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

If you have sold all your shares in Kessel International Holdings Limited, you should at once hand this document and the accompanying form of proxy to the purchaser or to the bank, stockbroker or other agent through whom the sale was effected for transmission to the purchaser.

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**KESSEL INTERNATIONAL HOLDINGS LIMITED**

佳信科技集團有限公司\*

(Provisional Liquidators Appointed)

(Incorporated in Bermuda with limited liability)



**YUE FUNG INTERNATIONAL GROUP HOLDING LIMITED**

裕豐國際集團控股有限公司\*

(Incorporated in Bermuda with limited liability)

**RESTRUCTURING OF  
KESSEL INTERNATIONAL HOLDINGS LIMITED  
(Provisional Liquidators Appointed)  
INVOLVING, INTER ALIA, CAPITAL RESTRUCTURING,  
DEBT RESTRUCTURING THAT INVOLVES CREDITORS' SCHEMES,  
SUBSCRIPTION FOR NEW SHARES AND  
WHITEWASH WAIVER  
AND OTHER PROPOSALS REGARDING  
ISSUE OF CONVERTIBLE NOTES,  
ADOPTION OF A SHARE OPTION SCHEME, CHANGE OF COMPANY'S NAME  
AND GENERAL MANDATE TO ISSUE SHARES**

**Arranger and Manager of the  
Restructuring Proposal**



**KPMG Corporate Finance Limited**

**Independent financial adviser to the Independent Shareholders**

**Financial adviser to Yue Fung  
International Group Holding Limited**



**REXCAPITAL (Hong Kong) Limited**

  
**CAPITAL  
CSC Asia Limited**

A letter from CSC Asia Limited, the independent financial adviser to the Independent Shareholders, containing its recommendations to the Independent Shareholders, is set out on pages 29 to 41 of this document.

A notice convening the Special General Meeting to be held at 10:00 a.m. on Monday, 12 August 2002 at Auditorium, 1st Floor, Duke of Windsor Social Service Building, 15 Hennessy Road, Wanchai, Hong Kong is set out on pages 120 to 125 of this document. A form of proxy for use at the Special General Meeting is enclosed. Regardless of whether you intend to attend the Special General Meeting, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the Special General Meeting or any adjournment thereof. Delivery of a form of proxy will not preclude you from attending and voting in person at the Special General Meeting or any adjourned Special General Meeting should you so desire.

\* for identification purposes only

19 July 2002

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## DEFINITIONS

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

“\$” and “cents”	Hong Kong dollars and cents, the lawful currency of Hong Kong
“associate(s)”	has the meaning ascribed thereto under the Listing Rules
“ACDG”	Agenda Computing (Deutschland) GmbH (in liquidation), a company incorporated in Germany and an indirect wholly owned subsidiary of the Company
“Authorised Share Capital Increase”	the increase of the authorised share capital of the Company from \$875,000 to \$40,000,000 divided into 40,000,000,000 New Shares immediately upon the Share Subdivision becoming effective
“Bermuda Scheme”	the scheme of arrangement under section 99 of the Companies Act to be entered into between the Company and the Kessel Creditors, with or subject to any modification thereof or addition thereto or condition approved or imposed by the Bermuda Court
“Bermuda Court”	the Supreme Court of Bermuda
“Board”	the board of Directors
“Business Day”	a day (excluding Saturday) on which banks in Hong Kong are open for business for more than four hours
“Capital Reduction”	the reduction of the nominal value of each Consolidated Share of \$0.80 to \$0.007
“Capital Restructuring”	the Share Consolidation, the Capital Reduction, the Share Subdivision and the Authorised Share Capital Increase
“CCASS”	The Central Clearing and Settlement System established and operated by Hongkong Clearing
“Closing”	completion of the Restructuring Agreement
“Code”	the Hong Kong Code on Takeovers and Mergers
“Companies Act”	the Companies Act 1981 of Bermuda (as amended)
“Companies in Liquidation”	the subsidiaries of the Company which were put into voluntary liquidation prior to the Latest Practicable Date, namely, Kepo Display, Kessel Electronics (HK), Kessel Telecom, ACDG and KEG
“Companies Ordinance”	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong)

## DEFINITIONS

“Company”	Kessel International Holdings Limited (Provisional Liquidators Appointed), a company incorporated in Bermuda with limited liability, the securities of which are listed on the Stock Exchange
“Consolidated Share(s)”	new ordinary share(s) of \$0.80 each in the share capital of the Company upon the Share Consolidation becoming effective
“Conversion Shares”	the New Shares to be issued by the Company pursuant to the terms and conditions of the Convertible Notes
“Convertible Notes”	the convertible notes in an aggregate principal amount of \$30,000,000 due on the fifth anniversary of the date of its issue to be issued by the Company in denominations of \$500,000 each and to be subscribed for by Yue Fung and Simply Noble in equal proportion
“Courts”	the Bermuda Court and the Hong Kong Court
“Creditors’ Meetings”	the meetings of the Kessel Creditors convened at the directions of the Hong Kong Court and the Bermuda Court, to consider and, if thought fit, approve the Creditors’ Schemes or any adjournment thereof
“Creditors’ Schemes”	the Bermuda Scheme and the HK Scheme
“CSC Asia”	CSC Asia Limited, an investment adviser registered under the Securities Ordinance (Chapter 333 of the Laws of Hong Kong), the independent financial adviser to the Independent Shareholders
“Debt Restructuring”	the proposed restructuring of debts of the Group under the Creditors’ Schemes and the Keview Compromise
“Director(s)”	director(s) of the Company
“DK Advances”	advances made by the Investor to Dongguan Kepo pursuant to the terms of the DK Loan Agreement
“DK Loan Agreement”	the facility letter entered into between Dongguan Kepo and the Investor on 4 April 2002, which sets out the terms of the loan facility provided by the Investor to Dongguan Kepo of up to \$35,000,000
“DK Subordination Agreement”	the subordination agreement entered into between Dongguan Kepo, the Investor, Keview and the Keview Provisional Liquidators on 4 April 2002
“Dongguan Kepo”	Dongguan Kepo Electronics Limited, a wholly foreign-owned enterprise established in the PRC, the sole shareholder of which is Keview

## DEFINITIONS

“Effective Date”	the date on which the Capital Restructuring becomes effective
“Eligible Participant”	means any employee, executive or officer of the Company or any of its subsidiaries (including executive, non-executive and independent non-executive directors of the Company or any of its subsidiaries) and any suppliers, consultants or advisers who have provided services to any member(s) of the Group
“Escrow Agent”	Allen & Overy
“Excess PRC Liabilities”	the positive amount being equal to the aggregate amount of valid liabilities of Dongguan Kepo (excluding claims of Keview) prior to the despatch of the Scheme Document minus the PRC Liabilities Threshold
“Executive”	the Executive Director of the Corporate Finance Division of the SFC or any delegate of the Executive Director
“Existing Share(s)”	as the context may require, existing issued and/or unissued share(s) of \$0.10 each in the capital of the Company
“Existing Share Option Scheme”	the share option scheme adopted by the Company on 2 September 1997 for the granting of share options to employees of the Group, including any executive director of the Company or any of its subsidiaries
“First Announcement”	the joint announcement of the Company and Yue Fung dated 7 March 2002 in relation to the possible restructuring of the Company
“Fourth Announcement”	announcement to be made with respect to the Subscription Agreement and the Keview Compromise Agreement
“Group”	the Company and its consolidated subsidiaries
“Hong Kong Creditors”	the Kessel Creditors and the Keview Creditors
“Heads of Terms”	the heads of terms dated 4 March 2002 between the Provisional Liquidators, Keview, the Company and the Investor
“HK Creditors’ Portion”	the lesser of (i) the Subscription Proceeds, and (ii) in the event that Dongguan Kepo has Excess PRC Liabilities, the amount of the Subscription Proceeds available for distribution to the Companies’ Creditors reduced as described in the Letter from the Kessel Provisional Liquidators in this document

## DEFINITIONS

“Hong Kong Court”	the Court of First Instance of the High Court of Hong Kong
“HK Scheme”	the scheme of arrangement under section 166 of the Companies Ordinance to be entered into between the Company and the Kessel Creditors, with or subject to any modification thereof or addition thereto or condition approved or imposed by the Hong Kong Court
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Hongkong Clearing”	The Hong Kong Securities Clearing Company Limited
“HSBC”	The Hongkong and Shanghai Banking Corporation Limited
“HSBC Secured Balance”	the amount of the loan in the principal sum of \$2,250,000 and accrued interest owed to HSBC secured by a fixed and floating charge over the assets of Keview
“Independent Shareholders”	Shareholders who are not involved or interested in the Restructuring Proposal and parties acting in concert with any of them
“Investor”	A-Max (Asia) Limited, a company incorporated in the British Virgin Islands with limited liability, which is wholly and beneficially owned by Yue Fung
“KEG”	Kessel Electronics GmbH (in liquidation), a company incorporated in Germany and an indirect wholly owned subsidiary of the Company
“Kepo Display”	Kepo Display Technology Limited (in liquidation), a company incorporated in Hong Kong and an indirect wholly owned subsidiary of the Company
“Kessel BVI”	Kessel Electronics (BVI) Limited, a company incorporated in the British Virgin Islands and a wholly owned subsidiary of the Company
“Kessel Creditors”	the unsecured creditors of the Company
“Kessel Electronics (HK)”	Kessel Electronics (HK) Limited (in liquidation), a company incorporated in Hong Kong and an indirect wholly owned subsidiary of the Company
“Kessel II”	Kessel International Investments Limited, a company incorporated in the British Virgin Islands which is a wholly owned subsidiary of the Company

## DEFINITIONS

“Kessel Provisional Liquidators”	Messrs Gabriel Chi Kok Tam, Jacky Chung Wing Muk and Malcolm Butterfield, being joint and several provisional liquidators of the Company
“Kessel Telecom”	Kessel Telecom Limited (in liquidation), a company incorporated in Hong Kong and an indirect wholly owned subsidiary of the Company
“Kevew”	Kevew Technology (BVI) Limited (Provisional Liquidators Appointed), a company incorporated in the British Virgin Islands with limited liability and a wholly owned subsidiary of the Company
“Kevew Compromise”	the restructuring of the liabilities of Kevew contemplated under the Restructuring Agreement as described in the Letter from the Kessel Provisional Liquidators
“Kevew Compromise Agreement”	the compromise agreement to be entered into between Kevew, the Kevew Provisional Liquidators and the Kevew Creditors in relation to the Kevew Compromise
“Kevew Creditors”	the unsecured creditors of Kevew
“Kevew Provisional Liquidators”	Messrs Gabriel Chi Kok Tam and Jacky Chung Wing Muk, being joint and several provisional liquidators of Kevew
“Latest Practicable Date”	being 15 July 2002, which is the latest practicable date prior to the printing of this document for ascertaining certain information for inclusion in this document
“LCD”	liquid crystal display
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Long Stop Date”	31 October 2002 or such later date as the Investor and the Provisional Liquidators may agree in writing
“New Share(s)”	new ordinary share(s) of \$0.001 each in the share capital of the Company upon the Share Subdivision becoming effective
“New Share Option Scheme”	the share option scheme which is proposed to be adopted by the Company, further information and summary of the principal terms of which are set out in Appendix VI of this document
“PRC”	the People’s Republic of China which, for the purpose of this document, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“PRC Liabilities Threshold”	\$35,000,000

## DEFINITIONS

“Provisional Liquidators”	the Kessel Provisional Liquidators and the Keview Provisional Liquidators
“Proposed Directors”	the proposed directors of the Company to be nominated by the Investor at Closing
“Reduced Share(s)”	the ordinary share(s) of \$0.007 each in the capital of the Company created upon the Capital Reduction becoming effective
“Relevant Period”	the period that commenced from the date of the First Announcement and ended on the Latest Practicable Date
“Reorganisation Agreements”	together the Restructuring Agreement, the DK Loan Agreement, the DK Subordination Agreement, the Subscription Agreement and the Keview Compromise Agreement
“Restructuring Agreement”	the restructuring agreement entered into between the Company, Keview, the Provisional Liquidators, the Investor and the Escrow Agent on 4 April 2002
“Restructuring Proposal”	the proposed transactions contemplated under the Reorganisation Agreements, including the Capital Restructuring, the Subscription, the Debt Restructuring and the DK Advances
“Rexcapital”	REXCAPITAL (Hong Kong) Limited
“Scheme Administrators”	means such persons who are appointed as Scheme Administrators pursuant to the terms of the Creditors’ Schemes
“Scheme Document”	the explanatory statement and the schemes of arrangement dated 24 June 2002 despatched to the Kessel Creditors in relation to the Creditors’ Schemes
“SDI Ordinance”	Securities (Disclosure of Interests) Ordinance (Chapter 396 of the Laws of Hong Kong)
“Second Announcement”	the joint announcement of the Company and Yue Fung dated 25 April 2002 in relation to the Restructuring Agreement
“SFC”	Securities and Futures Commission
“Shares”	the Consolidated Shares, the Existing Shares, the New Shares or the Reduced Shares as the case may be
“Share Consolidation”	the consolidation of every eight Existing Shares into one Consolidated Share
“Shareholders”	the shareholders of the Company



## DEFINITIONS

“Share Subdivision”	the proposed subdivision of each issued and unissued Reduced Shares on the basis of one Reduced Share to be subdivided into seven New Shares
“Simply Noble”	Simply Noble Limited, a company incorporated in the British Virgin Islands with limited liability, and is ultimately and beneficially owned by the Simply Noble Trust. The Simply Noble Trust is a discretionary trust, the discretionary objects of which include Messrs. Lee Wing Kan, Li Wing Bun and Lee Wing Chan. Messrs. Lee Wing Kan, Li Wing Bun and Lee Wing Chan are brothers. Messrs. Lee Wing Kan and Lee Wing Chan are the directors of Yue Fung. Mr. Li Wing Bun is the business development manager of Yue Fung and chief executive officer of a subsidiary of Yue Fung
“Special General Meeting”	the special general meeting of the Company to be convened for the purpose of passing the relevant resolutions for the implementation of the transactions contemplated under the Restructuring Agreement and other proposals described in the Letter from the Kessel Provisional Liquidators
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription”	the proposed subscription for 10,000,000,000 New Shares by the Investor for an aggregate cash consideration of \$40,000,000
“Subscription Agreement”	the subscription agreement to be entered into between the Company, the Kessel Provisional Liquidators and the Investor in relation to the Subscription, the principal terms of which are described in the Letter from the Kessel Provision Liquidators
“Subscription Proceeds”	the cash consideration of \$40,000,000 payable in respect of the Subscription
“Third Announcement”	the joint announcement of the Company and Yue Fung dated 15 May 2002
“Whitewash Waiver”	a waiver by the Executive pursuant to Note 1 on dispensations from Rule 26 of the Code from the obligation of the Investor and parties acting in concert with it to make a general offer for all the shares of the Company not already owned or agreed to be acquired by them upon Closing
“Yue Fung”	Yue Fung International Group Holding Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on the Stock Exchange
“Yue Fung Group”	Yue Fung together with its subsidiaries

## EXPECTED TIMETABLE

**The following events are conditional on, amongst other things, the availability of the Hong Kong Court and the Bermuda Court. Further announcements will be made to update the Shareholders and potential investors as and when appropriate.**

### **In relation to the Restructuring Agreement**

*2002*

Creditors' Meetings .....	16 July
Bermuda Court hearing of petition to sanction the Bermuda Scheme .....	1 August
Hong Kong Court hearing of petition to sanction the HK Scheme .....	1 August
Latest time for lodging forms of proxy for the Special General Meeting .....	10:00 am on 10 August
Special General Meeting .....	10:00 am on 12 August
Announcement of results of the Special General Meeting .....	13 August
Closing .....	16 August
Announcement of Closing and the Creditors' Schemes becoming effective .....	19 August

### **In relation to the Capital Restructuring**

*2002*

Existing counter for trading in Existing Shares in board lots of 2,000 Existing Shares closes .....	19 August
Temporary counter for trading in New Shares in board lots of 1,750 New Shares (in the form of existing share certificates) opens .....	19 August
First day of free exchange of existing share certificates for new share certificates for New Shares .....	19 August
First day of operation of odd lot trading facility .....	19 August
Existing counter for trading in New Shares in board lots of 20,000 New Shares (in the form of new shares certificates) re-opens .....	2 September
Parallel trading in New Shares (in the form of new share certificates and existing share certificates) starts .....	2 September
Temporary counter for trading in New Shares in board lots of 1,750 New Shares (in the form of existing share certificates) closes .....	24 September
Parallel trading in New Shares (in the form of new share certificates and existing share certificates) ends .....	24 September

<b>EXPECTED TIMETABLE</b>
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Last day of operation of odd lot trading facility .....24 September

Free exchange of existing share certificates for new share  
certificates for New Shares ends .....26 September

# LETTER FROM THE KESSEL PROVISIONAL LIQUIDATORS

19 July 2002

*To the Shareholders,*

Dear Sirs,

**RESTRUCTURING OF  
KESSEL INTERNATIONAL HOLDINGS LIMITED  
(Provisional Liquidators Appointed)  
INVOLVING, INTER ALIA, CAPITAL RESTRUCTURING,  
DEBT RESTRUCTURING THAT INVOLVES CREDITORS' SCHEMES,  
SUBSCRIPTION FOR NEW SHARES AND  
WHITEWASH WAIVER,  
AND OTHER PROPOSALS REGARDING  
ISSUE OF CONVERTIBLE NOTES, ADOPTION OF  
A NEW SHARE OPTION SCHEME, CHANGE OF THE COMPANY'S NAME  
AND GENERAL MANDATE TO ISSUE NEW SHARES**

## **1. INTRODUCTION AND BACKGROUND**

The Company and Yue Fung jointly announced on 25 April 2002 that the Restructuring Agreement was entered into on 4 April 2002. This document provides, inter alia, further information in relation to the Restructuring Agreement for your information and consideration.

The Company was incorporated in Bermuda on 10 July 1997 and has been listed on the Stock Exchange since October 1997. As disclosed in the Company's prospectus and annual reports, it was principally engaged in the design, manufacture and sale of electronic hand-held consumer products at the time of listing and began to diversify into the production of telecommunication products in January 2000. The principal activities of the Group prior to the appointment of the Kevew Provisional Liquidators were the manufacture and sale of personal digital assistants, LCD modules, LCD panels and telecommunication products.

It was announced on 8 June 2001 that, owing to heavy investment in the two new product lines for LCD and telecommunication products, the Group's cash flow had been adversely affected and payments to trade creditors had been deferred. The Group started to receive statements of claim from some of its trade creditors in May 2001. At the request of the Company, trading of its Shares has been suspended since 2:30 p.m. on 23 May 2001.

In August 2001, the Company announced its results for the year ended 31 March 2001. Its gross profit decreased from approximately \$146 million for the preceding year to approximately \$43 million for the year ended 31 March 2001 (by approximately 71%). During that year, the Group recorded a loss for the first time since it was floated in 1997. The substantial loss of approximately \$138 million for that year wiped out approximately 71% of its accumulated profits (from approximately \$195 million to approximately \$57 million). These results compare adversely against the net profit of approximately \$33 million for the preceding year. The liquidity of the Group also deteriorated substantially. As at 31 March 2001, it had net current liabilities of approximately \$150 million as compared to net current assets of approximately \$3 million as at 31 March 2000. Its total net assets reduced from approximately \$274 million as at 31 March 2000 to approximately \$136 million as at 31 March 2001 (by approximately 50%). It breached a covenant regarding some of its banking facilities as at 31 March 2001.

## LETTER FROM THE KESSEL PROVISIONAL LIQUIDATORS

Following the deterioration of the financial position of the Group, the bank creditors of the Group discontinued all facilities previously granted to the Group. On 28 September 2001, the Company's principal trading subsidiaries, namely Kessel Telecom, Kessel Electronics (HK) and Kepo Display, were placed in voluntary liquidation. Mr. Kennic Lai Hang Lui and Ms. Lau Wu Kwai King, Lauren were appointed as joint and several liquidators to these subsidiaries on 24 October 2001.

On 5 October 2001, HSBC submitted a winding-up petition against Keview. Pursuant to an order of the Hong Kong Court, the Keview Provisional Liquidators were appointed to administer the assets and businesses of Keview with effect from 8 October 2001.

On 6 November 2001, Kessel BVI resolved that ACDG and KEG be placed into liquidation.

On 14 November 2001, HSBC also submitted a winding-up petition against the Company. Pursuant to an order of the Bermuda Court, the Kessel Provisional Liquidators were appointed to the Company with effect from 15 November 2001. The Kessel Provisional Liquidators have the responsibility to administer the assets and businesses of the Company. The Provisional Liquidators, assisted by KPMG Corporate Finance Limited, arranger and manager of the Restructuring Proposal, then invited interested investors to submit proposals to restructure the Company.

On 4 March 2002, the Company, acting by the Kessel Provisional Liquidators, granted an exclusive right to the Investor, for a period of one month from 5 March 2002, to consider a restructuring of the Company. On 4 April 2002, the Restructuring Agreement was entered into for the restructuring of the Company.

The purpose of this document is to provide you with further information in relation to the Restructuring Proposal, the intention of the Investor, the advice of the independent financial adviser, CSC Asia, to the Independent Shareholders, the Whitewash Waiver and the transactions contemplated thereunder, and to give you the notice of the Special General Meeting at which resolutions will be proposed to seek your approval of, amongst other things, the transactions contemplated under the Restructuring Agreement and other proposals as described in section 13 below. The notice of the Special General Meeting is set out on pages 120 to 125 of this document.

## **2. THE RESTRUCTURING PROPOSAL**

The Restructuring Proposal involves transactions contemplated under the Capital Restructuring, the Subscription, the Debt Restructuring and the DK Advances.

### **A. Capital Restructuring**

The existing authorised share capital of the Company is \$100,000,000 comprising 1,000,000,000 Existing Shares. The existing issued share capital of the Company is \$32,000,000 comprising 320,000,000 Existing Shares.

## LETTER FROM THE KESSEL PROVISIONAL LIQUIDATORS

In order to facilitate the Subscription, the Investor requested the implementation of the Capital Restructuring, which will involve the Share Consolidation, followed by the Capital Reduction, the Share Subdivision and the Authorised Share Capital Increase. Accordingly, the Company proposed that its capital be restructured as follows:–

*(i) Share Consolidation*

Every eight Existing Shares will be consolidated into one Consolidated Share. The issued share capital of the Company of \$32,000,000 comprising 320,000,000 Existing Shares will be consolidated into 40,000,000 Consolidated Shares.

*(ii) Capital Reduction*

The par value of each of the Consolidated Shares will be reduced by \$0.793 to \$0.007. The Company's issued share capital of \$32,000,000 comprising 40,000,000 Consolidated Shares will be reduced by \$31,720,000 to \$280,000 comprising 40,000,000 Reduced Shares. \$31,720,000 will be credited to the reserve account to write-off accumulated losses of the Group.

*(iii) Share Subdivision*

Immediately upon the Capital Reduction becoming effective, every Reduced Share will be subdivided into seven New Shares with a par value of \$0.001 each. The issued share capital of the Company of \$280,000 comprising 40,000,000 Reduced Shares will be subdivided into 280,000,000 New Shares.

With respect to the unissued Shares, every eight unissued Existing Shares shall be consolidated into one unissued Consolidated Share. As part of the Capital Reduction, the par value of each unissued Consolidated Share will be reduced to \$0.007. Such Reduced Share shall be subdivided into seven unissued New Shares.

*(iv) Authorised Share Capital Increase*

As a result of the Capital Reduction, part of the authorised but unissued share capital will be reduced to \$595,000 and after the Share Subdivision, the unissued share capital will comprise 595,000,000 New Shares. Immediately upon the Share Subdivision becoming effective, the Company's authorised share capital will be increased from \$875,000 (made up of 280,000,000 issued New Shares and 595,000,000 unissued New Shares) to \$40,000,000 divided into 40,000,000,000 New Shares. As a result, the new authorised share capital of the Company will comprise 280,000,000 issued New Shares and 39,720,000,000 unissued New Shares immediately upon the Capital Restructuring becoming effective, but prior to the Subscription.

Each of the Share Consolidation, the Capital Reduction, the Share Subdivision and the Authorised Share Capital Increase will be subject to the passing of the necessary resolutions by the Shareholders at the Special General Meeting and will become effective only immediately prior to Closing.

Details of the change in the share capital of the Company resulting from the Capital Restructuring are shown in Appendix I to this document.

# LETTER FROM THE KESSEL PROVISIONAL LIQUIDATORS

## **B. The Subscription**

Pursuant to the terms of the Subscription Agreement, the Investor has agreed to subscribe for 10,000,000,000 New Shares, representing approximately 97% of the enlarged issued share capital of the Company immediately upon Closing, at \$0.004 per New Share for an aggregate cash consideration of \$40,000,000.

The issue price of \$0.004 per New Share is (i) approximately 98.6% lower than the closing price immediately before the suspension of trading of the Existing Shares from 2:30 p.m. on 23 May 2001 (the "Closing Price") of \$0.28 per Existing Share; (ii) approximately 99.8% lower than the Closing Price of \$2.24 per Consolidated Share; and (iii) approximately 98.8% lower than the Closing Price of \$0.32 per New Share. The Investor has advised that it will fund the Subscription from its internal resources.

## **Use of Proceeds**

Pursuant to the Restructuring Agreement, if it had been agreed that the aggregate liabilities of Dongguan Kepo to its creditors (excluding Keview) prior to the despatch of the Scheme Document exceeded the PRC Liabilities Threshold of \$35 million, the Subscription Proceeds of \$40 million available for distribution to the Hong Kong Creditors would have been reduced on a dollar for dollar basis by an amount equal to the Excess PRC Liabilities.

If the valid liabilities of Dongguan Kepo (excluding amount due to Keview) prior to the despatch of the Scheme Document had exceeded the sum of the Subscription Proceeds and the PRC Liabilities Threshold (which aggregates to \$75 million), any party to the Restructuring Agreement (other than the Escrow Agent) would have been entitled to terminate the Restructuring Agreement. If the Restructuring Agreement had been terminated, the Restructuring Proposal would not have been implemented.

The aggregate liabilities of Dongguan Kepo to its creditors (excluding Keview) were approximately \$26 million prior to the despatch of the Scheme Document on 24 June 2002. The Subscription Proceeds of \$40 million (after deducting the costs and expenses of the Kessel Provisional Liquidators) will be applied to settle the claims of the Hong Kong Creditors as described in section 2(C) headed "Debt Restructuring" below.

All the debts of the restructured Group will be dealt with by ways of the Debt Restructuring and the DK Loan Advances.

## **Cost of Restructuring**

Pursuant to the Head of Terms and the Restructuring Agreement, the Investor has agreed to pay the costs and expenses of the Provisional Liquidators associated with the Restructuring Proposal of up to \$5,000,000. The Investor has also agreed to pay the costs and expenses of the Company in connection with the Restructuring Proposal. The costs and expenses of the Provisional Liquidators in connection with the Restructuring Proposal (which is estimated to be approximately \$5,000,000) and those of the Company (which is estimated to be approximately \$2,120,000) will be borne by the Investor and treated as loans by the Investor to the Company at Closing.

## LETTER FROM THE KESSEL PROVISIONAL LIQUIDATORS

### C. Debt Restructuring

The liabilities of the Group amounted to approximately \$471 million as at the Latest Practicable Date. These liabilities will be dealt with as described below.

#### (a) *Liabilities of the Company*

The liabilities of the Company will be restructured by way of the Creditors' Schemes. Upon the application by originating summons to the Hong Kong Court and the Bermuda Court dated 10 June 2002 and 17 June 2002 respectively of the Kessel Provisional Liquidators, the Courts ordered on 18 June 2002 that, *inter alia*, Creditors' Meetings be held at 10:00 a.m. on 16 July 2002 for the unsecured creditors of Kessel to consider and if thought fit, to approve the Creditors' Schemes. On 24 June 2002, notices of the Creditors' Meetings were published in newspapers in Hong Kong and Bermuda for the holding of the Creditors' Meetings at that time. At the Creditors' Meetings held on 16 July 2002, the requisite majorities of the unsecured creditors who were entitled to vote in relation to the Creditors' Schemes, voted in their favour. The unsecured creditors present in person or by proxy at the Creditors' Meetings who voted in favour of the Creditors' Schemes represented approximately 87.5% in number and approximately 94.1% by value of the Company's unsecured indebtedness. Application will be made to the Courts for the grant of orders sanctioning the Creditors' Schemes. In accordance with the laws of Bermuda and Hong Kong, the Creditors' Schemes will become effective and binding on all Kessel Creditors if, *inter alia*, a majority in number of the Kessel Creditors representing at least 75% in value of the total unsecured indebtedness of the Company votes in favour of the Creditors' Schemes at the requisite Creditors' Meetings, and court orders sanctioning the Creditors' Schemes are lodged with the relevant Registrars of Companies.

At Closing, \$31,300,000 out of the Subscription Proceeds will be transferred to the Scheme Administrators (or their nominee) to be applied in accordance with the Creditors' Schemes to settle, *inter alia*, the liabilities of the Kessel Creditors. Each Kessel Creditor will discharge and waive its claims against the Company in consideration of its right to participate in the funds available under the Creditors' Schemes. Subject to payment of the relevant costs and expenses, the funds in the Creditors' Schemes will be distributed to the Kessel Creditors in accordance with their respective entitlements. According to the terms of the Creditors' Schemes, the preferential claims will be paid in full, and other scheme creditors will be paid *pari passu* and rateably amongst themselves as determined by the scheme administrators of the Creditors' Schemes.

As at the Latest Practicable Date, the aggregate unsecured liabilities of the Company amounted to approximately \$228 million of which approximately \$0.6 million was owed to companies within the Group. The Company does not have any record of secured liabilities. The claims of the Kessel Creditors will be adjudicated by the Scheme Administrators in accordance with the provisions of the Creditors' Schemes.



## LETTER FROM THE KESSEL PROVISIONAL LIQUIDATORS

(b) *Liabilities of Keview*

(i) Liabilities to be discharged by the Investor at Closing

Subject to the terms of the Restructuring Agreement, the Investor has also agreed to reimburse the Keview Provisional Liquidators in full at Closing in respect of certain monies they have advanced to settle certain liabilities of Dongguan Kepo so as to avoid any possible damage that might have been caused by the pressing creditors of Dongguan Kepo. The principal amount so advanced amounted to approximately \$3,750,000, of which \$2,250,000 was advanced by HSBC and is secured on all assets of Keview and approximately \$1,500,000 arise from disposal of third party assets located at the factory. In consideration of the full settlement of the HSBC Secured Balance at Closing, HSBC will release its fixed and floating charge over the assets of Keview.

