10,580,000, HK\$10,580,000, HK\$12,580,000, and HK\$12,580,000, respectively as at 31st March, 1998, 1999 and 2000 and 31st October, 2000, from several banks for loans and overdrafts. These facilities were secured by:

- a. fixed deposits of certain directors of the Company of HK\$3,000,000 as at 31st March, 1998, 1999 and 2000 and 31st October, 2000 respectively; and
- b. personal guarantees provided by the directors of the Company and mortgages over properties owned by certain directors of the Company.

Subsequent to 31st October, 2000, all of the Group's banking facilities were cancelled and as a result, all pledges of deposits and guarantees provided by the directors were released.

8. ULTIMATE HOLDING COMPANY

The Directors of the Company consider M2B Holding Limited, a company incorporated in the British Virgin Islands, to be the ultimate holding company.

9. SUBSEQUENT EVENTS

The following transactions took place subsequent to 31st October, 2000 and up to the date of this report:

- a. on 15th March, 2001, A Plus Electronic Company Limited declared and paid a special dividend of approximately HK\$67,059,000 to its then shareholders, who are also directors and shareholders of the Company. Approximately HK\$52,537,000 of the dividend payable was settled by offsetting balances due from directors of the same amount. The remaining balance of HK\$14,522,000 was settled in cash. On 15th March, 2001, M-Tec Electronic Limited declared and paid a special dividend of approximately HK\$7,900,000 to its then shareholders.
- b. on 2nd April, 2001, the Group entered into various rental agreements with M-Bar Limited, a company beneficially owned by Mr. Hung Kim Fung, Measure, Ms. Yeung Man Yi, Beryl, Mr. Hung Ying Fung and Mr. Yeung Kwok Leung, Allix, directors of the Company, for office premises to be used by the Group during the period from 1st February, 2001 to 31st January, 2006. The amount of rent payable in the first twelve months under the agreement amounted to approximately HK\$2,772,000. In addition, on 2nd April, 2001, the Group entered into a rental agreement with Mr. Hung Kim Fung, Measure and Ms. Yeung Man Yi, Beryl, directors of the Company, for office premises to be used by the Group during the period from 1st February, 2001 to 31st January, 2006. The amount of rent payable in the first twelve months under the agreement amounted to approximately HK\$480,000.
- c. on 12th April, 2001, Mobicon Holdings Limited and A Plus Electronic Company Limited acquired the remaining 40% and 30% interest in M-Tec Electronic Limited and Mobicon Agent Limited respectively, at total consideration of approximately HK\$531,000, to be settled in cash, as determined based on the net asset value of M-Tec Electronic Limited and Mobicon Agent Limited as at 31st October, 2000. Thereafter, M-Tec Electronic Limited and Mobicon Agent Limited became wholly-owned subsidiaries of the Group.

- d. 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 "Group reorganisation" of Appendix 5 to this Prospectus; and
- e. on 18th April, 2001, resolutions were passed to effect the transactions set out in the subsection headed "Written resolutions passed by all the shareholders of the Company" of Appendix 5 to this Prospectus.

10. 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 October, 2000. In addition, except as described in Section 9.a 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 October, 2000.

Yours faithfully,
ARTHUR ANDERSEN & CO
Certified Public Accountants

The estimate of the combined profit after taxation but before extraordinary items of the Group for the year ended 31st March, 2001 is set out in the paragraph headed “Profit estimate and dividends” under the section headed “Financial information” in this prospectus.

1. BASES

The Directors have prepared the estimate of the combined profit after taxation but before extraordinary items of the Group for the year ended 31st March, 2001 based on the audited combined financial statements of the Group for the seven months ended 31st October, 2000, the unaudited results shown in the management accounts of the Group for the four months ended 28th February, 2001 and an estimate of the results of the Group for the remaining one month ended 31st March, 2001. The Directors are not aware of any extraordinary items which have arisen or are likely to arise for the year ended 31st March, 2001. The estimate has been prepared on a basis consistent in all material respects with the accounting policies presently adopted by the Group as summarised in Section 2 of the accountants’ report, the text of which is set out in Appendix 1.

2. LETTERS

Set out below are texts of letters received by the Directors from Arthur Andersen & Co, the reporting accountants of the Company, and from Oriental Patron in connection with the estimate of the combined profit after taxation but before extraordinary items of the Group for the year ended 31st March, 2001 and prepared for the purpose of inclusion in this prospectus.

(I) Letter from Arthur Andersen & Co**ARTHUR ANDERSEN****Arthur Andersen & Co**

21st Floor, Edinburgh Tower
The Landmark
15 Queen's Road Central
Hong Kong

24th April, 2001

The Directors
Mobicon Group Limited
Oriental Patron Asia Limited

Dear Sirs,

We have reviewed the accounting policies applied and the calculations made in arriving at the estimate of the combined profit after taxation but before extraordinary items of Mobicon Group Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") for the year ended 31st March, 2001 (the "Estimate"), for which the directors of the Company (the "Directors") are solely responsible, as set out in the prospectus of the Company dated 24th April, 2001 (the "Prospectus"). The Estimate has been prepared by the Directors based on the audited combined financial statements of the Group for the seven months ended 31st October, 2000, the unaudited results shown in the management accounts of the Group for the four months ended 28th February, 2001, and an estimate of the results of the Group for the remaining one month ended 31st March, 2001.

In our opinion, the Estimate, so far as the accounting policies and the calculations are concerned, is presented on a basis consistent in all material respects with the accounting policies normally adopted by the Group as set out in our accountants' report dated 24th April, 2001, the text of which is set out in Appendix 1 to the Prospectus.

Yours faithfully,
ARTHUR ANDERSEN & CO
Certified Public Accountants

(b) Letter from Oriental Patron

DATRON
ORIENTAL
PATRON

ORIENTAL PATRON ASIA LIMITED

24th April, 2001

The Directors
Mobicon Group Limited
7th Floor, New Trend Centre
704 Prince Edward Road East
San Po Kong, Kowloon
Hong Kong

Dear Sirs,

We refer to the estimate of the combined profit after taxation but before extraordinary items of Mobicon Group Limited (“the Company”) and its subsidiaries (together “the Group”) for the year ended 31st March, 2001 as set out in the prospectus issued by the Company dated 24th April.

We have discussed with you the bases upon which the profit estimate has been made. We have also considered the letter dated 24th April addressed to yourselves and ourselves from Arthur Andersen & Co regarding the accounting policies and calculations upon which the estimate has been made.

On the bases of the accounting policies and calculations reviewed by Arthur Andersen & Co, we have formed the opinion that the profit estimate, for which you as directors of the Company are solely responsible, has been made after due and careful enquiry.

Yours faithfully,
for and on behalf of
Oriental Patron Asia Limited
Rabo Leung
Director

The following is the text of a letter, summary of valuations and valuation certificate, prepared for the purpose of incorporation in this prospectus received from DTZ Debenham Tie Leung Limited, an independent valuer, in connection with its valuation as at 28th February, 2001 of the property interests of the Group in Hong Kong and the PRC.



10th Floor
Jardine House
1 Connaught Place
Central
Hong Kong

24th April, 2001

The Directors
Mobicon Group Limited
7th Floor, New Trend Centre
704 Prince Edward Road East
San Po Kong, Kowloon
Hong Kong

Dear Sirs,

In accordance with your instructions for us to value the property interests held by Mobicon Group Limited (the “Company”), and its subsidiaries (hereinafter together referred to as the “Group”) in Hong Kong and the People’s Republic of China (the “PRC”), we confirm that we have carried out inspection, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the values of the property interests as at 28th February, 2001, (the “date of valuation”).

Our valuation of each of the property interests represents its open market value which we would define as intended to mean “an opinion of the best price at which the sale of an interest in property would have been completed unconditionally for cash consideration on the date of valuation, assuming:–

- (a) a willing seller;
- (b) that, prior to the date of valuation, there had been a reasonable period (having regard to the nature of the property and the state of the market) for the proper marketing of the interest, for the agreement of the price and terms and for the completion of the sale;
- (c) that the state of the market, level of values and other circumstances were, on any earlier assumed date of exchange of contracts, the same as on the date of valuation;
- (d) that no account is taken of any additional bid by a prospective purchaser with a special interest; and
- (e) that both parties to the transaction had acted knowledgeably, prudently and without compulsion.”

Our valuations have been made on the assumption that the Group sells the property interests on the open market without the benefit of deferred term contracts, leasebacks, joint ventures, management agreements or any similar arrangements which could serve to affect the respective values of the property interests.

The property interests in Groups I and II which are rented by the Group in Hong Kong and in the PRC respectively are considered to have no commercial value due to the prohibition against assignment of the interests or otherwise due to lack of substantial profit rents.

We have relied to a considerable extent on the information given by the Group and other related parties and have accepted advice given to us on such matters as planning approvals, statutory notices, easements, tenure, particulars of occupancy, floor areas and all other relevant matters.

We have caused searches to be made at the Land Registry against the properties in Group I. We have been provided with copies of the tenancy agreements relating to the property interests. However, we have not examined the original documents to ascertain ownership or to verify any amendments which may not appear on the copies handed to us. All documents have been used for reference only and all dimensions and measurements are based on the copies of documents or other information provided to us by the Group and are therefore only approximations. Unless otherwise stated, we have not been able to carry out detailed on-site measurements to verify the site and floor areas of the properties and we have assumed that the areas shown on the documents handed to us are correct. We have no reason to doubt the truth and accuracy of the information provided to us by the Group which are material to the valuations. We were also advised by the Group that no material facts have been omitted from the information supplied.

We have inspected the exterior and where possible, the interior of each of the properties. However, no structural survey has been made, but in the course of our inspection, we did not note any serious defects. We are not, however, able to report whether the properties are free of rot, infestation or any other structural defects. No test was carried out on any of the services.

No allowance has been made in our valuations for any charges, mortgages or amounts owing on the property interests nor any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the property interests are free from encumbrances, restrictions and outgoings of any onerous nature which could affect their values.

Unless otherwise stated, all amounts stated herein are in Hong Kong dollars.

We enclose herewith a summary of valuations and our valuation certificates.

Yours faithfully,
for and on behalf of
DTZ Debenham Tie Leung Limited
K.B. Wong

Registered Professional Surveyor (General Practice Division)
A.H.K.I.S., M.R.I.C.S.
Director

Note: Mr. K.B. Wong is a chartered surveyor who has extensive experience in the valuation of properties in Hong Kong and in the PRC.

SUMMARY OF VALUATIONS

Property	Capital value in existing state as at 28th February, 2001 HK\$
Group I – Property interests rented by the Group in Hong Kong	
1. Units 601-605 on 6th Floor and Units 701-703 on 7th Floor, Hanley House, 776-778 Nathan Road, Mongkok, Kowloon	No commercial value
2. Shop F on Ground Floor, Lai Ming Building, 223 Tung Choi Street, Mongkok, Kowloon	No commercial value
3. Shop A on Ground Floor, Lai Ming Building, 223 Tung Choi Street, Mongkok, Kowloon	No commercial value
4. Private Car Parking Space No. 25 on 3rd Floor, New Trend Centre, 704 Prince Edward Road East, 104 King Fuk Street, San Po Kong, Kowloon	No commercial value
5. Private Car Parking Space No. 6 on 3rd Floor, New Trend Centre, 704 Prince Edward Road East, 104 King Fuk Street, San Po Kong, Kowloon	No commercial value
6. Private Car Parking Space No. 24 on 3rd Floor, New Trend Centre, 704 Prince Edward Road East, 104 King Fuk Street, San Po Kong, Kowloon	No commercial value

Property	Capital value in existing state as at 28th February, 2001 HK\$
7. Private Car Parking Space No. 13 on 4th Floor, New Trend Centre, 704 Prince Edward Road East, 104 King Fuk Street, San Po Kong, Kowloon	No commercial value
8. Units 1-11 on 7th Floor, New Trend Centre, 704 Prince Edward Road East, 104 King Fuk Street, San Po Kong, Kowloon	No commercial value
9. Units 1-4 on 8th Floor and Private Car Parking Space No. 7 on 3rd Floor, New Trend Centre, 704 Prince Edward Road East, 104 King Fuk Street, San Po Kong, Kowloon	No commercial value
10. Units 5-9 on 23rd Floor and Private Car Parking Space No. 6 on 4th Floor, New Trend Centre, 704 Prince Edward Road East, 104 King Fuk Street, San Po Kong, Kowloon	No commercial value
11. Workshops D1 and D2 on 5th Floor, Kai Tak Factory Building Stage II, 99 King Fuk Street and 39-41 Tsuek Luk Street, San Po Kong, Kowloon	No commercial value
Sub-total:	<u><u>No commercial value</u></u>

Property	Capital value in existing state as at 28th February, 2001 HK\$
Group II – Property interest rented by the Group in the PRC	
12. Unit No. 807, Dongfang Plaza, 1072 Jianshe Road, Luohu District, Shenzhen, Guangdong Province	No commercial value
sub-total	<u>No commercial value</u>
Grand total:	<u><u>No commercial value</u></u>

VALUATION CERTIFICATE

Group I – Property interests rented by the Group in Hong Kong

Property	Description and tenancy particulars	Capital value in existing state as at 28th February, 2001
1. Units 601-605 on 6th Floor and Units 701-703 on 7th Floor, Hanley House, 776-778 Nathan Road, Mongkok, Kowloon	<p>The property comprises 8 office units on the 6th and 7th floors of a 13-storey plus a basement commercial building completed in 1983.</p> <p>The property has a total saleable area of approximately 273.32 sq.m. (2,942 sq.ft.). It is currently occupied by the Group for office use.</p> <p>The property is leased to the Group for a term of 5 years commencing from 1st February, 2001 to 31st January, 2006 at a monthly rent of HK\$35,000 exclusive of rates and management fees. The Group has the right to terminate the tenancy at any time by giving not less than 3 months' prior notice to the landlord. The monthly rent is subject to annual rent review to market rent and the Group has an option to renew for a further term of 3 years at market rent upon the expiry of the original term.</p>	No commercial value
2. Shop F on Ground Floor, Lai Ming Building, 223 Tung Choi Street, Mongkok, Kowloon	<p>The property comprises a shop unit on the ground floor of a 15-storey composite building completed in 1989.</p> <p>The property has a saleable area of approximately 106.09 sq.m. (1,142 sq.ft.). It is currently occupied by the Group for retailing use.</p> <p>The property is leased to the Group for a term of 5 years commencing from 1st February, 2001 to 31st January, 2006 at a monthly rent of HK\$40,000 exclusive of rates and management fees. The Group has the right to terminate the tenancy at any time by giving not less than 3 months' prior notice to the landlord. The monthly rent is subject to annual rent review to market rent and the Group has an option to renew for a further term of 3 years at market rent upon the expiry of the original term.</p>	No commercial value
3. Shop A on Ground Floor, Lai Ming Building, 223 Tung Choi Street, Mongkok, Kowloon	<p>The property comprises a shop unit on the ground floor of a 15-storey composite building completed in 1989.</p> <p>The property has a saleable area of approximately 104.89 sq.m. (1,129 sq.ft.). It is currently occupied by the Group for retailing use.</p> <p>The property is leased to the Group for a term of 5 years commencing from 1st February, 2001 to 31st January, 2006 at a monthly rent of HK\$40,000 exclusive of rates and management fees. The Group has the right to terminate the tenancy at any time by giving not less than 3 months' prior notice to the landlord. The monthly rent is subject to annual rent review to market rent and the Group has an option to renew for a further term of 3 years at market rent upon the expiry of the original term.</p>	No commercial value