(ii) Unsecured liabilities of Keview

All Keview Creditors have agreed that \$8,700,000 out of the Subscription Proceeds (subject to payment of the relevant costs and expenses of the Keview Provisional Liquidators) will be applied to, inter alia, settle the claims of the Keview Creditors. Each Keview Creditor will discharge and waive its claims against Keview in consideration of the money received by it under the Keview Compromise.

As at the Latest Practicable Date, Keview had approximately \$287 million of unsecured liabilities (including approximately \$59 million which is also a liability of the Company, and an amount due to the Company of approximately \$13 million). The Company will also be a party to the Compromise Agreement.

(c) *Liabilities of Dongguan Kepo*

Under the current legislation of the PRC, there is no recognised scheme of arrangement procedure that would bind all creditors of a PRC company except following the commencement of bankruptcy proceedings.

The liabilities of Dongguan Kepo are not dealt with under the Debt Restructuring. Pursuant to the terms of the DK Loan Agreement, the Investor agreed to provide advances to Dongguan Kepo to discharge certain claims against it as directed by the Keview Provisional Liquidators. Interest is payable on the DK Advances at Hong Kong dollar prime rate plus 1 per cent. per annum. The DK Advances are repayable on demand by the Investor, but not on or before the earlier of the Long Stop Date, the termination of the Restructuring Agreement and the day after Closing. Keview has agreed, pursuant to the terms of the DK Subordination Agreement, to pay a sum equal to any amount recovered by it in respect of amounts owed to it by Dongguan Kepo (including an inter-company loan currently recorded in the statement of affairs of Keview in the amount of approximately \$173 million) in excess of the HSBC Secured Balance, to the Investor until the DK Advances are paid in full.

## LETTER FROM THE KESSEL PROVISIONAL LIQUIDATORS

Based on the available information, Dongguan Kepo has estimated liabilities of approximately \$197 million as at 31 March 2002, of which approximately \$173 million are owed to Keview and approximately \$24 million are owed to its trade and other creditors. Out of the trade and other creditors, approximately \$17 million had obtained judgment against the Company and had pressed for the disposal of the assets of Dongguan Kepo to repay their claims. On 8 April 2002, the PRC court published a notice in a local newspaper, Dongguan Daily, for the holding of the auction of the machinery of Dongguan Kepo on 16 April 2002. The auction was prevented by discharging all the judgment creditors from the money drawn down under the DK Loan Agreement. In consideration of the claims being settled, all judgment creditors had withdrawn their legal actions against Dongguan Kepo upon receipt of payments. On 12 April 2002, the PRC court had issued a judgment to release all sealing orders in respect of the claims of those creditors. As at the Latest Practicable Date, approximately \$19 million has been drawn down under the DK Loan Agreement to discharge certain liabilities of Dongguan Kepo and approximately \$7 million of debts owing to other creditors (except for Keview) remain outstanding. Accordingly, the total liabilities of Dongguan Kepo (except for Keview) amounted to approximately \$26 million as at the Latest Practicable Date. The liabilities of Dongguan Kepo may be subject to change. The Investor is assisting Dongguan Kepo in dealing with claims against it.

### 3. CONDITIONS PRECEDENT TO THE COMPLETION OF THE RESTRUCTURING AGREEMENT

Completion of the Restructuring Agreement will be subject to, inter alia, the following:

- (a) the Courts sanctioning the Creditors' Schemes and the Creditors' Schemes becoming effective;
- (b) the Keview Compromise Agreement having been entered into by the Keview Creditors;
- (c) the execution of the Subscription Agreement;
- (d) HSBC withdrawing the petitions presented by it in Hong Kong and Bermuda for the winding-up of the Company and Keview respectively, conditional only on Closing;
- (e) the execution of a deed of release by HSBC releasing its fixed and floating charge over the assets of Keview;
- (f) the Courts ordering the discharge and release of the Provisional Liquidators;
- (g) all necessary resolutions being passed by the Independent Shareholders regarding the Restructuring Agreement and the transactions contemplated thereunder;
- (h) the Capital Restructuring becoming effective;
- (i) the Bermuda Monetary Authority approving the issue and free transferability of the New Shares to be allotted and issued under the Restructuring Agreement;
- (j) the Stock Exchange approving in principle to the listing of, and permission to deal in, the New Shares to be allotted and issued under the Subscription;

## LETTER FROM THE KESSEL PROVISIONAL LIQUIDATORS

- (k) the Executive granting the Whitewash Waiver; and
- (l) producing such documents as may be necessary to effect the transfer of shares of companies within the Group to result in the group structure shown in section 7(D) below.

As stated below, the Investor has advised that it will not waive or amend condition (k) regarding the Whitewash Waiver.

The obligations of the parties to the Restructuring Agreement may be terminated if, inter alia, Closing does not occur on or before the Long Stop Date. Closing shall occur on the Business Day following the date on which all of the conditions precedent to the Restructuring Agreement have been fulfilled or waived.

Further announcement will be made upon the signing of the Keview Compromise Agreement and the Subscription Agreement.

#### 4. EFFECTS OF THE RESTRUCTURING PROPOSAL

##### (A) Share Capital

Details of the proposed changes to the share capital of the Company are set out in Section 1 of Appendix I to this document.

##### (B) Shareholding Structure

The following table (*Note: 1*) shows the estimated changes in the shareholding of the Company immediately upon Closing:

	Existing shareholding of the Company (Existing Shares of \$0.10 each)		Shareholding of the Company immediately after the Capital Restructuring becoming effective (New Shares of \$0.001 each)		Shareholding of the Company immediately upon Closing (New Shares of \$0.001 each)	
	'000	Approx. %	'000	Approx. %	'000	Approx. %
Investor	-	-	-	-	10,000,000	97
Stangee International Limited ( <i>Note 2</i> )	211,200	66	184,800	66	184,800	2
Other Public Shareholders	108,800	34	95,200	34	95,200	1
<b>Total</b>	<b>320,000</b>	<b>100</b>	<b>280,000</b>	<b>100</b>	<b>10,280,000</b>	<b>100</b>

*Note 1:* Computed from information disclosed in the latest published audited accounts and the share register of the Company.

*Note 2:* According to the latest published annual report of the Company, the issued share capital of Stangee International Limited is held by the trustee of a discretionary trust in which Mr Shun Wing Chiu, a Director, and his spouse are included as beneficiaries.

## LETTER FROM THE KESSEL PROVISIONAL LIQUIDATORS

Immediately upon Closing, the Investor will be interested in approximately 97 per cent. of the enlarged issued share capital of the Company. The Investor has submitted an application to the Executive for a Whitewash Waiver of its obligation under the Code to make a general offer for all the Shares other than those already held by the Investor together with parties acting in concert with it. Such application for waiver, if granted, would normally be subject to the approval of the Independent Shareholders on a vote taken by poll at the Special General Meeting. As stated in the section headed “Conditions Precedent to the Completion of the Restructuring Agreement” above, the Restructuring Agreement is subject to, inter alia, the Executive granting the Whitewash Waiver to the Investor. The Investor has advised it will not waive or amend this condition regarding the Whitewash Waiver. **If this condition precedent (condition (k) regarding the Whitewash Waiver) is not satisfied (the Whitewash Waiver is not granted by the SFC or not approved by the Independent Shareholders), the Restructuring Agreement will lapse and the Restructuring Proposal will not be implemented.** If this condition is fulfilled and the Restructuring Proposal proceeds, the Investor will not be required to make a general offer to the Shareholders under Rule 26 of the Code following the issue and allotment of the new shares to the Investors pursuant to the terms of the Subscription. Furthermore, since the Investor together with parties acting in concert with it will together hold more than 50 per cent. of the voting rights of the Company immediately following Closing, the creeper provisions of the Code will not be applicable and they will be free to acquire further voting rights in the Company without triggering a general offer obligation.

The Company also proposes to issue the Convertible Notes at Closing to raise working capital for its continuing operations. The possible change in shareholding structure of the Company resulting from the issue of the Conversion Shares is set out under the section headed “Issue of Convertible Notes” below.

### (C) Dilution of Shareholders’ Interest

As set out in the table above, the interests of the existing Independent Shareholders will be diluted from 100% to approximately 3% immediately upon Closing.

### (D) Working Capital

As set out in Appendix I to this document, the proforma adjusted and unaudited consolidated net current assets of the Group immediately upon Closing will be approximately \$30 million. This represents an improvement in the working capital of the Company by approximately \$427 million as compared with the audited consolidated net current liabilities of the Group of approximately \$397 million as at 31 March 2002.

### (E) Net Assets

As set out in Appendix I to this document, the proforma adjusted and unaudited consolidated net tangible assets of the Group immediately upon Closing will be approximately \$48 million (after deducting, the value of the plant and machinery as at 31 May 2002), representing approximately 0.47 cents per New Share. This represents an improvement of approximately \$304 million as compared with the audited consolidated net liabilities of approximately \$256 million, or approximately 79.9 cents per Existing Share as at 31 March 2002. The proforma adjusted and unaudited consolidated net tangible assets of the Group as financed by capital and loans from the Investor immediately upon Closing will be approximately \$108 million (after deducting, the value of the plant and machinery as at 31 May 2002), representing approximately 1.05 cents per New Share. This represents an improvement of approximately \$364 million compared with the audited consolidated net liabilities of the Group as at 31 March 2002.

## **LETTER FROM THE KESSEL PROVISIONAL LIQUIDATORS**

### **5. REASONS FOR THE RESTRUCTURING OF THE GROUP**

As stated above, the creditors of Dougguan Kepo had pressed hard for the disposal of the assets of Dougguan Kepo by way of auction for the repayment of their claims. Without the DK Subordination Agreement and the DK Loan Agreement, the Provisional Liquidators would probably have been unable to procure Dongguan Kepo to discharge the claims of the PRC creditors with the result that the assets of Dongguan Kepo would have been auctioned and the sole factory of the Company in Dongguan could not be retained for future operations.

As stated above, the financial position of the Group had deteriorated during the year ended 31 March 2001. The position grew worse during the year ended 31 March 2002. The net loss for that year amounted to approximately \$392 million. The loss brought the audited consolidated shareholders' fund of the Company of approximately \$136 million at 31 March 2001 to an audited shareholders' deficit of approximately \$256 million as at 31 March 2002. The Company is insolvent with audited consolidated net liabilities of approximately \$256 million as at 31 March 2002. As stated above, the Restructuring Proposal will enable injection of new funds into the Company for settlement of debts and future operations and reversal of the net liabilities position. After taking into consideration the current financial position of the Group, the pressure imposed by the creditors of the Group to recover their debts, the terms of the Restructuring Proposal and other alternative restructuring proposals received by the Kessel Provisional Liquidators, the Kessel Provisional Liquidators are of the view that the Restructuring Proposal represents the best option currently available to the Company. If the Group is unable to implement the Restructuring Agreement, the Kessel Provisional Liquidators believe that there is a strong likelihood that the Company will have to be wound up. If the Company is wound up, the return to its creditors would likely be minimal and it is unlikely that there will be any return to the Shareholders.

### **6. BACKGROUND INFORMATION OF THE INVESTOR**

The information in this section has been provided to the Provisional Liquidators by the Investor.

The Investor is a company incorporated in the British Virgin Islands with limited liability. It is wholly and beneficially owned by Yue Fung. The principal business of the Investor is investment holding. It has not undertaken any other activity except entering into the Reorganisation Agreements and matters relating thereto as described in this document. Yue Fung is a company listed on the Stock Exchange since October 1997. The principal business of Yue Fung, the controlling shareholder, is the manufacture and sale of consumer electronic products including calculators, digital cameras, other digital imaging products and databanks. The substantial shareholder of Yue Fung is Simply Noble. Please refer to the letter from the Investor for further information regarding Yue Fung.

The Investor and Yue Fung are independent third parties not connected with and not acting in concert with the Company or the directors, chief executive or substantial shareholders of the Company or any of its subsidiaries or their respective associates or concert parties within the meaning prescribed by the Listing Rules and the Code.

The Company and the Provisional Liquidators are independent of, not connected with and not acting in concert with, Yue Fung, the directors, chief executive or substantial shareholder of Yue Fung or any of its subsidiaries or their respective associates or concert parties within the meaning prescribed by the Listing Rules and the Code.

## LETTER FROM THE KESSEL PROVISIONAL LIQUIDATORS

At Closing, the Investor is required to pay, inter alia, the Subscription Proceeds, the HSBC Secured Balance and other advances by the Kevew Provisional Liquidators to settle certain liabilities of the Group. The Investor has also agreed to provide the DK Advances. Yue Fung has agreed, together with Simply Noble, to advance a further principal sum of \$30,000,000 to the Group for its working capital requirements by subscribing for the Convertible Notes. The transactions contemplated under the Restructuring Proposal do not constitute a notifiable transaction under the Listing Rules for Yue Fung. We have been advised by REXCAPITAL (Hong Kong) Limited, which is retained as the financial adviser to the Investor, that sufficient financial resources are available to the Investor, which is being financed by Yue Fung from its own internal resources, to satisfy its obligations under the Restructuring Proposal.

### 7. INTENTIONS OF THE INVESTOR

The Provisional Liquidators have been informed that the Investor intends to maintain the listing of the Company on the Stock Exchange and continue the businesses of the Group. The Investor also intends to provide working capital to the Group to enable it to continue its businesses. For details of the future intention of the Investor, please refer to the Letter from the Investor.

#### (A) Maintaining the Listing of the Company

It is the intention of the Investor to maintain the listing of the Company on the Stock Exchange upon completion of the Restructuring Proposal. **The Investor, Yue Fung and their respective directors have undertaken to the Stock Exchange that they will use their best endeavours and to take appropriate steps as soon as practicable to ensure that an adequate number of Shares will be placed to independent third parties to maintain the public float of not less than 25 per cent. of the enlarged issued share capital of the Company in order to meet the requirement under Rule 8.08 of the Listing Rules. The Stock Exchange has stated that if less than 25 per cent. of the issued share capital is in public hands following Closing, or if the Stock Exchange believes that:**

- a false market exists or may exist in the trading of shares of the Company; or
- there are insufficient shares of the Company in public hands to maintain an orderly market,

**then it will consider exercising its discretion to continue to suspend the trading of the shares of the Company.**

**The Stock Exchange has further stated that, if the Company remains listed on the Stock Exchange, any asset dispositions or asset acquisitions by the Group will be subject to the provisions of the Listing Rules. The Stock Exchange has the discretion to require the Company to issue an announcement and/or a document to its Shareholders irrespective of the size of the proposed transactions. The Stock Exchange also has the power to aggregate a series of transactions and any such transactions may result in the Company being treated as if it were a new applicant for listing and subject to the requirements for new listing applicants as set out in the Listing Rules.**

## LETTER FROM THE KESSEL PROVISIONAL LIQUIDATORS

### **(B) Directors and Management**

The current Board comprises two executive directors namely, Messrs. Shun Wing Chiu and Lam Chi Kong. The Investor intends that, upon Closing all existing Directors will be removed from the Board. The Investor also intends to appoint Messrs. Li Wing Bun and Lee Wing Chan and Ms. Ching Mei Yee as executive Directors, and Messrs. Gordon Ng and Ng Wai Hung, Raymond as independent non-executive Directors. Mr. Lee Wing Chan and Ms. Ching Mei Yee are the executive directors of Yue Fung. Further announcement will be made once the future Board is determined.

Details of the Proposed Directors are contained in the section headed “Management and Business” in the Letter from the Investor.

### **(C) Working Capital**

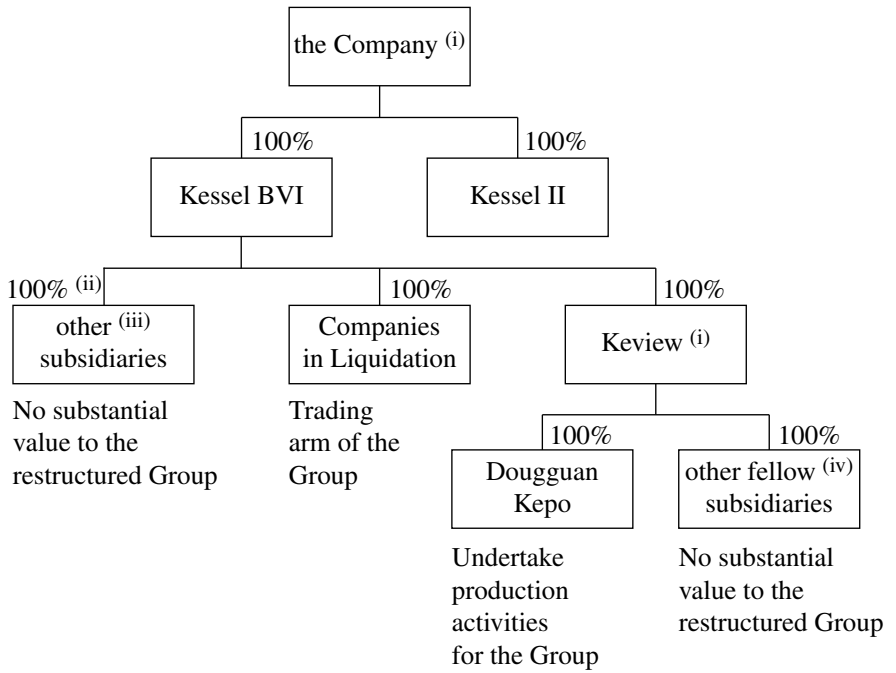
Yue Fung together with its controlling shareholder, Simply Noble, have agreed to provide, in equal proportion, a total of \$30,000,000 cash to the Group upon Closing for its working capital requirements. Yue Fung and Simply Noble propose to provide such working capital to the Group by subscribing for the Convertible Notes to be issued by the Company. Please refer to the section headed “Issue of Convertible Notes” of this Letter for further information. Having regard to the funding needs of the Group and in the absence of unforeseen circumstances, the Investor is of the opinion that \$30,000,000 is sufficient to restart the operations of the Group after Closing. The Investor believes that the extensive experience of Yue Fung in the manufacture and sale of electronic related products will enable the businesses of the Group to be reactivated immediately and will benefit the Group in the future.

### **(D) Future Businesses**

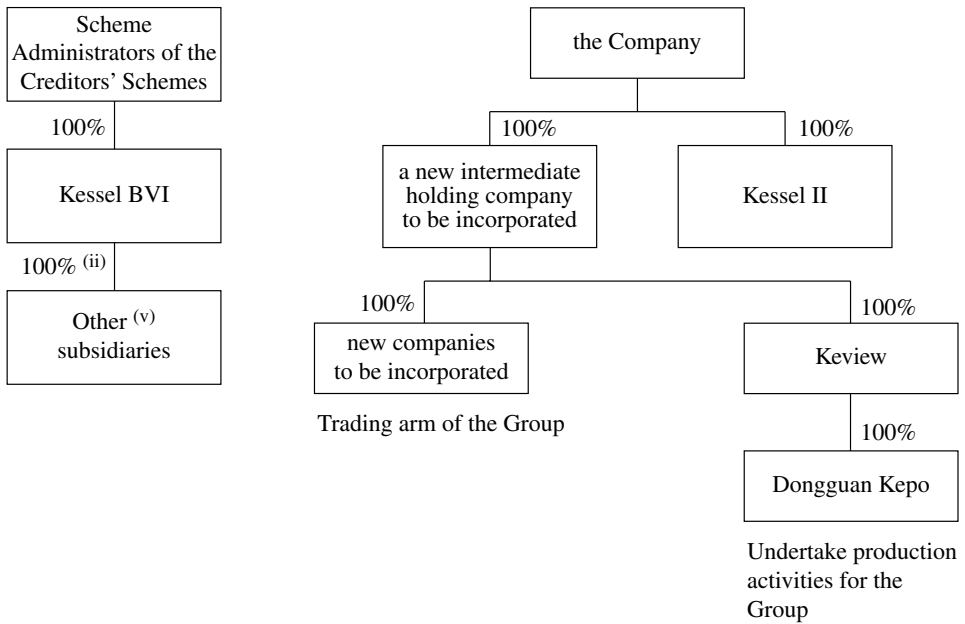
According to the annual report of the Company for the financial year ended 31 March 2001, the principal activities of the Group prior to the appointment of the Kessel Provisional Liquidators were the manufacture and sale of personal digital assistants, LCD modules, LCD panels and telecommunication products. In order to allow the Group to maintain and focus on its principal activities, subsidiaries which the Investor considers to be of no real value to the continuing business of the Group and subsidiaries with net liabilities will be transferred to the Scheme Administrators for the benefit of the Kessel Creditors, and after Closing, will not form part of the restructured Group. The restructured Group will include Dongguan Kepo, which is a major subsidiary (on the basis of its net assets as recorded in the latest audited accounts of the Company for the financial year ended 31 March 2002 of approximately \$170 million net of the intercompany balances which were eliminated at consolidation) and Kevview. The following shows a simplified group structure before and immediately after Closing:

# LETTER FROM THE KESSEL PROVISIONAL LIQUIDATORS

Before Closing:



Immediately After Closing:





## LETTER FROM THE KESSEL PROVISIONAL LIQUIDATORS

- (i) provisional liquidators were appointed to administer the assets of these companies
- (ii) except for one subsidiary, which is 95% owned by Kessel BVI
- (iii) Agenda Computing Asia Limited, Agenda Computing (BVI) Limited, Agenda Computing (HK) Limited, Agenda Computing Inc., Agenda Computing Manufacturing Limited, Kego Technology Limited, Kepo Electronics Limited, Kepo Time Limited, Kesonix Limited, Kessel Japan Company Limited, Kessel Management Company Limited, Kessel Technology SAS, Kessel Technology (UK) Limited, Ketch Limited, The Kessel Software Studio Inc.
- (iv) Kessel Inc., and Kego Technology Limited
- (v) Include the Companies in Liquidation and other subsidiaries and fellow subsidiaries named in note (iii) and (iv) above

The Provisional Liquidators have been advised by the Investor that it intends that the Company will continue to engage in its existing businesses upon Closing and retain certain senior management of the Group to continue to manage the business of the Group. It is the initial intention of the Investor to provide the necessary working capital to Dongguan Kepo to restart and revitalise its operations as soon as practicable. The Investor has noted that certain LCD panels produced by the Group can be used as components in the production of the calculators and databanks of Yue Fung. The Yue Fung Group currently purchases such LCD panels from independent suppliers. Upon resumption of the operations of the Group, the Yue Fung Group intends to source certain LCD panels from Dongguan Kepo. The sale of LCD products to Yue Fung will constitute on-going connected transactions for the Company pursuant to Chapter 14 of the Listing Rules. The directors of Yue Fung confirm that the on-going connected transactions will be conducted on normal commercial terms and the total value of such transactions will be below \$1 million per year. Accordingly, pursuant to Rule 14.24(5) of the Listing Rules, the on-going connected transactions are not subject to any disclosure or shareholders approval requirements.

The Investor has no plan to inject any assets into the Company or redeploy any assets of the Group apart from providing working capital to the restructured Group. The Investor will conduct a thorough review of the restructured Group and formulate long-term business plans and develop new business strategies. Upon Closing, the Investor will assist the Company to explore new business opportunities, which are in line with or will provide synergy to the principal activities of the Group. The Investor has advised that the future Board will consider whether any asset acquisition or disposal, business rationalisation, divestment and/or diversification will be appropriate to enhance the long term growth potential of the Company. Any new strategy will be subject to review and approval of the future Board and full compliance with the Listing Rules.

Further details of the intentions of the Investor in relation to the Group after Closing are set out in the Letter from the Investor.

## LETTER FROM THE KESSEL PROVISIONAL LIQUIDATORS

### 8. ISSUE OF CONVERTIBLE NOTES

As stated above, working capital in the amount of \$30,000,000 is proposed to be raised by the Company by issuing the Convertible Notes to Yue Fung and Simply Noble in equal proportions immediately after Closing. This \$30,000,000 is currently planned to be applied to restore the operations of the Dongguan factory. Approximately \$20,000,000 will be used for acquiring and reconditioning machinery and utilities, trial running of materials and consumables as well as procuring materials and the balance of about \$10,000,000 will be used for financing operating overheads. The zero coupon 5-year Convertible Notes entitle their holders the right to convert the Convertible Notes into New Shares at a conversion price of \$0.004 per New Share. Please refer to Appendix V for the principal terms of the Convertible Notes.

The issue of the Convertible Notes shall be conditional upon:

- (a) the approval of the Independent Shareholders of the Company at the Special General Meeting;
- (b) Closing;
- (c) the Listing Committee of the Stock Exchange having granted approval for the listing of and permission to deal in the Conversion Shares to be issued pursuant to the terms and conditions of the Convertible Notes; and
- (d) the Bermuda Monetary Authority having granted approval for the issue of the Convertible Notes and the Conversion Shares to be issued pursuant to the terms and conditions of the Convertible Notes.

The issue of the Convertible Notes is not included in the Whitewash Waiver.

The proposed issue of the Convertible Notes is not part of the Restructuring Proposal. As at the Latest Practicable Date, no agreement has been signed between the relevant parties. The reason for the proposed issue of the Convertible Notes is to raise working capital for the restoration of the operations of Dongguan Kepo factory and for general working capital thereafter.

An ordinary resolution will be proposed at the Special General Meeting for the issue of the Convertible Notes by the Company immediately after Closing. The results of the resolution relating to the issue of the Convertible Notes to be proposed at the Special General Meeting will not affect completion of the Restructuring Agreement.

The conversion price of \$0.004 per New Share is the same as the issue price of the New Shares to be issued pursuant to the Subscription Agreement and lower than the last closing price of \$0.28 per Existing Share immediately before the suspension of trading of the Existing Shares at 2:30 p.m. on 23 May 2001 by approximately 98.6 per cent..

## LETTER FROM THE KESSEL PROVISIONAL LIQUIDATORS

Based on the conversion price of \$0.004 per New Share, a total of 7,500,000,000 New Shares will be issued to Yue Fung and Simply Noble in equal proportion upon full conversion of the Convertible Notes. The following table shows the revised shareholding structure of the Company assuming full conversion of the Convertible Notes based on the following two scenarios: Scenario (i) the shareholding structure of the Company as disclosed under section 4 above; and Scenario (ii) the shareholding structure of the Company assuming the Investor has placed down its interests to maintain the minimum public float of the Company immediately after Closing:-

	Scenario (i)				Scenario (ii)			
	Immediately upon Closing		Assuming full conversion of the Convertible Notes immediately after Closing		Based on structure immediately upon Closing but adjusted for the placing by the Investor of the New Shares to other public shareholders to maintain the minimum public float		Assuming full conversion of the Convertible Notes immediately after Closing and placing by the Investor	
	No. of New Shares	Approx. %	No. of New Shares	Approx. %	No. of New Shares	Approx. %	No. of New Shares	Approx. %
	'000	%	'000	%	'000	%	'000	%
Yue Fung (Note 1)	-	-	3,750,000	21	-	-	3,750,000	21
Investor (Note 1)	10,000,000	97	10,000,000	56	7,710,000	75	7,710,000	44
Simply Noble (Note 1)	-	-	3,750,000	21	-	-	3,750,000	21
Subtotal	10,000,000	97	17,500,000	98	7,710,000	75	15,210,000	86
Stangee International Limited	184,800	2	184,800	1	184,800	2	184,800	1
Other public shareholders	95,200	1	95,200	1	2,385,200	23	2,385,200	13
	<u>10,280,000</u>	<u>100</u>	<u>17,780,000</u>	<u>100</u>	<u>10,280,000</u>	<u>100</u>	<u>17,780,000</u>	<u>100</u>

(Note 1) Yue Fung, the Investor and Simply Noble are deemed to be concert parties as defined by the Takeovers Code as Simply Noble is the substantial shareholder of Yue Fung, which wholly and beneficially owns the Investor.

No application shall be made for the listing of, or permission to deal in the Convertible Notes on the Stock Exchange or any other stock exchange. Application will be made to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares, and if required, to the Bermuda Monetary Authority for approval of the issue of the Convertible Notes and the Conversion Shares and the transferability of the Convertible Notes and the Conversion Shares.

Upon the passing of the resolutions relating to the issue of the Convertible Notes, Yue Fung and Simply Noble shall undertake to the Stock Exchange to promptly notify the Stock Exchange upon becoming aware of any dealings in the Convertible Notes by any connected person of the Company (as defined in the Listing Rules).

# LETTER FROM THE KESSEL PROVISIONAL LIQUIDATORS

## 9. CHANGE OF COMPANY'S NAME

In order to reflect the new ownership of the Company upon Closing and the wishes of the Investor, the Company proposes to change its name to A-Max Holdings Limited. The proposed change of name is conditional upon:

- (a) the passing of a special resolution by the Shareholders at the Special General Meeting to approve the change of name;
- (b) Closing; and
- (c) the approval by the Registrar of Companies in Bermuda (the "Registrar") and a certified resolution by the Shareholders of the change of name being filed with the Registrar.

An ordinary resolution will be proposed at the Special General Meeting for the change of the name of the Company to A-Max Holdings Limited.

The change of name will be effective on the date of entry of the new name on the register maintained by the Registrar. The Company will also carry out the necessary filing procedures with the Registrar of Companies in Hong Kong. Upon the proposed change of name becoming effective, the Chinese translation of the new name of the Company for identification purposes will be changed from 佳信科技集團有限公司 to 奧瑪仕控股有限公司.

The proposed change of name of the Company will not affect any of the rights of the existing Shareholders. All existing share certificates in issue bearing the present name of the Company will, after the change of name becoming effective, continue to be evidence of title to the Shares and will be valid for trading, settlement and delivery respectively for the same number of Shares in the new name of the Company. Share certificates of the Company that will be issued after the change of name has become effective will only be printed under the new name of the Company and New Shares will be traded in the Stock Exchange in the new name. Further announcement will be made upon the change of name becoming effective and unconditional.

## 10. SHARE OPTION SCHEME

The Company has adopted the Existing Share Option Scheme, which is valid for a period of 10 years from its date of adoption on 2 September 1997. No options under the Existing Share Option Scheme had been granted since its adoption up to the Latest Practicable Date.

To be in line with the recent changes of the Listing Rules in relation to share option schemes and to provide the Group with a more flexible means of giving incentive to reward, remunerate, compensate and/or provide benefits to talented persons who contribute to the Group and for such other purposes as the Board may approve from time to time, the Investor requested that the Company proposes to its Shareholders the termination of the Existing Share Option Scheme and adoption of the New Share Option Scheme.

Under the New Share Option Scheme, the Board will have the right to grant to the Eligible Participants options to subscribe for the New Shares under the New Share Option Scheme, representing up to 10 per cent. of the total number of New Shares in issue as at the date of adoption of the New Share Option Scheme, unless the Company obtains a refresh approval from its

## LETTER FROM THE KESSEL PROVISIONAL LIQUIDATORS

Shareholders to refresh the 10 per cent. limit. The maximum number of New Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the New Share Option Scheme and any other share option schemes of the Company shall not exceed 30 per cent. of the total number of New Shares in issue from time to time. Once the New Share Option Scheme is adopted, any alterations to the terms and conditions thereof, which are of a material nature, must be approved by the Shareholders, except where the alterations take effect automatically pursuant to the terms originally provided in the New Share Option Scheme.

An option must be held for one year before it can be exercised although the Board will be empowered under the New Share Option Scheme to impose at its discretion such minimum period at the time of grant of any particular option as it sees fit. In addition, the Board will be empowered under the New Share Option Scheme to determine the exercise price of a Share in respect of any particular option granted subject to certain restrictions, the basis of which is set out in paragraph 5 of Appendix VI to this document so that the selected participants are attracted to subscribe for the Shares pursuant to the options granted by the Company as incentives and rewards for their contribution to the Group and will further contribute towards the profitability and success of the Group.

The New Share Option Scheme will take effect upon satisfaction of the following conditions:

- (i) the passing of the necessary resolution approving the termination of the Existing Share Option Scheme and the adoption of the New Share Option Scheme by the Shareholders in general meeting;
- (ii) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Shares to be issued and allotted pursuant to the exercise of the options granted under the New Share Option Scheme; and
- (iii) Closing.

Subject to approval of the Subscription and the Whitewash Waiver, an ordinary resolution will be proposed at the Special General Meeting for the termination of the Existing Share Option Scheme and the adoption of the New Share Option Scheme immediately after Closing. A summary of the principal terms of the New Share Option Scheme are set out in Appendix VI to this document. Subject to fulfilment of the conditions precedent to adoption of the New Share Option Scheme as set out above, the Existing Share Option Scheme will be terminated and the New Share Option Scheme will take effect immediately after Closing.

Application has been made to the Listing Committee of the Stock Exchange for the listing of and permission to deal in, up to 10 per cent. of the Shares in issue on the date of approval and adoption of the New Share Option Scheme by Shareholders being the Shares which may fall to be issued pursuant to the exercise of the options granted under the New Share Option Scheme.

The maximum number of Shares which may be issued upon exercise of all options to be granted under the New Share Option Scheme and any other share option scheme(s) of the Company (which for this purpose, excludes the Existing Share Option Scheme) must not exceed 10 per cent. of the Shares in issue on the date of approval and adoption of the New Share Option Scheme by Shareholders unless the Company obtains a refresh approval from its Shareholders.

## **LETTER FROM THE KESSEL PROVISIONAL LIQUIDATORS**

Based on the expected number of shares of the Company in issue immediately upon Closing, the maximum number of New Shares issuable pursuant to the New Share Option Scheme on the date of its adoption will be 1,028,000,000 New Shares unless the Company obtains a fresh approval from its Shareholders.

The rules of the New Share Option Scheme will be available for inspection as set out in Appendix VI of this document and at the Special General Meeting.

The results of the ordinary resolution to be proposed at the Special General Meeting in relation to the termination of the Existing Share Option Scheme and the adoption of the New Share Option Scheme will not affect completion of the Restructuring Agreement.

Further announcement will be made regarding the outcome of the Special General Meeting for the adoption of the New Share Option Scheme on the Business Day following the Special General Meeting.

### **11. GENERAL MANDATE TO ISSUE SHARES**

At the request of the Investor and subject to the approval of the Shareholders of the Subscription and the Whitewash Waiver, ordinary resolutions will be proposed at the Special General Meeting to grant a general mandate to the Directors to allot, issue and deal with additional New Shares not exceeding 20 per cent. of the enlarged issued share capital of the Company immediately following Closing. The Investor advised that it has no immediate plan to procure the Company to issue any New Shares pursuant to the above general mandate.

The results of the resolutions to be proposed at the Special General Meeting in relation to such general mandate will not affect the completion of the Restructuring Agreement.

### **12. TRADING ARRANGEMENTS**

In view of the Capital Restructuring, the Investor has advised that it will procure the Company to adopt the following trading arrangements to facilitate trading of its Shares by its Shareholders following Closing.

#### **(a) Documents of Title**

Upon the Capital Restructuring becoming effective, the nominal value of the issued Shares will be reduced from \$0.1 to \$0.001 each. Accordingly, the Directors consider it is in the best interests of the Company and the public to reduce the risk of confusion by replacing all existing share certificates (which are light blue in colour) with new share certificates (which will be yellow in colour) for the purposes of trading in the market.

Upon completion of the Capital Restructuring, every certificate for Existing Shares in issue immediately before the Capital Restructuring will be deemed to be certificates and valid documents of title.

## LETTER FROM THE KESSEL PROVISIONAL LIQUIDATORS

### **(b) Trading arrangements**

Following the effective date of the Capital Restructuring, the Company proposes the following trading arrangements to its Shareholders.

- (i) from 19 August 2002, the present counter for trading in the Existing Shares in board lots of 2,000 Existing Shares will be removed temporarily and a temporary counter for trading in New Shares represented by existing share certificates in board lots of 1,750 New Shares will be set up.
- (ii) with effect from 2 September 2002, the present counter for trading in New Shares in board lots of 20,000 New Shares will be re-opened. Only new share certificates for New Shares can be traded at this counter;
- (iii) during the period from 2 September 2002 to 24 September 2002 (both dates inclusive), there will be parallel trading at the above two counters; and
- (iv) the temporary counter for trading in the New Shares in board lots of 1,750 New Shares (in the form of existing share certificates) will be removed after close of trading on 24 September 2002. Thereafter, trading will only be in New Shares in board lots of 20,000 New Shares and existing share certificates will cease to be acceptable for dealing purposes. However such certificates will continue to be good evidence of legal title to the New Shares and may be exchanged for new certificates for New Shares at any time.

Shareholders are urged to exchange their certificates for Existing Shares for certificates of New Shares as soon as possible from 19 August 2002. This may be done, free of charge, up to and including 26 September 2002 by delivering the existing share certificates to the branch share registrar of the Company in Hong Kong. Thereafter, existing share certificates will be accepted for exchange only on payment of a fee of \$2.50 (or such other amount may from time to time be prescribed by the Stock Exchange) for each certificate for Existing Shares cancelled or for each certificate issued for New Shares, whichever is higher.

The new yellow share certificates are expected to be available for collection on or after the 10th business day from the date of submission of the existing light blue share certificates to the branch share registrar of the Company in Hong Kong. Unless otherwise instructed, new yellow share certificates will be issued in board lots of 20,000 New Shares.

### **(c) Facilities for odd lot holders**

In order to alleviate the difficulties arising from the existence of odd lots as a result of the Capital Restructuring, the Company has appointed TingKong-RexCapital Securities International Limited to assist the Shareholders to match the sale and purchase of odd lots during period from 10:00 a.m. on 19 August 2002 to 4:00 p.m. on 24 September 2002, both dates inclusive. Holders of the New Shares in odd lots (i.e. lots which are not in integral multiples of 20,000 New Shares) may through their broker contact Mr. Roy Ts'o of TingKong-RexCapital Securities International Limited (telephone number: (852) 2236-6899) during such period. Holders of the New Shares in odd lots should note that the matching of the sale and purchase of odd lots is not guaranteed.

## LETTER FROM THE KESSEL PROVISIONAL LIQUIDATORS

Shareholders are recommended to consult their own professional advisers if they are in any doubt about the facility described above.

Further announcement in relation to the trading arrangement of the Shares will be made as and when appropriate.

**The resumption of trading in the Shares is conditional on Closing. Accordingly, there is no guarantee that the trading in the Shares of the Company can be resumed in accordance with the timetable set out above. Further announcement will be made to update the Shareholders and potential investors as and when appropriate.**

### 13. SPECIAL GENERAL MEETING

The Restructuring Agreement, the Whitewash Waiver and all the transactions contemplated thereunder will be subject to the approval by the Independent Shareholders at the Special General Meeting.

Set out on pages 120 to 125 of this document is a notice convening the Special General Meeting to be held at 10:00 a.m. on 12 August 2002 at the Auditorium, 1st Floor, Duke of Windsor Social Service Building, 15 Hennessy Road, Wanchai, Hong Kong at which resolutions will be proposed to consider and if though fit, to approve, inter alia:

- (i) the Capital Restructuring;
- (ii) the Subscription;
- (iii) the Whitewash Waiver;
- (iv) the issuance of the Convertible Notes;
- (v) the change of name of the Company.
- (vi) the adoption of the New Share Option Scheme and termination of the Existing Share Option Scheme;
- (vii) the granting of a general mandate to the directors of the Company to exercise the powers of the Company to issue, allot or deal with additional Shares not exceeding 20 per cent. of the enlarged issued share capital immediately following Closing.

A form of proxy for use at the Special General Meeting is enclosed. Regardless of whether you are able to attend the Special General Meeting, you are requested to complete and return the form of proxy in accordance with the instructions printed thereon to the Company c/o the Provisional Liquidators, 27th Floor, Alexandra House, 16-20 Chater Road, Central, Hong Kong (Attention to Mr. Gabriel Tam/Mr. Jacky Muk) as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the Special General Meeting. Delivery of a form of proxy will not preclude you from attending and voting in person at the meeting should you so desire.



## LETTER FROM THE KESSEL PROVISIONAL LIQUIDATORS

### 14. RECOMMENDATIONS

The powers of the Board have ceased following the appointment of the Kessel Provisional Liquidators by the Bermuda Court on 15 November 2001. Accordingly no independent board committee can be formed to advise the Independent Shareholders. The Provisional Liquidators were appointed by the Courts to, inter alia, administer the respective assets of Keview and the Company, with regard to the respective interests of the Keview Creditors and the Kessel Creditors. Accordingly, the Provisional Liquidators consider that it would not be appropriate for them to make any recommendation to the Shareholders. The Independent Shareholders will be advised by CSC Asia, the adviser in relation to the Restructuring Proposal, the Whitewash Waiver and the transactions contemplated thereunder.

CSC Asia has been appointed as the independent financial adviser to advise the Independent Shareholders in relation to the fairness and reasonableness of the terms of the Restructuring Proposal, the Whitewash Waiver, and the transactions contemplated thereunder. Details of the advice and recommendations of CSC Asia together with the principal factors and reasons taken into consideration in arriving at such advice and recommendations, are set out on pages 29 to 41 of this document.

CSC Asia is of the view that the terms of the Restructuring Proposal are fair and reasonable so far as the Independent Shareholders are concerned and are in the interest of the Company and its Shareholders, and accordingly has recommended that the Independent Shareholders vote in favour of the resolutions relating to the Restructuring Proposal and the Whitewash Waiver to be proposed at the Special General Meeting. Independent Shareholders are strongly advised to consider their letter before deciding to vote in favour of or against the resolutions to be proposed at the Special General Meeting.

### 15. ADDITIONAL INFORMATION

Please refer to the “Letter from the Investor”, the “Letter from CSC Asia” and the Appendices to this document for additional information.

For and on behalf of  
**KESSEL INTERNATIONAL HOLDINGS LIMITED**  
(Provisional Liquidators Appointed)  
**Tam Chi Kok, Gabriel**  
*Joint and Several Provisional Liquidator*  
*acting as agent of the Company*

# LETTER FROM THE INVESTOR



## YUE FUNG INTERNATIONAL GROUP HOLDING LIMITED

裕豐國際集團控股有限公司\*

*(Incorporated in Bermuda with limited liability)*

*Executive directors:*

Mr. Lee Wing Kan  
Mr. Lee Wing Chan  
Ms. Ching Mei Yee

*Registered office:*

Clarendon House  
2 Church Street  
Hamilton HM11  
Bermuda

*Independent non-executive directors:*

Mr. Leung Hok Lim  
Ms. Tan Fu Yun

*Head office and  
principal place of business:*

Units 11-12, 32nd Floor  
Cable TV Tower  
9 Hoi Shing Road  
Tsuen Wan  
New Territories  
Hong Kong

19 July 2002

*To the Shareholders of Kessel International Holdings Limited  
(Provisional Liquidators Appointed)*

Dear Sir or Madam,

**RESTRUCTURING OF  
KESSEL INTERNATIONAL HOLDINGS LIMITED  
(Provisional Liquidators Appointed)  
INVOLVING, INTER ALIA, CAPITAL RESTRUCTURING,  
DEBT RESTRUCTURING, SUBSCRIPTION OF NEW SHARES AND  
WHITEWASH WAIVER  
AND OTHER PROPOSALS REGARDING  
ISSUE OF CONVERTIBLE NOTES,  
ADOPTION OF A SHARE OPTION SCHEME, CHANGE OF COMPANY'S NAME  
AND GENERAL MANDATE TO ISSUE SHARES**

### INTRODUCTION

It was announced on 25 April 2002 that the Restructuring Agreements had been entered into between, amongst others, the Kessel Provisional Liquidators and the Investor. The essential terms of the Restructuring Agreements were set out in the Second Announcement, further details of which are set out in the "Letter from the Kessel Provisional Liquidators" on pages 1 to 22 of the document to the Shareholders (the "Document"), of which this letter forms part. The purpose of this letter is to provide you with, inter alia, additional information on the Investor as well as on the future plans and prospects of the Company after Closing.

\* for identification purposes only

## LETTER FROM THE INVESTOR

Terms defined in the document shall have the same meanings when used in this letter.

Your attention is also drawn to the letter from CSC Asia, the independent financial adviser, as set out in the Document.

### INFORMATION OF YUE FUNG

The Investor is a wholly-owned subsidiary of Yue Fung. Yue Fung is incorporated in Bermuda with limited liability and its shares have been listed on the Stock Exchange since October 1997. The principal activity of Yue Fung is investment holding. The continuing principal activities of its subsidiaries consist of the manufacture and sale of consumer electronic products including electronic calculators, digital cameras, other digital imaging products, databanks and other electronic products. The substantial shareholder of Yue Fung is Simply Noble.

Information on the executive and independent non-executive directors of Yue Fung is as follows:

#### Executive directors

**Mr. Lee Wing Kan**, aged 46, is the Chairman and Managing Director of Yue Fung. He is the founder of Yue Fung and has overall responsibility for Yue Fung's strategic planning, formulation of corporate policies and marketing. He has over 22 years' experience in the electronics industry. Mr. Lee is a brother of Messrs. Lee Wing Chan and Li Wing Bun.

**Mr. Lee Wing Chan**, aged 48, is the Deputy Chairman and Production Director of Yue Fung. He is responsible for Yue Fung's manufacturing activities and new product development. He has over 29 years' experience in the electronics industry and has joined Yue Fung in 1987. Mr. Lee is a brother of Messrs. Lee Wing Kan and Li Wing Bun, the business development manager of Yue Fung Group and chief executive officer of a subsidiary of Yue Fung. Mr. Lee shall be nominated by the Investor to be a director of the Company.

**Ms. Ching Mei Yee**, aged 32, is the Marketing Director of Yue Fung and is responsible for the marketing of Yue Fung's electronic products. She holds an Honours Diploma in Chinese Studies from Lingnan University, Hong Kong. Ms. Ching has over 9 years' experience in the electronics industry and has joined Yue Fung in 1992. Ms. Ching shall be nominated by the Investor to be a director of the Company.

#### Independent non-executive directors

**Mr. Leung Hok Lim**, CPA (Aust.), CPA (Macau), FHKSA, CPA, aged 66, is the Founding and Managing Partner of PKF, Certified Public Accountants. Mr. Leung obtained his fellowship with the Hong Kong Society of Accountants in 1973. He is the vice-chairman of the Business Enterprise Management Centre of the Hong Kong Management Association and a non-executive director of the Beijing Hong Kong Exchange of Personnel Centre Limited. Mr. Leung has been a member of the Chinese People's Political Consultative Commission of Hai Nan Province since 1993. In the business sector, Mr. Leung is also the director and/or non-executive director, of a number of private and listed companies, respectively.

## LETTER FROM THE INVESTOR

**Ms. Tan Fu Yun**, aged 64, is a Founding Partner of Yang & Tan Consultants Co., a consultancy firm which is engaged in advising overseas investors in relation to investment opportunities in the PRC; the Managing Director and a Co-Founder of Wahlin Ltd., a textile trading company; an adviser to the PRC Ministry of Textile Industry (中國紡織工業部); a director of the China Textile Engineering Association (中國紡織工程學會); an adviser to the China Garment Association (中國服裝協會); the honorary chairlady of the Shanghai Women Engineers Association (上海女工程師學會); a business adviser to the World Trade Centre Club of Hong Kong; the vice-chairman of Fujian Overseas Women's Friendship Association (福建省海外婦女聯誼會); a director of Guangdong Overseas Friendship Association (廣東省海外婦女聯誼會); and a consultant professor of Shanghai Jiao Tong University, Shanghai University and China Textile University. She holds a bachelor degree in Textile Machine Building Engineering from the China Textile University. Ms. Tan has over 26 years' experience in the textile industry. Ms. Tan was an assistant director and head of the economic department of the Xinhua News Agency, Hong Kong Branch (新華社香港分社) from 1985 to 1991.

### SHAREHOLDINGS AND DEALINGS IN THE COMPANY

As at the Latest Practicable Date, Yue Fung, together with its directors and parties acting in concert with them, were not interested in the securities of the Company other than by virtue of their agreement to subscribe for the New Shares pursuant to the Reorganisation Agreements. Neither Yue Fung, their respective directors, nor any party acting in concert with them has dealt in any securities of the Company during the 6 months period up to 7 March 2002, being the date of the First Announcement.

The directors of Yue Fung confirm that the New Shares subscribed for by the Investor pursuant to the Subscription Agreement will not be transferred to any other persons.

### BACKGROUND INFORMATION OF THE INVESTOR

The Investor is a company incorporated in the British Virgin Islands with limited liability. It is wholly and beneficially owned by Yue Fung. The principal business of the Investor is investment holding. It has not undertaken any other activity except entering into the Reorganisation Agreements and matters relating thereto as described in this document.

The Investor and Yue Fung are independent third parties not connected with and not acting in concert with the Company, the directors, chief executive or substantial shareholders of the Company or any of its subsidiaries or their respective associates or concert parties within the meaning prescribed by the Listing Rules and the Code.

The Company and the Provisional Liquidators are independent of, not connected with and not acting in concert with, Yue Fung, the directors, chief executive or substantial shareholder of Yue Fung or any of its subsidiaries or their respective associates or concert parties within the meaning prescribed by the Listing Rules and the Code.

At Closing, the Investor is required to pay the Subscription Proceeds, the HSBC Secured Balance and other advances by the Keview Provisional Liquidators to settle certain liabilities of the Group. Yue Fung has also agreed to provide the DK Advances and intends to, together with Simply Noble, extend a principal sum of \$30 million to the Group for its working capital requirements by subscribing for the Convertible Notes. The transactions contemplated under the Restructuring Proposal do not constitute a notifiable transaction under the Listing Rules for Yue Fung.

## LETTER FROM THE INVESTOR

### INTENTION OF THE INVESTOR REGARDING THE COMPANY

The Investor intends that the Company will continue to engage in its existing businesses, which include the manufacture and sale of personal digital assistants, LCD modules, LCD panels and telecommunication products, upon Closing. The principal business of Yue Fung is the manufacture and sale of consumer electronic products including electronic calculators, digital cameras, other digital imaging products, databanks and other electronic products. The directors of Yue Fung do not consider the businesses of the Group and Yue Fung to be competitive in nature. Accordingly, no conflict of interest will arise in respect of the common directorship of Yue Fung and the Company. The Investor intends to retain certain senior management of the Group to continue to manage the business of the Group. The Investor does not expect that there will be any material changes to the continued employment of the employees of the Group or to the employment terms or conditions of the employees of the Group as a result of the Restructuring Proposal. It is the intention of the Investor to first provide the necessary working capital to Dongguan Kepo to restart and revitalise its operations as soon as practicable. The Investor has no plan to inject any assets into the Company or redeploy any assets of the Group apart from providing working capital to the restructured Group. The Investor will conduct a thorough review of the restructured Group and formulate long-term business plans and develop new business strategies. Upon Closing, the Investor will assist the Company to explore new business opportunities which are in line with or will provide synergy to the principal activities of the Group. The future Board will consider whether any asset acquisition or disposal, business rationalisation, divestment and/or diversification will be appropriate to enhance the long term growth potential of the Company. Any new strategy will be subject to review and approval of the future Board and full compliance with the Listing Rules.

Yue Fung, after taking into account its own working capital requirements and funding needs, and its controlling shareholder, Simply Noble, have agreed to provide, in equal proportion, a total of \$30,000,000 cash to the Group upon Closing for its working capital requirements through the issuance of the Convertible Notes. Such \$30 million is currently planned to be applied to restore the operations of Dongguan Kepo factory. About \$20 million will be used for acquiring and reconditioning machinery and utilities, trial running of materials and consumables as well as procuring materials and the balance of about \$10 million for financing operating overheads. Having regard to the funding needs of the Group and in the absence of unforeseen circumstances, the Investor is of the opinion that \$30,000,000 is sufficient to restart the operation of the Group. The Investor believes that the extensive experience of Yue Fung in the manufacture and sale of electronic related products will immediately activate the businesses of the Group and benefit the Group in the future.

According to the latest published annual report of the Company for the financial year ended 31 March 2002, the principal activities of the Group prior to the appointment of provisional liquidators to Keview were the manufacture and sale of personal digital assistants, LCD modules, LCD panels and telecommunication products. The Investor noted that certain LCD panels produced by the Group can be used as components in the production of the calculators and databanks of Yue Fung. Yue Fung currently purchases such LCD panels from independent suppliers. Upon resumption of the operations of the Group, Yue Fung intends to source certain LCD panels from Dongguan Kepo. The sale of LCD products to Yue Fung will constitute on-going connected transactions for the Company pursuant to Chapter 14 of the Listing Rules. The directors of Yue Fung confirm that the on-going connected transactions will be conducted on normal commercial terms and the total value of such transactions will be below \$1 million per year. Accordingly, pursuant to Rule 14.24(5) of the Listing Rules, the on-going connected transactions are not subject to any disclosure or shareholders approval requirements.

# LETTER FROM THE INVESTOR

## MANAGEMENT AND BUSINESS

The current Board comprises two executive Directors namely, Messrs. Shun Wing Chiu and Lam Chi Kong. The Investor intends that upon completion of the Restructuring Proposal, all existing directors of the Company will be removed from the Board. The Investor also intends to appoint Messrs. Li Wing Bun, Lee Wing Chan and Ms. Ching Mei Yee as executive Directors and Messrs. Gordon Ng and Ng Wai Hung, Raymond as independent non-executive Directors. Mr. Lee Wing Chan and Ms. Ching Mei Yee are the executive directors of Yue Fung. Information with respect to them is as follows:

### Executive Directors

**Mr. Li Wing Bun**, aged 45, is the business development manager of Yue Fung and chief executive officer of a subsidiary of Yue Fung. He is responsible for identifying new business opportunities, formulating market-entry strategies and developing new markets. In addition, Mr. Li has over 20 years' experience in mechanical engineering and plastic-injection moulding. He joined Yue Fung in 1987. Mr. Li is a brother of Messrs. Lee Wing Kan and Lee Wing Chan.

**Mr. Lee Wing Chan**, aged 48, is the Deputy Chairman and Production Director of Yue Fung. He is responsible for Yue Fung's manufacturing activities and new product development. He has over 29 years' experience in the electronics industry and joined Yue Fung in 1987. Mr. Lee is a brother of Messrs. Lee Wing Kan and Li Wing Bun.

**Ms. Ching Mei Yee**, aged 32, is the Marketing Director of Yue Fung and is responsible for the marketing of Yue Fung's electronic products. She holds an Honours Diploma in Chinese Studies from Lingnan University, Hong Kong. Ms. Ching has over 9 years' experience in the electronics industry and joined Yue Fung in 1992.

### Independent Non-executive Directors

**Mr. Gordon Ng**, aged 37. He has been a practicing lawyer in Hong Kong since 1994. He is now a partner at an international law firm specialising in corporate finance. Mr. Ng holds a Bachelor of Science degree in Microbiology and Biochemistry and a Master of Science degree, both from the University of London. He was admitted to practice as a solicitor in England and Wales in 1993. He is a member of both The Law Society of Hong Kong and The Law Society of England and Wales. He will be the chairman of the audit committee.

**Mr. Ng Wai Hung, Raymond**, aged 33, is the Managing Director of a manufacturing and trading company in Hong Kong. Mr. Ng holds a bachelor degree in Mathematics and Statistics from the University of Western Ontario, Canada. He has more than 10 years' experience in financial, information technology, and industrial sectors in Canada and Hong Kong.

## AUDIT COMMITTEE

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

The audit committee comprises the two independent non-executive Directors.

## LETTER FROM THE INVESTOR

### DEALINGS

TingKong-RexCapital Securities International Limited, in its normal and ordinary course of business, holds 2,000 Shares on behalf of its non-discretionary clients and has not dealt in the Shares for its clients on a non-discretionary basis during the period commencing six months prior to 7 March 2002, being the date of the First Announcement. TingKong-RexCapital Securities International Limited is a fellow subsidiary of REXCAPITAL (Hong Kong) Limited, the financial adviser to the Investor.

The Investor and parties acting in concert with it confirm that they have not dealt in the securities of the Company during the six month period immediately prior to 7 March 2002. They have also undertaken not to deal in the securities of the Company before the Special General Meeting to be convened to consider the transactions contemplated under the Restructuring Agreement.

### SPECIAL GENERAL MEETING

Set out on page 120 of this document is a notice convening the Special General Meeting to be held at 10:00 a.m. on 12 August 2002 at Auditorium, 1st Floor, Duke of Windsors Social Service Building, 15 Hennessy Road, Wanchai, Hong Kong at which ordinary resolutions will be proposed for the approval by the Shareholders in relation to the Restructuring proposals and other proposals described in the Letter from the Kessel Provisional Liquidators.

Your attention is drawn to the “Letter from CSC Asia” which is set out on pages 29 to 41 of this document. Additional information is also set out in the Appendices of this document for your information.

### GENERAL INFORMATION

Your attention is also drawn to the “Letter from the Kessel Provisional Liquidators”, the “Letter from CSC Asia” and the additional information set out in the appendices to the Document.

Yours faithfully,  
For and on behalf of the Board of  
**Yue Fung International Group Holding Limited**  
**Lee Wing Kan**  
*Chairman and Managing Director*

## LETTER FROM CSC ASIA

*The following is the text of a letter of advice from CSC Asia Limited to the Independent Shareholders in respect of the Restructuring Proposal and the Whitewash Waiver, and is prepared for inclusion in this document.*



**CSC ASIA LIMITED**  
28th Floor, Cosco Tower  
Grand Millennium Plaza  
183 Queen's Road Central  
Hong Kong

19 July 2002

*To the Independent Shareholders of*  
**Kessel International Holdings Limited**

Dear Sirs,

**RESTRUCTURING OF  
KESSEL INTERNATIONAL HOLDINGS LIMITED  
(PROVISIONAL LIQUIDATORS APPOINTED)  
INVOLVING, INTER ALIA, CAPITAL RESTRUCTURING,  
DEBT RESTRUCTURING,  
SUBSCRIPTION FOR NEW SHARES, WHITEWASH WAIVER  
AND THE  
ISSUE OF CONVERTIBLE NOTES**

### **INTRODUCTION**

We refer to our appointment as the independent financial adviser to advise the Independent Shareholders in respect of the Restructuring Proposal and the Whitewash Waiver, details of which are set out in this document, of which this letter forms part. Unless the context otherwise requires, terms used in this letter have the same meanings as those defined in this document. We recommend the Independent Shareholders to read this document carefully before they decide to vote for or against the Restructuring Proposal and the Whitewash Waiver.

In formulating our opinion and advice, we have relied upon the accuracy of the information and representations contained in this document and information provided to us by the Company and its Director(s) and the Kessel Provisional Liquidators. We have assumed that all statements and representations made or referred to in this document were true at the time they were made and continue to be true at the date of the Special General Meeting. We have also assumed that all statements of belief, opinion and intention made by the Director(s), the Kessel Provisional Liquidators and the directors of the Investor and Yue Fung in this document were reasonably made after due enquiry. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Company and its Directors and the Kessel Provisional Liquidators and have no reason to doubt that any relevant material facts have been withheld or omitted.



## LETTER FROM CSC ASIA

We have reviewed, among other things, the published information of the Group, including its audited financial statements for each of the four years ended 31 March 2002, the statement of affairs for each of the Company and Keview as at 15 November 2001 and 8 October 2001 respectively, the cash flow projection of the Group for the period from 1 April 2002 to 31 July 2003 assuming completion of the Restructuring Proposal, as well as the Restructuring Agreement, the DK Loan Agreement, the DK Subordination Agreement, the Subscription Agreement and the Keview Compromise Agreement.

We consider that we have reviewed sufficient information to reach an informed view and to justify reliance on the accuracy of the information contained in this document and to provide a reasonable basis for our advice and recommendation. We have not, however, conducted an independent investigation into the business affairs, financial position or future prospects of the Group, the Investor or Yue Fung nor have we carried out any independent verification of the information supplied. Besides, we have not considered the taxation consequences on Shareholders arising from the Subscription. In particular, Shareholders subject to overseas taxes or Hong Kong taxation on securities dealing should consider their own tax position and, if in any doubt, should consult their own professional advisers.

### **THE RESTRUCTURING PROPOSAL AND THE WHITEWASH WAIVER**

In giving our advice to the Independent Shareholders, we have taken into account the following factors in considering whether or not the terms of the Restructuring Proposal and the Whitewash Waiver are fair and reasonable.

#### **Financial performance of the Group**

Prior to the appointment of the Keview Provisional Liquidators, the Group was principally engaged in the manufacture and sale of personal digital assistants, LCD modules, LCD panels and telecommunication products.

## LETTER FROM CSC ASIA

A summary of the audited consolidated profit and loss accounts for each of the three years ended 31 March 2002 are set out as follows:

	<b>2002</b>	<b>2001</b>	<b>2000</b>
	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>
Turnover	12,740	987,326	908,057
Cost of sales	(22,711)	(943,977)	(762,001)
Gross profit/(loss)	(9,971)	43,349	146,056
Other revenue	–	1,704	2,604
Distribution costs	–	(28,604)	(16,378)
Administrative expenses	(24,064)	(144,393)	(88,347)
Impairment loss recognized on property, plant and equipment	(2,990)	–	–
Impairment loss recognized on interests in subsidiaries not consolidated	(85,676)	–	–
Provision for amounts due from subsidiaries not consolidated	(48,601)	–	–
Indemnified liabilities of subsidiaries not consolidated	(220,734)	–	–
Profit/(loss) from operations	(392,036)	(127,944)	43,935
Finance costs	–	(14,300)	(1,758)
Goodwill of a subsidiary written off	–	(117)	–
Profit/(loss) before taxation	(392,036)	(142,361)	42,177
Taxation credit/(charge)	–	4,286	(9,696)
Profit/(loss) before minority interests	(392,036)	(138,075)	32,481
Minority interests	–	117	26
Net profit/(loss) for the year	<u>(392,036)</u>	<u>(137,958)</u>	<u>32,507</u>

*(a) Results of operation*

For the financial year ended 31 March 2000, the Group's turnover increased by about 79.77% to about \$908.06 million with reference to that of financial year 1999. The significant jump was mainly attributable to the strong market demand for the Group's high-end electronic organizer products and the continuous growth of sales of LCD modules. Sales of high-end electronic organizers and LCD modules accounted for about 63.75% and 34.29% of the Group's turnover respectively for that year.