Property	Description and tenancy particulars	Capital value in existing state as at 28th February, 2001
4. Private Car Parking Space No. 25 on 3rd Floor, New Trend Centre, 704 Prince Edward Road East, 104 King Fuk Street, San Po Kong, Kowloon	<p>The property comprises a private car parking space on the 3rd floor of a 35-storey industrial/office building completed in 1995.</p> <p>The property is leased to the Group for a term of 5 years commencing from 1st February, 2001 to 31st January, 2006 at a monthly rent of HK\$2,000 exclusive of rates and management fees. The Group has the right to terminate the tenancy at any time by giving not less than 3 months' prior notice to the landlord. The monthly rent is subject to annual rent review to market rent and the Group has an option to renew for a further term of 3 years at market rent upon the expiry of the original term.</p>	No commercial value
5. Private Car Parking Space No. 6 on 3rd Floor, New Trend Centre, 704 Prince Edward Road East, 104 King Fuk Street, San Po Kong, Kowloon	<p>The property comprises a private car parking space on the 3rd floor of a 35-storey industrial/office building completed in 1995.</p> <p>The property is leased to the Group for a term of 5 years commencing from 1st February, 2001 to 31st January, 2006 at a monthly rent of HK\$2,000 exclusive of rates and management fees. The Group has the right to terminate the tenancy at any time by giving not less than 3 months' prior notice to the landlord. The monthly rent is subject to annual rent review to market rent and the Group has an option to renew for a further term of 3 years at market rent upon the expiry of the original term.</p>	No commercial value
6. Private Car Parking Space No. 24 on 3rd Floor, New Trend Centre, 704 Prince Edward Road East, 104 King Fuk Street, San Po Kong, Kowloon	<p>The property comprises a private car parking space on the 3rd floor of a 35-storey industrial/office building completed in 1995.</p> <p>The property is leased to the Group for a term of 5 years commencing from 1st February, 2001 to 31st January, 2006 at a monthly rent of HK\$2,000 exclusive of rates and management fees. The Group has the right to terminate the tenancy at any time by giving not less than 3 months' prior notice to the landlord. The monthly rent is subject to annual rent review to market rent and the Group has an option to renew for a further term of 3 years at market rent upon the expiry of the original term.</p>	No commercial value
7. Private Car Parking Space No. 13 on 4th Floor, New Trend Centre, 704 Prince Edward Road East, 104 King Fuk Street, San Po Kong, Kowloon	<p>The property comprises a private car parking space on the 4th floor of a 35-storey industrial/office building completed in 1995.</p> <p>The property is leased to the Group for a term of 5 years commencing from 1st February, 2001 to 31st January, 2006 at a monthly rent of HK\$2,000 exclusive of rates and management fees. The Group has the right to terminate the tenancy at any time by giving not less than 3 months' prior notice to the landlord. The monthly rent is subject to annual rent review to market rent and the Group has an option to renew for a further term of 3 years at market rent upon the expiry of the original term.</p>	No commercial value

Property	Description and tenancy particulars	Capital value in existing state as at 28th February, 2001
8. Units 1-11 on 7th Floor, New Trend Centre, 704 Prince Edward Road East, 104 King Fuk Street, San Po Kong, Kowloon	<p>The property comprises the whole of an industrial/office floor on the 7th floor of a 35-storey industrial/office building completed in 1995.</p> <p>The property has a total gross floor area and a total saleable area of approximately 939.43 sq.m. (10,112 sq.ft.) and 795.71 sq.m. (8,565 sq.ft.) respectively. It is currently occupied by the Group for office and storage uses.</p> <p>The property is leased to the Group for a term of 5 years commencing from 1st February, 2001 to 31st January, 2006 at a monthly rent of HK\$78,000 exclusive of rates and management fees. The Group has the right to terminate the tenancy at any time by giving not less than 3 months' prior notice to the landlord. The monthly rent is subject to annual rent review to market rent and the Group has an option to renew for a further term of 3 years at market rent upon the expiry of the original term.</p>	No commercial value
9. Units 1-4 on 8th Floor and Private Car Parking Space No. 7 on 3rd Floor, New Trend Centre, 704 Prince Edward Road East, 104 King Fuk Street, San Po Kong, Kowloon	<p>The property comprises four industrial/office units on the 8th floor and a private car parking space on the 3rd floor of a 35-storey industrial/office building completed in 1995.</p> <p>The property has a total gross floor area and a total saleable area of approximately 479.19 sq.m. (5,158 sq.ft.) and 332.13 sq.m. (3,575 sq.ft.) respectively, excluding the car parking area. The industrial/office units and the car parking space are currently occupied by the Group for office use and for parking use respectively.</p> <p>The property is leased to the Group for a term of 5 years commencing from 1st February, 2001 to 31st January, 2006 at a monthly rent of HK\$42,000 exclusive of rates and management fees. The Group has the right to terminate the tenancy at any time by giving not less than 3 months' prior notice to the landlord. The monthly rent is subject to annual rent review to market rent and the Group has an option to renew for a further term of 3 years at market rent upon the expiry of the original term.</p>	No commercial value
10. Units 5-9 on 23rd Floor and Private Car Parking Space No. 6 on 4th Floor, New Trend Centre, 704 Prince Edward Road East, 104 King Fuk Street, San Po Kong, Kowloon	<p>The property comprises five industrial/office units on the 23rd floor and a private car parking space on the 4th floor of a 35-storey industrial/office building completed in 1995.</p> <p>The property has a total gross floor area and a total saleable area of approximately 313.55 sq.m. (3,375 sq.ft.) and 217.30 sq.m. (2,339 sq.ft.) respectively, excluding the car parking area. The industrial/office units and the car parking space are currently occupied by the Group for storage use and for parking use respectively.</p> <p>The property is leased to the Group for a term of 5 years commencing from 1st February, 2001 to 31st January, 2006 at a monthly rent of HK\$28,000 exclusive of rates and management fees. The Group has the right to terminate the tenancy at any time by giving not less than 3 months' prior notice to the landlord. The monthly rent is subject to annual rent review to market rent and the Group has an option to renew for a further term of 3 years at market rent upon the expiry of the original term.</p>	No commercial value

Property	Description and tenancy particulars	Capital value in existing state as at 28th February, 2001									
11. Workshops D1 and D2 on 5th Floor, Kai Tak Factory Building Stage II, 99 King Fuk Street and 39-41 Tsuek Luk Street, San Po Kong, Kowloon	<p>The property comprises two industrial units on the 5th floor of a 14-storey industrial building completed in 1963.</p> <p>The property has a total saleable area of approximately 217.02 sq.m. (2,336 sq.ft.). It is currently occupied by the Group for storage use.</p> <p>The property is leased to the Group under two sub-tenancy agreements, the details are as follows:-</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th></th> <th style="text-align: center;">Lease Term</th> <th style="text-align: center;">Monthly Rent</th> </tr> </thead> <tbody> <tr> <td style="text-align: left;">Workshop D1</td> <td style="text-align: center;">10th May, 2000 to 9th May, 2002</td> <td style="text-align: center;">HK\$8,800</td> </tr> <tr> <td style="text-align: left;">Workshop D2</td> <td style="text-align: center;">1st May, 2000 to 30th April, 2002</td> <td style="text-align: center;">HK\$6,800</td> </tr> </tbody> </table> <p>The monthly rents are inclusive of rates and management fees.</p>		Lease Term	Monthly Rent	Workshop D1	10th May, 2000 to 9th May, 2002	HK\$8,800	Workshop D2	1st May, 2000 to 30th April, 2002	HK\$6,800	No commercial value
	Lease Term	Monthly Rent									
Workshop D1	10th May, 2000 to 9th May, 2002	HK\$8,800									
Workshop D2	1st May, 2000 to 30th April, 2002	HK\$6,800									

Notes:

- (1) The head tenancy agreement dated 15th September, 1998 in respect of the property has not been stamped. According to the opinion of the Group's legal adviser, non-stamping of the head tenancy agreement renders (a) the parties to the head tenancy agreement jointly and severally liable to civil action brought by the collector of stamp revenue for payment of stamp duty and any penalty for late stamping and (b) the head tenancy agreement is not admissible as evidence in courts unless it is duly stamped.
- (2) The term of the head tenancy agreement is for a term commencing from 1st October, 1998 up to and inclusive of 30th September, 2001 and is shorter than the term of the tenancy granted under the two sub-tenancy agreements in favour of the Group. According to the opinion of the Group's legal adviser, the Group is liable to be evicted from the property upon expiry of the term granted under the head tenancy agreement.

Group II – Property interest rented by the Group in the PRC

12. Unit No. 807, Dongfang Plaza, 1072 Jianshe Road, Luohu District, Shenzhen, Guangdong Province	<p>The property comprises an office unit on the 8th level of a 28-storey plus a basement commercial/office composite building completed in 1991.</p> <p>The property has a gross floor area of approximately 39 sq.m. (420 sq.ft.).</p> <p>The property is leased to the Group for a term of one year which is to be commenced from 1st May, 2001 to 30th April, 2002 at a monthly rent of HK\$1,638, exclusive of management fee, utilities charges and other outgoings. As advised by the Group, the Group has obtained possession of the property on 12th April, 2001 and the property is currently occupied by the Group for office use.</p>	No commercial value
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Set out below is a summary of certain provisions of the memorandum of association (the “Memorandum of Association”) and bye-laws (the “Bye-laws”) of the Company and of certain aspects of Bermuda company law.

1. MEMORANDUM OF ASSOCIATION

The Memorandum of Association states, inter alia, that the liability of members of the Company is limited to the amount, if any, for the time being unpaid on the Shares respectively held by them and that the Company is an exempted company as defined in the Companies Act. The Memorandum of Association also sets out the objects for which the Company was formed, including acting as a holding and investment company, and its powers, including the powers set out in the First Schedule to the Companies Act, excluding paragraph 8 thereof. As an exempted company, the Company will be carrying on business outside Bermuda from a place of business within Bermuda.

In accordance with and subject to section 42A of the Companies Act, the Memorandum of Association empowers the Company to purchase its own shares and pursuant to its Bye-laws, this power is exercisable by the board of Directors (the “board”) upon such terms and subject to such conditions as it thinks fit.

2. BYE-LAWS

The Bye-laws were adopted on 18th April, 2001. The following is a summary of certain provisions of the Bye-laws:

(a) Directors

(i) Power to allot and issue shares and warrants

Subject to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the board may determine). Subject to the Companies Act, any preference shares may be issued or converted into shares that are liable to be redeemed, at a determinable date or at the option of the Company or, if so authorised by the Memorandum of Association, at the option of the holder, on such terms and in such manner as the Company before the issue or conversion may by ordinary resolution determine. The board may issue warrants conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of the Company on such terms as it may from time to time determine.

Subject to the provisions of the Companies Act, the Bye-laws, any direction that may be given by the Company in general meeting and, where applicable, the rules of any Designated Stock Exchange (as defined in the Bye-laws) and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company shall be at the disposal of the board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither the Company nor the board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

(ii) Power to dispose of the assets of the Company or any of its subsidiaries

There are no specific provisions in the Bye-laws relating to the disposal of the assets of the Company or any of its subsidiaries.

Note: The Directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Bye-laws or the Companies Act to be exercised or done by the Company in general meeting.

(iii) Compensation or payments for loss of office

Payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by the Company in general meeting.

(iv) Loans and provision of security for loans to Directors

There are no provisions in the Bye-laws relating to the making of loans to Directors. However, the Companies Act contains restrictions on companies making loans or providing security for loans to their directors, the relevant provisions of which are summarised in the paragraph headed “Bermuda Company Law” in this Appendix.

(v) Financial assistance to purchase shares of the Company

Neither the Company nor any of its subsidiaries shall directly or indirectly give financial assistance to a person who is acquiring or proposing to acquire shares in the Company for the purpose of that acquisition whether before or at the same time as the acquisition takes place or afterwards, provided that the Bye-laws shall not prohibit transactions permitted under the Companies Act.

(vi) Disclosure of interests in contracts with the Company or any of its subsidiaries

A Director may hold any other office or place of profit with the Company (except that of auditor of the Company) in conjunction with his office of Director for such period and, subject to the Companies Act, upon such terms as the board may determine, and may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) in addition to any remuneration provided for by or pursuant to any other Bye-laws. A Director may be or become a director or other officer of, or a member of, any company promoted by the Company

or any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration, profits or other benefits received by him as a director, officer or member of, or from his interest in, such other company. Subject as otherwise provided by the Bye-laws, the board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

Subject to the Companies Act and to the Bye-laws, no Director or proposed or intending Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company or the members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the meeting of the board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the board after he knows that he is or has become so interested.