The profit attributable to Shareholders also increased from about \$28.93 million in 1999 to about \$32.51 million in 2000 representing an increase of about 12.37%. The increase in turnover of high-end electronic organizers and LCD modules and the improved profit margin of high-end electronic organizers explained such increase of profit attributable to Shareholders. In January 2000, telecommunication products were launched and recorded a turnover of approximately \$17.84 million for the three months ended 31 March 2000. In the

## LETTER FROM CSC ASIA

second half of 2000, the pace of profit growth was slower as compared to the first half of year as a result of increase in tax provision, increase in cost of sales due to shortage of supply in certain components, losses suffered from telecommunication product operations, and increase in depreciation for the additional machinery and equipment in the new manufacturing plant in Dongguan City for the trial run of the LCD panel production line.

For the financial year ended 31 March 2001, the Group recorded a turnover of about \$987.33 million, representing an increase of about 8.73% over the same in 2000. However, the Group suffered a significant net loss attributable to Shareholders of about \$137.96 million. The significant loss was the result of the increase in the costs of electronic components resulted from material shortage commencing from the second half of 2000, substantial increase of inventory provision, increase in depreciation incurred by new factory in Dongguan City and machinery purchased for two new product lines, increase in staff costs and overheads as a result of local and overseas sales networks expansion. From May 2001 onwards, due to over-investment in two new products lines, namely, the LCD and telecommunications products, the Group encountered a severe cash flow problem.

For the financial year ended 31 March 2002, the Group recorded a turnover of about \$12.74 million representing a significant drop of about 98.71% as compared to the turnover of 2001. While the factory in Dongguan, the sole factory of Kessel, has ceased operations since October 2001, the production and sales activities of the Group were in essence suspended since then and the relatively low turnover for the financial year ended 31 March 2002 simply represented net amounts received and receivable from assembly services rendered to subsidiaries not consolidated.

The net loss in 2002 rose significantly by about 184.17% from about \$137.96 million in 2001 to about \$392.04 million in 2002. Such increase in net loss was principally due to the impairment loss recognized on interests in subsidiaries not consolidated of about \$85.68 million, the provision for amounts due from subsidiaries not consolidated of about \$48.60 million and the indemnified liabilities of subsidiaries not consolidated of about \$220.73 million.

### *(b) Indebtedness*

As at 31 March 2001, the Group had a total indebtedness of about \$95.54 million, which comprised obligations under a finance lease and a hire purchase contract, bank borrowings and other interest-bearing loans. As compared with the total indebtedness of about \$13.20 million as at 31 March 2000, there was an increase of about 623.79%. Since the Company being listed on the Stock Exchange in 1997, it has not raised any equity funding from the secondary market and as a result, the Company had a substantial reliance on bank financing. Such situation was evidenced from the fact that the finance costs were significantly increased from about \$1.76 million in 2000 to about \$14.30 million in 2001, representing an increase of about 712.50%.

As stated in the 2002 auditors' report, the Directors have prepared the 2002 financial statements on the basis that the Restructuring Agreement will be successfully implemented such that the Group will be able to resume its electronics manufacturing operations. As stated in the statement of pro forma adjusted and unaudited consolidated net tangible assets of the Group at Closing set out in Appendix I, after completion of the Debt Restructuring, the net liabilities of the Group of about \$255.72 million as at 31 March 2002 will be

## LETTER FROM CSC ASIA

enhanced to pro forma adjusted and unaudited consolidated net tangible assets of about \$48.11 million (assuming no conversion of the Convertible Notes and after deduction of the value of plant and machineries amounting to \$48 million) and the Group's total indebtedness of about \$95.54 million as at 31 March 2001 will all be discharged and/or settled immediately after Closing. Details in such regard are set out in the section headed "Effects of the Restructuring Proposal" below.

On the above basis, it can be concluded that after completion of the Restructuring Proposal, the Group could be relieved from the high finance costs and hence the tight cashflow position which has previously largely hindered the revitalization of the business of the Group.

### *(c) Working capital*

As shown in the annual report 2001, the Group had net current assets of about \$3.41 million in 2000 and net current liabilities of about \$150.09 million in 2001. The increase of trade and other payables, bill payables, bank overdrafts and bank installment loans were the main factors that contributed to the deterioration of net current liabilities of the Group and hence the tightening of the Group's cashflow position.

Based on the above analysis, it could be concluded that the Group's over investment in its new production lines and the development of new factory in Dongguan City in 2000 were the major factors that put the Group into cash flow crisis. If the Group is unable to implement the Restructuring Proposal, there is a strong likelihood that the Company will have to be wound up. If the Subordination Agreement and the DK Loan Agreement were not entered into, the Provisional Liquidators would unlikely be able to procure Dongguan Kepo to discharge the claims of the PRC creditors, the assets of Dongguan Kepo would have been auctioned and the sole factory of the Company in Dongguan would not be able to retained for future operation. If the Company is wound up, the return to its creditors would likely be minimal and it is unlikely that there will be any return to the Shareholders. However, Independent Shareholders should be reminded that the Group's future performance will not rely only on the sufficiency of working capital but will be subject to numerous factors including but not limited to the capacity and experience of management of the new Board and the intention of the Investor regarding the development of the Company. Please refer to the section headed "Intention of the Investor" below for details.

### **Proposals received by the Group**

In respect of the liquidity problems of the Group since May 2001, the Group has been undertaking a number of measures to stabilize the Group's financial situation by retaining professional financial advisors to negotiate with bankers for an informal standstill and creditors for debt restructuring, and seeking potential investors for new funding.

Since the suspension of trading of Shares in May 2001, the Kessel Provisional Liquidators have received seven proposals, including the Restructuring Proposal and proposals from potential investors. Among all available proposals, the Restructuring Proposal offers the highest level of cash injection into the Group and the highest recovery amount to the Companies' Creditors. After taking into consideration such benefits of the Restructuring Proposal, the current financial position of the Group and the pressure imposed by the creditors of the Group to recover their debts, the Directors and the Kessel Provisional Liquidators consider that the Restructuring Proposal represents the best option available to the Company.

## LETTER FROM CSC ASIA

### **Restructuring Proposal**

The Restructuring Proposal involves, inter alia, (i) the Capital Restructuring; (ii) the Subscription; and (iii) the Debt Restructuring. The Independent Shareholders should note that given the conditions precedent to completion of the Restructuring Agreement as set out in the letter from the Provisional Liquidators, if any one of the above arrangements fails to proceed, the Restructuring Agreement would lapse and so would the Restructuring Proposal. Accordingly, our approach to evaluate the Restructuring Proposal is to consider each of its components from a composite perspective.

#### *(a) Capital Restructuring*

The Capital Restructuring comprises the Share Consolidation, the Capital Reduction, the Share Subdivision and the Authorized Share Capital Increase, details of which are set out in the letter from the Kessel Provisional Liquidators. Each of the above arrangements will be subject to the passing of the necessary resolutions by the Shareholders at the SGM and they as a whole represent one of the conditions precedent to effect the Subscription.

One of the main purposes of the Capital Restructuring is to achieve an increase in the level of contributed surplus of the Company. About \$31.72 million will be generated from the Capital Reduction which will be credited to the contributed surplus account of the Company. The credit balance of such account will be applied to write off part of the Group's accumulated deficit which in turn will facilitate the Group's future payment of dividends, if any.

Moreover, the Capital Restructuring will enable the Company to issue the Subscription Shares at a price below the nominal value of the Shares now in issue. On such bases, we consider the Capital Restructuring is a reasonable arrangement to facilitate the implementation of the Restructuring Proposal.

#### *(b) Debt Restructuring*

The liabilities of the Group, which in aggregate amounted to about \$399 million will be restructured by way of the Creditors' Schemes and the Keview Compromise respectively.

Details of the arrangement of the Debt Restructuring are set out in the letter from the Provisional Liquidators and a summary of such arrangement is set out below:

##### *(i) Liabilities of the Company*

The total liabilities of the Company, which were all unsecured, amounted to about \$227.19 million as at 31 March 2002. The Subscription Proceeds of \$40 million, or the amount so reduced in case the liabilities of Dongguan Kepo exceed the PRC Liabilities Threshold, will be shared between the Kessel Creditors and the Keview Creditors. In the event that there is no Excess PRC Liabilities, \$31.30 million out of the Subscription Proceeds will be applied to the Creditors' Schemes and the balance of \$8.7 million to the Keview Compromise.

## LETTER FROM CSC ASIA

Subject to payment of relevant costs and expenses, the funds in the Creditors' Scheme will be distributed to the Kessel Creditors in accordance with their respective entitlement. According to the terms of the Creditors Schemes, the preferential claims will be paid in full, and other scheme creditors will be paid pari passu and rateably amongst themselves as determined by the scheme administrators of the Creditors' Schemes. Each Kessel Creditor will discharge and waive his claims against the Company in consideration of his right to participate in the funds of the Creditors' Schemes which would become effective and binding on all Kessel Creditors, provided that a majority in number of the Kessel Creditors representing at least 75% in value of the total unsecured indebtedness of the Company votes in favour of the Creditors' Schemes.

### (ii) Liabilities of Keview

#### *Liabilities to be discharged by the Investor at Closing*

The Investor has agreed to settle the HSBC Secured Balance of \$2.25 million at Closing, after which HSBC will release its charge over the assets of Keview. Subject to the terms of the Restructuring Agreement, the Investor has also agreed to reimburse the Keview Provisional Liquidators an amount of not more than \$1.5 million. Both the HSBC Secured Balance and the advancement by the Keview Provisional Liquidators were applied to settle certain liabilities of Dongguan Kepo so as to avoid any possible damages that may be caused by the pressing creditors of Dongguan Kepo.

#### *Unsecured Liabilities of Keview*

Apart from the HSBC Secured Balance, all of Keview's liabilities were unsecured and amounted to approximately \$287 million (of which an amount of about \$59 million has been recorded in the liabilities of the Company) as at the Latest Practicable Date.

As mentioned above, under the Keview Compromise, \$8.7 million out of the Subscription Proceeds will be applied to settle the costs of the Keview Provisional Liquidators and the claims of the Keview Creditors in accordance with their respective entitlements. Each Keview Creditor will discharge and waive its claims against Keview in consideration for the money received under the Keview Compromise Agreement.

### (iii) Liabilities of Dongguan Kepo

The estimated aggregate liabilities of Dongguan Kepo as at 31 March 2002 was about \$197 million which comprised about \$173 million and about \$24 million owed to Keview and its trade and other creditors respectively. However, the liabilities of Dongguan Kepo are not dealt with under the Debt Restructuring in view that no recognized scheme of arrangement procedure exists under the current legislation of the PRC except following commencement of bankruptcy proceedings that would bind all creditors of a PRC Company. In order to assist Dongguan Kepo in dealing with the claims against it, the Investor has entered into the DK Loan Agreement with Dongguan Kepo. Details of the terms of the DK Loan Agreement are set out in the section headed "Liabilities of Dongguan Kepo" in the letter from the Provisional Liquidators.

## LETTER FROM CSC ASIA

On 8 April 2002, the PRC court published a notice in Dongguan Daily for the holding of the auction of the machineries of Dongguan Kepo on 16 April 2002. The auction was prevented by discharging all the judgement creditors by drawing money under the DK Loan Agreement. In consideration of the claims being settled, all judgement creditors had withdrawn their legal actions against Dongguan Kepo upon receipt of payment. On 12 April 2002, the PRC court had issued a judgement to release all sealing orders in respect of the claims of those creditors. As at the Latest Practicable Date, approximately \$19 million has been drawn down under the DK Loan Agreement to discharge certain liabilities of Dongguan Kepo. The total liabilities of Dongguan Kepo (except for Keview) amounted to approximately \$26 million as at the Latest Practicable Date. The liabilities of Dongguan Kepo may be subject to change.

We wish to advise the independent Shareholders to note that in case the valid liabilities of Dongguan Kepo (excluding about \$173 million owed to Keview), which are still subject to verification, exceed the sum of the Subscription Proceeds and the PRC Liabilities totaling \$75 million, any party to the Restructuring Agreement (other than the Escrow Agent) is entitled to terminate the Restructuring Agreement.

Upon completion of the Debt Restructuring, the Group's total indebtedness of about \$95.54 million as at 31 March 2001 will all be discharged and/or settled after completion of the Restructuring Agreement and its tight working capital position will therefore be relieved. In the event that the Debt Restructuring fails to proceed, the Restructuring Proposal will lapse with the consequence that the Companies' Creditors may take legal action against the Group to recover their claims. Under such circumstances, the viability of the Company to continue normal operations would be put to doubt. On such bases, we believe that the Restructuring Proposal, of which the Debt Restructuring forms a part, is in the interests of the Company and its Shareholders as a whole.

### *(c) Subscription*

Pursuant to the terms of the Subscription Agreement, the Investor has agreed to subscribe for 10,000,000,000 New Shares at an issue price of \$0.004 per New Share for an aggregate consideration of \$40 million. Such Subscription Proceeds will be fixed irregardless of whether the aggregate liabilities of Dongguan Kepo to its creditors (excluding Keview) exceed the PRC Liabilities Threshold or not. The number of New Shares to be issued to the Investor at Closing represent approximately 97.3% of the enlarged issued share capital of the Company immediately following Closing.

The issue price per New Share is \$0.004. However, the Shares have been suspended from trading since 23 May 2001. Since then, the cashflow problems of the Group became more severe and its factory in Dongguan ceased operations since October 2001. Accordingly, we do not consider that the market price of the Shares of about \$0.28 before suspension of trading were reflective of the intrinsic value of the Company and hence represented a reasonable basis for assessment of the subscription price per New Share. Given that the Group incurred losses for each of the two financial years ended 31 March 2002, a price earnings multiple is not available for assessing the valuation of the Company. Under all such circumstances, we consider that it is more appropriate to value the Company by reference to its net asset value.

As set out in the statement of pro forma adjusted and unaudited consolidated net tangible assets of the Group at Closing, the consolidated net liabilities of the Group as at 31 March 2002 amounted to about \$255.72 million or a net liability before restructuring of

## LETTER FROM CSC ASIA

about \$0.80 per New Share. Accordingly, the valuation of the Group as offered by the subscription price of \$0.004 represented a premium over the net liabilities situation of the Group.

Immediately after completion of the Restructuring Proposal, of which the Subscription is a part, the Group's net liabilities situation will be reverted and the Group's consolidated net tangible assets so resulted would reach about \$103 million, or \$0.01 per Share assuming no conversion of the Convertible Notes. As a result, the Subscription is beneficial to strengthen the Group's financial position and the subscription price is not prejudicial to the Independent Shareholders as a whole.

### Effects of the Restructuring Proposal

#### (a) *Financial impact on the Group*

##### (i) Net assets

According to the statement of pro forma adjusted and unaudited consolidated net tangible asset of the Group at Closing set out in Appendix I, the pro forma adjusted and unaudited consolidated net tangible assets of the Group at Closing will amount to about \$48.11 million, or about \$0.0047 per New Share assuming no conversion of the Convertible Note and after deduction of the value plant and machineries amounting to \$48 million, representing an increase of approximately \$303.83 million, over the net liabilities before restructuring of about \$255.72 million, or about \$0.80 per Share as at 31 March 2002.

The deduction of the value of plant and machinery amounting to \$48 million from the consolidation net tangible assets of the Group upon closing is resulting from the fact that most of the former directors of the Company, former senior management and former accounting personnel of the Group have left the Group. Without assistance of the senior management of the Group, the Kessel Provisional Liquidators have been unable to locate sufficient documentary information to satisfy themselves regarding the legal title of the plant and machineries.

In the event that the Convertible Notes are fully converted by the Yue Fung and Simply Noble, the pro forma adjusted and unaudited consolidated net tangible assets of the Group at Closing will be further enhanced to about \$78.11 million, or about \$0.0044 per New Share.

In view of the significant enhancement of the pro forma adjusted and unaudited consolidated net tangible asset value of the Group as a result of the Restructuring Proposal, we consider that the Restructuring Proposal is in the interests of the Independent Shareholders as a whole.

##### (ii) Working capital

As set out in the statement of pro forma adjusted and unaudited net tangible assets of the Group at Closing, the pro forma unaudited net current assets of the Group at Closing amounted to about \$29.73 million, representing an improvement in the working capital of the Company by about \$426.86 million over net current liabilities of the Group as at 31 March 2002 of about 397.13 million.



## LETTER FROM CSC ASIA

Yue Fung advised that, after taking into account its own working capital requirements and funding needs, Yue Fung together with its controlling shareholder, Simply Noble, have agreed to provide, in equal proportion, a total of \$30 million cash to the Group upon Closing for its working capital requirements through issuance of the Convertible Notes. Please refer to the section headed “Issue of Convertible Notes” of the letter from the Provisional Liquidators for further details and terms of the Convertible Notes. Having regard to the funding needs of the Group and in the absence of unforeseen circumstances, the Yue Fung is of the opinion that \$30 million is sufficient to revitalize the operation of the Group. Such inflow of capital would fulfill the Group’s immediate working capital requirements enables it to resume its normal business operations.

As advised by Yue Fung, such \$30 million is currently planned to be applied to restore the operations of Dongguan Kepo factory, of which about \$20 million will be used for acquiring and reconditioning machinery and utilities, trial running of materials and consumables as well as procuring materials and the balance of about \$10 million for financing operating overhead.

### (iii) Operating results

One of the major financial benefits of the Restructuring Proposals on the Company is the reduction of finance cost as a result of the decrease of the overall indebtedness level. As mentioned in the section headed “Indebtedness” in our advice letter above, since its listing on the Stock Exchange in 1997, the Company has not raised any equity funding, leading to over reliance on bank financing. As a result, the finance cost rose from about \$1.76 million in 2000 to about \$14.30 million in 2001, representing an increase of about 712.50%. As advised by the Kessel Provisional Liquidators, about \$23.01 million interest expenses, on an annualized basis, are expected to be saved after completion of the Restructuring Proposal. As a result, the Company could have higher level of working capital to finance its operations.

### (b) *Dilution effect on the shareholding*

Details of the changes of the shareholding structure were set out in the section headed “Effects of the Restructuring Proposal” in the letter from the Provisional Liquidators. Upon Closing, the interest of the existing Shareholders will be diluted from about 100% to about 3%. The dilution effect is a result of the issue of the Subscription Shares. As stated in the letter from the Kessel Provisional Liquidators, the Restructuring Proposal enables injection of new funding into the Company for settlement of debts and future operations and reversion of the net liabilities position. In view that the Subscription is a condition precedent to the Restructuring Proposal, if the Subscription does not proceed, the Restructuring Proposal will not be implemented. In such regard, the Kessel Provisional Liquidators believe that there is a strong likelihood that the Company will have to be wound up and accordingly, it is unlikely that there will be any return to the Shareholders. Besides, it is not abnormal for the interests of shareholders to be substantially diluted in the implementation of restructuring exercises. Taking into account all such factors, we consider the dilution effect on Independent Shareholders’ shareholding interests to be understandable and acceptable on an overall basis.

## LETTER FROM CSC ASIA

### **Intention of the Investor**

The Investor, is wholly and beneficially owned by Yue Fung. Yue Fung is a company listed on the Stock Exchange since October 1997 and it is principally engaged in the manufacture and sale of consumer electronic products including calculators, digital cameras, other digital imaging products and databanks.

After Closing, certain subsidiaries of the Group will remain, whilst subsidiaries with net liabilities will not form part of the Group. The restructured Group will include Dongguan Kepo. The Investor also intends to continue the existing business of the Company and retain certain senior management to continue to manage the business. It is the intention of the Investor to first provide the necessary working capital to Dongguan Kepo to restart and revitalize its operations as soon as practicable. Such provision of working capital will be performed through the issue of the Convertible Notes amounting to \$30 million. The Investor has no plan to inject any assets into the Company or redeploy any assets of the Group apart from providing working capital to the restructured Group.

As described under the section headed “Financial performance to the Group” above, the principal activities of the Group prior to the appointment of the Provisional Liquidators were the manufacture and sale of personal digital assistants, LCD modules, LCD panels and telecommunication products. The Investor noted that certain LCD panels produced by the Group can be used as components in the production of the calculators and databanks of Yue Fung. Yue Fung currently purchases such LCD Products from independent suppliers. The board of Yue Fung believes that, with the management expertise, factory plants, machinery and equipments of Dongguan Kepo available for the manufacture of LCD Products, Dongguan Kepo will provide a reliable source of LCD panels to Yue Fung with assured standard of quality.

As mentioned in the letter from the Investor, it is the intention of the Investor to review the restructured Group and formulate a long-term business by exploring new business opportunities or developing new business strategies. The extensive experience of Yue Fung was evidenced in its track record from 1999 to 2001.

For the financial years 1999 to 2001, the turnover of Yue Fung rose from about \$277.68 million in 1999 to about \$290.54 million in 2000 and about \$338.53 million in 2001, representing an annual growth of 4.63% and 16.52% respectively. In 2000, Yue Fung recorded a net profit attributable to shareholders of about \$20.23 million representing a drop of 34.32% as compared to that of about \$30.80 million in 1999. In 2001, Yue Fung recorded a net profit attributable to shareholders of about \$41.19 million representing a growth of about 103.61%. Addition of new product arms, an upgrading of the overall product mix and the introduction of higher-margin production of digital imaging products were main factors contributed to the increase mentioned above.

In 2001, Yue Fung enjoyed strong support from banks and was granted a total banking facilities of about \$212.41 million. During the year 2000, Yue Fung raised funds of about \$28.30 million by placing of shares and issue of convertible notes in secondary market in addition to internal fund resources for R&D, expanding facilities and upgrading machinery.

Notwithstanding the financial performance of Yue Fung, for those Independent Shareholders who are not attracted to the future prospects of the Group and are lack of confidence in the management of Yue Fung, they may consider to vote against the Restructuring Proposal.

## LETTER FROM CSC ASIA

### **Future management**

After the completion of the Restructuring Agreement, all existing executive Directors, namely Mr. Shun Wing Chiu and Mr. Lau Chi Kong, will be removed from the Board. The Investor intends to appoint Mr. Li Wing Bun, Mr. Lee Wing Chan and Ms. Ching Mei Yee as executive Directors, and Mr. Gordon Ng and Mr. Ng Wai Hung, Raymond as independent non-executive Directors.

We have reviewed the background of the proposed executive Directors and noted that two of them, Lee Wing Chan and Ching Mei Yee, are executive directors of Yue Fung and Li Wing Bun is the business development manager of Yue Fung and chief executive officer of a subsidiary of Yue Fung. All of them have accumulated substantial experience in the electronics industry. Accordingly, the proposed executive Directors do carry the experience directly relevant to the business of the Group and we consider such experience crucial to the future development of the restructured Group. Notwithstanding that Yue Fung and the Company have common directors after completion of the Restructuring Agreement, future transactions between Yue Fung and the Company, if any, will be connected transactions which are regulated and governed by the Listing Rules and hence subject to disclosure requirements and/or approval of independent shareholders upon their occurrence.

### **The Whitewash Waiver**

Immediately upon completion of the Restructuring Proposal, the Investor will be interested in about 97% of the enlarged issued share capital of the Company. Under the Code, the Investor is obliged to make a general offer for all the Shares other than those already held by the Investor and parties acting in concert with it.

As stated in the letter from the Kessel Provisional Liquidators, the grant of the Whitewash Waiver is one of the conditions precedent to the completion of the Restructuring Agreement. In the event that the grant of the Whitewash Waiver is not approved by Independent Shareholders, the Restructuring Agreement will lapse and the Restructuring Proposal will not proceed. If so happens we concur with the Provisional Liquidators' belief that there is a strong likelihood that the Company will have to be wound up and accordingly, it is unlikely that there will be any return to the Shareholders. On such bases, together with the reduction in indebtedness level and the improvement in working capital position of the Group after completion of the Restructuring Proposal, we consider that the grant of the Whitewash Waiver is in the interests of the Company and the Independent Shareholders as a whole.

### **RECOMMENDATION**

Having considered the factors and reasons set out above, in particular:

- the strong likelihood that the Company will have to be wound up if the Restructuring Agreement is not implemented and accordingly, it is unlikely that there will be any return to the Shareholders;
- the fact that among all available proposals, the Restructuring Proposal offers the highest level of cash injection into the Group and the highest recovery amount to the Companies' Creditors;
- of the discharge and/or settlement of all indebtedness of the Group immediately after Closing;

## LETTER FROM CSC ASIA

- the injection of new funding into the Group which is critical to revitalize its operations;
- the significant enhancement in net tangible assets of the Group from net liabilities before restructuring of about \$255.72 million at 31 March 2002 to net assets of about \$48.11 million (assuming no conversion of the Convertible Notes and after deduction of the value of plant and machineries amounting to \$48 million) after completion of the Restructuring Agreement; and
- the experience and track record of Yue Fung in electronics industry.

We conclude that the terms of the Restructuring Proposal are fair and reasonable so far as the Independent Shareholders as a whole are concerned and are in the interests of the Company and its Shareholders notwithstanding the resulting dilution effect on the interests of existing Shareholders. We also consider that the grant of the Whitewash Waiver is in the interests of the Company and the Independent Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the relevant resolutions in relation to the Restructuring Proposal and the Whitewash Waiver to be proposed at the Special General Meeting.

Yours faithfully,  
For and on behalf of  
**CSC Asia Limited**  
**Andrew Chiu**

*Managing Director and Head of Investment Banking*

## 1. SHARE CAPITAL

Details of the share capital of the Company before and after the Capital Restructuring are as follows:

	Existing position as at the Latest Practicable Date	Position after Share Consolidation	Position after Capital Reduction	Position after Share Subdivision	Position after increase in authorized share capital
Number of authorized shares	1,000,000,000	125,000,000	125,000,000	875,000,000	40,000,000,000
Authorized share capital	\$100,000,000	\$100,000,000	\$875,000	\$875,000	\$40,000,000
Number of issued shares	320,000,000	40,000,000	40,000,000	280,000,000	280,000,000
Par value per share	\$0.10	\$0.80	\$0.007	\$0.001	\$0.001
Total issued share capital	\$32,000,000	\$32,000,000	\$280,000	\$280,000	\$280,000
Number of unissued share	680,000,000	85,000,000	85,000,000	595,000,000	39,720,000,000
Total unissued share capital	\$68,000,000	\$68,000,000	\$595,000	\$595,000	\$39,720,000

The authorised and issued share capital of the Company as at the Latest Practicable Date were, and immediately following Closing will be, as follows:

<i>Authorised:</i>		\$
<u>1,000,000,000</u>	Shares of \$0.10 each as at the Latest Practicable Date	<u>100,000,000</u>
<u>40,000,000,000</u>	New Shares of \$0.001 each upon the Capital Restructuring becoming effective	<u>40,000,000</u>
<i>Issued and fully paid:</i>		
<u>320,000,000</u>	Shares of \$0.10 each as at the Latest Practicable Date	<u>32,000,000</u>
280,000,000	New Shares of \$0.001 each upon the Capital Restructuring becoming effective	280,000
<u>10,000,000,000</u>	New Share to be issued at Closing	<u>10,000,000</u>
<u>10,280,000,000</u>		<u>10,280,000</u>

There has been no alteration in the number of issued Shares since 31 March 2002 which is the last financial year end date of the Company prior to the Latest Practicable Date.

As at the Latest Practicable Date, all of the issued Existing Shares rank pari passu in all respects with each other, including in particular, as to dividends, voting rights and return of capital. All the New Shares to be issued will rank pari passu in all respects with each other, including in particular, as to dividends, voting rights and return of capital.

The Company has no other outstanding warrants, options or securities convertible into Shares or New Shares, and save as the proposed issue of the Convertible Notes, no other share or loan capital of the Company has been put under option or agreed conditionally or unconditionally to be put under option and no other warrant or conversion right affecting the Shares or other derivatives in respect of the Company's securities or which carry voting rights has been issued or granted or agreed conditionally, or unconditionally to be issued or granted.

Subject to the granting of the listing of, and permission to deal in the New Shares, the New Shares to be issued under the Subscription 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 aforesaid Shares on the Stock Exchange or such other date as determined by Hongkong Clearing. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the general rules of CCASS and CCASS Operational Procedures in effect from time to time.

No part of the equity or debt securities of the Company is listed or dealt in or is proposed for listing or dealing in on any stock exchange other than the Stock Exchange.

An application will be made to the Stock Exchange for the listing of, and permission to deal in, the New Shares to be issued pursuant to the Subscription and the exercise of the Convertible Notes and on exercise of the options granted under the New Share Option Scheme.

An application has been made to the Bermuda Monetary Authority seeking its approval for the issue of the Convertible Notes, the New Shares to be allotted and issued under the Share Subdivision, the Subscription, the Convertible Notes, the New Share Option Scheme and the New Shares falling to be issued on exercise of the options granted under the New Share Option Scheme.

## **2. FINANCIAL SUMMARY**

The table set out below summarises the consolidated results of the Group for the preceding three financial years ended 31 March 2002, as derived from the audited consolidated financial statements of the Company for each respective year. The report of the auditors of the Company regarding the financial statements for each of the year ended 31 March 2000, 2001 and 2002 are set out in section 3 of this Appendix.