A Director shall not vote (nor be counted in the quorum) on any resolution of the board in respect of any contract or arrangement or other proposal in which he is to his knowledge materially interested but this prohibition shall not apply to any of the following matters, namely:

- (aa) any contract or arrangement for giving of any security or indemnity to the Director in respect of money lent or obligations incurred or undertaken by him at the request of or for the benefit of the Company or any of its subsidiaries;
- (bb) any contract or arrangement for the giving by the Company of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director has himself assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (cc) any contract or arrangement concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director is or is to be interested as a participant in the underwriting or sub-underwriting of the offer;
- (dd) any contract or arrangement in which the Director is interested in the same manner as other holders of shares or debentures or other securities

of the Company or any of its subsidiaries by virtue only of his interest in shares or debentures or other securities of the Company;

- (ee) any contract or arrangement concerning any other company in which he is interested only, whether directly or indirectly, as an officer or executive or a shareholder other than a company in which the Director together with any of his associates (as defined by the rules, where applicable, of any Designated Stock Exchange (as defined in the Bye-laws)) is beneficially interested in 5 percent. or more of the issued shares or of the voting rights of any class of shares of such company (or of any third company through which his interest is derived); or
- (ff) any proposal concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death, or disability benefits scheme or other arrangement which relates both to Directors and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director as such any privilege or advantage not accorded to the employees to which such scheme or fund relates.

(vii) *Remuneration*

The ordinary remuneration of the Directors shall from time to time be determined by the Company in general meeting, such remuneration (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as the board may agree or, failing agreement, equally, except that any Director holding office for part only of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he held office. The Directors shall also be entitled to be prepaid or repaid all travelling, hotel and incidental expenses reasonably incurred or expected to be incurred by them in attending any board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of the Company or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by request, goes or resides abroad for any purpose of the Company or who performs services which in the opinion of the board go beyond the ordinary duties of a Director may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) as the board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration provided for by or pursuant to any other Bye-law. A Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration (whether by way of salary, commission or participation in profits or otherwise or by all or any of those modes) and such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as the board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a Director.

The board may establish or concur or join with other companies (being subsidiary companies of the Company or companies with which it is associated in

business) in establishing and making contributions out of the Company's monies to any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or ex-Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and ex-employees of the Company and their dependants or any class or classes of such persons.

The board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex-employees and their dependants, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex-employees or their dependants are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

(viii) Retirement, appointment and removal

At each annual general meeting, one third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not greater than one third) will retire from office by rotation provided that no Director holding office as chairman and/or managing director shall be subject to retirement by rotation, or be taken into account in determining the number of Directors to retire. The Directors to retire in every year will be those who have been longest in office since their last re-election or appointment but as between persons who became or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot.

Note: There are no provisions relating to retirement of Directors upon reaching any age limit.

The Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the board or, subject to authorisation by the members in general meeting, as an addition to the existing board but so that the number of Directors so appointed shall not exceed any maximum number determined from time to time by the members in general meeting. Any Director so appointed shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election at the meeting. Neither a Director nor an alternate Director is required to hold any shares in the Company by way of qualification.

A Director may be removed by a special resolution of the Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) provided that the notice of any such meeting convened for the purpose of removing a Director shall contain a statement of the intention to do so and be served on such Director 14 days before the meeting and, at such meeting, such Director shall be entitled to be heard on the motion for his removal. Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than

two. There is no maximum number of Directors unless otherwise determined from time to time by members of the Company.

The board may from time to time appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with the Company for such period (subject to their continuance as Directors) and upon such terms as the board may determine and the board may revoke or terminate any of such appointments (but without prejudice to any claim for damages that such Director may have against the Company or vice versa). The board may delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as the board thinks fit, and it may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the board.

(ix) Borrowing powers

The board may from time to time at its discretion exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets (present and future) and uncalled capital of the Company and, subject to the Companies Act, to issue debentures, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

Note: These provisions, in common with the Bye-laws in general, can be varied with the sanction of a special resolution of the Company.

(b) Alterations to constitutional documents

The Bye-laws may be rescinded, altered or amended by the Directors subject to the confirmation of the Company in general meeting. The Bye-laws state that a special resolution shall be required to alter the provisions of the Memorandum of Association, to confirm any such rescission, alteration or amendment to the Bye-laws or to change the name of the Company.

(c) Alteration of capital

The Company may from time to time by ordinary resolution in accordance with the relevant provisions of the Companies Act:

- (i) increase its capital by such sum, to be divided into shares of such amounts as the resolution shall prescribe;
- (ii) consolidate and divide all or any of its capital into shares of larger amount than its existing shares;

- (iii) divide its shares into several classes and without prejudice to any special rights previously conferred on the holders of existing shares as the directors may determine;
- (iv) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum of Association;
- (v) change the currency denomination of its share capital;
- (vi) make provision for the issue and allotment of shares which do not carry any voting rights; and
- (vii) cancel any shares which, at the date of passing of the resolution, have not been taken, or agreed to be taken, by any person, and diminish the amount of its capital by the amount of the shares so cancelled.

The Company may, by special resolution, subject to any confirmation or consent required by law, reduce its authorised or issued share capital or any share premium account or other undistributable reserve in any manner permitted by law.

(d) Variation of rights of existing shares or classes of shares

Subject to the Companies Act, all or any of the special rights attached to the shares or any class of shares may (unless otherwise provided for by the terms of issue of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Bye-laws relating to general meetings will mutatis mutandis apply, but so that the necessary quorum (other than at an adjourned meeting) shall be two persons (or in the case of a member being a corporation, its duly authorised representative) holding or representing by proxy not less than one-third in nominal value of the issued shares of that class and at any adjourned meeting two holders present in person (or in the case of a member being a corporation, its duly authorised representative) or by proxy whatever the number of shares held by them shall be a quorum. Every holder of shares of the class shall be entitled on a poll to one vote for every such share held by him, and any holder of shares of the class present in person or by proxy may demand a poll.

(e) Special resolution-majority required

A special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which not less than 21 clear days' notice, specifying the intention to propose the resolution as a special resolution, has been duly given. Provided that, except in the case of an annual general meeting, if it is so agreed by a majority in number of the members having a right to attend and vote at such meeting, being a majority together holding not less than 95 per cent. in nominal value of the shares giving that right and, in the case of an annual general meeting, if so agreed by all members entitled to attend and vote thereat, a resolution may be proposed and passed as a special resolution at a meeting of which less than 21 clear days' notice has been given.

(f) Voting rights (generally and on a poll) and right to demand a poll

Subject to any special rights or restrictions as to voting for the time being attached to any shares by or in accordance with the Bye-laws, at any general meeting on a show of hands, every member who is present in person (or being a corporation, is present by its duly authorised representative) or by proxy shall have one vote and on a poll every member present in person or by proxy or, being a corporation, by its duly authorised representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or installments is treated for the foregoing purposes as paid up on the share.

Notwithstanding anything contained in the Bye-laws, where more than one proxy is appointed by a member which is a clearing house (as defined in the Bye-laws) (or its nominee), each such proxy shall have one vote on a show of hands. On a poll, a member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded by (i) the chairman of the meeting or (ii) at least three members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy for the time being entitled to vote at the meeting or (iii) any member or members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy and representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting or (iv) a member or members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

(g) Requirements for annual general meetings

An annual general meeting of the Company must be held in each year other than the year in which its statutory meeting is convened at such time (within a period of not more than 15 months after the holding of the last preceding annual general meeting unless a longer period would not infringe the rules of any Designated Stock Exchange (as defined in the Bye-laws)) and place as may be determined by the board.

(h) Accounts and audit

The board shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by the provisions of the Companies Act or necessary to give a true and fair view of the Company's affairs and to explain its transactions.

The accounting records shall be kept at the registered office or, subject to the Companies Act, at such other place or places as the board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right of inspecting any accounting record or book or document of the Company except as conferred by law or authorised by the board or the Company in general meeting.

Subject to the Companies Act, a printed copy of the Directors' report, accompanied by the balance sheet and profit and loss account, including every document required by law to be annexed thereto, made up to the end of the applicable financial year and containing a summary of the assets and liabilities of the Company under convenient heads and a statement of income and expenditure, together with a copy of the auditors' report, shall be sent to each person entitled thereto at least 21 days before the date of the general meeting and laid before the Company in general meeting in accordance with the requirements of the Companies Act provided that this provision shall not require a copy of those documents to be sent to any person whose address the Company is not aware of or to more than one of the joint holders of any shares or debentures.

Subject to the Companies Act, at the annual general meeting or at a subsequent special general meeting in each year, the members shall appoint an auditor to audit the accounts of the Company and such auditor shall hold office until the members appoint another auditor. Such auditor may be a member but no Director or officer or employee of the Company shall, during his continuance in office, be eligible to act as an auditor of the Company. The remuneration of the auditor shall be fixed by the Company in general meeting or in such manner as the members may determine.

The financial statements of the Company shall be audited by the auditor in accordance with generally accepted auditing standards. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor shall be submitted to the members in general meeting. The generally accepted auditing standards referred to herein may be those of a country or jurisdiction other than Bermuda. If the auditing standards of a country or jurisdiction other than Bermuda are used, the financial statements and the report of the auditor should disclose this fact and name such country and jurisdiction.

(i) Notices of meetings and business to be conducted thereat

An annual general meeting and any special general meeting at which it is proposed to pass a special resolution shall (save as set out in sub-paragraph (e) above) be called by at least 21 clear days' notice in writing, and any other special general meeting shall be called by at least 14 clear days' notice (in each case exclusive of the day on which the notice is given or deemed to be given and of the day for which it is given or on which it is to take effect). The notice must specify the time and place of the meeting and, in the case of special business, the general nature of that business. The notice convening an annual general meeting shall specify the meeting as such.

(j) Transfer of shares

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in such other form as the board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominees(s), by hand or by machine imprinted signature or by such other manner of execution as the board may approve from time to time. The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the board may dispense with the execution of the instrument of transfer by the transferee in any case in which it thinks fit, in its discretion, to do so and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect thereof. The board may also resolve either generally or in any particular case, upon request by either the transferor or the transferee, to accept mechanically executed transfers.

The board in so far as permitted by any applicable law may, in its absolute discretion, at any time and from time to time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

Unless the board otherwise agrees, no shares on the principal register shall be transferred to any branch register nor may shares on any branch register be transferred to the principal register or any other branch register. All transfers and other documents of title shall be lodged for registration and registered, in the case of shares on a branch register, at the relevant registration office and, in the case of shares on the principal register, at the registered office in Bermuda or such other place in Bermuda at which the principal register is kept in accordance with the Companies Act.

The board may, in its absolute discretion, and without assigning any reason, refuse to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or any share issued under any share incentive scheme for employees upon which a restriction on transfer imposed thereby still subsists, and it may also refuse to register any transfer of any share to more than four joint holders or any transfer of any share (not being a fully paid up share) on which the Company has a lien.

The board may decline to recognise any instrument of transfer unless a fee of such maximum sum as any Designated Stock Exchange (as defined in the Bye-laws) may determine to be payable or such lesser sum as the Directors may from time to time require is paid to the Company in respect thereof, the instrument of transfer, if applicable, is properly stamped, is in respect of only one class of share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may be suspended and the register closed on giving notice by advertisement in an appointed newspaper and, where applicable, any other newspapers in accordance with the requirements of any Designated Stock Exchange (as defined in the Bye-laws), at such times and for such periods as the board may determine and either generally or in respect of any class of shares. The register of members shall not be closed for periods exceeding in the whole 30 days in any year.

(k) Power for the Company to purchase its own shares

The Bye-laws supplement the Company's Memorandum of Association (which gives the Company the power to purchase its own shares) by providing that the power is exercisable by the board upon such terms and conditions as it thinks fit.

(l) Power for any subsidiary of the Company to own shares in the Company

There are no provisions in the Bye-laws relating to ownership of shares in the Company by a subsidiary.

(m) Dividends and other methods of distribution

Subject to the Companies Act, the Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the board. The Company in general meeting may also make a distribution to its members out of contributed surplus (as ascertained in accordance with the Companies Act). No dividend shall be paid or distribution made out of contributed surplus if to do so would render the Company unable to pay its liabilities as they become due or the realisable value of its assets would thereby become less than the aggregate of its liabilities and its issued share capital and share premium account.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to a member by the Company on or in respect of any shares all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared on the share capital of the Company, the board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that shareholders entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the board may think fit. The Company may also upon the recommendation of the board by an ordinary resolution resolve in respect of any one particular dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared the board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the board and shall revert to the Company.

(n) Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company. In addition, a proxy or proxies representing either a member who is an individual or a member which is a corporation shall be entitled to exercise the same powers on behalf of the member which he or they represent as such member could exercise.

(o) Call on shares and forfeiture of shares

Subject to the Bye-laws and to the terms of allotment, the board may from time to time make such calls upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium). A call may be made payable either in one lump sum or by installments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding 20 per cent. per annum as the board may agree to accept from the day appointed for the payment thereof to the time of actual payment, but the board may waive payment of such interest wholly or in part. The board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the monies uncalled and unpaid or installments payable upon any shares held by him, and upon all or any of the monies so advanced the Company may pay interest at such rate (if any) as the board may decide.

If a member fails to pay any call on the day appointed for payment thereof, the board may serve not less than 14 clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect of the shares, together with (if the board shall in its discretion so require) interest thereon from the date of forfeiture until the date of actual payment at such rate not exceeding 20 per cent. per annum as the board determines.

(p) Inspection of register of members

The register and branch register of members shall be open to inspection at least two business hours on every business day by members without charge, or by any other person upon a maximum payment of five Bermuda dollars, at the registered office or such other place in Bermuda at which the register is kept in accordance with the Companies Act or, upon a maximum payment of \$10, at the Registration Office (as defined in the Bye-laws), unless the register is closed in accordance with the Companies Act.

(q) Quorum for meetings and separate class meetings

For all purposes the quorum for a general meeting shall be two members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

(r) Rights of the minorities in relation to fraud or oppression

There are no provisions in the Bye-laws relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of the Company under Bermuda law, as summarised in paragraph 4(e) of this Appendix.

(s) Procedures on liquidation

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

If the Company shall be wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Companies Act, divide among the members in specie or kind the whole or any part of the assets of the Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

(t) Untraceable members

The Company may sell any of the shares of a member who is untraceable if (i) all cheques or warrants (being not less than three in total number) for any sum payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (ii) upon the expiry of the 12 year period, the Company has not during that time received any indication of the existence of the member; and (iii) the Company has caused an advertisement to be published in accordance with the rules of the Designated Stock Exchange (as defined in the Bye-laws) giving notice of its intention to sell such shares and a period of three months, or such shorter period as may be permitted by the Designated Stock Exchange (as defined in the Bye-laws), has elapsed since such advertisement and the Designated Stock Exchange (as defined in the Bye-laws) has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds, it shall become indebted to the former member of the Company for an amount equal to such net proceeds.