## RESULTS

	Year ended 31 March		
	2002 \$'000	2001 \$'000	2000 \$'000
TURNOVER	<u>12,740</u>	<u>987,326</u>	<u>908,057</u>
EXCEPTIONAL ITEMS	<u>(358,001)<sup>(i)</sup></u>	<u>–</u>	<u>–</u>
(LOSS)/PROFIT BEFORE TAXATION	(392,036)	(142,361)	42,177
TAXATION CREDIT (CHARGE)	<u>–</u>	<u>4,286</u>	<u>(9,696)</u>
(LOSS)/PROFIT BEFORE MINORITY INTERESTS	(392,036)	(138,075)	32,481
MINORITY INTERESTS	<u>–</u>	<u>117</u>	<u>26</u>
NET (LOSS)/PROFIT FOR THE YEAR	<u>(392,036)</u>	<u>(137,958)</u>	<u>32,507</u>
DIVIDENDS	<u>–</u>	<u>–</u>	<u>7,360</u>
(LOSS)/EARNINGS PER SHARE	<u>(122.5) cents</u>	<u>(43.1) cents</u>	<u>10.2 cents</u>
DIVIDENDS PER SHARE	<u>–</u>	<u>–</u>	<u>2.3 cents</u>

## ASSETS AND LIABILITIES

	At 31 March		
	2002 \$'000	2001 \$'000	2000 \$'000
TOTAL ASSETS	143,171	558,407	525,546
TOTAL LIABILITIES	(398,889)	(422,084)	(251,087)
MINORITY INTERESTS	<u>–</u>	<u>(5)</u>	<u>(91)</u>
SHAREHOLDERS' FUNDS/(LIABILITIES)	<u>(255,718)</u>	<u>136,318</u>	<u>274,368</u>

(i) Exceptional Items for the year ended 31 March 2002 being:

	\$'000
Impairment loss recognised on property, plant and equipment	(2,990)
Impairment loss recognised on interests in subsidiaries not consolidated	(85,676)
Provision for amounts due from subsidiaries not consolidated	(48,601)
Indemnified liabilities of subsidiaries not consolidated	(220,734)
	<u>(358,001)</u>

### 3. LATEST PUBLISHED FINANCIAL STATEMENTS

The following audit report is extracted from the annual report of the Company for the year ended 31 March 2000:

**“TO THE MEMBERS OF KESSEL INTERNATIONAL HOLDINGS LIMITED**  
*(incorporated in Bermuda with limited liability)*

We have audited the financial statements on pages 22 to 47 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

#### **Respective responsibilities of directors and auditors**

The Company’s directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

#### **Basis of opinion**

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

#### **Fundamental uncertainty relating to litigation**

In forming our opinion, we have considered the adequacy of the disclosures made in note 26 to the financial statements concerning the litigation against the Group for an alleged copyright infringement. The future outcome of the litigation might result in significant additional liabilities for the Group. However, it is not possible to quantify the effects, if any, of the litigation and, accordingly, no provision has been made in the financial statements. We consider that the fundamental uncertainty has been adequately disclosed in the financial statements and our opinion is not qualified in this respect.

#### **Opinion**

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 March 2000 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**Deloitte Touche Tohmatsu**  
*Certified Public Accountants*

Hong Kong, 25 August 2000”



The following audit report is extracted from the annual report of the Company for the year ended 31 March 2001:

**“TO THE MEMBERS OF KESSEL INTERNATIONAL HOLDINGS LIMITED**  
*(incorporated in Bermuda with limited liability)*

We have audited the financial statements on pages 23 to 65 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

**Respective responsibilities of directors and auditors**

The Company’s directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

**Basis of opinion**

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

**Fundamental uncertainty relating to the going concern basis**

In forming our opinion, we have considered the adequacy of the disclosures made in note 2 to the financial statements which explains that, during the year and subsequent to the balance sheet date, the banking facilities utilised by the Group exceeded the limits offered by its principal bankers and that the Group has reached an informal standstill understanding with its principal bankers. Also, claims have been brought against the Group by certain creditors and the Group is in the process of negotiating with certain other creditors to postpone the repayment of the amounts due to them. Against this background, the Group is in discussion with its principal bankers to secure their ongoing support for the Group and with potential investors in order to obtain additional funds.

Provided that agreement can be reached with the Group’s principal bankers to secure their continued support for the Group and that the Group can obtain sufficient additional funds from new investors the directors are satisfied that the Group will be able to meet in

full its financial obligations as they fall due for the foreseeable future. The financial statements are prepared on a going concern basis, the validity of which depends upon future funding being available. The financial statements do not include any adjustments that would result from the failure to obtain such funding. We consider that the fundamental uncertainty has been adequately disclosed in the financial statements and our opinion is not qualified in this respect.

**Fundamental uncertainty relating to the outstanding litigation**

In forming our opinion we have considered the adequacy of the disclosures made in note 37 to the financial statements concerning the litigation against the Group for an alleged copyright infringement. The future outcome of the litigation might result in significant additional liabilities for the Group. However, it is not possible to quantify the effects, if any, of the litigation and, accordingly, no provision has been made in the financial statements. We consider that the fundamental uncertainty has been adequately disclosed in the financial statements and our opinion is not qualified in this respect.

**Fundamental uncertainty relating to the outstanding arbitration**

In forming our opinion we have considered the adequacy of the disclosures in note 41 to the financial statements concerning a claim brought by a contractor in connection with certain alleged variations and additional works rendered together with overdue interest thereon in the aggregate sum of approximately \$8,366,000. The claim is now the subject of arbitration. The future outcome of the arbitration might result in additional liabilities for the Group. However, it is not possible to quantify the effects, if any, of the resolution of this uncertainty. We consider that the fundamental uncertainty has been adequately disclosed in the financial statements and our opinion is not qualified in this respect.

**Opinion**

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 March 2001 and of the loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**Deloitte Touche Tohmatsu**  
*Certified Public Accountants*

Hong Kong, 17 August 2001”

The following is the text of the financial statements of the Company for the year ended 31 March 2002 and the audit report thereon.

## AUDITORS' REPORT

### “TO THE PROVISIONAL LIQUIDATORS AND SHAREHOLDERS OF KESSEL INTERNATIONAL HOLDINGS LIMITED

*(incorporated in Bermuda with limited liability)*

We have audited the financial statements on pages 7 to 40 which have been prepared in accordance with accounting principles generally accepted in Hong Kong other than as set out below.

#### Respective responsibilities of directors and auditors

The directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

#### Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants except that the scope of our work was limited as explained below.

An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and of the Group, consistently applied and adequately disclosed.

We planned our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. However, the evidence available to us was limited as set out below.

1. As explained by the Current Directors (as defined in note 1 to the financial statements) in note 18 (c) to the financial statements, the Current Directors have formed the opinion that the aggregate carrying value of the Group's subsidiaries not consolidated of approximately \$85,676,000 as at 31 March 2001 has been impaired and, accordingly, such impairment loss has been recognised in the financial statements. However, we were unable to obtain sufficient information and explanations to satisfy ourselves as to the basis upon which the Current Directors have determined the amount of such impairment. Accordingly, we were unable to satisfy ourselves as to whether the carrying value of subsidiaries not consolidated are fairly stated in the financial statements.

2. As explained by the Current Directors in note 6 (b) to the financial statements, the Current Directors have been unable to locate sufficient documentary information to satisfy themselves regarding the treatment of various balances of the Group and of the Company as at 31 March 2002 and for the year then ended.
- (i) As explained by the Current Directors in note 6 (b) (i) to the financial statements, turnover includes recorded sales of approximately \$12,740,000 in respect of which the Current Directors were unable to locate the supporting documentation. Accordingly, the Current Directors have been unable to satisfy themselves as to whether these sales are fairly stated in the financial statements.
- (ii) As explained by the Current Directors in note 6 (b) (ii) to the financial statements, loss before taxation has been arrived at after charging the following amounts in respect of which the Current Directors were unable to locate third party supporting documentation:
- cost of sales of approximately \$16,229,000; and
  - administrative expenses of approximately \$18,034,000.
- Accordingly, the Current Directors have been unable to satisfy themselves as to whether these amounts are fairly stated in the financial statements.
- (iii) As explained by the Current Directors in note 6 (b) (iii) to the financial statements, in the absence of a reliable fixed assets register of the Group as at 31 March 2002, the Current Directors were unable to satisfy themselves as to the existence of leasehold improvements, equipment, furniture and fixtures, plant and machineries and motor vehicles, which amounted to approximately \$96,409,000 as at 31 March 2002.
- (iv) The Current Directors have formed the opinion that the carrying value of the Company's subsidiaries of approximately \$54,026,000 has been impaired and, accordingly, such impairment loss has been recognised in the financial statements. However, we were unable to obtain sufficient information and explanations regarding the basis upon which the Current Directors have determined the amount of such impairment. Accordingly, we were unable to satisfy ourselves as to whether the investments in subsidiaries are fairly stated in the financial statements.
- (v) The Current Directors have formed the opinion that the Group is unable to recover the amounts which the subsidiaries not consolidated owed to the Group and the Company of approximately \$48,601,000 and approximately \$82,256,000 respectively as at 31 March 2002 and, accordingly, the Current Directors have written off these amounts. However, we were unable to obtain sufficient information and explanations regarding the basis upon which the Current Directors have determined the amount of such write offs. Accordingly, we were unable to satisfy ourselves as to whether these write offs were appropriate.

- (vi) As explained by the Current Directors in note 6 (b) (iv) to the financial statements, the Current Directors were unable to obtain documentation to support bank balances and cash, and trade and other receivables of the Group of approximately \$1,466,000 and \$296,000 respectively, and also the aged analysis of the trade receivables of the Group as at 31 March 2002. Accordingly, the Current Directors were unable to satisfy themselves as to whether these amounts are fairly stated in the financial statements.
- (vii) As explained by the Current Directors in note 6 (b) (v) to the financial statements, the Current Directors were unable to satisfy themselves as to the completeness of the Group's and the Company's trade and other payables of approximately \$250,515,000 and approximately \$226,307,000 respectively as at 31 March 2002, including the completeness of liabilities under indemnities given to subsidiaries not consolidated of approximately \$220,734,000 as at that date. Accordingly, the Current Directors were unable to satisfy themselves as to whether these amounts are fairly stated in the financial statements.
- (viii) As explained by the Current Directors in note 6 (b) (vi) to the financial statements, the Current Directors were unable to satisfy themselves as to whether amounts owed to subsidiaries not consolidated of approximately \$148,374,000 and approximately \$884,000 included in the balance sheet of the Group and the Company respectively as at 31 March 2002 are fairly stated in the financial statements.
- (ix) As explained by the Current Directors in note 6 (b) (vii) to the financial statements, the financial statements have been prepared based on the available books and records maintained by the Company and its subsidiaries. However, in view of the lack of evidence available, the Current Directors were unable to represent that all transactions entered into by the Company and its subsidiaries for the year ended 31 March 2002 have been reflected in the books and records and in the financial statements. In this context, the Current Directors are also unable to represent as to the completeness of the disclosure of commitments in note 36 and of related party disclosures in note 37.

There were no other satisfactory audit procedures that we could adopt to satisfy ourselves as to the matters set out in paragraphs (i) to (ix) above. Any adjustments to the above figures would as appropriate affect the net liabilities of the Company and the Group as at 31 March 2002 and the loss of the Group for the year then ended.

In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

#### **Basis of preparation of financial statements**

In preparing the financial statements, we have considered the adequacy of the disclosures in notes 2, 4 and 6 (a) to the financial statements which explain that as a result of severe working capital difficulties, the operations and businesses of the Group were

suspended during the year. On 4 April 2002, the Company entered into a conditional restructuring agreement (“Restructuring Agreement”) with a new investor (the “Investor”). The Investor is a wholly owned subsidiary of Yue Fung International Group Holdings Limited (“Yue Fung”).

Under the terms set out in the Restructuring Agreement (i) the Investor will subscribe for new shares of the Company, representing approximately 97% of its enlarged issued capital, immediately upon completion of the Restructuring Agreement, for a consideration of \$40,000,000; (ii) the creditors’ indebtedness of the Company and its subsidiary, Keview Technology (BVI) Limited, will be discharged in full by way of cash payment on a basis disclosed in note 4 to the financial statements; and (iii) in accordance with the facilities letter entered into between Dongguan Kepo Electronics Limited (Dongguan Kepo) and the Investor on 4 April 2002, the Investor will provide and procure the provision of a loan up to \$35,000,000 to Dongguan Kepo to enable Dongguan Kepo to discharge certain claims against it.

The directors have prepared the financial statements on the basis that the Restructuring Agreement will be successfully implemented and that the Group will have sufficient working capital to be able to resume its electronics manufacturing operations. The financial statements do not include any adjustments that would result from the failure to implement the Restructuring Agreement. We consider that appropriate disclosures have been made and our opinion is not qualified in this respect.

#### **Qualification arising from disagreement about accounting treatment**

1. As detailed in note 18 (a) to the financial statements, the consolidated financial statements do not include the results and cash flows of certain subsidiaries, which are in the course of liquidation or their immediate holding companies are in the course of liquidations, up to the respective dates of appointment of liquidators. This treatment is not in accordance with the requirements of Statement of Standard Accounting Practice (“SSAP”) 32 “Consolidated Financial Statements and Accounting for Investments in Subsidiaries” issued by the Hong Kong Society of Accountants and the Companies Ordinance. In our opinion, there is insufficient information concerning these subsidiaries in the financial statements to give a true and fair view of the results and cash flows of the Group for the year ended 31 March 2002. It is not practicable to quantify the effects of the departure from this requirement.
2. As detailed in note 18 (b) to the financial statements, the financial statements of the Group do not consolidate the financial statements of certain subsidiaries. This treatment is not in accordance with the requirements of SSAP 32 “Consolidated Financial Statements and Accounting for Investments in Subsidiaries” and the Companies Ordinance. In our opinion, there is insufficient information concerning these subsidiaries in the financial statements to give a true and fair view of the state of affairs of the Group as at 31 March 2002 and of the results and cash flows of the Group for the year then ended. It is not practicable to quantify the effects of the departure from this requirement.

**Qualifications arising from disagreements about the extent of disclosure**

1. As explained in note 6 (b) (viii) to the financial statements, because certain accounting records have been mislaid, the following required disclosures have not been made in the financial statements:
  - i. Deferred taxation disclosures as required by SSAP 12 “Accounting for Deferred Tax”;
  - ii. Segment information disclosures as required by SSAP 26 (Revised) “Segment Reporting” and Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”);
  - iii. Disclosure in respect of subsidiaries excluded from consolidation as required by SSAP 32 “Consolidated Financial Statements and Accounting for Investments in Subsidiaries”;
  - iv. Operating leases disclosures as required by SSAP 14 (Revised) “Leases”; and
  - v. Details of directors’ and employees’ emoluments as required by the Listing Rules and the Companies Ordinance.

**Disclaimer of opinion**

Because of the significance of the possible effect of the limitations in evidence available to us referred to in the basis of opinion section of this report, we are unable to form an opinion as to whether the financial statements give a true and fair view of the state of affairs of the Company and of the Group at 31 March 2002 or of the loss and cash flows of the Group for the year then ended and as to whether the financial statements have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

In respect alone of the limitations on our work as set out in the basis of opinion section of this report:

- we have not obtained all the information and explanations that we considered necessary for the purpose of our audit; and
- we were unable to determine whether proper books of accounts have been kept.

Deloitte Touche Tohmatsu  
Certified Public Accountants  
Hong Kong,  
21 June 2002

**CONSOLIDATED INCOME STATEMENT***FOR THE YEAR ENDED 31 MARCH 2002*

	<i>NOTES</i>	<b>2002</b> \$'000	<b>2001</b> \$'000
Turnover	8	12,740	987,326
Cost of sales		(22,711)	(943,977)
Gross (loss) profit		(9,971)	43,349
Other revenue	9	–	1,704
Distribution costs		–	(28,604)
Administrative expenses		(24,064)	(144,393)
Impairment loss recognised on property, plant and equipment		(2,990)	–
Impairment loss recognised on interests in subsidiaries not consolidated	18	(85,676)	–
Provision for amounts due from subsidiaries not consolidated		(48,601)	–
Indemnified liabilities of subsidiaries not consolidated	10	(220,734)	–
Loss from operations	11	(392,036)	(127,944)
Finance costs	12	–	(14,300)
Goodwill of a subsidiary written off		–	(117)
Loss before taxation		(392,036)	(142,361)
Taxation credit	13	–	4,286
Loss before minority interests		(392,036)	(138,075)
Minority interests		–	117
Net loss for the year	30	<u>(392,036)</u>	<u>(137,958)</u>
Loss per share – basic	14	<u>(122.5 cents)</u>	<u>(43.1 cents)</u>



## CONSOLIDATED BALANCE SHEET

AT 31 MARCH 2002

	NOTES	2002 \$'000	2001 \$'000
Non-current assets			
Property, plant and equipment	15	141,409	276,655
Interest in properties	16	–	2,758
Intangible assets	17	–	16,601
		<u>141,409</u>	<u>296,014</u>
Current assets			
Interests in subsidiaries not consolidated	18	–	–
Inventories	20	–	189,022
Trade and other receivables	21	296	49,020
Bills receivable	22	–	6,867
Investments in securities	23	–	860
Bank balances and cash		1,466	16,624
		<u>1,762</u>	<u>262,393</u>
Current liabilities			
Trade and other payables	10	250,515	204,440
Bills payable	24	–	115,336
Amounts due to subsidiaries not consolidated		148,374	–
Taxation payable		–	4,705
Obligations under a finance lease and a hire purchase contract – amount due within one year	25	–	14,488
Bank borrowings – amount due within one year	26	–	63,016
Other loan – amount due within one year	27	–	10,500
		<u>398,889</u>	<u>412,485</u>
Net current liabilities		<u>(397,127)</u>	<u>(150,092)</u>
Total assets less current liabilities		<u>(255,718)</u>	<u>145,922</u>
Non-current liabilities			
Obligations under a hire purchase contract	25	–	4,537
Other loan	27	–	3,000
Deferred taxation		–	2,062
		<u>–</u>	<u>9,599</u>
Net (liabilities) assets		<u>(255,718)</u>	<u>136,323</u>
Capital and reserves			
Share capital	28	32,000	32,000
Reserves	30	(287,718)	104,318
		<u>(255,718)</u>	<u>136,318</u>
Minority interests		–	5
		<u>(255,718)</u>	<u>136,323</u>

**BALANCE SHEET**

AT 31 MARCH 2002

	NOTES	2002 \$'000	2001 \$'000
Non-current assets			
Investments in subsidiaries	19	—	54,026
Current assets			
Amounts due from subsidiaries		—	82,067
Bank balances and cash		8	278
		8	82,345
Current liabilities			
Trade and other payables	10	226,307	465
Amounts due to subsidiaries		884	607
		227,191	1,072
Net current assets		(227,183)	81,273
Net (liabilities) assets		<u>(227,183)</u>	<u>135,299</u>
Capital and reserves			
Share capital	28	32,000	32,000
Reserves	30	(259,183)	103,299
		<u>(227,183)</u>	<u>135,299</u>

**CONSOLIDATED STATEMENT OF RECOGNISED GAINS AND LOSSES**  
*FOR THE YEAR ENDED 31 MARCH 2002*

	<b>2002</b>	<b>2001</b>
	<i>\$'000</i>	<i>\$'000</i>
Exchange differences arising on translation of overseas subsidiaries not recognised in the consolidated income statement	–	(92)
Net loss for the year	<u>(392,036)</u>	<u>(137,958)</u>
Total net recognised losses	<u><u>(392,036)</u></u>	<u><u>(138,050)</u></u>
Prior period adjustment arising from the effect of change in accounting policy ( <i>see note 5</i> )		
– Increase in dividend reserve at 1 April 2000		<u><u>7,360</u></u>

**CONSOLIDATED CASH FLOW STATEMENT***FOR THE YEAR ENDED 31 MARCH 2002*

	<i>NOTES</i>	<b>2002</b> \$'000	<b>2001</b> \$'000
NET CASH INFLOW FROM OPERATING ACTIVITIES	31	409	29,596
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest paid on bank borrowings		–	(12,527)
Dividends paid		–	(7,360)
Interest paid on obligations under a finance lease and a hire purchase contract		–	(1,773)
Interest received		–	447
Dividends received from investments in securities		–	66
NET CASH INFLOW (OUTFLOW) FROM RETURNS OF INVESTMENTS AND SERVICING OF FINANCE		409	(21,147)
NET CASH OUTFLOW FROM TAXATION Hong Kong Profits Tax paid		–	(1,695)
INVESTING ACTIVITIES			
Deconsolidation of interests in subsidiaries (net of cash and cash equivalents deconsolidated)	32	14,942	–
Purchase of property, plant and equipment		(331)	(60,379)
Development costs incurred		–	(10,725)
Purchase of additional interest in a subsidiary		–	(117)
Proceeds from disposal of plant and equipment		–	388
NET CASH INFLOW (OUTFLOW) FROM INVESTING ACTIVITIES		14,611	(70,833)
NET CASH INFLOW (OUTFLOW) BEFORE FINANCING		15,020	(64,079)
FINANCING ACTIVITIES	33		
Repayment of bank and other borrowings		–	(13,162)
Contribution from a minority shareholder of a subsidiary		–	38
New bank loans raised		–	46,000
New other loan raised		–	13,500
Repayment of obligations under a finance lease and a hire purchase contract		–	(5,975)
NET CASH INFLOW FROM FINANCING		–	40,401
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		15,020	(23,678)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		(13,554)	10,124
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	34	1,466	(13,554)

**NOTES TO THE FINANCIAL STATEMENTS***FOR THE YEAR ENDED 31 MARCH 2002***1. GENERAL**

The Company was incorporated as an exempted company in Bermuda with its shares listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). Its ultimate holding company is Stangee International Limited, a company incorporated in the British Virgin Islands. The trading of the Company’s shares on the Stock Exchange has been suspended since 23 May 2001.

The Company acts as an investment holding company.

The principal activities of the Company’s subsidiaries of which their financial statements have been consolidated at 31 March 2002 are set out in note 19.

The directors of the Company during the year and up to the date of these financial statements being approved were:

*Executive directors*

Mr. Shun Wing Chiu ( <i>Chairman</i> )	
Mr. Lam Chi Kong	
Mr. Hui Kam Luen, Terence	(resigned on 24 August 2001)
Mr. Lam Shing	(resigned on 24 August 2001)
Ms. Chan Yuk Lin	(resigned on 31 October 2001)

*Independent non-executive directors*

Ms. Lo Miu Sheung, Betty	(resigned on 5 November 2001)
Ms. Chan Chung Yee, Louise	(resigned on 5 November 2001)

Messrs. Shun Wing Chiu and Lam Chi Kong are collectively referred to as the “Current Directors”.

**2. APPOINTMENT OF PROVISIONAL LIQUIDATORS**

The Company and all its subsidiaries (collectively referred to as the “Group”) have been experiencing liquidity problem and were not generating sufficient cash flows since May 2001.

The Company had defaulted payment under the guarantee and cross guarantee given by Hongkong and Shanghai Banking Corporation Limited (“HSBC”) dated 4 January 2001 and 9 February 2001 respectively. In order to preserve the assets of the Group, HSBC petitioned to wind-up the Company. Messrs. Gabriel CK Tam, Jacky CW Muk and Malcolm Butterfield of KPMG (the “Kessel Provisional Liquidators”) were appointed as the joint and several provisional liquidators of the Company by the order of the Supreme Court of Bermuda (the “Supreme Court”) on 15 November 2001.

The Group has an indirect wholly-owned subsidiary, Keview Technology (BVI) Limited (“Keview”), which owns Dongguan Kepo Electronics Limited (“Dongguan Kepo”), which was set up in Dongguan in the People’s Republic of China (the “PRC”) as a wholly foreign-owned enterprise. Dongguan Kepo was the major asset of the Group. As a result of Keview’s failure to meet its obligations under the cross guarantee given to HSBC dated 9 February 2001, HSBC petitioned to wind-up Keview. Messrs. Gabriel CK Tam and Jacky CW Muk (the “Keview Provisional Liquidators”) were appointed as the joint and several provisional liquidators of Keview by the High Court of the Hong Kong Special Administrative Region (the “High Court”) on 8 October 2001.

The Kessel Provisional Liquidators and the Keview Provisional Liquidators (collectively referred to as the “Provisional Liquidators”) were appointed to, inter alia, enforce and preserve the assets and businesses of the Group.

The Group had suspended all its operations and businesses since October 2001.

### 3. WINDING-UP PETITIONS AND SEALING ORDERS

#### (a) Winding-up petition against the Company and Keview (the “Winding-Up Petitions”)

##### *i. Against the Company*

On 14 November 2001, HSBC filed a winding-up petition against the Company in the Supreme Court. The winding-up petition was fixed for 7 December 2001. Application was made to the Supreme Court for adjournment pending submission of proposals from potential investors to restructure the Group on the date of hearing. The winding up petition was subsequently adjourned sine die by the Supreme Court.

##### *ii. Against Keview*

On 5 October 2001, HSBC filed a winding-up petition against Keview in the High Court. The winding-up petition was fixed for 16 January 2002. Application was made to the High Court for adjournment in order to negotiate with the potential investors and to consider the restructuring procedures on 15 January 2002. The High Court granted an order to adjourn the winding-up petition to 22 April 2002. In order to proceed with the restructuring proposal, application was also made to the High Court on 18 April 2002. The winding up petition was adjourned to 29 July 2002.

#### (b) Sealing orders

Dongguan Kepo owns and operates a factory in Dongguan. The factory ceased operations in September 2001. On 25 September 2001, one of the creditors in the PRC took legal action against Dongguan Kepo at The People’s Court, Dongguan for outstanding balance due by Dongguan Kepo. Since then, a total of over 65 writs have been served on Dongguan Kepo at The People’s Court, Dongguan. Over 40 PRC creditors had already obtained sealing orders on certain assets of the Group located at the Group’s Dongguan factory. Also, the majority of these PRC creditors have obtained judgments and have attachments over assets of Dongguan Kepo in respect of their claims. They are entitled to enforce their judgments by requesting the PRC court which has given judgment in their favour to sell the assets over which they have judgment security by public auction. An auction was scheduled for 16 April 2002 but was subsequently prevented by A-Max (Asia) Limited (the “Investor”), a wholly-owned subsidiary of Yue Fung International Group Holding Limited (“Yue Fung”), advancing money to Dongguan Kepo to enable the claims of the judgment creditors to be discharged. The judgement creditors had withdrawn their legal actions against Dongguan Kepo upon receipt of payments from the Investor. The PRC court had issued a judgment to release all sealing orders on 12 April 2002.

### 4. RESTRUCTURING PROPOSAL

Subsequent to the appointment of provisional liquidators to the Company, the Kessel Provisional Liquidators had received several proposals from a number of interested parties to restructure the Company.

On 25 April 2002, the Company and Yue Fung jointly announced that, inter alia, a conditional restructuring agreement (the “Restructuring Agreement”) was entered into on 4 April 2002 between (i) the Company, (ii) Keview (together with the Company, the “Companies”), (iii) the Kessel Provisional Liquidators, (iv) the Keview Provisional Liquidators, (v) the Investor, and (vi) Allen & Overy, acting as escrow agent in the transaction. The Restructuring Agreement involves, inter alia, subscription of new shares in the Company and restructuring of debts of the Companies, as briefly described below.

On the same date, the Investor has also agreed to extend a credit facility to Dongguan Kepo pursuant to a facility letter (the “DK Loan Agreement”) to enable Dongguan Kepo to meet certain of its liabilities. In relation to the DK Loan Agreement, a subordination agreement (the “DK Subordination Agreement”) was also entered into on the same date between (i) Dongguan Kepo, (ii) the Investor, (iii) Keview, and (iv) the Keview Provisional Liquidators. The principal terms of the DK Loan Agreement and the DK Subordination Agreement are briefly described below.

#### A. Principal Terms of the Restructuring Proposal

##### *1. The Subscription*

Pursuant to the terms of the Restructuring Agreement, the Investor has agreed to subscribe for new shares (the “Subscription”), representing approximately 97% of the enlarged issued capital of the Company immediately upon completion of the Restructuring Agreement (the “Closing”) for an aggregate cash consideration of \$40 million (the “Subscription Proceeds”). In

order to facilitate the restructuring of the Company, a capital restructuring will be proposed. Details of the capital restructuring have yet to be finalised. The number of new shares to be issued under the Subscription is expected to be determined after finalisation of the details of the capital restructuring.

#### *Use of Proceeds*

If the aggregate liabilities of Dongguan Kepo to its creditors (excluding Keview) do not exceed \$35 million (the “PRC Liabilities Threshold”), the entire amount of the Subscription Proceeds (after deducting the costs and expenses of the Kessel Provisional Liquidators) will be applied to settle the claims of the creditors of the Company (the “Kessel Creditors”) and the creditors of Keview (the “Keview Creditors”, collectively referred to as the “Companies’ Creditors”) as described below.

If the aggregate liabilities of Dongguan Kepo to its creditors (excluding Keview) exceed the PRC Liabilities Threshold, the Subscription Proceeds available for distribution to the Companies’ Creditors will be reduced on a dollar for dollar basis.

The Subscription Proceeds to be paid to the Company will be \$40 million whether or not the aggregate liabilities of Dongguan Kepo to its creditors (excluding Keview) exceed the PRC Liabilities Threshold.

## 2. *Debt Restructuring*

### (a) Liabilities of the Company

The amount of the subscription proceeds payable to the Companies’ Creditors (the “HK Creditors’ Portion”) will be shared between the Kessel Creditors and the Keview Creditors in a proportion to be determined by the Provisional Liquidators, after negotiation with the creditors of the respective companies. The entitlement of the Kessel Creditors (after deducting the costs and expenses of the Kessel Provisional Liquidators) is proposed to be distributed to the Kessel Creditors on a pro-rata basis in full and final settlement of their claims against the Company under schemes of arrangement under section 99 of the Companies Act 1981 of Bermuda and section 166 of the Hong Kong Companies Ordinance (the “Creditors’ Schemes”).

In accordance with the laws of Bermuda and Hong Kong, the Creditors’ Schemes will become effective and binding on all Kessel Creditors if, inter alia, a majority in number of the Kessel Creditors representing at least 75% in value of the total unsecured indebtedness of the Company votes in favour of the Creditors’ Schemes at the requisite creditors’ meetings.

### (b) Liabilities of Keview

#### (i) Liabilities to be Discharged by the Investor at Closing

In addition to payment of the Subscription Proceeds, the Investor has agreed to settle a secured advance (the “HSBC Secured Balance”) by HSBC to the Keview Provisional Liquidators at Closing on the occurrence of which, HSBC will release its charge over the assets of Keview. HSBC has provided an advance in the principal sum of \$2,250,000 to enable the Keview Provisional Liquidators to settle certain indebtedness of Dongguan Kepo.

Subject to the terms of the Restructuring Agreement, the Investor has also agreed to reimburse the Keview Provisional Liquidators in respect of certain monies they have advanced to settle certain liabilities of Dongguan Kepo so as to avoid any possible damages that may be caused by the pressing creditors of Dongguan Kepo. The account so advanced will not exceed \$1,500,000.

#### (ii) Unsecured Liabilities of Keview

The balance of the HK Creditors’ Portion not applied to pay the Kessel Creditors under the Creditors’ Schemes is proposed to be applied to settle the claims of the Keview Creditors in full and final settlement of their claims against Keview by way of a contractual compromise between the Keview Creditors and Keview (the “Keview Compromise”).

(c) Liabilities of Dongguan Kepo

Pursuant to the terms of the DK Loan Agreement, the Investor has agreed to provide advances of up to \$35 million to Dongguan Kepo to discharge certain claims against it as directed by the Keview Provisional Liquidators. Interest is payable on the DK Advances at Hong Kong dollar prime rate plus 1% per annum. The DK Advances are repayable on demand by the Investor, but not on or before the earlier of 31 October 2002, the termination of the Restructuring Agreement and the day after Closing. Keview has agreed, pursuant to the terms of the DK Subordination Agreement, to pay a sum equal to any amount recovered by it from Dongguan Kepo in respect of amounts owed to it by Dongguan Kepo (including an inter-company loan currently recorded in the statement of affairs of Keview in the amount of approximately \$173 million) in excess of the HSBC Secured Balance, to the Investor until the DK Advances are paid in full.

If the valid liabilities of Dongguan Kepo exceed \$75 million, any party to the Restructuring Agreement (other than the Escrow Agent) is entitled to terminate the Restructuring Agreement. If the Restructuring Agreement is terminated, the Restructuring Proposal will not be implemented.

**B. Conditions Precedent to the Completion of the Restructuring Agreement**

Completion of the Restructuring Agreement will be subject to, inter alia, the following:

- (a) the relevant courts sanctioning the Creditors' Schemes and the Creditors' Schemes becoming effective;
- (b) the Keview Compromise having been entered into by the Keview Creditors;
- (c) the execution of a subscription agreement setting out the terms and conditions of the Subscription;
- (d) HSBC withdrawing its petitions presented in Hong Kong and Bermuda for the winding-up of the Companies conditional only on Closing;
- (e) the execution of a deed of release by HSBC releasing its fixed and floating charge over the assets and undertaking of Keview;
- (f) the Courts ordering the discharge and release of the Provisional Liquidators;
- (g) all necessary resolutions being passed by the shareholders who are not involved or interested in the Restructuring Proposal and parties acting in concert with any of them and the transactions contemplated thereunder;
- (h) the capital reorganisation necessary to effect the Subscription becoming effective;
- (i) the Bermuda Monetary Authority approving the issue and free transferability of the new shares under the Restructuring Proposal;
- (j) the Stock Exchange of Hong Kong Limited approving the listing of, and permission to deal in, the new shares;
- (k) the Executive Director of the Corporate Finance Division of the Securities and Futures Commission granting a waiver pursuant to Note 1 on dispensations from Rule 26 of the Code on Takeovers and Mergers from the obligation of the Investor and parties acting in concert with it to make a general offer for all the shares of the Company not already owned or agreed to be acquired by them upon Closing; and
- (l) producing such documents as may be necessary to effect the transfer of shares of companies within the Group to result in a group structure as described in the announcement.



## 5. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE

In the current year, the Group has adopted, for the first time, a number of revised and new Statements of Standard Accounting Practice ("SSAPs") issued by the Hong Kong Society of Accountants. The adoption of these revised and new SSAPs has led to a change in the Group's accounting policies. The revised accounting policies are set out in note 7. In addition, the revised and new SSAPs have introduced additional and revised disclosure requirements which have been adopted in these financial statements. Comparative amounts for the prior year have been restated in order to achieve a consistent presentation.

The adoption of these revised and new SSAPs has resulted in the following changes to the Group's accounting policies that have affected the amounts reported for the current or prior periods.

### **Dividend proposed or declared after the balance sheet date**

In accordance with SSAP 9 (Revised) "Events after the Balance Sheet Date", dividends proposed or declared after the balance sheet date are not recognised as a liability at the balance sheet date, but are disclosed as a separate component of equity in the notes to the financial statements. This change in accounting policy has been applied retrospectively, resulting in a prior year adjustment on derecognition of liability for final dividend for 2000 amounting to \$7,360,000. The effect of this change has been to increase the reserves at 1 April 2000 by \$7,360,000 and the shareholders' funds from \$274,368,000 to \$281,728,000.

## 6. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

- (a) In preparing the financial statements, the Current Directors have given careful consideration to the future operations and financing of the Group in the light of the net current liabilities of approximately \$397,127,000 as at 31 March 2002. Under the terms set out in the Restructuring Agreement (i) the Investor will subscribe for new shares of the Company, representing approximately 97% of its enlarged issued capital immediately upon completion of the Restructuring Agreement, for a consideration of \$40,000,000; (ii) the creditors' indebtedness of the Company and its subsidiaries namely, Keview Technology (BVI) Limited, will be discharged in full by way of cash payment on a basis disclosed in note 4 to the financial statements; and (iii) in accordance with the facilities letter entered into between Dongguan Kepo and the Investor on 4 April 2002, the Investor will provide and procure the provision of a loan of up to \$35,000,000 to Dongguan Kepo to enable Dongguan Kepo to discharge certain claims against it.

The directors have prepared the financial statements on the basis that the Restructuring Agreement will be successfully implemented and that the Group will have sufficient working capital to be able to resume its electronics manufacturing operations. The financial statements do not include any adjustments that would result from the failure to implement the Restructuring Agreement.

- (b) As mentioned in notes 2 to 4, following the appointment of the Provisional Liquidators, the Group's production has been suspended pending the injection of additional funds which would be made available upon the successful completion of the Restructuring Proposal. Although the Current Directors have used their best endeavours to relocate all the financial and business records of the Group as most of the former directors of the Company, former senior management and former accounting personnel of the Group have left the Group, the Current Directors have been unable to locate sufficient documentary information to satisfy themselves regarding the treatment of various balances of the Group and of the Company as at 31 March 2002 and for the year then ended.
- (i) Turnover includes recorded sales of approximately \$12,740,000 in respect of which the Current Directors were unable to locate the supporting documentation. Accordingly, the Current Directors have been unable to satisfy themselves as to whether these sales are fairly stated in the financial statements.
- (ii) Loss before taxation has been arrived at after charging the following amounts in respect of which the Current Directors were unable to locate third party supporting documentation:
- cost of sales of approximately \$16,229,000; and
  - administrative expenses of approximately \$18,034,000.

Accordingly, the Current Directors have been unable to satisfy themselves as to whether these amounts are fairly stated in the financial statements.

- (iii) In the absence of a reliable fixed assets register of the Group as at 31 March 2002, the Current Directors were unable to satisfy themselves as to the existence of leasehold improvements, equipment, furniture and fixtures, plant and machineries and motor vehicles, which amounted to approximately \$96,409,000 as at 31 March 2002.
- (iv) The Current Directors were unable to obtain documentation to support bank balances and cash, and trade and other receivables of the Group of approximately \$1,466,000 and \$296,000 respectively, and also the aged analysis of the trade receivables of the Group as at 31 March 2002. Accordingly, the Current Directors were unable to satisfy themselves as to whether these amounts are fairly stated in the financial statements.
- (v) The Current Directors were unable to satisfy themselves as to the completeness of the Group's and the Company's trade and other payables of approximately \$250,515,000 and approximately \$226,307,000 respectively as at 31 March 2002, including the completeness of liabilities under indemnities given to subsidiaries not consolidated of approximately \$220,734,000 as at that date. Accordingly, the Current Directors were unable to satisfy themselves as to whether these amounts are fairly stated in the financial statements.
- (vi) The Current Directors were unable to satisfy themselves as to whether amounts owed to subsidiaries not consolidated of approximately \$148,374,000 and approximately \$884,000 included in the balance sheet of the Group and the Company respectively as at 31 March 2002 are fairly stated in the financial statements.
- (vii) The financial statements have been prepared based on the available books and records maintained by the Company and its subsidiaries. However, in view of the lack of evidence available, the Current Directors were unable to represent that all transactions entered into by the Company and its subsidiaries for the year ended 31 March 2002 have been reflected in the books and records and in the financial statements. In this context, the Current Directors are also unable to represent as to the completeness of the disclosure of commitments in note 36 and of related party disclosure in note 37.
- (viii) Because certain accounting records have been mislaid, the following required disclosures have not been made in the financial statements:
  - i. Deferred taxation disclosures as required by SSAP 12 "Accounting for Deferred Tax";
  - ii. Segment information disclosures as required by SSAP 26 (Revised) "Segment Reporting" and Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules");
  - iii. Disclosure in respect of subsidiaries excluded from consolidation disclosures as required by SSAP 32 "Consolidated Financial Statements and Accounting for Investments in Subsidiaries";
  - iv. Operating leases disclosures as required by SSAP 14 (Revised) "Leases"; and
  - v. Details of directors' and employees' emoluments as required by the Listing Rules and the Companies Ordinance.

## 7. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention, as modified for the revaluation of certain investments in securities.

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

### **Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries, other than those excluded for the reasons referred to below, made up to 31 March each year.

Where a subsidiary operates under severe restrictions that significantly impair its ability to transfer funds to the Company, the Group's interest in the subsidiary is included in the consolidated balance sheet at its carrying value at the time the Group loses effective control over the subsidiary, less any recognised impairment loss.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

#### **Investments in subsidiaries**

Investments in subsidiaries are included in the Company's balance sheet at cost, less any identified impairment loss.

#### **Goodwill**

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition.

Goodwill arising on acquisitions prior to 1 April 2001 continues to be held in reserves, and will be charged to the income statement at the time of disposal of the relevant subsidiary, or at such time as the goodwill is determined to be impaired.

Goodwill arising on acquisitions after 1 April 2001 is capitalised and amortised on a straight-line basis over its useful economic life. Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet as a separate intangible asset.

On disposal of a subsidiary, the attributable amount of unamortised goodwill or goodwill previously eliminated against reserves is included in the determination of the profit or loss on disposal.

#### **Property, plant and equipment**

Property, plant and equipment are stated at cost less depreciation and amortisation and accumulated impairment losses, if any.

The gain or loss arising from disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

Depreciation is provided to write off the cost of property, plant and equipment, over their estimated useful lives and after taking into account their estimated residual value, using the straight-line method, at the following rates per annum:

Leasehold land	Over the term of the relevant lease
Buildings	4%
Leasehold improvements	20%
Plant and machinery	20%
Equipment, furniture and fixtures	20%
Motor vehicles	20%

#### **Finance leases and hire purchase contracts**

Leases are classified as finance leases when the terms of the leases transfer substantially all the risks and rewards of ownership of the assets concerned to the Group. Assets held under finance leases are capitalised at their fair values at the date of acquisition. The corresponding liability to the lessor, net of interest charges, is included in the balance sheet as a finance lease obligation. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the income statement over the term of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

All other leases are classified as operating leases and the annual rental are charged to income statement on a straight-line basis over the relevant lease terms.

Assets held under hire purchase contracts are accounted for on the same basis as finance leases.

**Impairment**

At each balance sheet date, the Company reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

**Intangible assets**

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight-line basis over its useful life.

Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

Technical know-how is stated at cost less amortisation and accumulated impairment losses. The cost is amortised on a straight line basis over three years. The amortisation period and the amortisation method are reviewed at each financial year end. An impairment loss is recognised when the estimated recoverable amount of the asset has declined below its carrying amount.

**Investments in securities**

Investments in securities are recognised on a trade-date basis and are initially measured at cost.

Investment securities, which are securities held for an identified long-term strategic purpose, are measured at subsequent reporting dates at cost, as reduced by any impairment loss that is other than temporary.

Other investments are measured at fair value, with unrealised gains and losses included in net profit or loss for the year.

**Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using first-in, first-out method.

**Revenue recognition**

Sales of goods are recognised when goods are delivered and title has passed.

Dividend income from investments is recognised when the Group's right to receive payment has been established.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

**Taxation**

The charge for taxation is based on the results for the year as adjusted for items which are non-assessable or disallowed. Timing differences arise from the recognition for tax purposes of certain items of income and expense in a different accounting period from that in which they are recognised in the financial statements. The tax effect of timing differences, computed using the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or an asset will crystallise in the foreseeable future.

**Foreign currencies**

Transactions in currencies other than Hong Kong dollar are initially recorded at the rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in currencies other than Hong Kong dollar are re-translated at the rates ruling on the balance sheet date. Profit and losses arising on translation are dealt with in the income statement.

On consolidation, the financial statements of overseas operations which are denominated in currencies other than the Hong Kong dollar are translated at the rates ruling on the balance sheet date. All exchange differences arising on consolidation are dealt with in reserves.

**8. TURNOVER**

Turnover in the current year represents the net amounts received and receivable from assembly services rendered to subsidiaries not consolidated. An analysis of the Group's turnover for the year ended 31 March 2001 is as follows:

	<i>\$'000</i>
Assembly and sales of goods	
Electronic organisers and other electronic consumables	473,867
Liquid crystal display ("LCD") modules and LCD panels	259,795
Telecommunications products	253,664
	<u>987,326</u>

**9. OTHER REVENUE**

	<b>2002</b>	<b>2001</b>
	<i>\$'000</i>	<i>\$'000</i>
The amount comprises:		
Dividends from listed investments	–	66
Interest earned on bank deposits	–	447
Profit on disposal of plant and equipment	–	388
Sundry income	–	803
	<u>–</u>	<u>1,704</u>

**10. INDEMNIFIED LIABILITIES OF SUBSIDIARIES NOT CONSOLIDATED**

The Company has given indemnities to certain bankers and vendors of its subsidiaries which were put into liquidation during the year in respect of loans advanced and services rendered to those subsidiaries. The Company's obligations under these indemnities crystallised on the respective dates of appointment of provisional liquidators for these subsidiaries.

**11. LOSS FROM OPERATIONS**

	<b>2002</b>	<b>2001</b>
	<i>\$'000</i>	<i>\$'000</i>
Loss from operations has been arrived at after charging:		
Amortisation of intangible assets	–	9,969
Auditors' remuneration		
Current year	200	1,005
Underprovision in prior years	1,745	–
Depreciation and amortisation		
Owned assets	14,855	55,567
Assets held under a finance lease and a hire purchase contract	–	6,539
Net foreign exchange loss	–	178
Operating lease rentals in respect of		
Rented premises	2,314	6,192
Plant and machinery	–	75
Allowance for doubtful debts	–	5,000
Development costs written off	–	4,372
Staff costs:		
Directors' emoluments	–	5,592
Mandatory Provident Fund Scheme Contributions	–	627
Provision for long service payments	–	882
Salaries and other benefits	6,435	97,493
	6,435	104,594
Research and development costs incurred	46	23,438
Less: Amount capitalised	–	(10,725)
	46	12,713
Unrealised loss on club debentures	–	616
	<u>–</u>	<u>616</u>

**12. FINANCE COSTS**

	<b>2002</b>	<b>2001</b>
	<i>\$'000</i>	<i>\$'000</i>
Interest on bank borrowings wholly repayable within five years	–	12,527
Interest on obligations under a finance lease and a hire purchase contract	–	1,773
	<u>–</u>	<u>14,300</u>

**13. TAXATION CREDIT**

No provision for Hong Kong Profits Tax has been made in the financial statements as, in the opinion of the Current Directors, the Group did not have any assessable profits for the year. The taxation credit for year ended 31 March 2001 represents the overprovision of Hong Kong Profits Tax in prior years.

**14. LOSS PER SHARE**

The calculation of the basic loss per share is based on the Group's loss for the year of \$392,036,000 (2001: \$137,958,000) and on 320,000,000 (2001: 320,000,000) shares in issue during the year.

No dilutive potential shares were outstanding during either the current or prior years. Accordingly, no amount is presented for diluted earnings per share.

## 15. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings \$'000	Leasehold improvements \$'000	Equipment, furniture and fixtures \$'000	Plant and machinery \$'000	Motor vehicles \$'000	Total \$'000
<b>THE GROUP</b>						
<b>COST</b>						
At 1 April 2001	77,688	34,548	59,842	248,046	8,472	428,596
Additions	-	331	-	-	-	331
Deconsolidation of subsidiaries	(26,469)	(18,965)	(27,724)	(158,218)	(6,976)	(238,352)
At 31 March 2002	51,219	15,914	32,118	89,828	1,496	190,575
<b>DEPRECIATION, AMORTISATION AND IMPAIRMENT LOSS</b>						
At 1 April 2001	8,121	20,658	17,193	100,443	5,526	151,941
Provided for the year	1,024	1,584	3,127	8,970	150	14,855
Impairment loss recognised in the income statement	2,990	-	-	-	-	2,990
Eliminated on deconsolidation of subsidiaries	(5,916)	(18,002)	(9,938)	(81,673)	(5,091)	(120,620)
At 31 March 2002	6,219	4,240	10,382	27,740	585	49,166
<b>NET BOOK VALUES</b>						
At 31 March 2002	45,000	11,674	21,736	62,088	911	141,409
At 31 March 2001	69,567	13,890	42,649	147,603	2,946	276,655

The net book value of leasehold land and building shown above comprises:

	<b>THE GROUP</b>	
	<b>2002</b> \$'000	<b>2001</b> \$'000
Land and buildings in Hong Kong under medium-term leases	-	20,553
Land and buildings located in the People's Republic of China under medium-term leases	45,000	49,014
	<u>45,000</u>	<u>69,567</u>

## 16. INTEREST IN PROPERTIES

By a lease agreement dated 8 August 1997 between one of the Company's subsidiaries not consolidated and an independent party in the PRC, which replaced a composite agreement dated 19 June 1996 between the same parties, the subsidiary was given the rights to construct at its own cost and expense three buildings on land to be designated by the independent party. These buildings are provided by the subsidiary for the processing of the Group's products and will be transferred to the independent party at no cost in January 2013. In the prior year, the construction costs of these buildings were capitalised and were written off to the income statement on a straight line basis up to January 2013. The amount to be written off within one year from the balance sheet date was included in trade and other receivables in the consolidated balance sheet as at 31 March 2001.

## 17. INTANGIBLE ASSETS

	Development costs \$'000	Technical know-how \$'000	Total \$'000
<b>THE GROUP</b>			
<b>COST</b>			
At 1 April 2001	19,438	7,745	27,183
Deconsolidation of subsidiaries	(19,438)	(7,745)	(27,183)
	<hr/>	<hr/>	<hr/>
At 31 March 2002	–	–	–
	<hr/>	<hr/>	<hr/>
<b>AMORTISATION</b>			
At 1 April 2001	7,785	2,797	10,582
Eliminated on deconsolidation of subsidiaries	(7,785)	(2,797)	(10,582)
	<hr/>	<hr/>	<hr/>
At 31 March 2002	–	–	–
	<hr/>	<hr/>	<hr/>
<b>NET BOOK VALUES</b>			
At 31 March 2002	–	–	–
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
At 31 March 2001	11,653	4,948	16,601
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

## 18. INTERESTS IN SUBSIDIARIES NOT CONSOLIDATED

- (a) The consolidated financial statements for the current year do not include certain subsidiaries which are in the course of liquidation or their immediate holding companies are in the course of liquidation for which the appointed liquidators have assumed overall control.

Details of subsidiaries which are in the course of liquidation or their immediate holding companies are in the course of liquidation for which the appointed liquidators have assumed overall control are as follows:

Name	Proportion of nominal value of issued capital held by the Company indirectly
Agenda Computing (Deutschland) GmbH	100%
Kepo Display Technology Limited	100%
Kessel Electronics GmbH	100%
Kessel Electronics (H.K.) Limited	100%
Kessel Telecom Limited	100%
Kingo Industrial Limited	100%

The consolidated financial statement do not include the results and cash flows of these subsidiaries up to the respective dates of appointment of liquidators as, in the opinion of the Current Directors, the cost of preparing this information would exceed the value of this information to the members of the Company.



- (b) The financial statements of the Group do not consolidate the financial statements of the subsidiaries set out below as in the opinion of the Current Directors, the cost of obtaining this information would exceed the value of this information to the members of the Company.

Details of these subsidiaries are as follows:

Name	Proportion of nominal value of issued capital held by the Company indirectly
Agenda Computing Asia Limited	100%
Agenda Computing (BVI) Limited	100%
Agenda Computing (HK) Limited	100%
Agenda Computing, Inc.	100%
Agenda Computing Manufacturing Limited	100%
Kego Technology Limited	100%
Kepo Electronics Limited	100%
Kepo Time Limited	100%
Kesonic Limited	100%
Kessel Inc.	100%
Kessel International Investments Limited	100%
Kessel Japan Company Limited	95%
Kessel Management Company Limited	100%
Kessel Technology SAS	100%
Kessel Technology (UK) Limited	100%
Ketech Limited	100%
The Kessel Software Studio, Inc.	100%

- (c) The Current Directors have formed the opinion that the aggregate carrying value of the Group's interests in the subsidiaries of approximately \$85,676,000 has been impaired and, accordingly, such impairment loss has been recognised in the financial statements.

#### 19. INVESTMENTS IN SUBSIDIARIES

	THE COMPANY	
	2002 \$'000	2001 \$'000
Unlisted shares	129,026	129,026
Less: Impairment loss recognised	(129,026)	(75,000)
	<u>          </u>	<u>          </u>
	-	54,026
	<u>          </u>	<u>          </u>

The carrying value of the unlisted shares is based on the values of the underlying net assets of the subsidiaries attributable to the Group as at the date on which they became members of the Group under the group reorganisation in 1997, less impairment loss recognised. The Current Directors have formed the opinion that the carrying value of the Company's subsidiaries of approximately \$54,026,000 as at 31 March 2001 has been impaired and, accordingly, such impairment loss has been recognised in the financial statements.

**APPENDIX I****FINANCIAL INFORMATION OF THE GROUP**

Details of the Company's subsidiaries as at 31 March 2002 which have been consolidated in these financial statements are as follows:

Name	Place of incorporation/ operation	Issued and fully paid share capital	Proportion of nominal value of issued capital held by the Company	Principal activities
Dongguan Kepo	PRC	(See note)	100%	Manufacturing of LCD and electronic products during the year and ceased operations since October 2001
Kessel Electronics (BVI) Limited	British Virgin Islands	Ordinary US\$2,500	100%	Investment holding
Keview	British Virgin Islands	Ordinary US\$1,000	100%	Investment holding

*Note:* Dongguan Kepo was established with a registered capital of \$35 million. Under the provisions of the Articles of Association of Dongguan Kepo, the aggregate investment in Dongguan Kepo was \$70 million which had to be paid up within two years from the date of its establishment. The registered capital and the aggregate investment are subsequently increased to \$76 million and \$152 million respectively during the year ended 31 March 2001. At 31 March 2001, the Group has paid up the registered capital in full in the form of investment in property, plant and equipment, which was verified by certified public accountants in the PRC.

With the exception of Kessel Electronics (BVI) Limited which are directly held by the Company, all other subsidiaries are indirectly held by the Company.

**20. INVENTORIES**

	THE GROUP	
	2002 \$'000	2001 \$'000
Raw materials	–	146,840
Work in progress	–	23,287
Finished goods	–	18,895
	<u>–</u>	<u>189,022</u>

At 31 March 2001, raw materials of \$37,657,000 were carried at net realisable value. Furthermore, certain other raw materials, work in progress and finished goods were considered obsolete and have been fully provided for.

**21. TRADE AND OTHER RECEIVABLES**

The Group allows an average credit period of 30 days to its trade customers. An aged analysis of trade receivables is as follows:

	THE GROUP	
	2002 \$'000	2001 \$'000
0 – 30 days	–	31,139
31 – 60 days	–	126
61 – 90 days	–	1,354
Over 90 days	43	5,602
	<u>43</u>	<u>38,221</u>

**22. BILLS RECEIVABLE**

An aged analysis of bills receivable is as follows:

	<b>THE GROUP</b>	
	<b>2002</b>	<b>2001</b>
	<i>\$'000</i>	<i>\$'000</i>
0 – 30 days	–	5,161
31 – 60 days	–	1,210
61 – 90 days	–	496
	<u>–</u>	<u>6,867</u>
	<u><u>–</u></u>	<u><u>6,867</u></u>

**23. INVESTMENTS IN SECURITIES**

	<b>THE GROUP</b>	
	<b>2002</b>	<b>2001</b>
	<i>\$'000</i>	<i>\$'000</i>
Other investments shown as current assets:		
Shares listed on the Stock Exchange, at market value	–	820
Club debenture, at fair value	–	40
	<u>–</u>	<u>860</u>
	<u><u>–</u></u>	<u><u>860</u></u>

**24. BILLS PAYABLE**

An aged analysis of bills payable is as follows:

	<b>THE GROUP</b>	
	<b>2002</b>	<b>2001</b>
	<i>\$'000</i>	<i>\$'000</i>
0 – 30 days	–	20,929
31 – 60 days	–	27,085
61 – 90 days	–	25,793
Over 90 days	–	41,529
	<u>–</u>	<u>115,336</u>
	<u><u>–</u></u>	<u><u>115,336</u></u>

**25. OBLIGATIONS UNDER A FINANCE LEASE AND A HIRE PURCHASE CONTRACT**

	<b>THE GROUP</b>	
	<b>2002</b>	<b>2001</b>
	<i>\$'000</i>	<i>\$'000</i>
The schedule for repayment of the obligations under a finance lease and a hire purchase contract is as follows:		
Within one year	–	14,488
More than one year but not exceeding two years	–	3,586
More than two years but not exceeding five years	–	951
	<u>–</u>	<u>19,025</u>
Less: Amount due within one year shown under current liabilities	–	(14,488)
	<u>–</u>	<u>4,537</u>
Amount due after one year	<u><u>–</u></u>	<u><u>4,537</u></u>

**26. BANK BORROWINGS**

	<b>THE GROUP</b>	
	<b>2002</b>	<b>2001</b>
	<i>\$'000</i>	<i>\$'000</i>
Bank borrowings comprise the following:		
Instalment loans	–	32,838
Packing loans	–	5,670
Bank overdrafts	–	24,508
	<u>–</u>	<u>63,016</u>
	<u>–</u>	<u>63,016</u>

The instalments loans were unsecured and bore interest at commercial rates.

The packing loans were secured by way of assignment of proceeds under documentary credits issued in favour of the Group as beneficiary. The loans bore interest at commercial rates.

In the prior year, the banking facilities utilised by the Group exceeded the limits offered by its principal bankers. This represented a breach of the loan agreements and consequently all the bank borrowings became repayable on demand and were classified as current liabilities at 31 March 2001.

**27. OTHER LOAN**

	<b>THE GROUP</b>	
	<b>2002</b>	<b>2001</b>
	<i>\$'000</i>	<i>\$'000</i>
Other loan	–	13,500
Less: Amount due within one year shown under current liabilities	–	(10,500)
	<u>–</u>	<u>3,000</u>
Amount due after one year	<u>–</u>	<u>3,000</u>

The loan was unsecured and bore interest at commercial rate.

**28. SHARE CAPITAL**

	<b>2002 &amp; 2001</b>	
	<b>Number of ordinary shares</b>	<b>Amount \$'000</b>
Authorised Shares of \$0.10 each	<u>1,000,000,000</u>	<u>100,000</u>
Issued and fully paid Shares of \$0.10 each	<u>32,000,000</u>	<u>32,000</u>

There were no movements in the Company' share capital during the year.

**29. SHARE OPTION SCHEME**

Under the terms of the share option scheme (the "Scheme") which became effective on 2 September 1997, the Board of Directors of the Company may, at its discretion, grant options to eligible employees, including executive directors, of the Company or any of its subsidiaries to subscribe for shares in the Company at a price not less than 80 per cent of the average of the closing prices of the shares on the Stock Exchange on the five trading days immediately preceding the date of grant of the options or the nominal value of the shares, whichever is the higher.

The maximum number of shares in respect of which options may be granted under the Scheme shall not exceed 10 per cent of the issued share capital of the Company from time to time and the maximum number of shares in respect of which options may be granted to any one employee shall not exceed 25 per cent of the maximum number of shares for the time being issued and issuable under the Scheme. Accordingly, a maximum of 32,000,000 shares of the Company of \$0.10 each, which represents 10 per cent. of the issued share capital of the Company at the date of this report, is available for issue under the Scheme.

Ten dollars per option are payable on acceptance of the option. An option may be exercised in accordance with the terms of the Scheme at any time during a period to be notified by the board of directors to each grantee, save that no option may be exercised later than 10 years after it has been granted. No option may be granted more than 10 years commencing on the date of approval of the Scheme.

The Scheme, which is valid for a period of 10 years from the date of adoption of the Scheme, has a remaining life of approximately 5 years.

No options under the Scheme were granted or exercised during the year and no options were outstanding as at 31 March 2002.

**30. RESERVES**

	Share premium \$'000	Dividend reserve \$'000	Accumulated profits (losses) \$'000	Special reserve \$'000	Translation reserve \$'000	Contributed surplus \$'000	Goodwill reserve \$'000	Total \$'000
<b>THE GROUP</b>								
At 1 April 2000								
- as originally stated	69,823	-	195,040	(22,470)	(25)	-	-	242,368
- as adjusted for derecognition of liability for final dividend for 2000	-	7,360	-	-	-	-	-	7,360
- as restated	69,823	7,360	195,040	(22,470)	(25)	-	-	249,728
Net loss for the year	-	-	(137,958)	-	-	-	-	(137,958)
Dividend paid	-	(7,360)	-	-	-	-	-	(7,360)
Goodwill on acquisition of additional shares in a subsidiary	-	-	-	-	-	-	(117)	(117)
Goodwill written off	-	-	-	-	-	-	117	117
Exchange differences arising on translation of overseas subsidiaries	-	-	-	-	(92)	-	-	(92)
At 31 March 2001	69,823	-	57,082	(22,470)	(117)	-	-	104,318
Net loss for the year	-	-	(392,036)	-	-	-	-	(392,036)
At 31 March 2002	69,823	-	(334,954)	(22,470)	(117)	-	-	(287,718)

**APPENDIX I**
**FINANCIAL INFORMATION OF THE GROUP**

	Share premium \$'000	Dividend reserve \$'000	Accumulated profits (losses) \$'000	Special reserve \$'000	Translation reserve \$'000	Contributed surplus \$'000	Goodwill reserve \$'000	Total \$'000
<b>THE COMPANY</b>								
At 1 April 2000								
- as originally stated	69,823	-	4,645	-	-	105,026	-	179,494
- as adjusted for derecognition of liability for final dividend for 2000	-	7,360	-	-	-	-	-	7,360
- as restated	69,823	7,360	4,645	-	-	105,026	-	186,854
Net loss for the year	-	-	(76,195)	-	-	-	-	(76,195)
Dividend paid	-	(7,360)	-	-	-	-	-	(7,360)
At 31 March 2001	69,823	-	(71,550)	-	-	105,026	-	103,299
Net loss for the year	-	-	(362,482)	-	-	-	-	(362,482)
At 31 March 2002	69,823	-	(434,032)	-	-	105,026	-	(259,183)

The special reserve of the Group represents the difference between the nominal amount of the share capital of the subsidiaries acquired and the nominal value of the Company's shares issued for the acquisition pursuant to the corporate reorganisation and capitalisation in paying up 1,000,000 nil paid shares prior to the listing of the Company's shares.

The contributed surplus of the Company represents the difference between the consolidated shareholders' funds of subsidiaries at the date on which they were acquired by the Company and the nominal amount of the share capital of the Company issued under the corporate reorganisation and capitalisation in paying up 1,000,000 nil paid shares. Under The Companies Act 1981 of Bermuda (as amended), the contributed surplus of the Company is available for distribution to shareholders.