(u) Other provisions

The Bye-laws provide that to the extent that it is not prohibited by and is in compliance with the Companies Act, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants. The Bye-laws also provide that the Company is required to maintain at its registered office a register of directors and officers in accordance with the provisions of the Companies Act and such register is open to inspection by members of the public without charge between 10:00 a.m. and 12:00 noon on every business day.

3. VARIATION OF MEMORANDUM OF ASSOCIATION AND BYE-LAWS

The Memorandum of Association may be altered by the Company in general meeting. In certain circumstances, consent to the alteration must be obtained from the Minister of Finance of Bermuda. The Bye-laws may be amended by the Directors subject to the confirmation of the Company in general meeting. The Bye-laws state that a special resolution shall be required to alter the provisions of the Memorandum of Association or to confirm any amendment to the Bye-laws or to change the name of the Company. For these purposes, a resolution is a special resolution if it has been passed by a majority of not less than three-fourths of the votes cast by such members of the Company as, being entitled to do so, vote in person or, in the case of such members as are corporations, by their respective duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which not less than 21 clear days' notice specifying the intention to propose the resolution as a special resolution has been duly given. Except in the case of an annual general meeting, the requirement of 21 clear days' notice may be waived by a majority in number of the members having the right to attend and vote at the relevant meeting, being a majority together holding not less than 95 percent in nominal value of the shares giving that right.

4. BERMUDA COMPANY LAW

The Company is incorporated in Bermuda and, therefore, operates subject to Bermuda law. Set out below is a summary of certain provisions of Bermuda company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Bermuda company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

(a) Share capital

The Companies Act provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount or value of the premiums on those shares shall be transferred to an account, to be called the “share premium account”, to which the provisions of the Companies Act relating to a reduction of share capital of a company shall apply as if the share premium account were paid up share capital of the company except that the share premium account may be applied by the company:

- (i) in paying up unissued shares of the company to be issued to members of the company as fully paid bonus shares;
- (ii) in writing off:
 - (aa) the preliminary expenses of the company; or
 - (bb) the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company; or
- (iii) in providing for the premiums payable on redemption of any shares or of any debentures of the company.

However, only premiums arising on the same class of shares can be used to pay up bonus shares or in providing for the premiums payable on redemption of shares referred to in (i) and (iii) above respectively.

In the case of an exchange of shares the excess value of the shares acquired over the nominal value of the shares being issued may be credited to a contributed surplus account of the issuing company.

The Companies Act permits a company to issue preference shares and subject to the conditions stipulated therein to convert those preference shares into redeemable preference shares.

The Companies Act includes certain protections for holders of special classes of shares, requiring their consent to be obtained before their rights may be varied. Where provision is made by the memorandum of association or bye-laws for authorising the variation of rights attached to any class of shares in the company, the consent of the specified proportions of the holders of the issued shares of that class or the sanction of a resolution passed at a separate meeting of the holders of those shares is required, and where no

provision for varying such rights is made in the memorandum of association or bye-laws and nothing therein precludes a variation of such rights, the written consent of the holders of three-fourths of the issued shares of that class or the sanction of a resolution passed as aforesaid is required.

(b) Financial assistance to purchase shares of a company or its holding company

A company is prohibited from providing financial assistance for the purpose of an acquisition of its own or its holding company's shares unless there are reasonable grounds for believing that the company is, and would after the giving of such financial assistance be, able to pay its liabilities as they become due. In certain circumstances, the prohibition from giving financial assistance may be excluded such as where the assistance is only an incidental part of a larger purpose or the assistance is of an insignificant amount such as the payment of minor costs. In addition, the Companies Act expressly permits the grant of financial assistance where (i) the financial assistance does not reduce the company's net assets or, to the extent the net assets are reduced, such financial assistance is provided for out of funds of the company which would otherwise be available for dividend or distribution; (ii) an affidavit of solvency is sworn by the directors of the company; and (iii) the financial assistance is approved by resolution of shareholders of the company.

(c) Purchase of shares and warrants by a company and its subsidiaries

A company may, if authorised by its memorandum of association or bye-laws, purchase its own shares. Such purchases may only be effected out of the capital paid up on the purchased shares or out of the funds of the company otherwise available for dividend or distribution or out of the proceeds of a fresh issue of shares made for the purpose. Any premium payable on a purchase over the par value of the shares to be purchased must be provided for out of funds of the company otherwise available for dividend or distribution or out of the company's share premium account. Any amount due to a shareholder on a purchase by a company of its own shares may (i) be paid in cash; (ii) be satisfied by the transfer of any part of the undertaking or property of the company having the same value; or (iii) be satisfied partly under (i) and partly under (ii). Any purchase by a company of its own shares may be authorised by its board of directors or otherwise by or in accordance with the provisions of its bye-laws. Such purchase may not be made if, on the date on which the purchase is to be effected, there are reasonable grounds for believing that the Company is, or after the purchase would be, unable to pay its liabilities as they become due. The shares so purchased will be treated as cancelled and the company's issued, but not its authorised, capital will be diminished accordingly.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Bermuda law that a company's memorandum of association or its bye-laws contain a specific provision enabling such purchases and the directors of a company may rely upon the general power contained in its memorandum of association to buy and sell and deal in personal property of all kinds.

Under Bermuda law, a subsidiary may hold shares in its holding company and in certain circumstances, may acquire such shares. The holding company is, however, prohibited from giving financial assistance for the purpose of the acquisition, subject to certain circumstances provided by the Companies Act. A company, whether a subsidiary or a holding company, may only purchase its own shares for cancellation if it is authorised to do so in its memorandum of association or bye-laws pursuant to section 42A of the Companies Act.

(d) Dividends and distributions

A company may not declare or pay a dividend, or make a distribution out of contributed surplus, if there are reasonable grounds for believing that (i) the company is, or would after the payment be, unable to pay its liabilities as they become due; or (ii) the realisable value of the company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts. Contributed surplus is defined for purposes of section 54 of the Companies Act to include the proceeds arising from donated shares, credits resulting from the redemption or conversion of shares at less than the amount set up as nominal capital and donations of cash and other assets to the company.

(e) Protection of minorities

Class actions and derivative actions are generally not available to shareholders under the laws of Bermuda. The Bermuda courts, however, would ordinarily be expected to permit a shareholder to commence an action in the name of a company to remedy a wrong done to the company where the act complained of is alleged to be beyond the corporate power of the company or is illegal or would result in the violation of the company's memorandum of association and bye-laws. Furthermore, consideration would be given by the court to acts that are alleged to constitute a fraud against the minority shareholders or, for instance, where an act requires the approval of a greater percentage of the company's shareholders than actually approved it.

Any member of a company who complains that the affairs of the company are being conducted or have been conducted in a manner oppressive or prejudicial to the interests of some part of the members, including himself, may petition the court which may, if it is of the opinion that to wind up the company would unfairly prejudice that part of the members but that otherwise the facts would justify the making of a winding up order on just and equitable grounds, make such order as it thinks fit, whether for regulating the conduct of the company's affairs in future or for the purchase of shares of any members of the company by other members of the company or by the company itself and in the case of a purchase by the company itself, for the reduction accordingly of the company's capital, or otherwise. Bermuda law also provides that the company may be wound up by the Bermuda court, if the court is of the opinion that it is just and equitable to do so. Both these provisions are available to minority shareholders seeking relief from the oppressive conduct of the majority, and the court has wide discretion to make such orders as it thinks fit.

Except as mentioned above, claims against a company by its shareholders must be based on the general laws of contract or tort applicable in Bermuda.

A statutory right of action is conferred on subscribers of shares in a company against persons, including directors and officers, responsible for the issue of a prospectus in respect of damage suffered by reason of an untrue statement therein, but this confers no right of action against the company itself. In addition, such company, as opposed to its shareholders, may take action against its officers including directors, for breach of their statutory and fiduciary duty to act honestly and in good faith with a view to the best interests of the company.

(f) Management

The Companies Act contains no specific restrictions on the power of directors to dispose of assets of a company, although it specifically requires that every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. Furthermore, the Companies Act requires that every officer should comply with the Companies Act, regulations passed pursuant to the Companies Act and the bye-laws of the company.

(g) Accounting and auditing requirements

The Companies Act requires a company to cause proper records of accounts to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company and (iii) the assets and liabilities of the company.

Furthermore, it requires that a company keeps its records of account at the registered office of the company or at such other place as the directors think fit and that such records shall at all times be open to inspection by the directors or the resident representative of the company. If the records of account are kept at some place outside Bermuda, there shall be kept at the office of the company in Bermuda such records as will enable the directors or the resident representative of the company to ascertain with reasonable accuracy the financial position of the company at the end of each three month period, except that where the company is listed on an appointed stock exchange, there shall be kept such records as will enable the directors or the resident representative of the company to ascertain with reasonable accuracy the financial position of the company at the end of each six month period.

The Companies Act requires that the directors of the company must, at least once a year, lay before the company in general meeting financial statements for the relevant accounting period. Further, the company's auditor must audit the financial statements so as to enable him to report to the members. Based on the results of his audit, which must be made in accordance with generally accepted auditing standards, the auditor must then make a report to the members. The generally accepted auditing standards may be those of a country or jurisdiction other than Bermuda or such other generally accepted auditing standards as may be appointed by the Minister of Finance of Bermuda under the Companies Act; and where the generally accepted auditing standards used are other than those of Bermuda, the report of the auditor shall identify the generally accepted auditing standards used. All members of the company are entitled to receive a copy of every financial statement prepared in accordance with these requirements, at least seven days before the general meeting of the company at which the financial statements are to be tabled.

(h) Auditors

At each annual general meeting, a company must appoint an auditor to hold office until the close of the next annual general meeting; however, this requirement may be waived if all of the shareholders and all of the directors, either in writing or at the general meeting, agree that there shall be no auditor.

A person, other than an incumbent auditor, shall not be capable of being appointed auditor at an annual general meeting unless notice in writing of an intention to nominate that person to the office of auditor has been given not less than 21 days before the annual general meeting. The company must send a copy of such notice to the incumbent auditor and give notice thereof to the members not less than 7 days before the annual general meeting. An incumbent auditor may, however, by notice in writing to the secretary of the company waive the requirements of the foregoing.

Where an auditor is appointed to replace another auditor, the new auditor must seek from the replaced auditor a written statement as to the circumstances of the latter's replacement. If the replaced auditor does not respond within 15 days, the new auditor may act in any event. An appointment as auditor of a person who has not requested a written statement from the replaced auditor is voidable by a resolution of the shareholders at a general meeting. An auditor who has resigned, been removed or whose term of office has expired or is about to expire, or who has vacated office is entitled to attend the general meeting of the company at which he is to be removed or his successor is to be appointed; to receive all notices of, and other communications relating to, that meeting which a member is entitled to receive; and to be heard at that meeting on any part of the business of the meeting that relates to his duties as auditor or former auditor.

(i) Exchange control

An exempted company is usually designated as "non-resident" for Bermuda exchange control purposes by the Bermuda Monetary Authority. Where a company is so designated, it is free to deal in currencies of countries outside the Bermuda exchange control area which are freely convertible into currencies of any other country. The permission of the Bermuda Monetary Authority is required for the issue of shares and warrants by the company and the subsequent transfer of such shares and warrants. In granting such permission, the Bermuda Monetary Authority accepts no responsibility for the financial soundness of any proposals or for the correctness of any statements made or opinions expressed in any document with regard to such issue. Before the company can issue or transfer any further shares and warrants in excess of the amounts already approved, it must obtain the prior consent of the Bermuda Monetary Authority.

Permission of the Bermuda Monetary Authority will normally be granted for the issue and transfer of shares and warrants to and between persons regarded as resident outside Bermuda for exchange control purposes without specific consent for so long as the shares and warrants are listed on an appointed stock exchange (as defined in the Companies Act). Issues to and transfers involving persons regarded as "resident" for exchange control purposes in Bermuda will be subject to specific exchange control authorisation.

(j) Taxation

Under present Bermuda law, no Bermuda withholding tax on dividends or other distributions, nor any Bermuda tax computed on profits or income or on any capital asset, gain or appreciation will be payable by an exempted company or its operations, nor is there any Bermuda tax in the nature of estate duty or inheritance tax applicable to shares, debentures or other obligations of the company held by non-residents of Bermuda. Furthermore, a company may apply to the Minister of Finance of Bermuda for an assurance, under the Exempted Undertakings Tax Protection Act 1966 of Bermuda, that no such taxes shall be so applicable until 28th March 2016, although this assurance will not prevent the imposition of any Bermuda tax payable in relation to any land in Bermuda leased or let to the company or to persons ordinarily resident in Bermuda.

(k) Stamp duty

An exempted company is exempt from all stamp duties except on transactions involving “Bermuda property”. This term relates, essentially, to real and personal property physically situated in Bermuda, including shares in local companies (as opposed to exempted companies). Transfers of shares and warrants in all exempted companies are exempt from Bermuda stamp duty.

(l) Loans to directors

Bermuda law prohibits the making of loans by a company to any of its directors or to their families or companies in which they hold more than a 20 per cent. interest, without the consent of any member or members holding in aggregate not less than nine-tenths of the total voting rights of all members having the right to vote at any meeting of the members of the company. These prohibitions do not apply to anything done to provide a director with funds to meet the expenditure incurred or to be incurred by him for the purposes of the company, provided that the company gives its prior approval at a general meeting or, if not, the loan is made on condition that it will be repaid within six months of the next following annual general meeting if the loan is not approved at or before such meeting. If the approval of the company is not given for a loan, the directors who authorised it will be jointly and severally liable for any loss arising therefrom.

(m) Inspection of corporate records

Members of the general public have the right to inspect the public documents of a company available at the office of the Registrar of Companies in Bermuda which will include the company’s certificate of incorporation, its memorandum of association (including its objects and powers) and any alteration to the company’s memorandum of association. The members of the company have the additional right to inspect the bye-laws of a company, minutes of general meetings and the company’s audited financial statements, which must be presented to the annual general meeting. Minutes of general meetings of a company are also open for inspection by directors of the company without charge for not less than two hours during business hours each day. The register of members of a company is open for inspection by members without charge and to members of the general public for a fee. The company is required to maintain its share register in Bermuda but may, subject to the provisions of the Companies Act, establish a branch register outside Bermuda. Any branch register of members established by the company is subject to the same rights of inspection as the principal

register of members of the company in Bermuda. Any person may require a copy of the register of members or any part thereof which must be provided within fourteen days of a request. Bermuda law does not, however, provide a general right for members to inspect or obtain copies of any other corporate records.