## 31. RECONCILIATION OF LOSS BEFORE TAXATION TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	<b>2002</b>	<b>2001</b>
	\$'000	\$'000
Loss before taxation	(392,036)	(142,361)
Interest income	–	(447)
Interest expense on bank borrowings	–	12,527
Interest on obligations under a finance lease and a hire purchase contract	–	1,773
Dividend income from investments in securities	–	(66)
Unrealised holding loss on unlisted investments	–	616
Amortisation of intangible assets	–	9,969
Depreciation and amortisation	14,855	62,106
Gain on disposal of plant and equipment	–	(388)
Development costs written off	–	4,372
Goodwill of a subsidiary written off	–	117
Provision for doubtful debts	–	5,000
Impairment loss recognised on property, plant and equipment	2,990	–
Impairment loss recognised on interests in subsidiaries not consolidated	85,676	–
Indemnified liabilities of subsidiaries not consolidated taken up	220,734	–
Provision for amounts due from subsidiaries not consolidated	48,601	–
Decrease in interest in properties	–	256
Increase in inventories	–	(17,297)
Decrease (increase) in trade and other receivables	123	(15,339)
Decrease in bills receivable	–	6,864
Increase in amounts due from subsidiaries not consolidated	(9,113)	–
Increase in trade and other payables	10,685	35,468
Increase in bills payable	–	66,525
Increase in amounts due to subsidiaries not consolidated	17,894	–
Effect of foreign exchange rate changes	–	(99)
	<hr/>	<hr/>
Net cash inflow from operating activities	<u>409</u>	<u>29,596</u>

## 32. SUBSIDIARIES DECONSOLIDATED

	<b>2002</b>	<b>2001</b>
	<i>\$'000</i>	<i>\$'000</i>
Assets (liabilities) of subsidiaries deconsolidated:		
Property, plant and equipment	117,732	–
Interest in properties	2,758	–
Intangible assets	16,601	–
Inventories	189,022	–
Trade and other receivables	48,601	–
Bills receivable	6,867	–
Investments in securities	860	–
Bank balances and cash	15,236	–
Amounts due from group companies	130,480	–
Trade and other payables	(185,344)	–
Bills payable	(115,336)	–
Taxation payable	(4,705)	–
Obligations under a finance lease and a hire purchase contract	(19,025)	–
Bank borrowings	(63,016)	–
Other loan, unsecured	(13,500)	–
Deferred taxation	(2,062)	–
Amounts due to group companies	(39,488)	–
Minority interests	(5)	–
	<u>85,676</u>	<u>–</u>
Investments in subsidiaries not consolidated	<u>85,676</u>	<u>–</u>

Analysis of net inflow of cash and cash equivalents in respect of subsidiaries not consolidated:

	<b>2002</b>	<b>2001</b>
	<i>\$'000</i>	<i>\$'000</i>
Bank balances and cash not consolidated	(15,236)	–
Bank overdrafts not consolidated	24,508	–
Bank loans repayable within three months from the date of the advances not consolidated	5,670	–
	<u>14,942</u>	<u>–</u>

No information is available in respect of the cash flows and results contributed by the subsidiaries not consolidated during the year as a result of the incomplete books and records of the Group.



## 33. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	Bank loans \$'000	Other loan \$'000	Obligations under a finance lease and a hire purchase contract \$'000	Minority interests \$'000
At 1 April 2000	–	–	–	91
New loans raised	46,000	13,500	–	–
Repayments during the year	(13,162)	–	–	–
Inception of a finance lease and a hire purchase contract	–	–	25,000	–
Repayment of obligations under a finance lease and a hire purchase contract	–	–	(5,975)	–
Contribution from a minority shareholder of a subsidiary	–	–	–	38
Share of loss by minority shareholders	–	–	–	(117)
Minority interests' share of translation reserve	–	–	–	(7)
	<u>32,838</u>	<u>13,500</u>	<u>19,025</u>	<u>5</u>
At 31 March 2001	32,838	13,500	19,025	5
Eliminated on deconsolidation of subsidiaries	(32,838)	(13,500)	(19,025)	(5)
	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
At 31 March 2002	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>

## 34. ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS

	2002 \$'000	2001 \$'000
Bank balances and cash	1,466	16,624
Bank overdrafts	–	(24,508)
Bank loans repayable within 3 months from the date of the advances	–	(5,670)
	<u>1,466</u>	<u>(13,554)</u>

## 35. OUTSTANDING LITIGATIONS

There are two litigations against Dongguan Kepo of which judgments have not been entered.

- (a) On 10 May 2002, a vendor of Dongguan Kepo served a writ of summons against Dongguan Kepo in respect of goods alleged to have been purchased by Dongguan Kepo during the period from December 2000 to September 2001 for a principal sum of approximately \$474,000. Dongguan Kepo has defended vigorously the lawsuit at the court's hearing held on 29 May 2002. The Dongguan People's Court has yet to consider the submissions made by both parties before any rulings can be made. Pending to hear any possible ruling from the Dongguan People's Court, the Current Directors are unable to determine the outcome of the action. Against this background, the Current Directors consider that the assessment of the quantum of damages and liabilities or damages, which might arise in connection with this matter has been made in the financial statements.
- (b) On 5 June 2002, a service provider served a writ of summons against Dongguan Kepo in respect of services alleged to have been rendered to Dongguan Kepo in the principal sum of approximately \$608,000. The hearing is scheduled to be held on 25 June 2002 in the Dongguan People's Court. The Current Directors consider that the case is unfounded and Dongguan Kepo intended to vigorously defend the lawsuit at the hearing. Accordingly, no provision for any liabilities or damages, which might arise in connection with this matter has been made in the financial statements.

Other than disclosed above and in note 3, in the opinion of the Current Directors, neither the Company nor the Group is engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Current Directors to be pending or threatened against the Group.

**36. COMMITMENTS****THE GROUP**

Pursuant to a contract entered into between one of the Company's subsidiaries and an independent party in the PRC where one of the Group's factories is located, the Group is committed to pay to the independent party an annual management fee of \$260,000 at an increment of 10% per five years interval.

Pursuant to the same contract, the Group was also committed to pay to that independent party an annual service fee of \$975,000 up to August 2003 and thereafter on a pre-determined basis with reference to the number of employees in the aforementioned factory and at an increment of 10% per five years interval.

**THE COMPANY**

The Company did not have any significant commitments at the balance sheet date.

**37. RELATED PARTY TRANSACTIONS**

The Company and Keview had issued guarantees and/or given indemnity to creditors of its wholly owned subsidiaries or fellow subsidiaries respectively during the year ended 31 March 2001 and were fully provided for during the year ended 31 March 2002 as described in note 10 in this financial statements.

**38. POST BALANCE SHEET EVENTS**

Details of post balance sheet events are summarised in note 4."

#### 4. STATEMENT OF PRO FORMA ADJUSTED AND UNAUDITED CONSOLIDATED NET TANGIBLE ASSETS OF THE GROUP AT CLOSING

The following is a summary of the statement of pro forma adjusted and unaudited consolidated net tangible assets of the Group immediately upon Closing prepared on the basis of the audited consolidated net liabilities of the Group as at 31 March 2002, a copy of which is set out in section 3 of this Appendix, adjusted to reflect the material changes in the Group's financial position subsequent to 31 March 2002 and the effect of the transactions as contemplated under the Restructuring Proposal and issue of the Convertible Notes. **As stated in the report of the auditors regarding the financial statements of the Company for the year ended 31 March 2002 (as set out in section 3 of this Appendix), the auditors were unable to form an opinion as to whether, among other things, the financial statements give a true and fair view of the state of affairs of the Group as at 31 March 2002, because of the significance of the possible effect of the limitations in evidence available to the auditors as described in their report. Any adjustments that are found to be necessary to the net liabilities of the Group as at 31 March 2002 may have a consequential effect on the proforma adjusted and unaudited consolidated net tangible assets of the Group set out in this statement.**

	As at 31 March 2002 \$'000	Adjustments \$'000	Notes	Pro forma at Closing \$'000	Per Share Data
(a) Assuming the plant and machineries are not subject to third party claims ( <i>Note vi</i> )					
Fixed Assets	141,409	(14,999)	(i)	126,410	
<b>Current Assets</b>					
Trade and other receivables	296			296	
Bank balances and cash	1,466	30,000	(ii)	31,466	
	<u>1,762</u>			<u>31,762</u>	
<b>Current Liabilities</b>	<u>398,889</u>	396,861	(iii)	<u>2,028</u>	
<b>Net current (liabilities)/assets</b>	<u>(397,127)</u>			<u>29,734</u>	
<b>Net liabilities before restructuring</b>	<u>(255,718)</u>		(vii)		<u>(79.9) cents</u>
<b>Pro forma adjusted and unaudited consolidated net tangible assets financed by capital and Investor's advances</b>			(viii)	<u>156,144</u>	<u>1.52 cents</u>
<i>Less:</i> Advances from Investors Loans	–	30,039	(iv)	30,039	
Convertible Notes	–	30,000	(v)	30,000	
<b>Pro forma adjusted and unaudited consolidated net tangible assets at Closing</b>			(viii)	<u>96,105</u>	<u>0.93 cents</u>
<b>Upon full conversion of the Convertible Notes</b>				<u>30,000</u>	
<b>Pro forma adjusted and unaudited consolidated net tangible assets upon Closing and assuming full conversion of the Convertible Notes</b>			(ix)	<u>126,105</u>	<u>0.71 cents</u>

- (b) Assuming all the plant and machinery are subject to third party claims

Proforma adjusted and unaudited consolidated net tangible assets

	<b>Financed by capital and Investor's advances \$'000</b>	<b>Amount of Closing \$'000</b>	<b>Amount at Closing and assuming full conversion of the Convertible Notes \$'000</b>
Amount per above	156,144	96,105	126,105
<i>Less:</i> Value of plant and machinery	<u>48,000</u>	<u>48,000</u>	<u>48,000</u>
	<u>108,144</u>	<u>48,105</u>	<u>78,105</u>
	<i>cents</i>	<i>cents</i>	<i>cents</i>
Amount per share	<u>1.05</u>	<u>0.47</u>	<u>0.44</u>

*Notes:*

(i) Adjustment to fixed assets:	\$'000
Plant and machinery	
Book value as at 31 March 2002	62,088
Valuation as at 31 May 2002 ( <i>see note (vi)</i> )	<u>48,000</u>
Decrease in value of plant and machinery	14,088
Write-off of motor vehicles	<u>911</u>
Decrease in value of fixed assets	<u>14,999</u>
(ii) Adjustment to bank and cash balances:	\$'000
Subscription	40,000
Issue of Convertible Notes	<u>30,000</u>
	----- 70,000
Application: Debt Restructuring	<u>40,000</u>
	----- 40,000
Net adjustment	<u>30,000</u>

	\$'000
(iii) Adjustment to trade and other payables:	
Increase in Group liabilities	3,040
Adjustment in relation to intercompany balances <sup>(Note)</sup>	69,388
Cash settlement under the Debt Restructuring	(40,000)
Repayment of PRC Liabilities from DK Advances	(22,694)
Amount in relation to companies transferred to scheme administrators	(1,999)
Amount written off by creditors	(404,596)
	<u>(396,861)</u>
<i>Note:</i> The outstanding intercompany balances were set-off against other inter-group balances at consolidation at 31 March 2002. All intercompany current account balances have not been changed since 31 March 2002. Since all creditors of Keview and the Company will be subject to Debt Restructuring, whether or not they are intercompany balances, the liabilities of the Group are restated to included these intercompany balances. The adjustment represents the intercompany balances netted off in preparing the consolidated accounts of the Company at 31 March 2002 minus account of write-off by intergroup companies under the Debt Restructuring.	
(iv) Estimated amount due to the Investor outstanding immediately at Closing:	\$'000
Amount of DK Advances	
– drawn up to the Latest Practicable Date	18,861
– expected to be drawn at Closing	
– repayment to Keview Provisional Liquidators	3,750
– interest thereon and exchange adjustments	83
	<u>22,694</u>
– accrued interest	225
	<u>22,919</u>
Loans from the Investor to settle general operating expenses of the Company	7,120
Total amount due at Closing	<u>30,039</u>
(v) Issue of Convertible Notes to raise working capital	<u>30,000</u>
(vi) The Company has arranged a valuation of the plant and machinery physically located at the factory of Dongguan Kepo as at 31 May 2002, excluding machinery that is subject of a lease agreement, a hire purchase agreement or a validly supported claim from a third party. <b>Most of the former directors of the Company, former senior management and former accounting personnel of the Group have left the Group. Without the assistance of the senior management of the Group, the Provisional Liquidators have been unable to locate sufficient documentary information to satisfy themselves regarding the legal title to the plant and machinery.</b> The valuation report of the plant and machinery has been prepared on the assumption that the Group has title to these plant and machinery, if it is proved otherwise, the value of fixed assets and thus the proforma adjusted and unaudited consolidated net tangible assets of the Group will be reduced accordingly.	
(vii) Based on 320,000,000 Existing Shares currently in issue.	
(viii) Based on the expected number of 10,280,000,000 New Shares in issue immediately after Closing.	
(ix) Based on the estimated number of 17,780,000,000 New Shares in issue immediately after Closing and assuming full conversion of the Convertible Note.	

## 5. STATEMENT OF INDEBTEDNESS

### (a) Statement of indebtedness of the Group

As at 30 June 2002, the total consolidated indebtedness owed by the Group to its creditors was approximately \$471 million, of which approximately \$228 million of unsecured liabilities were owed by the Company, approximately \$274 million of unsecured liabilities

were owed by Keview (including approximately \$59 million are also included in the liabilities of the Company), approximately \$2 million were owed by Kessel (BVI), the balance of approximately \$26 million was owed by Dongguan Kepo. The indebtedness of Dongguan Kepo were owed as to approximately \$19 million to Yue Fung and approximately \$7 million to other unsecured creditors, which include an advances in the principal sum of \$2,250,000 and secured on all assets of Keview granted by HSBC to the Keview Provisional Liquidators to finance Dongguan Kepo to discharge certain liabilities of Dongguan Kepo.

Based on information currently available to the Kessel Provisional Liquidators, saved as aforesaid and for the restructuring costs payable to the Provisional Liquidators, the independent financial adviser, the property and the machinery valuers, the auditors and other professionals and apart from intra-group liabilities, none of the companies in the Group had any outstanding mortgage charge or debenture, loan capital, bank overdraft, loan, debt security or other similar indebtedness or any hire purchase commitment, finance lease commitment, guarantee or other material contingent liability at the close of the business on 30 June 2002.

## **6. LITIGATION**

Save as described below, the Kessel Provisional Liquidators are not aware that any member of the Group is a party engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is pending or threatened against any member of the Group as at the Latest Practicable Date.

### **(a) Winding-up petition against the Company**

On 14 November 2001, HSBC filed a winding-up petition against the Company in the Bermuda Court. Pursuant to an order of the Bermuda Court, the Kessel Provisional Liquidators were appointed to the Company with effect from 15 November 2001. The winding-up petition was fixed for 7 December 2001. Application was made to the Bermuda Court for adjournment pending submission of proposals from potential investors to restructure the Group on the date of hearing.

On 7 December 2001, the Bermuda Court ordered the hearing of the winding-up petition of the Company be adjourned sine die.

### **(b) Winding-up petition against Keview**

On 5 October 2001, HSBC submitted a winding-up petition against Keview in the Hong Kong Court. Pursuant to an order of the Hong Kong Court, the Keview Provisional Liquidators were appointed to administer the assets and businesses of Keview with effect from 8 October 2001. The winding-up petition was fixed for 16 January 2002. On 15 January 2002, application was made to the Hong Kong Court for adjournment of the hearing of the winding-up petition in order to allow time for the Keview Provisional Liquidators to negotiate with potential investors for the restructuring of the Company.

On 21 January 2002, the Hong Kong Court ordered the hearing of the winding-up petition of Keview be adjourned to 22 April 2002.

On 22 April 2002, HSBC (the petitioner) and the Keview Provisional Liquidators applied to the Hong Kong Court for further adjournment of the hearing of the winding-up petition of Keview in order to proceed the Restructuring Proposal.

On 24 April 2002, the Hong Kong Court ordered the hearing of the winding-up petition of Keview be further adjourned to 29 July 2002, save that the Keview Provisional liquidators and the Keview Creditors are entitled to apply to restore the petition of the hearing upon given HSBC (the petitioner) and the official receiver 7 day's notice in advance as stated in the Third Announcement. On the same date, the Hong Kong Court also ordered that the powers of the Provisional Liquidators be extended to include, inter alia, power to be bound by all the terms of the Restructuring Agreement and to compromise with the Keview Creditors on behalf of the Company.

**(c) Litigation against Dongguan Kepo**

- (i) On 10 May 2002, Dongguan Kai Cheng Electronic Co. served a writ of summons against Dongguan Kepo in respect of goods alleged to have been purchased by Dongguan Kepo during the period from December 2000 to September 2001 for a principal sum of approximately \$474,000. Dongguan Kepo vigorously defended the lawsuit at the court's hearing held on 29 May 2002. On 26 June 2002, a judgement was granted by the Dongguan People's Court against Dongguan Kepo which required Dongguan Kepo to pay \$474,000 and RMB10,100 to the claimant. Application for appeal has been made by Dongguan Kepo. At the Latest Practicable Date, the Dongguan People's Court has yet to consider the application for appeal. Pending the hearing of the appeal by the Dongguan People's Court, the outcome of the action is uncertain. Against this background, it is not feasible to make an assessment of the quantum of damages and liabilities of Dongguan Kepo, if any. No provision for any liabilities or damages, which might arise in connection with this matter, has been made by the Company in its financial statements for the year ended 31 March 2002.
- (ii) On 5 June 2002, Yuen Tung Electrical & Air-Conditioning Eng. Co. served a writ of summons against Dongguan Kepo in respect of services alleged to have been rendered to Dongguan Kepo in the principal sum of approximately \$608,000. The hearing is scheduled to be held on 25 June 2002 in the Dongguan People's Court. Dongguan Kepo intended to vigorously defend the lawsuit at the hearing. No provision for any liabilities or damages, which might arise in connection with this matter, has been made by the Company in its financial statements for the year ended 31 March 2002.

**7. MATERIAL CHANGES IN THE FINANCIAL OR TRADING POSITION**

Save for the execution of the Reorganisation Agreements, the proposed Capital Restructuring and the proposed issue of the Convertible Notes as set out in the Second Announcement and the Fourth Announcement, the effect of which are set out in the section headed "Statement of Pro Forma Adjusted and Unaudited Consolidated Net Tangible Assets of the Group at Closing" in Appendix I to this document, the Provisional Liquidators are not aware of any material change in the financial and trading position of the Group since 31 March 2002, the date to which the latest audited accounts of the Group were made up.

**8. WORKING CAPITAL STATEMENT ON THE GROUP UPON CLOSING**

The Investor and Yue Fung confirm that they will support the working capital requirements of the Group after Closing. The Proposed Directors of the Company are of the opinion that, in the absence of unforeseen circumstances and subject to Closing and with the financial support of the Investor and Yue Fung, the Group will have sufficient working capital to fund the continued operation of the Group for the coming twelve months after Closing.

The Provisional Liquidators have prepared the actual cash flow of the receipts and payments of the Group for the period from 1 April 2002 to the date of this document. The Proposed Directors have prepared the cash flow projections of the Group for the period from 1 April 2002 to 31 July 2003 (the "Projection Period") based on the projection of the Group's profit and loss account for the sixteen months ending 31 July 2003. Provided that the Restructuring Proposal becomes effective, the Group will raise gross proceeds of \$30 million from the issue of Convertible Notes to Yue Fung and Simply Noble in equal proportion immediately after Closing. Such \$30 million is currently planned to be applied to restore the operations of Dongguan Kepo factory, of which about \$20 million will be used for acquiring and reconditioning machinery and utilities, trial running of materials and consumables as well as procuring materials and the balance of about \$10 million for financing operating overhead. The Convertible Notes are due on the fifth anniversary of the date of their issuance. In addition, subject to the Closing, the Investor and Yue Fung will undertake to provide continuing financial support to fund the continued operation of the Group notwithstanding any unforeseen circumstances during the Projection Period.

The Proposed Directors are of the opinion that, in the absence of unforeseen circumstances and subject to the completion of the Restructuring Proposal, taking into account (i) the undertaking given by the Investor and Yue Fung; (ii) the success of the Restructuring Proposal; (iii) the completion of the Creditors' Schemes; and (iv) the issue of Convertible Notes, the Group will have sufficient working capital for the Projection Period. Should the Restructuring Proposal and other measures abovementioned be unsuccessful, the Proposed Directors are of the opinion that the Group would not have adequate fund to enable it to operate as a going concern in the foreseeable future.

The following is the cash flow projections of the Group for the period from 1 April 2002 to 31 July 2003.

	<i>\$'million</i>
Net cash inflow from operating activities	12.4
Net cash outflow from investing activities	(21.4)
Financing activities	
Proceeds from issue of Convertible Notes ( <i>note 1</i> )	30.0
Net cash inflow from financing activities	30.0
Increase in cash and cash equivalents	<u>21.0</u>

*Note 1:* \$30 million Convertible Notes will be issued upon the completion of the Restructuring Proposal.

For the cash settlement under the Debt Restructuring of \$40 million, the repayment of PRC Liabilities from DK Advances and all of the professional expenses in connection with the Restructuring Proposal will be settled by Yue Fung directly on behalf of the Company. As cash outflows were not operated through any of the Group's bank accounts and therefore, they are not reflected in the cash flow projection for the period from 1 April 2002 to 31 July 2003.



In assessing the adequacy of working capital of the Group, the Proposed Directors have prepared the cash flow projections of the Group for the Projection Period on the basis of a number of assumptions, the principal ones of which are set out below. It should be noted that the assumptions set out below could be materially affected by changes in economic and other circumstances.

**As a result, actual cash flows may differ substantially from the prospective financial information contained in the cash flow projections since actual events frequently do not occur as expected and such variation may be material.**

Principal assumptions:

1. that the Restructuring Proposal is successfully implemented (*Note 1*);
2. that there is a successful completion of the Creditors' Schemes (*Note 2*);
3. that there is a successful completion of the issue of Convertible Notes (*Note 3*);
4. that there has been/will be no material changes in principal activities and operations of the Group for the period from 1 April 2002 to 31 July 2003 (*Note 4*);
5. that there will not be any significant provision for bad debts during the Projection Period;
6. that orders on hand are delivered in full and on time (*Note 5*);
7. that there will be no material changes in existing political, legal, fiscal or economic conditions in Hong Kong and any other places in which the Group carries on business;
8. that there will be no material changes in the bases or rates of taxation applicable to the activities of the Group;
9. that there will be no material changes in interest rates and foreign currency exchange rates from those currently prevailing; and
10. that there will be no major business disruptions through international crisis or finance turmoil, industrial disputes, industrial accidents or severe weather conditions.

*Notes*

- (1) The Proposed Directors confirm that they will procure for the completion of the Restructuring Proposal.
- (2) The Proposed Directors confirm that they will procure for the completion of the Creditors' Schemes.
- (3) The Proposed Directors confirm that they will procure for the issue of Convertible Note.
- (4) The Proposed Directors confirm that there has been/will be no material change in principal activities and operations of the Group for the period from 1 April 2002 to 31 July 2003.
- (5) The Proposed Directors confirm that they will procure that orders on hand will be delivered in full and on time.

**COMFORT LETTERS**

Set out below are the text of the letter received by the Directors, the directors of the Investor, the directors of Yue Fung and the directors of REXCAPITAL (Hong Kong) Limited from Ernst & Young and the letter received by the directors of Yue Fung from REXCAPITAL (Hong Kong) Limited in connection with the cash flow projections of the Group for the period from 1 April 2002 to 31 July 2003.

*Letter from Ernst & Young*

19 July 2002



The Directors  
A-Max (Asia) Limited  
Unit 11-12, 32th Floor, Cable TV Tower  
9, Hoi Shing Road  
Tsuen Wan, New Territories  
Hong Kong

The Directors  
Yue Fung International Group Holding Limited  
Unit 11-12, 32th Floor, Cable TV Tower  
9, Hoi Shing Road  
Tsuen Wan, New Territories  
Hong Kong

The Directors  
REXCAPITAL (Hong Kong) Limited  
Suite 3203, 32nd Floor  
Nine Queen's Road Central  
Central  
Hong Kong

Kessel International Holdings Limited  
(Provisional Liquidators Appointed)  
c/o The Provisional Liquidators  
KPMG  
27th Floor, Alexandra House  
16-20 Charter Road  
Central  
Hong Kong

Dear Sirs,

**Adequacy of working capital  
Kessel International Holdings Limited (the “Company”) and its subsidiaries (the “Group”)  
 (“Provisional Liquidators Appointed”)**

For the purpose of the statement made by the directors of the Company to be nominated by the Investor (hereinafter collectively referred to as the “Proposed Directors”) regarding the sufficiency of working capital for the continued operation of the restructured Group for the twelve months after Closing (as defined in the Document) under section 8, “Working Capital Statement on the Group upon Closing” in Appendix I, as set out on pages 84 to 86 of the document of the Company dated 19 July 2002 issued in connection with the proposed restructuring involving capital restructuring, debt restructuring that involves creditors, scheme, subscription for new shares, whitewash waiver and other proposals regarding issue of convertible notes, adoption of a share option scheme, change of Company’s name and general mandate to issue shares (the “Document”), we have reviewed the actual cash flows of the receipts and payments of the Group for the period from 1 April 2002 to the date of this document and the cash flow projections of the restructured Group for the period from 1 August 2002 to 31 July 2003 (the “Cash Flow Projections”) for which the Proposed Directors are solely responsible.

In respect of the Cash Flow Projections, we draw to your attention that because of the significance of each of (1) the fundamental uncertainty relating to the going concern basis; and (2) the possible effects of the limitations in evidence available to the auditors as set out in the basis of opinion section of the auditors’ report dated 21 June 2002 on pages 48 to 52 of Appendix I of the Document (“Basis of Opinion”), Deloitte Touche Tohmatsu, as auditors of the Group, (the “Auditors”) are unable to form an opinion as to whether the financial statements of the Group for the year ended 31 March 2002 (the “Financial Statements”) give a true and fair view of the state of affairs of the Group as at the date and of the loss and cash flows of the Group for the year then ended and as to whether the Financial Statements had been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

In respect alone of the limitations on the work of the auditors as set out in the Basis of Opinion section:

- (i) the Auditors have not obtained all the information and explanations that they consider necessary for the purpose of their audit; and
- (ii) proper books of accounts have not been kept.

Any adjustments found to be necessary to the net liabilities of the Group as at 31 March 2002 may have a consequential effect on the Cash Flow Projections.

We emphasise that the Cash Flow Projections and the assumptions on which they are based relate to the future. The actual cash flows are likely to be different since anticipated events frequently do not occur as expected, and the variation may be material. Accordingly, Cash Flow Projections cannot be relied upon to the same extent as information derived from the audited financial statements for completed financial accounting periods. For these reasons, we express no opinion on how closely the cash flows eventually achieved will correspond with the Cash Flow Projections, or on whether the underlying assumptions provide a reasonable basis for the Cash Flow Projections.

We have discussed the underlying assumptions of the Cash Flow Projections with the Proposed Directors. Except for any adjustments that may be required in respect of the matters described above concerning the opinion of the Auditors on the financial statement of the Group for the year ended 31 March 2002 and subject to the successful completion of the Restructuring Proposal and the subscription of the Convertible Notes and the undertakings given by the Investor and Yue Fung to support the working capital requirement of the Group during the Projection Period after the Closing, in our opinion, so far as the accounting policies and calculations are concerned, the Cash Flow Projections have been properly compiled on the basis of assumptions made by the Proposed Directors of the Company as set out on pages 85 to 86 and we are satisfied that the statement in the Document as to the adequacy of working capital has been made by the Proposed Directors after due and careful enquiry.

Yours faithfully,  
**Ernst & Young**  
*Certified Public Accountants*  
Hong Kong

*Letter from RexCapital (Hong Kong) Limited*

**REXCAPITAL (Hong Kong) Limited**

19 July 2002

The Directors  
Yue Fung International Group Holding Limited  
Unit 11-12, 32th Floor, Cable TV Tower  
9, Hoi Shing Road  
Tsuen Wan, New Territories  
Hong Kong

Dear Sirs,

We refer to the statement made by the Proposed Directors regarding the sufficiency of working capital for the Group's requirements for the Projection Period as set out in Appendix I to the document dated 19 July 2002 (the "Document") issued by the Company and Yue Fung in connection with the Restructuring Proposal. Terms used in this letter shall have the same meanings as defined in the Document unless otherwise defined.

We have not performed any independent review of the preparation of the cash flow projections of the Group for the Projection Period for which the Proposed Directors are solely responsible. However, we have discussed with the Proposed Directors the assumptions for the Cash Flow Projections and have considered the letter dated 19 July 2002 (the "Auditors' Letter") addressed to, inter alia, yourselves, the Investor, the Directors and ourselves by Ernst & Young, the auditors of Yue Fung (the "Auditors").

We note from the Auditors' Letter that the Auditors are satisfied that, subject to the successful completion of the Restructuring Proposal and the subscription of the Convertible Notes and the undertakings given by Yue Fung and the Investor to support the working capital requirement of the Group during the Projection Period after the Closing, the statement in the Document as to the sufficiency of working capital has been made by the Proposed Directors after due and careful enquiry; and that they express no opinion as to how closely the actual cash flows achieved will correspond to the Cash Flow Projections or as to whether the underlying assumptions provide a reasonable basis for the Cash Flow Projections. We are satisfied that, subject to the successful completion of the Restructuring Proposal and the subscription of the Convertible Notes and the undertakings given by Yue Fung and the Investor to support the working capital requirement of the Group during the Projection Period after the Closing, the statement as to the sufficiency of working capital has been made after due and careful enquiry.

Yours faithfully,  
For and on behalf of  
**REXCAPITAL (Hong Kong) Limited**  
**Philip Chau**  
*Director*

The following is the text of a letter from Landscape Surveyors Limited to the Company in respect of the valuation of the land and buildings of the Group, prepared for inclusion in this document.

**LANDSCOPE**  
領域測量師行

Unit 1304, 13th Floor  
Admiralty Centre Tower 1  
18 Harcourt Road  
Hong Kong

19th July, 2002

Kessel International Holdings Limited (Provisional Liquidators Appointed)  
c/o KPMG  
27th Floor, Alexandra House  
16-20 Chater Road.  
Central  
Hong Kong

Dear Sir,

In accordance with your instructions for us to value the property interest held directly or indirectly by Kessel International Holdings Limited (Provisional Liquidators Appointed) (the “Company”) and its subsidiaries (hereinafter together referred to as the “Group”) in The People’s Republic of China (“PRC”), we confirm that we have carried out inspections, made relevant enquires and investigations and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the value of the property interest as at 31st May, 2002 (“date of valuation”).

Our valuation of the property interest is on the basis of depreciated replacement cost which is used for the valuation of specialized properties. It is a method of using net current replacement costs to arrive at the value to the undertaking in occupation of the property interest as existing at the date of valuation.