A company is required to maintain a register of directors and officers at its registered office and such register must be made available for inspection for not less than two hours in each day by members of the public without charge.

(n) Winding up

A company may be wound up by the Bermuda court on application presented by the company itself, its creditors or its contributors. The Bermuda court also has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the Bermuda court, just and equitable that such company be wound up.

A company may be wound up voluntarily when the members so resolve in general meeting, or, in the case of a limited duration company, when the period fixed for the duration of the company by its memorandum expires, or the event occurs on the occurrence of which the memorandum provides that the company is to be dissolved. In the case of a voluntary winding up, such company is obliged to cease to carry on its business from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above. Upon the appointment of a liquidator, the responsibility for the company's affairs rests entirely in his hands and no future executive action may be carried out without his approval.

Where, on a voluntary winding up, a majority of directors make a statutory declaration of solvency, the winding up will be a members' voluntary winding up. In any case where such declaration has not been made, the winding up will be a creditors' voluntary winding up.

In the case of a members' voluntary winding up of a company, the company in general meeting must appoint one or more liquidators within the period prescribed by the Companies Act for the purpose of winding up the affairs of the company and distributing its assets. If the liquidator at any time forms the opinion that such company will not be able to pay its debts in full, he is obliged to summon a meeting of creditors.

As soon as the affairs of the company are fully wound up, the liquidator must make up an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. This final general meeting requires at least one month's notice published in an appointed newspaper in Bermuda.

In the case of a creditors' voluntary winding up of a company, the company must call a meeting of creditors of the company to be summoned on the day following the day on which the meeting of the members at which the resolution for winding up is to be proposed is held. Notice of such meeting of creditors must be sent at the same time as notice is sent to members. In addition, such company must cause a notice to appear in an appointed newspaper on at least two occasions.

The creditors and the members at their respective meetings may nominate a person to be liquidator for the purposes of winding up the affairs of the company provided that if the creditors nominate a different person, the person nominated by the creditors shall be the liquidator. The creditors at the creditors' meeting may also appoint a committee of inspection consisting of not more than five persons.

If a creditors' winding up continues for more than one year, the liquidator is required to summon a general meeting of the company and a meeting of the creditors at the end of each year to lay before such meetings an account of his acts and dealings and of the conduct of the winding up during the preceding year. As soon as the affairs of the company are fully wound up, the liquidator must make an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon shall call a general meeting of the company and a meeting of the creditors for the purposes of laying the account before such meetings and giving an explanation thereof.

5. GENERAL

Conyers Dill & Pearman, the Company's legal advisers on Bermuda law, have sent to the Company a letter of advice summarising certain aspects of Bermuda company law. This letter, together with a copy of the Companies Act, is available for inspection as referred to in the paragraph headed "Documents available for inspection" in Appendix 6. Any person wishing to have a detailed summary of Bermuda company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

FURTHER INFORMATION ABOUT THE COMPANY AND ITS SUBSIDIARIES**1. Incorporation of the Company**

The Company was incorporated in Bermuda under the Companies Act as an exempted company on 11th January, 2001 with an authorised share capital of HK\$100,000 divided into 1,000,000 Shares of HK\$0.10 each, of which 600,000 Shares were allotted and issued nil paid to M2B Holding Limited, 200,000 Shares were allotted and issued nil paid to Bestmark Management Limited and the remaining 200,000 Shares were allotted and issued nil paid to Mr. Hung Ying Fung. All the 1,000,000 nil paid Shares were subsequently paid up in the manner described in paragraph 4 below.

2. Changes in share capital of the Company

Pursuant to resolutions in writing of all the shareholders of the Company passed on 18th April, 2001, the share capital of the Company was increased to HK\$200,000 by the creation of a further 1,000,000 Shares, which were on that date allotted and issued, credited as fully paid, as described in paragraph 4 below. The authorised share capital of the Company was further increased to HK\$200,000,000 by the creation of a further 1,998 million Shares pursuant to a resolution passed by all the shareholders referred to in paragraph 3 below.

Assuming that the Share Offer becomes unconditional and the Share Offer and the Capitalisation Issue are completed, the authorised share capital of the Company will be HK\$200,000,000 divided into 2,000 million Shares of which 200 million Shares will be issued fully paid or credited as fully paid, and 1,800 million Shares will remain unissued (assuming that the Over-allotment Option is not exercised). Other than pursuant to the exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme, there is no present intention to issue any of the authorised but unissued share capital of the Company and, without the prior approval of the members in general meeting, no issue of Shares will be made which would effectively alter the control of the Company.

Save as disclosed herein and in paragraphs 1 and 3 of this Appendix, there has been no alteration in the share capital of the Company since its incorporation.

The Company has no founder shares, management shares or deferred shares.

3. Written resolutions passed by all the shareholders of the Company

On 18th April 2001 pursuant to further resolutions in writing passed by all the shareholders of the Company:

- (a) the Company adopted its existing bye-laws;
- (b) conditional on (i) the Listing Committee of the Stock Exchange granting listing of and permission to deal in the Shares in issue and to be issued as mentioned in this prospectus; and (ii) the obligations of the Underwriters under the Underwriting Agreement becoming unconditional and not being terminated (including, if relevant, as a result of the waiver of any condition(s) by the Underwriters) in accordance with the terms of the Underwriting Agreement or otherwise, in each case on or before the day falling 30 days after the date of this prospectus:

- (i) the authorised share capital was increased from HK\$200,000 to HK\$200 million by the creation of a further 1,998 million Shares;
- (ii) the Share Offer and the Over-allotment Option were approved and the Directors were authorised to allot and issue the Offer Shares and such number of Shares as may be required to be allotted and issued upon the exercise of the Over-allotment Option;
- (iii) the rules of the Share Option Scheme, the principal terms of which are set out in paragraph 12 of this Appendix, were approved and adopted and the Directors were authorised to grant options to subscribe for Shares thereunder and to allot, issue and deal with Shares pursuant to the exercise of options granted under the Share Option Scheme;
- (iv) conditional on the share premium account being credited as a result of the Share Offer, the Directors were authorised to capitalise HK\$14.8 million standing to the credit of the share premium account of the Company by applying such sum in paying up in full at par 148 million Shares for allotment and issue to holders of Shares whose names appear on the register of members of the Company at the close of business on 18th April, 2001 (or as they may direct) in proportion (as nearly as possible without involving fractions so that no fraction of a share shall be allotted and issued) to their then existing holdings in the Company;
- (v) a general unconditional mandate was given to the Directors to allot, issue and deal with, otherwise than by way of rights, scrip dividend schemes or similar arrangements in accordance with the bye-laws of the Company, or pursuant to the exercise of any options which may be granted under the Share Option Scheme or under the Share Offer or the Capitalisation Issue or upon the exercise of the Over-allotment Option, Shares with an aggregate nominal amount of not exceeding the sum of (aa) 20% of the aggregate nominal amount of the share capital of the Company in issue immediately following completion of the Share Offer and the Capitalisation Issue (such share capital shall include Shares which may be issued upon the exercise of the Over-allotment Option), and (bb) the aggregate nominal amount of the share capital of the Company which may be purchased by the Company pursuant to the authority granted to the Directors as referred to in sub-paragraph (vi) below, until the conclusion of the next annual general meeting of the Company, or the date by which the next annual general meeting of the Company is required by the bye-laws of the Company or any applicable Bermuda law to be held, or the passing of an ordinary resolution by shareholders of the Company revoking or varying the authority given to the Directors, whichever occurs first; and
- (vi) a general unconditional mandate was given to the Directors to exercise all powers of the Company to purchase Shares with an aggregate nominal amount of not exceeding 10% of the aggregate nominal amount of the share capital of the Company in issue immediately following the completion of the Share Offer and the Capitalisation Issue (such share capital shall include Shares which may be issued upon the exercise of the Over-allotment Option) until the conclusion of the next annual general meeting of the Company, or the date by which the

next annual general meeting of the Company is required to be held by the by-laws of the Company or any applicable Bermuda law, or the passing of an ordinary resolution by shareholders of the Company revoking or varying the authority given to the Directors, whichever occurs first.

4. Group reorganisation

The companies comprising the Group underwent a reorganisation to rationalise the Group's structure in preparation for the listing of the Shares on the Stock Exchange. The reorganisation involved the transfer to the Company by M2B Holding Limited, Bestmark Management Limited and Mr. Hung Ying Fung of an aggregate of 10,000 shares of US\$1.00 each, being the entire issued share capital in Mobicon (BVI) Limited, the intermediate holding company of the Group, in consideration of and in exchange for which the Company (i) allotted and issued, credited as fully paid, an aggregate of 1,000,000 new Shares to the respective shareholders in such number as set out below:

Name	No. of Shares
M2B Holding Limited	600,000
Bestmark Management Limited	200,000
Mr. Hung Ying Fung	200,000

and (ii) credited as fully paid at par the 1,000,000 Shares allotted and issued nil paid to M2B Holding Limited, Bestmark Management Limited and Mr. Hung Ying Fung on 30th January, 2001.

In addition to the transfer of shares in Mobicon (BVI) Limited referred to above, the Group also underwent the following corporate restructuring:

- (a) as of 1st November, 2000, MHL acquired the business of trading of electronic components and accessories (and excluding the business of holding of and/or investment in real estate properties) carried on by MESC in consideration of MHL undertaking to pay to MESC a sum of HK\$53,866,000 in cash forthwith upon receipt of a written demand by MESC;
- (b) on 12th April, 2001, MHL acquired from Mr. Cheung Chiu Hing 40,000 shares of HK\$1.00 each in M-TEC at the consideration of HK\$58,440;
- (c) on 12th April, 2001, MHL acquired 60,000 shares of HK\$1.00 each in M-TEC in consideration of MHL undertaking to pay to MESC a sum of HK\$60,000 in cash forthwith upon receipt of a written demand by MESC;
- (d) on 12th April, 2001, A Plus acquired from Mr. Tam Kwok Wai 3,000 shares of HK\$1.00 each in Mobicon Agent Limited at the consideration of HK\$472,307;
- (e) on 12th April, 2001, Mobicon (BVI) Limited acquired an aggregate of 10 shares of HK\$1 each in MHL as to three shares from Mr. Hung, three shares from Ms. Yeung Man Yi, Beryl, two shares from Mr. Yeung Kwok Leung, Allix, and two shares from Mr. Hung Ying Fung in consideration of the allotment and issue of six shares, two shares and two shares of US\$1 each in Mobicon (BVI) Limited to M2B Holding Limited (as directed by Mr. Hung and Ms. Yeung Man Yi, Beryl), Bestmark Management Limited (as directed by Mr. Yeung Kwok Leung, Allix) and Mr. Hung Ying Fung respectively;

- (f) on 12th April, 2001,
 - (i) the authorised share capital of A Plus was increased from HK\$1,000,000 to HK\$1,001,000 by the creation of 1,000 new shares of HK\$1 each;
 - (ii) Mobicon (BVI) Limited subscribed for and was allotted and issued 100 shares of HK\$1 each in the share capital of A Plus for cash at par;
 - (iii) each of the 100 shares referred to in sub-paragraph (ii) above was designated as an ordinary share of HK\$1; and
 - (iv) the 1,000,000 ordinary shares of HK\$1 each in the issued share capital of A Plus and beneficially owned as to 300,000 shares by Mr. Hung, 300,000 shares by Ms. Yeung Man Yi, Beryl, 200,000 shares by Mr. Hung Ying Fung and 200,000 shares by Mr. Yeung Kwok Leung, Allix prior to the allotment and issue of the 100 shares referred to in sub-paragraph (ii) above were converted into 1,000,000 non-voting deferred shares of HK\$1 each carrying the rights and subject to the restrictions set out in paragraph 6 of this Appendix;
- (g) on 17th April, 2001, MESC assigned to Mobicon (BVI) Limited an aggregate amount of loans equivalent to HK\$53,926,000 owing by MHL to MESC at a consideration equivalent to the face value of the loans;
- (h) on 17th April, 2001, MESC assigned to Mr. Hung, Ms. Yeung Man Yi, Beryl, Mr. Yeung Kwok Leung, Allix, and Mr. Hung Ying Fung the respective amount of loans equivalent to HK\$16,177,800, HK\$16,177,800, HK\$10,785,200 and HK\$10,785,200 owing by Mobicon (BVI) Limited to MESC at a consideration equivalent to the respective face value of the loans;
- (i) on 17th April, 2001, the loans in the amount of HK\$16,177,800, HK\$16,177,800, HK\$10,785,200 and HK\$10,785,200 owing from Mobicon (BVI) Limited to Mr. Hung, Ms. Yeung Man Yi, Beryl, Mr. Yeung Kwok Leung, Allix, and Mr. Hung Ying Fung, respectively, were satisfied by the allotment and issue of 2,610 shares, 870 shares and 870 shares of US\$1 each in Mobicon (BVI) Limited to M2B Holding Limited (as directed by Mr. Hung and Ms. Yeung Man Yi, Beryl), Bestmark Management Limited (as directed by Mr. Yeung Kwok Leung, Allix) and Mr. Hung Ying Fung respectively.

5. Changes in share capital of subsidiaries

The subsidiaries of the Company are listed in the accountants' report set out in Appendix 1 to this prospectus. In addition to the alterations described in paragraph 4 above, the following alterations in the share capital of each of the Company's subsidiaries took place within the two years immediately preceding the date of this prospectus:

- (a) on 22nd January, 2001, 100 shares of US\$1 each in Mobicon (BVI) Limited were allotted and issued for cash at par, of which (i) 30 shares were allotted and issued to Mr. Hung; (ii) 30 shares were allotted to Ms. Yeung Man Yi, Beryl; (iii) 20 shares were allotted and issued to Mr. Yeung Kwok Leung, Allix; and (iv) 20 shares were allotted and issued to Mr. Hung Ying Fung;

- (b) on 9th October, 2000, MHL was established in Hong Kong and on 13 March, 2001, one share of HK\$1.00 each in MHL was transferred from Harefield Limited to Mr. Hung and one share was transferred from Fernside Limited to Ms. Yeung Man Yi, Beryl, in each case for cash of HK\$1 per share, and on the same date, two shares of HK\$1 each in MHL were allotted and issued for cash at par to each of Mr. Hung, Ms. Yeung Man Yi, Beryl, Mr. Yeung Kwok Leung, Allix and Mr. Hung Ying Fung;
- (c) on 12th April, 2001, 3,324, 1,108 and 1,108 shares of US\$1 each in Mobicon (BVI) Limited were allotted and issued for cash at par to each of M2B Holding Limited (as directed by Mr. Hung and Ms. Yeung Man Yi, Beryl), Bestmark Management Limited (as directed by Mr. Yeung Kwok Leung, Allix) and Mr. Hung Ying Fung in consideration for the agreement of each of Mr. Hung, Ms. Yeung Man Yi, Beryl, Mr. Yeung Kwok Leung, Allix and Mr. Hung Ying Fung to the conversion of the aggregate of 1,000,000 ordinary shares of HK\$1 each in A Plus held by them into 1,000,000 non-voting deferred shares of HK\$1 each as more particularly described in subparagraph 4(f)(iv);
- (d) On 23rd July, 1999, MESC transferred 10,000 shares of HK\$1 each in Mobicon Agent Limited for cash at HK\$1 per share, of which (i) 7,000 shares were transferred to A Plus; and (ii) 3,000 shares were transferred to Mr. Tam Kwok Wai; and
- (e) on 17th April, 2001,
 - (i) each of Mr. Hung and Ms. Yeung Man Yi, Beryl transferred 30 shares of US\$1 each in Mobicon (BVI) Limited to M2B Holding Limited in consideration of the allotment and issue of 30 shares of US\$1 each in M2B Holding Limited; and
 - (ii) Mr. Yeung Kwok Leung, Allix transferred his 20 shares of US\$1 each in Mobicon (BVI) Limited to Bestmark Management Limited in consideration of the allotment and issue of 20 shares of US\$1 each in Bestmark Management Limited.

Save as disclosed in this paragraph and in paragraph 4 of this Appendix, there has been no alteration in the share capital of any of the subsidiaries of the Company within the two years immediately preceding the date of this prospectus.

6. Rights and restrictions of the non-voting deferred shares

The rights and restrictions attaching to the non-voting deferred shares referred to in paragraph 4(f)(iv) of this Appendix are set out below:

- (a) as regards income, the holders of non-voting deferred shares shall not be entitled to any dividend on their non-voting deferred shares and the net profits of the relevant company available for dividend as earned in the year in respect of which a dividend is declared shall be distributed among the holders of ordinary shares according to the amounts paid up on the ordinary shares held by them respectively and no amount paid up on a share in advance of calls shall be treated as paid up on the share. All dividends shall be apportioned and paid pro rata according to the amounts paid up on the shares during the portion or portions of the period in respect of which the dividend is paid, except that if any share is issued on terms providing that it shall rank for dividend as if paid up (in whole or in part) as from a particular date, such share shall rank for dividend accordingly;

- (b) as regards capital, on a return of capital on liquidation or otherwise, the assets of the relevant company available for distribution among the holders of ordinary shares and the holders of non-voting deferred shares shall be applied first in paying to the holders of ordinary shares the sum of HK\$10,000 million per ordinary share and secondly in repaying to the holders of non-voting deferred shares the nominal amount paid up or credited as paid up on such shares, and the balance of the relevant company's assets shall belong to and be distributed among the holders of ordinary shares in proportion to the amount paid up or credited as paid up on such ordinary shares respectively;
- (c) as regards voting, on a show of hands every holder of ordinary shares present in person shall have one vote, and on a poll, every holder of ordinary shares present in person or by proxy shall have one vote for every ordinary share held by him but the non-voting deferred shares shall not entitle the holders to receive notice of or to attend or vote at any general meeting of the relevant company; and
- (d) an allotment, issue or creation of securities or options for the subscription of securities of the relevant company with preferential rights or entitlements to or which rank *pari passu* with the non-voting deferred shares shall not be and shall be deemed not to be a variation or abrogation of the rights attaching to the non-voting deferred shares in issue from time to time.

7. Repurchase by the Company of its own securities

This paragraph 7 includes information required by the Stock Exchange to be included in this prospectus concerning the repurchase by the Company of its own securities.

(a) *Stock Exchange Rules*

The Listing Rules permit companies with a primary listing on the Stock Exchange to repurchase its securities on the Stock Exchange subject to certain restrictions, the more important of which are summarised below:

(i) Shareholders' approval

All proposed repurchases of securities (which must be fully paid up in the case of shares) by a company with a primary listing on the Stock Exchange must be approved in advance by an ordinary resolution of the shareholders, either by way of general mandate or by specific approval of a particular transaction.

Note: Pursuant to a resolution in writing passed by all shareholders of the Company on 18th April, 2001, a general unconditional mandate (the "Repurchase Mandate") was given to the Directors authorising any repurchase by the Company of Shares on the Stock Exchange or on any other stock exchange on which the securities of the Company may be listed and which is recognised by the Securities and Futures Commission and the Stock Exchange for this purpose, of up to 10% of the aggregate nominal value of the share capital of the Company in issue and to be issued as mentioned in this prospectus, such mandate to expire at the conclusion of the next annual general meeting of the Company, or the date by which the next annual general meeting of the Company is required by the bye-laws of the Company or any applicable laws of Bermuda to be held, or when revoked or varied by an ordinary resolution of shareholders of the Company in general meeting, whichever shall first occur.

(ii) Source of funds

Repurchases must be funded out of funds legally available for the purpose in accordance with the bye-laws of the Company and the laws of Bermuda. A listed company is prohibited from repurchasing its own shares on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange.

Any repurchases by the Company may be made out of capital paid up on the shares to be repurchased or out of funds of the Company which would otherwise be available for dividend or distribution or out of the proceeds of a fresh issue of shares made for the purpose of the repurchase and, in the case of any premium payable on the repurchase, out of the funds of the Company which would otherwise be available for dividend or distribution or from sums standing to the credit of the share premium account of the Company.

(b) *Reasons for repurchases*

The Directors believe that it is in the best interest of the Company and its shareholders for the Directors to have general authority from the shareholders to enable the Company to repurchase Shares in the market. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value per Share and/or earnings per Share and will only be made if the Directors believe that such repurchases will benefit the Company and its shareholders.

(c) *Funding of repurchases*

In repurchasing securities, the Company may only apply funds legally available for such purpose in accordance with its bye-laws, the Listing Rules and the applicable laws of Bermuda.

On the basis of the current financial position of the Group as disclosed in this prospectus and taking into account the current working capital position of the Group, the Directors consider that, if the Repurchase Mandate were to be exercised in full, it might have a material adverse effect on the working capital and/or the gearing position of the Group as compared with the position disclosed in this prospectus. However, the Directors do not propose to exercise the Repurchase Mandate to such an extent as would, in the circumstances, have a material adverse effect on the working capital requirements of the Group or the gearing levels which in the opinion of the Directors are from time to time appropriate for the Group.

The exercise in full of the Repurchase Mandate, assuming that the Over-allotment Option is not exercised at all and on the basis of 200 million Shares in issue immediately after the listing of the Shares, would result in up to 20 million Shares being repurchased by the Company during the period in which the Repurchase Mandate remains in force.

Assuming that all the Shares under the Over-allotment Option are allotted and issued and on the basis of 207,500,000 Shares in issue immediately after the exercise of the Over-allotment Option, the exercise in full of the Repurchase Mandate would result in up to 20,750,000 Shares repurchased by the Company during the same period.

(d) *General*

None of the Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their associates currently intends to sell any Shares to the Company or its subsidiaries.

The Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the Listing Rules and the applicable laws of Bermuda.

If, as a result of a securities repurchase, a shareholder's proportionate interest in the voting rights of the Company is increased, such increase will be treated as an acquisition for the purpose of the Hong Kong Code on Takeovers and Mergers (the "Takeovers Code"). Accordingly, a shareholder or a group of shareholders acting in concert could obtain or consolidate control of the Company and become obliged to make a mandatory offer in accordance with rule 26 of the Takeovers Code. Save as aforesaid, the Directors are not aware of any consequences which would arise under the Takeovers Code as a consequence of any repurchases pursuant to the Repurchase Mandate.

No connected person (as defined in the Listing Rules) has notified the Company that he has a present intention to sell Shares to the Company, or has undertaken not to do so if the Repurchase Mandate is exercised.

8. Registration under Part XI of the Companies Ordinance

The Company has established its head office and a principal place of business in Hong Kong for the purpose of registration under Part XI of the Companies Ordinance at 7th Floor, New Trend Centre, 704 Prince Edward Road East, San Po Kong, Kowloon, Hong Kong. The address for service of process and notices of the Company is the same as its said principal place of business in Hong Kong. On 6th March, 2001, the Company was registered as an overseas company under Part XI of the Companies Ordinance. The application contains a notice of appointment of Mr. Hung and Ms. Yeung Man Yi, Beryl, both being Directors, as agents of the Company for the acceptance of service of process and notices in Hong Kong.

FURTHER INFORMATION ABOUT THE BUSINESS

9. Summary of 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) an agreement dated 18th April, 2001 and made between (i) M2B Holding Limited, Bestmark Management Limited and Mr. Hung Ying Fung as vendors; (ii) Mr. Hung, Ms. Yeung Man Yi, Beryl and Mr. Yeung Kwok Leung, Allix as warrantors; and (iii) the Company as purchaser for the acquisition by the Company of the entire issued share capital of Mobicon (BVI) Limited in consideration of (aa) the allotment and issue, credited as fully paid, of an aggregate of 1,000,000 Shares, as to 600,000 Shares to M2B Holding Limited, 200,000 Shares to Bestmark Management Limited and 200,000 Shares to Mr. Hung Ying Fung, and (bb) the crediting as fully paid at par the 1,000,000 nil-paid Shares allotted and issued on 30th January, 2001;

- (b) a deed of indemnity dated 23rd April 2001 executed by M2B Holding Limited, Bestmark Management Limited, Mr. Hung, Ms. Yeung Man Yi, Beryl, Mr. Hung Ying Fung and Mr. Yeung Kwok Leung, Allix in favour of the Company and its present subsidiaries containing the indemnities in respect of estate duty and taxation referred to in paragraph 13 of this Appendix; and
- (c) the Underwriting Agreement.





10. Intellectual property rights of the Group

- (a) As at the Latest Practicable Date, the Group is the proprietor of the following trade mark/service mark registered in Hong Kong:

Trade mark/ service mark	Class	Registration number	Period of validity	Principal types of products covered
IC 博士 Master Shop	35	B15787 of 2000 (Note 1)	6th January, 2000 to 6th January, 2007	retailing services and wholesale distributorship services in the field of electronic equipment, computers, computer products and computer accessories
MOSP	9	02733 of 2001	15th July, 2000 to 15th July, 2007	electrical and electronic components, apparatus and instruments, batteries, switches, poly-fuses, reed contact switches, inductors and coils (electric) buzzers and magnetic transducers, microphones, thermistors, photo resistors, resistors, capacitors, light emitting diodes, photo transistors and photo diodes, emitting light displays, liquid crystals, ceramic resonators, crystal oscillators, ceramic filters, tantalum capacitors, transistors, integrated circuits, diodes, semiconductors; all included in Class 9
M, S@ki 私の良品	9	03413 of 2001 (Note 2)	27th April, 2000	digital cameras, computer cables, computer keyboards, computer graphic cards, computer mouses, computer motherboards, solid ink cartridges (empty) for computer printers, random access memory modules, CD Roms, floppy disk drives, digital versatile discs, compact disc rewritable compact discs and computer and electronic products; all included in class 9

Notes:

- (1) As at the Latest Practicable Date, the trade mark was registered in the name of MESC. Under the business transfer agreement referred to in paragraph 4(a) of this Appendix, the trade mark was agreed to be transferred to MHL and with effect from 1st November, 2000 has been held on trust by MESC for the benefit of MHL. Assignment of the trade mark from MESC to MHL was executed on 6th April, 2001 and the application for registration of the assignment was lodged with the relevant authority on 7th April, 2001. The Directors consider that there would not be any material impediment which would affect the registration of the assignment.
- (2) As at the Latest Practicable Date, the trademark was registered in the name of MESC. Under the business transfer agreement referred to in paragraph 4(a) of this Appendix, the trademark was agreed to be transferred to MHL and with effect from 1st November, 2000 has been held on trust by MESC for the benefit of MHL. Assignment of the trademark from MESC to MHL was executed on 6th April, 2001 and the application for registration of the assignment was lodged with the relevant authority on 9th April, 2001. The Directors consider that there would not be any material impediment which would affect the registration of the assignment.
- (b) As at the Latest Practicable Date, the Group has applied for registration in Hong Kong of the following trade mark(s)/service mark(s), the registration of which is still subject to the approval of the Intellectual Property Department of Hong Kong:

Trade mark	Class	Application number (Note 1)	Application date	Principal types of products covered
	35	22766 of 2000	12th October, 2000	wholesale distributorship services and retailing services in the field of electronic components; all included in Class 35
				
	35	26384 of 2000	5th December, 2000	wholesale distributorship services and retailing services in the field of electronic components, computers, computer products and computer accessories
	9	05883 of 1994 (Note 2)	26th May, 1994	crystal resonators; crystal oscillators; ceramic resonators; ceramicalters; monolithic multilayers ceramic capacitors; capacitors, relays; connectors; crystal filters

Notes:

- (1) As at the Latest Practicable Date, applications for registration of the respective trade marks and service marks were made by MESC. Under the business transfer agreement referred to in paragraph 4(a) of this Appendix, these trade and service marks were agreed to be transferred to MHL and with effect from 1st November, 2000, have been held on trust by MESC for the benefit of MHL. Assignments of the respective trade and service marks from MESC to MHL were all executed on 6th April, 2001 and the applications for registration of all the assignments were lodged with the relevant authority on 7th and 9th April, 2001, respectively. The Directors consider that there would not be any material impediment which would affect the registration of the assignments.
- (2) The application is currently under opposition. The Group's counter-statement was filed with the Trade Marks Registry on 15th May, 1998 and evidence by way of statutory declaration given by the parties was exchanged. The date of hearing of the opposition case has not yet been fixed. The Directors have been advised by the relevant trade marks agent that it was uncertain whether the opposition could be overcome.

- (c) As at the Latest Practicable Date, MESC has applied for registration in the PRC of the following trademark, the registration of which is still subject to the approval of the Trademark Bureau of the PRC:

Trade mark	Class	Filing number	Application date	Principal types of products covered
MEC	9	960035433 (Notes)	7th March, 1996	ceramic filters, ceramic resonators, crystal (frequency) stabilizers, chip-control oscillators; resistor network

Notes:

- (1) The application was under opposition. The Group filed its counter-statements in the PRC on 17th December, 1999 through its trademark agent in the PRC. The State Administration for Industry and Commerce of the PRC delivered its decision in favour of the Group on 8th March, 2001. According to the Trade Mark Law in the PRC, the opposing party may within the prescribed period from the date of the decision apply for a review of the decision. As at the Latest Practicable Date, the Group awaited the advice from its PRC trademark agent as to whether any application for review was filed by the opponent.
- (2) As at the Latest Practicable Date, application for registration of the trademark was made by MESC. Under the business transfer agreement referred to in paragraph 4(a) of this Appendix, the trademark was agreed to be transferred to MHL and with effect from 1st November, 2000 has been held on trust by MESC for the benefit of MHL. Assignment of the trademark from MESC to MHL was executed on 18th April, 2001.

As at the Latest Practicable Date, the Directors confirm that for those products sold under the Group's own brand names, they were sold under the brand names of either "MOSP" or "MEC". Save for the "MOSP", "MEC" and "IC Master 博士 shop" marks, the Group did not use any of the other trade marks referred to in this paragraph 10 during the three years ended 31st March, 2000 and the seven months ended 31st October, 2000 but intends to use them for the future expansion of the Group's business.

- (d) As at the Latest Practicable Date, the Group is the owner of the following domain names:

Domain name	Date of registration
mobicon.com	9th February, 1996
mobicon.com.hk	6th February, 1996
icmaster.com.hk	17th January, 2000
pcoffice.com.hk	8th January, 2001
pcusers.com.hk	22nd December, 1999
pcuser.com.hk	22nd December, 1996
mtec.com.hk	11th August, 1999

FURTHER INFORMATION ABOUT DIRECTORS, MANAGEMENT, STAFF AND EXPERTS

11. Disclosure of interests

- (a) *Disclosure of interests of the Directors and experts*
- (i) Each of Mr. Hung, Ms. Yeung Man Yi, Beryl, Mr. Hung Ying Fung and Mr. Yeung Kwok Leung, Allix is interested in the corporate reorganisation referred to under paragraph 4 of this Appendix.

- (ii) Each of Mr. John Charles Ross Collis and Mr. Anthony Devon Whaley, who is the Company's Bermuda resident representative and deputy resident representative respectively, is a partner of Conyers Dill & Pearman, the Company's legal advisers on Bermuda law, which firm will receive normal professional fees in connection with the incorporation of the Company and the Share Offer. Mr. Ira Stuart Outerbridge III, the joint secretary of the Company, who will resign as secretary of the Company immediately after the listing of the Shares on the Stock Exchange, is an employee of Codan Services Limited, a company affiliated with Conyers Dill & Pearman.

(b) *Particulars of service contracts*

Each of Mr. Hung, Ms. Yeung Man Yi, Beryl, Mr. Hung Ying Fung and Mr. Yeung Kwok Leung, Allix, being all the executive Directors, has entered into a service contract with the Company for an initial fixed term of three years commencing from 1st April, 2001, and will continue thereafter until terminated by not less than three months' notice in writing served by either party on the other, which notice shall not expire until after the fixed term. Each of these executive Directors is entitled to the respective basic salary set out below (subject to an annual increment on 1st January of each calendar year after 31st December, 2001 at the discretion of the Directors of not more than 10% of the annual salary immediately prior to such increase). In addition, for the financial year ending 31st March, 2002 and each of the financial years thereafter, the executive Directors are also entitled to a discretionary bonus provided that the aggregate amount of the bonuses payable to all the executive Directors for any financial year of the Company may not exceed 5% of the audited consolidated or combined net profit of the Company (after taxation and minority interests and payment of such bonuses but excluding extraordinary and exceptional items) in respect of that financial year of the Company. An executive Director may not vote on any resolution of the Directors regarding the amount of the discretionary bonus payable to him or her. The current basic annual salaries of the executive Directors are as follows:

Name	Amount
Mr. Hung Kim Fung Measure	HK\$1,300,000
Ms. Yeung Man Yi, Beryl	HK\$1,300,000
Mr. Hung Ying Fung	HK\$845,000
Mr. Yeung Kwok Leung, Allix	HK\$845,000

Pursuant to the service contracts mentioned above, each of the executive Directors is entitled to an aggregate sum not exceeding HK\$50,000 as medical allowances and a motor car provided by the Company.

Save as aforesaid, none of the Directors has or is proposed to have a service contract with the Company or any of its subsidiaries (other than contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation)).

(c) *Directors remuneration*

- (i) During each of the two years ended 31st March, 2001, the aggregate emoluments paid by the Group to the Directors were approximately HK\$4,225,000 and HK\$4,255,000 respectively.
- (ii) Under the arrangements currently in force, the aggregate emoluments payable by the Group to the Directors for the year ending 31st March, 2002 are approximately HK\$4,338,000, assuming that there will not be any adjustment to the salaries of the Directors during such period. In the event that the salaries of the Directors will be increased by 10% with effect from 1st January, 2002 pursuant to the terms of the service contracts made between the Company and the respective executive Directors, the aggregate emoluments payable by the Group to the Directors for that year amount to approximately HK\$4,437,000.

- (iii) None of the Directors or any past directors of any member of the Group has been paid any sum of money for each of the three years ended 31st March, 2000 (i) as an inducement to join or upon joining the Company or (ii) for loss of office as a director of any member of the Group or of any other office in connection with the management of the affairs of any member of the Group.
- (iv) There has been no arrangement under which a Director has waived or agreed to waive any emoluments for each of the three years ended 31st March, 2000.
- (d) *Interests of Directors in the share capital of the Company and its associated corporations*
- (i) Immediately following the Share Offer and the Capitalisation Issue, the interests of the Directors in the share capital of the Company and its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance (Chapter 396 of the Laws of Hong Kong) (the “SDI Ordinance”)) which will have to be notified to the Company and the Stock Exchange pursuant to section 28 of the SDI Ordinance (including interests in which they are taken or deemed to have under section 31 of, or Part I of the Schedule to, the SDI Ordinance) once the Shares are listed or which will be required pursuant to section 29 of the SDI Ordinance to be entered in the register referred to therein, once the Shares are listed, or 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 once the Shares are listed will be as follows:

Director	Number of Shares				Total interest
	Corporate interest	Personal interest	Family interest	Other interests	
Mr. Hung Kim Fung Measure	–	–	–	90,000,000 (Note 1)	90,000,000
Ms. Yeung Man Yi Beryl	–	–	–	90,000,000 (Note 1)	90,000,000
Mr. Hung Ying Fung	–	30,000,000	–	–	30,000,000
Mr. Yeung Kwok Leung Allix	–	–	–	30,000,000 (Note 2)	30,000,000

Notes:

- These Shares are held by M2B Holding Limited, a wholly-owned subsidiary of Action 2 Limited which, in turn, is wholly and beneficially owned by Mr. Hung Kim Fung Measure and Ms. Yeung Man Yi, Beryl. Action 2 Limited is the trustee of Beryl Unit Trust set up by its shareholders. The assets of Beryl Unit Trust include/comprise the entire issued share capital of M2B Holding Limited, which are ultimately held by Trident Trust Company (Cayman) Limited as trustee for the benefit and upon trust for the Measure & Beryl Trust, which is a discretionary trust.

2. These Shares are held by Bestmark Management Limited, a wholly-owned subsidiary of Holford Group Corporation which, in turn, is wholly and beneficially owned by Mr. Yeung Kwok Leung, Allix and his spouse, Ms. Wan Lam Keng. Holford Group Corporation is the trustee of A&W Unit Trust set up by its shareholders. The assets of A&W Unit Trust include/comprise the entire issued share capital of Bestmark Management Limited, which are ultimately held by Trident Trust Company (Cayman) Limited as trustee for the benefit and upon trust for the Trinity Trust, which is a discretionary trust.
- (ii) Each of Mr. Hung, Ms. Yeung Man Yi, Beryl, Mr. Hung Ying Fung and Mr. Yeung Kwok Leung, Allix have beneficial interests in their personal capacity in the following number of non-voting deferred shares in A Plus:

Name	Number of non-voting deferred shares
Mr. Hung Kim Fung Measure	300,000 shares of HK\$1.00 each
Ms. Yeung Man Yi Beryl	300,000 shares of HK\$1.00 each
Mr. Hung Ying Fung	200,000 shares of HK\$1.00 each
Mr. Yeung Kwok Leung Allix	200,000 shares of HK\$1.00 each

The rights and restrictions attaching to such non-voting deferred shares are set out in paragraph 6 of this Appendix.

(e) Personal/corporate guarantees

As the banking facilities of the Group were terminated at the close of business on 28th February, 2001, the relevant banks and financial institutions to which certain executive Directors or other guarantors have provided personal guarantees and mortgages to secure the Group's banking facilities had released the mortgage over a real estate property owned by Mr. Hung and Ms. Yeung Man Yi, Beryl and personal guarantees provided by certain Directors.

(f) Agency fees or commissions received

The Underwriters will receive a commission of 2.5% of the Issue Price per Offer Share in respect of all the Offer Shares, out of which they will pay any sub-underwriting commissions and selling concessions. The Sponsor will also receive a documentation fee. Such commissions, selling concessions, documentation fees and expenses, together with the Stock Exchange listing fees, legal and other professional fees, and printing and other expenses relating to the Share Offer, which are estimated to amount in aggregate to approximately HK\$10 million, will be payable by the Company.

(g) Substantial shareholders

So far as the Directors are aware, immediately following the Share Offer and the Capitalisation Issue (but without taking account Shares which may be taken up under the Share Offer and Shares falling to be allotted and issued upon exercise of the Over-allotment Option), the following persons will be interested in more than 10% or more of the voting power at any general meeting of the Company:

Name	Number of Shares	Approximate percentage of issued Shares
M2B Holding Limited (<i>Note 1</i>)	90,000,000	45%
Bestmark Management Limited (<i>Note 2</i>)	30,000,000	15%
Mr. Hung Ying Fung	30,000,000	15%

Notes:

1. These Shares are held by M2B Holding Limited, a wholly-owned subsidiary of Action 2 Limited which, in turn, is wholly and beneficially owned by Mr. Hung Kim Fung Measure and Ms. Yeung Man Yi, Beryl. Action 2 Limited is the trustee of Beryl Unit Trust set up by its shareholders. The assets of Beryl Unit Trust include/comprise the entire issued share capital of M2B Holding Limited, which are ultimately held by Trident Trust Company (Cayman) Limited as trustee for the benefit and upon trust for the Measure & Beryl Trust, which is a discretionary trust.
2. These Shares are held by Bestmark Management Limited, a wholly-owned subsidiary of Holford Group Corporation which, in turn, is wholly and beneficially owned by Mr. Yeung Kwok Leung, Allix and his spouse, Ms. Wan Lam Keng. Holford Group Corporation is the trustee of A&W Unit Trust set up by its shareholders. The assets of A&W Unit Trust include/comprise the entire issued share capital of Bestmark Management Limited, which are ultimately held by Trident Trust Company (Cayman) Limited as trustee for the benefit and upon trust for the Trinity Trust, which is a discretionary trust.

(h) Related party transactions

During the two years preceding the date of this prospectus, the Group had engaged in dealings with certain Directors and their associates as described in:

- (a) note h to section 3 of the Accountants' Report set out in Appendix 1 to this prospectus;
- (b) paragraph 4 of this Appendix; and
- (c) the sub-section headed "Connected transactions" in the "Business" section of this prospectus.

(i) Disclaimers

Save as disclosed in this prospectus:

- (i) and taking no account of any Shares which may be taken up or acquired under the Share Offer or upon the exercise of any option which may be granted under the Share Option Scheme, the Directors are not aware of any person who immediately following the Share Offer will hold either directly or indirectly, or be beneficially interested in, Shares representing 10% or more of the share capital of the Company in issue and to be issued as mentioned in this prospectus;

- (ii) none of the Directors has for the purpose of section 28 of the SDI Ordinance or the Listing Rules, nor is any of them taken to or deemed to have under section 31 of, or Part 1 of the Schedule to, the SDI Ordinance, any interests in the securities of the Company or any associated corporations (within the meaning of the SDI Ordinance) or any interests which will have to be entered in the register to be kept by the Company pursuant to section 29 of the SDI Ordinance or which will be required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules once the Shares are listed on the Stock Exchange;
- (iii) save in particular as disclosed in paragraphs 4 and 11 of this Appendix and note h to section 3 of the Accountants' Report set out in Appendix 1, none of the Directors or the experts named in paragraph 18 of this Appendix has been interested in the promotion of, or has any direct or indirect interest in any assets acquired or disposed of by or leased to, any member of the Group, or which are proposed to be acquired or disposed of by or leased to any member of the Group nor will any Director apply for Shares either in his own name or in the name of a nominee;
- (iv) save in particular as disclosed in note h to section 3 of the Accountants' Report set out in Appendix 1 and paragraph 11 of this Appendix, no Director is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of the Group taken as a whole; and
- (v) none of the experts named in paragraph 18 of this Appendix has any shareholding in any company in the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any company in the Group.

12. Share option scheme

(a) *Summary of terms*

The following is a summary of the principal terms of the Share Option Scheme conditionally adopted by a resolution in writing passed by all shareholders of the Company on 18th April, 2001:

(i) Who may join

The Directors may, at their absolute discretion, invite any full time employee of the Company or any of its subsidiaries, including any executive director of the Company or any such subsidiary, to take up options to subscribe for Shares.

(ii) Price for Shares

The subscription price for Shares under the Share Option Scheme will be a price determined by the Directors, but may not be less than the higher of 80% of the average of the closing price of Shares on the Stock Exchange for the five trading days immediately preceding the date of the offer of grant of the option or the nominal value of the Shares. A nominal consideration of HK\$1 is payable on acceptance of the grant of an option.

(iii) Maximum number of Shares

(aa) The maximum number of Shares in respect of which options may be granted under the Share Option Scheme may not (when aggregated with Shares subject to any other employee share option scheme) exceed in nominal amount 10% of the issued share capital of the Company from time to time, excluding for this purpose Shares issued upon the exercise of any options granted under the Share Option Scheme (or any other employee share option scheme).

(bb) No option may be granted to any one person which, if exercised in full, will result in the total number of Shares already issued and which may fall to be issued to him under all the options previously granted to him pursuant to the Share Option Scheme exceeding 25% of the maximum aggregate number of Shares for the time being issued and which may fall to be issued under the Share Option Scheme.

(iv) Time of exercise of option

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period to be determined and notified by the Directors to each grantee. Such period may commence on a day after the date upon which the offer for the grant of options is made but shall end in any event not later than 10 years from the date of grant of the option subject to the provisions for early termination thereof.

(v) Rights are personal to grantee

An option is personal to a grantee and shall not be transferable or assignable save as provided under the rules of the Share Option Scheme.

(vi) Rights on cessation of employment

If a grantee of an option ceases to be an eligible employee of the Group for any reason other than death, ill-health or retirement in accordance with his contract of employment or for serious misconduct or other grounds referred to in item (viii) below before exercising his option in full, the option (to the extent not already exercised) will lapse on the date of cessation and will not be exercisable unless the Directors otherwise determine in which event the grantee may exercise the option (to the extent not already exercised) in whole or in part within such period as the Directors may determine following the date of such cessation, which will be taken to be the last day on which the grantee was at work with the Group whether salary is paid in lieu of notice or not.

(vii) Rights on death, ill-health or retirement

If a grantee of an option ceases to be an eligible employee of the Group by reason of his death, ill-health or retirement in accordance with his contract of employment before exercising the option in full, his personal representative(s), or, as appropriate, the grantee may exercise the option (to the extent not already exercised) in whole or in part within a period of 12 months following the date of cessation which date shall be the last day on which the grantee was at work with the Group whether salary is paid in lieu of notice or not or such longer period as the Directors may determine.

(viii) Rights on dismissal

If a grantee of an option ceases to be an eligible employee of the Group by reason that he has been guilty of serious misconduct or has committed any act of bankruptcy or has become insolvent or has made any arrangements or composition with his creditors generally, or has been convicted of any criminal offence (other than an offence which in the opinion of the Directors does not bring the grantee or the Company into disrepute), his option will lapse automatically and will not in any event be exercisable on or after the date of cessation to be an eligible employee.

(ix) Effect of alterations to capital

In the event of any alteration in the capital structure of the Company (other than a capitalisation issue) whilst an option remains exercisable, such corresponding alterations (if any) certified by the auditors in writing for the time being of the Company as fair and reasonable will be made to the number or nominal amount of Shares the subject matter of the Share Option Scheme and the option so far as unexercised and/or the option price and/or the method of exercise of the option concerned, provided that such alteration will be made on the basis that the aggregate subscription price payable by the grantee upon the full exercise of any option shall remain as nearly as possible the same (but shall not be greater than) as it was before such event but so that no alteration shall be made the effect of which would be to enable a Share to be issued at less than its nominal value or to increase the proportion of the issued share capital of the Company for which any grantee is entitled to subscribe pursuant to the option granted to him immediately prior to such alteration.

(x) Rights on a general offer or scheme of arrangement

If a general or partial offer, whether by way of take-over offer, share repurchase offer, or scheme of arrangement or otherwise in like manner is made to all the holders of Shares, or all such holders other than the offeror and/or any person controlled by the offeror and/or any person acting in association or concert with the offeror, the Company shall use all reasonable endeavours to procure that such offer is extended to all the grantees on the same terms, *mutatis mutandis*, and assuming that they will become, by the exercise in full of the options granted to them, shareholders of the Company. If such offer becomes or is declared unconditional, a grantee shall be entitled to exercise his option (to the extent not already exercised) to its full extent or to the extent specified in the grantee's notice to the Company in exercise of his option at any time before the close of such offer (or any revised offer). Subject to the above, an option will lapse automatically (to the extent not exercised) on the date on which such offer (or, as the case may be, revised offer) closes.

(xi) Rights on winding up

In the event a notice is given by the Company to its members to convene a general meeting for the purposes of considering and, if thought fit, approving a resolution to wind up voluntarily the Company, the Company shall on the same date as or soon after it despatches such notice to each member of the Company give notice thereof to all grantees and thereupon, each grantee shall be entitled to exercise all or any of his options (to the extent not already exercised) at any time not later than two business days prior to the proposed general meeting of the Company by giving notice in writing to the Company, accompanied by a remittance for the full amount of the aggregate subscription price for the Shares in respect of which the notice is given whereupon the Company shall as soon as possible and, in any event, no later than the business day immediately prior to the date of the proposed general meeting referred to above, allot the relevant Shares to the grantee credited as fully paid.

(xii) Ranking of Shares

Shares allotted upon the exercise of an option will be subject to all the provisions of the bye-laws of the Company and will rank *pari passu* in all respects with the fully paid Shares in issue on the date on which the option is duly exercised (the “Exercise Date”) and accordingly will entitle the holders thereof to participate in all dividends or other distributions paid or made on or after the Exercise 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 Exercise Date. A Share allotted upon the exercise of an option shall not carry voting rights until the completion of the registration of the grantee as the holder thereof.

(xiii) Period of the Share Option Scheme

The Share Option Scheme will remain in force for a period of 10 years commencing on the date on which the Share Option Scheme becomes unconditional.

(xiv) Alterations to terms and conditions

Any alterations to the terms and conditions of the Share Option Scheme which are of a material nature must be approved by the shareholders in general meeting and the Stock Exchange, except where the alterations take effect automatically under the existing terms of the Share Option Scheme. The terms and conditions of the Share Option Scheme shall not be altered to the advantage of eligible employees of the Group without the prior approval of the shareholders of the Company in general meeting.

(xv) General

Unless the context otherwise requires, references to “Shares” in this paragraph 11 include references to shares in the ordinary equity share capital of the Company of such nominal amount as shall result from a sub-division, consolidation, re-classification or reduction of the share capital of the Company from time to time.

(b) *Present status of the Share Option Scheme*

(i) Approval of the Listing Committee required

The Share Option Scheme is conditional on the Listing Committee of the Stock Exchange granting approval of such scheme, the subsequent grant of options by the Company pursuant thereto and listing of and permission to deal in the Shares to be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme.

(ii) Application for approval

Application has been made to the Listing Committee of the Stock Exchange for the approval of the Share Option Scheme, the subsequent grant of options under the Share Option Scheme and the listing of and permission to deal in the Shares to be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme.

(iii) Grant of option

As at the date of this prospectus, no options have been granted or agreed to be granted under the Share Option Scheme.

OTHER INFORMATION

13. Estate duty and tax indemnity

Each of M2B Holding Limited, Bestmark Management Limited, Mr. Hung, Ms. Yeung Man Yi, Beryl, Mr. Hung Ying Fung and Mr. Yeung Kwok Leung, Allix (together, the "Indemnifiers") entered into a deed of indemnity with and in favour of the Company (for itself and as trustee for each of its present subsidiaries) (being the material contract (b) referred to in paragraph 9 of this Appendix) to provide indemnities on a joint and several basis in respect of, among other matters, any liability for Hong Kong estate duty which might be incurred by any member of the Group by reason of any transfer of property (within the meaning of section 35 of the Estate Duty Ordinance) to any member of the Group on or before the date on which the New Issue becomes unconditional. The Directors have been advised that no material liability for estate duty is likely to fall on the Company or any of its subsidiaries in the Cayman Islands.

Under the deed of indemnity, the Indemnifiers have also given indemnities to the Group on a joint and several basis in relation to taxation which might be payable by any member of the Group in respect of any income, profits or gains earned, accrued or received on or before the date on which the New Issue becomes unconditional.

The deed of indemnity does not cover any claim and the Indemnifiers shall be under no liability under the deed in respect of any taxation:

- (a) to the extent that provision has been made for such taxation in the combined audited accounts of the Company for each of the three years ended 31st March, 2000 and for the seven months ended 31st October, 2000;

- (b) which would not have arisen but for any act or omission by any members of the Group voluntarily effected without the prior written consent or agreement of the Indemnifiers, otherwise than in the ordinary course of business after the date of the deed of indemnity;
- (c) to the extent that such claim arises or is incurred as a result of the imposition of taxation as a consequence of any retrospective change in the law or the interpretation or practice thereof by the Hong Kong Inland Revenue Department or any other relevant authority coming into force after the date of the deed of indemnity or to the extent such claim arises or is increased by an increase in rates of taxation after the date of the deed of indemnity with retrospective effect; and
- (d) to the extent that any provision or reserve made for taxation in the combined audited accounts of the Company up to 31st October, 2000 which is finally established to be an over-provision or an excessive reserve in which case the Indemnifiers' liability (if any) in respect of such taxation shall be reduced by an amount not exceeding such provision or reserve, provided that such over provision or excessive reserve applied referred to in this item (d) to reduce the Indemnifiers' liability in respect of taxation shall not be available in respect of any such liability arising thereafter.

14. Litigation

Neither the Company nor any of its subsidiaries 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 the Company or any of its subsidiaries.

15. Sponsor

The Sponsor has made an application on behalf of the Company to the Listing Committee for the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus, and Shares which may fall to be issued upon the exercise of options which may be granted under the Share Option Scheme.

16. Preliminary expenses

The estimated preliminary expenses of the Company are approximately US\$4,000 (equivalent to about HK\$31,120) and are payable by the Company.

17. Promoter

- (a) The promoter of the Company is Mr. Hung.
- (b) Save as disclosed herein, within the two years preceding the date of this prospectus, no amount or benefit has been paid or given to the promoter named in sub-paragraph (a) above in connection with the Share Offer or the related transactions described in this prospectus.

18. Qualifications of experts

The qualifications of the experts who have given opinions and/or whose names are included in this prospectus are as follows:

Name	Qualification
Oriental Patron	Registered investment adviser and securities dealer under the Securities Ordinance
Arthur Andersen & Co	Certified Public Accountants
DTZ Debenham Tie Leung Limited	Professional property surveyors and valuers
Conyers Dill & Pearman	Bermuda barristers and attorneys
Guangzhou Foreign Economic Law Office	Licensed legal advisers on PRC securities law

19. Consents of experts

Oriental Patron, Arthur Andersen & Co, DTZ Debenham Tie Leung Limited, Conyers Dill & Pearman and Guangzhou Foreign Economic Law Office have given and have not withdrawn their respective written consents to the issue of this prospectus with copies of their reports, valuation, letters or opinions (as the case may be) and the references to their names or summaries of opinions included in this prospectus in the form and context in which they respectively appear.

20. Binding Effect

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

21. Taxation of holders of Shares*(a) Hong Kong*

Dealings in Shares registered on the Company's Hong Kong branch register of members will be subject to Hong Kong stamp duty, the current rate of which is \$2.25 for every \$1,000 (or part thereof) of the consideration or, if higher, the fair value of the Shares being sold or transferred.

Profits from dealings in the Shares arising in or derived from Hong Kong may also be subject to Hong Kong profits tax.

The Shares are Hong Kong property for the purposes of the Estate Duty Ordinance (Chapter 111 of the Laws of Hong Kong) and, accordingly, Hong Kong estate duty may be payable in respect thereof on the death of an owner of Shares.

(b) *Bermuda*

Under present Bermuda law, transfers and other dispositions of Shares are exempt from Bermuda stamp duty.

(c) *Consultation with professional advisers*

Intending holders of Shares are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of or dealing in Shares or exercising any rights attached to them. It is emphasised that none of the Company, the Directors or the other parties involved in the Share Offer can accept responsibility for any tax effect on, or liabilities of, holders of Shares resulting from their subscription for, purchase, holding or disposal of or dealing in Shares or exercising any rights attached to them.

22. Share registration

Subject to the provisions of the Companies Act, the register of members of the Company will be maintained in Bermuda by Butterfield Corporate Services Limited and a branch register of members of the Company will be maintained in Hong Kong by Hong Kong Registrars Limited. Unless the Directors otherwise agree, all transfers and other documents of title of Shares for purposes of trading on the Hong Kong Stock Exchange must be lodged for registration with and registered by, the Company's share registrar in Hong Kong and may not be lodged in Bermuda.

23. Miscellaneous

Save as disclosed herein:

- (i) within two years preceding the date of this prospectus:
 - (aa) no share or loan capital of the Company or of any of its subsidiaries has been issued, agreed to be issued or is proposed to be issued fully or partly paid either for cash or for a consideration other than cash; and
 - (bb) no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any share or loan capital of the Company or any of its subsidiaries;
- (ii) no share or loan capital of the Company or any of its subsidiaries is under option or is agreed conditionally or unconditionally to be put under option; and
- (iii) the Directors confirm that there has been no material adverse change in the financial or trading position or prospects of the Group since 31st October, 2000 (being the date to which the latest audited pro forma combined financial statements of the Group were made up).

DOCUMENTS DELIVERED TO THE REGISTRARS OF COMPANIES

The documents attached to the copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration were copies of the **WHITE** and **YELLOW** application forms, the written consents referred to in the paragraph headed “Consents of experts” in Appendix 5 to this prospectus, a statement of adjustments made by Arthur Andersen & Co in arriving at the figures set out in their accountants’ report and their reasons therefor, and copies of the material contracts referred to in the paragraph headed “Summary of material contracts” in Appendix 5 to this prospectus. The copy of this prospectus filed with the Registrar of Companies in Bermuda had attached to it copies of the **WHITE** and **YELLOW** application forms.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the offices of Chiu & Partners at 41st Floor, Jardine House, 1 Connaught Place, Hong Kong during normal business hours up to and including 8th May, 2001:

- (a) the Memorandum of Association and Bye-laws of the Company;
- (b) the accountants’ report prepared by Arthur Andersen & Co, the text of which is set out in Appendix 1 to this prospectus and the related statement of adjustments;
- (c) such audited financial statements for each of the companies comprising the Group for each of the three years ended 31st March, 2000 and the seven months ended 31st October, 2000 (or for the period since their respective dates of incorporation to 31st October, 2000 where it is shorter);
- (d) the letters relating to the profit estimate, the texts of which are set out in Appendix 2 to this prospectus;
- (e) the letter, summary of valuations and valuation certificate relating to the property interests of the Group, the texts of which are set out in Appendix 3 to this prospectus;
- (f) the letter of advice summarising certain aspects of Bermuda company law referred to in Appendix 4 to this prospectus;
- (g) the Companies Act;
- (h) the rules of the Share Option Scheme;
- (i) the material contracts referred to in the paragraph headed “Summary of material contracts” in Appendix 5 to this prospectus;
- (j) the service contracts referred to in the paragraph headed “Particulars of service contracts” in Appendix 5 to this prospectus; and
- (k) the written consents referred to the paragraph headed “Consents of experts” in Appendix 5 to this prospectus.