In accordance with the Valuation of Property Assets – Guidance Notes issued by the Hong Kong Institute of Surveyors, the buildings and structures constructed on the property interest belong to the category of specialized, special purpose or specially designed property. The buildings and structures of the property interest are specially designed to be a self-contained industrial complex for the manufacturing of electronic products and the provision of the related ancillary services. Owing to their specialized nature, there are no readily identifiable market comparables and therefore, the property interest has been valued on the basis of depreciated replacement cost. We would define “depreciated replacement cost” to be our opinion of the land value in its existing use and an estimate of the new replacement costs of the buildings, including fees and finance charges, from which deductions are then made to allow for age, condition and functional obsolescence. The depreciated replacement cost approach generally provides the most reliable indication of value for property in the absence of a known market based on comparable sales.

Our valuation has been made on the assumption that the Group sells the property interest on the open market without the benefit of a deferred term contracts, leaseback, joint venture, management agreement or any similar arrangement which would serve to increase the value of the property interest. In addition, no account has been taken of any option or right of pre-emption concerning or affecting the sale of the property interest.

We have been provided with extracts of documents in relation to the title of the property interest. However, we have not inspected the original documents to ascertain any amendments which may not appear on the copies handed to us. In the course of our valuation, we have relied to a very considerable extent on the information given to us by the Group and its legal adviser on PRC law in respect of the Group's interest in the property and have accepted advice given to us by the Group and its legal adviser on PRC law (as the case may be) on such matters as planning approvals, statutory notices, easements, tenure, completion dates of buildings, identification of buildings, particulars of occupancy, development scheme(s), site and floor areas and all other relevant matters. Dimensions, measurements and areas included in the valuation certificate attached are based on information provided to us by the Group and are therefore only approximations. We have no reason to doubt the truth and accuracy of the information provided to us by the Group and/or its legal adviser on PRC law which is material to the valuation. We were also advised by the Group that they are not aware of any omission of any material facts supplied.

In respect of the property interest, the status of titles and grant of major approval and licences, in accordance with the information provided by the Group and its legal adviser on PRC law are set out in the note of the valuation certificate. In valuing the property interest, unless otherwise stated, we have assumed that transferable land use rights in respect of the property interest at nominal land use fees have been granted and that any premium payable has already been fully settled. We have relied on the information given by the Group and its legal adviser on PRC law regarding the title to the property interest and the interest of the Group in the property. We have also assumed that the Group has an enforceable title to the property interest and have free and uninterrupted rights to use or to assign the property interest for the respective unexpired land use terms as granted.

According to information provided by the Group, we understand the current status of title, grant of major approvals, licences and documents of the property interest are as follows: -

(i)	Contract for Transfer of State-owned Land Use Rights	Yes
(ii)	State-owned Land Use Rights Certificate	Yes
(iii)	Realty Title Certificate	No
(iv)	Co-operative Contract	Yes
(v)	Planning Permit for Construction Works	Yes
(vi)	Certificates for Construction Works Completion	Yes
(vii)	Business Licence	Yes

We have inspected the exteriors and, where possible, the interiors of the property. 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 property is free from rot, infestation or any other structural defects. No tests were carried out to any of the services. Unless otherwise stated, we have not carried out on-site measurements to verify the site and floor areas of the property and we have assumed that the areas shown on the documents handed to us are correct.

No allowance has been made in our report for any charges, mortgages or amounts owing on the property interest nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the property interest is free from encumbrances, restrictions and outgoing of an onerous nature which could affect its value.

Unless otherwise stated, all sums stated in our valuation are in Hong Kong Dollars. The exchange rate adopted in our valuation as at 31st May, 2002 was approximately \$1 = RMB1.06. There has been no significant fluctuation in exchange rates between that date and the date of this letter.

We have prepared our valuation in accordance with Practice Note No. 12 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited on the valuation of property interests.

We enclose herewith a summary of valuation and valuation certificate.

Yours faithfully,  
For and on behalf of  
**LANDSCOPE SURVEYORS LIMITED**  
**Koh Keng Shing**  
AHKIS MRICS RPS(GP)  
*Director*

*Note:* Mr. Koh Keng Shing, AHKIS, MRICS, RPS(GP), is a registered professional surveyor and has about 20 years' experience in the valuation of various kinds of properties in Hong Kong SAR and the PRC.



## SUMMARY OF VALUATION

## Property interest held by the Group in the PRC

	<b>Capital value in existing state as at 31st May, 2002</b>
<b>Property</b>	
An industrial complex situated at Erhuan Road, Dongkeng Town, Dongguan, Guangdong Province, The People's Republic of China	<u>\$45,000,000</u>
<b>TOTAL</b>	<b><u><u>\$45,000,000</u></u></b>

## VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31st May, 2002
An industrial complex situated at Erhuan Road, Dongkeng Town, Dongguan, Guangdong Province, The People's Republic of China (the "Property")	<p>The Property comprises 11 blocks of industrial buildings and ancillary structures erected upon a plot of roughly rectangular shaped site having a site area of approximately 47,047 sq.m. (506,414 sq.ft.).</p> <p>The buildings and ancillary structures including 3 factory buildings, 6 dormitory buildings, 1 canteen building and 1 electricity generator room. The buildings and structures were completed in about December 1999.</p> <p>The total gross floor area of these buildings and structures is approximately 60,651.56 sq.m. (652,853 sq.ft.).</p> <p>The land use rights of the property have been granted for a term due to expire on 27th December, 2048 for industrial use.</p>	The Property is currently owner-occupied.	\$45,000,000

*Notes:-*

- (1) Pursuant to the State-owned Land Use Rights Certificate Dong Fu Guo Yong (1999) Zi Di Te No. 145 issued by Dongguan Land Administration Bureau on 26th March, 1999, the land use rights of the property comprising a site area of 47,047 sq.m. is held by Dongguan Kepo Electronics Limited ("Dongguan Kepo") for a land use term due to expire on 27th December, 2048 for industrial use.
- (2) Pursuant to various Certificates for Construction Works Completion Jian Yan Zheng Zi Di Nos. 2000-10-013 to 2000-10-023 dated 25th September, 2000, the construction works of 11 industrial and ancillary buildings with total gross floor area of approximately 60,651.65 sq.m. (652,853 sq.ft.) were completed in about December 1999.
- (3) Pursuant to the Business Licence No. 715654 issued by the PRC Industrial and Commercial Administrative Bureau dated 13th November, 1998, Dongguan Kepo was incorporated as a wholly Foreign-owned Enterprise with a registered capital of \$76,120,000 and has an operation period from 13th November, 1998 to 12th November, 2023. The scope of business includes production of various kinds of electronic products.
- (4) Pursuant to the Co-operative Contract relating to Dongguan Kepo entered into between Keview Technology (BVI) Limited ("Party A") and Dongguan Dongkeng Town Foreign Economic Development Company 東莞市東坑鎮對外經濟發展公司 ("Party B") on 14th September, 1998, Party B has agreed to assist Party A for the establishment of Dongguan Kepo. The salient conditions as stipulated in the said contract are, inter alia, cited as follows:-
  - (i) Name of Company : Dongguan Kepo Electronics Limited (wholly Foreign-owned Enterprise).
  - (ii) Land use rights : Party A is responsible for the payment of \$2,250,000 to Party B in order to obtain the land use rights for Dongguan Kepo.
  - (iii) Management and services fees : Party A is responsible for the payment of the following fees to Party B:-
    - (a) RMB 0.5/sq.m. of site area (excluding green belt area) as the management fee. The fee will increase 10% for every 5 years.
    - (b) RMB 30,000/mou of site area per year as the comprehensive services fee, from 1st September, 1999 to 31st August, 2003. With effective from 1st September, 2003, the fee will charge at RMB 70/staff per month with 10% increase from 1st September, 2008 and then the fee will be increased 15% for every 5 years afterward.

- (5) As informed by the Group, the total cost of acquisition and expended for the Property was approximately \$51,219,000.
- (6) We have been provided with a PRC legal opinion prepared by Kingson Law Firm 廣東君信律師事務所, which contains, inter alia, the following information:–
- i) In respect of land use rights of the Property:–
- (a) By virtue of State-owned Land Use Rights Certificate, Dongguan Kepo has obtained the land use rights of the Property.
- (b) The land premium to obtain the land use rights of the Property has been settled in full.
- (c) The Property is free from any mortgage and encumbrances.
- ii) In respect of the buildings and structures erected on the Property:–
- (a) The design and construction of the buildings and structures developed by Dongguan Kepo are in compliance with the local planning and design regulations and have obtained Certificates for Construction Works Completion. However, Dongguan Kepo did not submit any Realty Title Certificates application for the said buildings and structures to the relevant government authorities.
- (b) In this circumstance, it is considered that Dongguan Kepo can obtain the relevant Realty Title Certificates from the relevant government authorities upon application and the said certificates are expected to be issued to the Group without onerous conditions or undue delay subject to the followings:
- (b1) Obtain the Construction Land Use Planning Permit.
- (b2) The said buildings and structures are in compliance with the local planning and design regulations in accordance with the relevant PRC laws.
- iii) Subject to item (ii)(b) above, Dongguan Kepo could transfer and dispose of the Property freely in accordance with the relevant PRC laws and regulations.
- (7) We have relied on the aforesaid PRC legal opinion and information provided by the Group to prepare our valuation on the following assumptions:–
- i) Dongguan Kepo has the right to transfer, mortgage, let and dispose of the Property, whether as a whole or on a strata-titled basis, to both local and overseas purchasers freely and is entitled to transfer the residual term of its land use right in accordance with the relevant PRC laws and regulations at no extra land premium or other onerous payment payable to the government.
- ii) All land premium and other costs or charges have been settled in full.
- iii) As informed by the Group, we are given to understand that an additional payment of approximately RMB200,000 to the relevant government authorities is required for the application of Realty Title Certificates for the buildings and structures erected on the Property. In the course of valuation, we have assumed that all necessary payments for the application of the Realty Title Certificates have been settled in full and the said certificates are expected to be issued to the Group by the relevant government authorities without onerous conditions or undue delay and within a reasonable period of time.
- (8) The status of the title and grant of major approvals and licences in accordance with the information provided by the Group are as follows:–
- |  |     |
|--|-----|
| (i) State-owned Land Use Rights Certificate              | Yes |
| (ii) Contract of Transfer of State-owned Land Use Rights | Yes |
| (iii) Realty Title Certificate                           | No  |
| (iv) Co-operative Contract                               | Yes |
| (v) Planning Permit for Construction Works               | Yes |
| (vi) Certificates for Construction Works Completion      | Yes |
| (vii) Business Licence                                   | Yes |

The following is the text of a letter and the summary of values prepared by DoveBid-Hong Kong Limited, an independent valuer of the plant and machineries of the Group for inclusion in this document.

**DOVEBID<sup>®</sup>**

Valuation Services

Kessel International (Holdings) Ltd.

(Provisional Liquidators Appointed)

c/o KPMG,

27/F., Alexandra House,

16-20 Chater Road,

Central, Hong Kong.

Dear Sirs,

In accordance with your instructions to value the production plant and machinery exhibited to us as being owned by Dongguan Kepo Electronics Limited (hereinafter referred to as the “Company”), we confirm that we have carried out inspections, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the Value on the basis of Fair Market Value in Continued Use as of 31 May 2002.

This valuation report dated 31 May 2002 comprises:

1. A report identifying the scope of the valuation and the assets included in the valuation.
2. Valuation Standards, Definitions of Value, Methodology and Limiting Conditions.
3. The certificate expressing our opinion of Value of Plant and Machinery on the basis of Fair Market Value in Continued Use.
4. Schedules detailing the plant and machinery to be included in the valuation.

**Description of the Assets**

The appraised assets comprises Surface Mount Equipment (SMT), Plastic Injection Moulding Machines, Test and Measure Equipment and Production Facilities for Liquid Crystal Display (LCD).

The following items have been excluded from the appraisal:

- (a) land, real property, structures and items in the nature of building services such as heating, air conditioning, lighting, drainage and sewage.
- (b) stocks, stores, materials-in-trade, work-in-progress and finished goods.
- (c) drawings, designs and technical records.
- (d) commercial and administration records.
- (e) items on loan, on hire and subject to contract hire and operating lease agreements.
- (f) patents, registered trademarks and goodwill.

## Basis of Valuation

We have valued the subject plant and machinery on the basis of Fair Market Value in Continued Use which is defined as:

“the estimated amount in terms of money that may be reasonably expected for assets in exchange between a willing buyer and a willing seller with equity to both, neither being under any compulsion to sell or buy, both fully aware of all relevant facts and including installation, as of an appraisal date, and assuming that the earnings support the value reported.”

## Methodology

“**Fair Market Value in Continued Use**” can be assessed by using one of the three generally accepted principles. These are as follows:

**The Cost Approach** establishes value based on the cost of reproducing or replacing the property less depreciation from physical deterioration and functional obsolescence, if present and measurable, and taking into account the level of maintenance and refurbishment history. This approach might be considered the most consistently reliable indication of value when applied to land improvements, special purpose buildings, special structures, systems and special machinery and equipment.

**The Market Approach** establishes value indicated by analysis of recent sales of comparable property. In the valuation of real estate, similar properties recently sold or offered for sale in the current market are analysed and compared with the property being appraised. Adjustments will be made for differences in time of the transaction; location; type; age and condition of the improvements and prospective use. This approach is also used in the valuation of machinery and equipment for which there is known used market. For continued use, this method would consider the cost to acquire in the used market plus an allowance for freight and installation. The market data approach would also apply to valuation of machinery and equipment for sale on the open market based on analysis of sales of similar items by private liquidation, auctions and prices paid by used equipment dealers.

**The Income Approach** establishes the value of the property based on capitalisation of identified income streams associated with the property. This approach is more often used to value properties that can be leased or to value certain other intangible assets.

The Market Approach is the primary basis upon which the Plant and Machinery is appraised. The Cost Approach gives limited consideration to such factors as functional obsolescence and physical deterioration, the Cost Approach is not applied in valuing the subject assets. The Income Approach is not utilized, as it gives consideration to income generating criteria that are not appropriate to this appraisal. As such, we have applied the Market Approach in the valuation of the subject assets.

We have applied the Market Approach in the valuation of the subject assets, and we consider this to be the most appropriate and reliable method in this instance.

**Limiting Conditions**

We have not undertaken any independent searches regarding title to the assets which form the subject matter of the appraisal. **Most of the former directors of the Company, former senior management and former accounting personnel of the Group have left the Group. Without the assistance of the senior management of the Group, the Provisional Liquidators have been unable to locate sufficient documentary information to satisfy themselves regarding the legal title of the plant and machinery.** In the absence of information to the contrary, it has been assumed that all the assets included in the valuation are either owned outright by the company or the company has constructive ownership under the terms of finance agreements.

The valuation has been based upon the assumption that the plant and equipment meets current health and safety and environmental legislation. We have not undertaken any formal investigation in this regard.

We have not undertaken or commissioned a technical survey of condition.

The Report has been prepared on the basis that full disclosure of all information and facts which may affect the valuation has been made to ourselves and we cannot accept any liability or responsibility, in any event, unless such full disclosure has been made.

**Opinion of Value**

Premised on the foregoing, we are of the opinion that as at 31 May 2002, the Fair Market Value in Continued Use of the Subject Plant & Machinery is fairly represented in the amount of \$48,000,000. (Hong Kong Dollars Forty-Eight Million Only)

Yours faithfully,  
For and on behalf of  
**DOVEBID-HONG KONG LIMITED**  
Vincent Wee *ANZIV, MSISV*  
*Director*

*Note:* Mr. Vincent Wee is a qualified valuer with over 10 years of experience in valuing various kinds of Plant and Machinery in Hong Kong and the PRC.

The principal terms of the Convertible Notes proposed to be issued by the Company immediately after Closing are as follow:–

**Issuer:**

The Company

**Subscribers:**

Each of Yue Fung and Simply Noble will subscribe for the Convertible Notes in the principal amount of \$15,000,000.

**Aggregate amount of the Notes:**

\$30,000,000, being the face-value of the Convertible Notes, in denomination of \$500,000 each payable in full in cash by the subscribers named above on the date of maturity.

**Principal terms of the Convertible Notes:***Interest:*

Each Convertible Note bears zero coupon interest rate.

*Conversion:*

The whole (and not part only) of the principal amount of each Note (being \$500,000) can be converted into the Conversion Shares on any business day at the conversion price of \$0.004 per New Share. The Conversion Shares which fall to be issued upon conversion of the relevant Convertible Note shall rank pari passu in all respects with the New Shares in issue on the date of issue of the Conversion Shares.

*Maturity:*

The Convertible Notes mature on the fifth anniversary of their date of issue.

Unless converted into New Shares or repaid in accordance with the terms and conditions of the Convertible Notes, the principal amount of any Convertible Note remaining outstanding shall be automatically redeemed in full on its maturity date.

*Transfer:*

The Convertible Notes may be assigned to any third party which is not a connected person (as defined in the Listing Rules) of the Company subject to compliance with the terms and conditions of the Convertible Notes and further subject to the conditions, approvals, requirements and any other provisions of or under:

- (a) the Stock Exchange or its rules and regulations;
- (b) the approval of the listing in respect of the Conversion Shares; and
- (c) all applicable laws and regulations.

The Listing Rules that govern the granting of share options has been changed in September 2001 to provide more flexibility to companies listed on the Stock Exchange to grant share options to subscribe its shares. To be in line with the changes in the Listing Rules, the Investor has requested for the termination of the Existing Share Option Scheme and the adoption of the New Share Option Scheme, details of the principal terms of the New Share Option Scheme are set out as follows:

## **I. Reasons of proposing to adopt the New Share Option Scheme**

The Investor is of the view that contributions of the employees, executives, officers, suppliers, consultants, and advisers of the Group are of paramount importance to the success of the Group as a whole after Closing and therefore consider it to be in the interests of the Group as a whole for such persons to be given incentives to participate in the growth of the Group in the form of options to subscribe for shares of the Company.

## **II. Summary of the principal terms of the New Share Option Scheme**

The following is a summary of the principal terms of the New Share Option Scheme proposed to be adopted at the Special General Meeting:

### *1. Purpose*

The purpose of the New Share Option Scheme is to enable the Company to grant options to employees, executives or officers of the Company or any of its subsidiaries (including executive directors, non-executive directors and independent non-executive directors of the Company or any of its subsidiaries) and suppliers, consultants or advisers to the Company or any of its subsidiaries as incentives and rewards for their contribution to the Company or such subsidiaries.

### *2. Who may join*

The Board may, at its discretion, offer Eligible Participants, being, employees, executives or officers of the Company or any of its subsidiaries (including executive directors, non-executive and independent non-executive directors of the Company or any of its subsidiaries) and suppliers, consultants and advisers to the Group, options to subscribe for such number of new Shares as the Board may determine at an exercise price determined in accordance with paragraph 5 below. Upon acceptance of the option, the grantee shall pay \$1.00 to the Company by way of consideration for the grant.

### *3. Maximum number of Shares*

The maximum number of Shares which may be issued upon exercise of all options to be granted under the New Share Option Scheme and any other share option scheme(s) of the Company (which for this purpose, excludes the Existing Share Option Scheme) must not exceed 10 per cent. of the Shares in issue on the date of approval and adoption of the New Share Option Scheme by Shareholders unless the Company obtains a refresh approval from its Shareholders as described below. Shares which would have been issuable pursuant to options which have lapsed in accordance with the terms of such share option scheme(s) will not be counted for the purpose of the 10 per cent. limit.



Subject to the issue of a circular by the Company and the approval of the Shareholders in general meeting and/or such other requirements prescribed under the Listing Rules from time to time, the Board may:

- (a) refresh this limit at any time to 10 per cent. of the Shares in issue as at the date of the approval by the Shareholders in general meeting (options previously granted under any share option schemes of the Company (including those outstanding, cancelled, lapsed in accordance with such schemes or exercised options) will not be counted for the purpose of calculating the limit as refreshed); and/or
- (b) grant options beyond the 10 per cent. limit to Eligible Participants specifically identified by the Board whereupon the Company shall send a circular to the Shareholders containing, amongst others, a generic description of the specified participants who may be granted such options, the number and terms of the options to be granted and the purpose of granting options to the specified participants with an explanation as to how the options serve such purpose.

Notwithstanding the foregoing, the Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the New Share Option Scheme and any other share option scheme(s) of the Company at any time shall not exceed 30 per cent. of the Shares in issue from time to time. No options shall be granted under any scheme(s) of the Company or any of its subsidiaries if this will result in the 30 per cent. limit being exceeded.

#### 4. *Maximum number of options to any one individual*

The total number of Shares issued and which may fall to be issued upon exercise of the options granted under the New Share Option Scheme and any other share option scheme(s) of the Company (including exercised, cancelled and outstanding options) to each Eligible Participant in any 12-month period up to the date of grant shall not exceed one per cent. of the Shares in issue as at the date of grant.

Any further grant of options in excess of this one per cent. limit shall be subject to the issue of a circular by the Company and the approval of the Shareholders in general meeting with such Eligible Participant and his associates (as defined in the Listing Rules) abstaining from voting and/or other requirements prescribed under the Listing Rules from time to time.

#### 5. *Price of Shares*

The subscription price for a Share in respect of any particular option granted under the New Share Option Scheme (which shall be payable upon exercise of the option) shall be such price as the Board in its absolute discretion shall determine, save that such price will not be less than the highest of (a) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of grant, which must be a business day (and for this purpose shall be taken to be the date of the Board meeting at which the Board proposes to grant the options); (b) the average of the closing prices of the Shares as stated in the Stock Exchange's daily quotations sheet for the five business days immediately preceding the date of grant; and (c) the nominal value of a Share.

6. *Granting options to connected persons*

Any grant of options to a director, chief executive or substantial shareholder of the Company or any of its associates (as defined in the Listing Rules) is required to be approved by the independent non-executive Directors (excluding the independent non-executive Director who is the grantee of the options).

If the Company proposes to grant options to a substantial shareholder (as defined in the Listing Rules) of the Company or any independent non-executive Director or their respective associates (as defined in the Listing Rules) which will result in the number of Shares issued and to be issued upon exercise of options granted (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of the offer of such grant:

- (a) representing in aggregate over 0.1 per cent. of the Shares in issue on the date of the offer; and
- (b) having an aggregate value in excess of \$5 million, based on the closing price of the Shares at the date of each offer,

such further grant of options will be subject to the issue of a circular by the Company and the approval of the Shareholders in general meeting on a poll at which all connected persons (as defined in the Listing Rules) of the Company shall abstain from voting, and/or such other requirements prescribed under the Listing Rules from time to time. A connected person (as defined in the Listing Rules) of the Company will be permitted to vote against the grant only if his intention to do so has been stated in the circular. Any vote taken at the meeting to approve the grant of such options must be taken on a poll. Any change in the terms of options granted to a substantial shareholder or an independent non-executive director of the Company or any of its associates (as defined in the Listing Rules) must be approved by the shareholders of the Company in general meeting.

7. *Restrictions on the time of grant of options*

A grant of options may not be made after a price-sensitive event has occurred or a price sensitive matter has been the subject of a decision until such price-sensitive information has been published in the newspaper. In particular, no options may be granted during the period commencing one month immediately preceding the earlier of (a) the date of the Board meeting for the approval of the Company's annual or interim results; and (b) the deadline for the Company to publish its interim or annual results announcement under the listing agreement and ending on the date of actual publication of the results announcement.

8. *Rights are personal to grantee*

An option is personal to the grantee and the grantee may not in any way sell, transfer, assign, charge, mortgage, encumber or create any interest in favour of any third party over or in relation to any option or attempt to do so.

9. *Time of exercise of option*

An option must be held for a minimum period of one year before it can be exercised but the Board is empowered to impose at its discretion such minimum period at the time of grant of any particular option. The period during which an option may be exercised will be determined by the Board at its absolute discretion, save that no option may be exercised more than ten years after it has been granted. No option may be granted more than ten years after the date of adoption of the New Share Option Scheme. Subject to earlier termination by the Company in general meeting or by the Board, the New Share Option Scheme shall be valid and effective for a period of ten years after the date of adoption of the New Share Option Scheme by Shareholders by resolution at a general meeting.

10. *Performance Target*

The Board has the discretion to require a particular grantee to achieve certain performance targets specified at the time of grant before any option granted under the New Share Option Scheme can be exercised.

11. *Rights on ceasing employment and death*

- (a) If the grantee is under employment with the Company and/or any of its subsidiaries, in the event of the grantee ceasing to be an Eligible Participant for any reason other than his ill-health, injury or disability (all evidenced to the satisfaction of the Board), death or the termination of his employment on one or more of the grounds specified in paragraph 12 below, the grantee may exercise the option up to his entitlement at the date of cessation of his employment (to the extent not already exercised) within the period of two months following the date of such cessation, which date shall be the last actual working day with the Company or the relevant subsidiary whether salary is paid in lieu of notice or not (or such longer period as the Board may determine).
- (b) If the grantee is under employment with the Company and/or any of its subsidiaries, in the event that the grantee ceases to be an Eligible Participant by reason of ill-health, injury or disability (all evidenced to the satisfaction of the Board), death and none of the events which would be a ground for termination of his employment under paragraph 12 below has occurred, the legal personal representative(s) of the grantee shall be entitled to exercise the option in full (to the extent not already exercised) on or before the earlier of (i) the last day in the 12-month period commencing from the date of ceasing to be an Eligible Participant or death (or such longer period as the Board may determine) or (ii) the relevant expiry date of the option.

12. *Lapse of option on dismissal*

If the grantee of an option is under employment with the Company and/or any of its subsidiaries and ceases to be an Eligible Participant by reason of being dismissed on the grounds that he has been guilty of misconduct, or has been convicted of any criminal offence involving his integrity or honesty or (if so determined by the Board) on any other ground on which an employer would be entitled to terminate his employment at common

law or pursuant to any applicable laws or under the grantee's service contract with the Company or the relevant subsidiary, his option will lapse and not be exercisable on the date of termination of his employment.

*13. Rights on winding-up*

In the event of an effective resolution being passed by the Shareholders for the voluntary winding-up of the Company or an order of the Court is made for the winding-up of the Company, the grantee of an option (or his legal personal representative(s)) may by notice in writing to the Company within 21 days after the date of such resolution elect to be treated as if his option (to the extent not already exercised) had been exercised immediately before the passing of such resolution either to its full extent or to the extent specified in the notice and shall accordingly be entitled to receive out of the assets available in the liquidation *pari passu* with the holders of Shares such sum as would have been received in respect of the Shares the subject of such election reduced by an amount equal to the exercise price which would otherwise have been payable in respect thereof.

*14. Rights on takeover*

If a general 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 in concert with the offeror) and if such offer, having been approved in accordance with applicable laws and regulatory requirements becomes, or is declared unconditional, the grantee (or his legal personal representative(s)) shall be entitled to exercise his option in full (to the extent not already exercised) at any time within 14 days after the date on which such general offer becomes or is declared unconditional.

*15. Rights on compromise or arrangement between the Company and its members or creditors*

If, pursuant to the Companies Act, a compromise or arrangement between the Company and its members, and/or creditors is proposed for the purposes of or in connection with a scheme for the reconstruction of the Company or its amalgamation with any other company or companies, the Company shall give notice thereof to all the grantees (together with a notice of the existence of the provisions of this paragraph) on the same day as it despatches to members and/or creditors of the Company a notice summoning the meeting to consider such a compromise or arrangement, and thereupon each grantee shall be entitled to exercise all or any of his options in whole or in part at any time prior to 12:00 noon (Hong Kong time) on the business day immediately preceding the date of the meeting directed to be convened by the relevant court for the purposes of considering such compromise or arrangement and if there are more than one meeting for such purpose, the date of the first meeting. With effect from the date of such meeting, the rights of all grantees to exercise their respective options shall forthwith be suspended. Upon such compromise or arrangement becoming effective, all options shall, to the extent that they have not been exercised, lapse and determine. The Board shall endeavour to procure that the Shares issued as a result of the exercise of options in such circumstances shall for the purposes of such compromise or arrangement form part of the issued share capital of the Company on the effective date thereof and that such Shares shall in all respects be subject to such compromise or

arrangement. If for any reason such compromise or arrangement is not approved by the relevant court (whether upon the terms presented to the relevant court or upon any other terms as may be approved by such court) the rights of the grantees to exercise their respective options shall with effect from the date of the making of the order by the relevant court be restored in full, as if such compromise or arrangement had not been proposed by the Company and no claim shall lie against the Company or any of its officers for any loss or damage sustained by any grantee as a result of the aforesaid suspension.

*16. Lapse of the options*

An option will lapse automatically and not be exercisable (to the extent not already exercised) on the earliest of:

- (a) the expiry date relevant to that option;
- (b) the expiry of any of the periods referred to in paragraphs 11, 14 or 15 above;
- (c) the date of commencement of the winding-up of the Company (as determined in accordance with the applicable law) as referred to in paragraph 13 above;
- (d) the date on which the scheme for the reconstruction of the Company or its amalgamation with any other company or companies becomes effective as referred to in paragraph 15 above;
- (e) the date on which the grantee ceases to be an Eligible Participant by reason of the termination of his relationship with the Company and/or any of its subsidiaries on any one or more of the grounds that he has been guilty of serious misconduct, or has committed any act of bankruptcy or is unable to pay his debts or has become insolvent or has made any arrangement or has compromised with his creditors generally, or has been convicted of any criminal offence involving his integrity or honesty or in relation to an employee of the Company and/or any of its subsidiaries (if so determined by the Board) on any other ground on which an employer would be entitled to terminate his employment at common law or pursuant to any applicable laws or under the grantee's service contract with the Company or the relevant subsidiary. A resolution of the Board or the board of directors of the relevant subsidiary to the effect that the relationship of a grantee has or has not been terminated on one or more of the grounds specified in this paragraph shall be conclusive;
- (f) the date on which the grantee ceases to be an Eligible Participant for any reason (including the termination of the grantee's employment with the Company and/or any of its subsidiaries by reason of redundancy or as a result of the grantee's own resignation) other than the termination of his employment on one or more of the grounds specified in paragraph 12; or
- (g) the date on which the Board shall exercise the Company's right to cancel the option at any time after the grantee commits a breach of the prohibitions specified in paragraph 8 above or the options are cancelled in accordance with paragraph 20 below.

17. *Ranking of Shares*

The Shares to be allotted upon the exercise of an option will not carry voting rights until completion of the registration of the grantee (or such other person nominated by the grantee) as the holder thereof. Subject to the aforesaid, Shares allotted and issued on the exercise of options will rank *pari passu* with and shall have the same voting, dividend, transfer and other rights, including those arising on liquidation of the Company as attached to the other fully-paid Shares in issue on the date of issue.

18. *Effect of alterations to capital*

In the event of a capitalisation issue, rights issue, subdivision or consolidation of Shares or reduction of capital of the Company whilst any option may become or remains exercisable, such alterations (if any) shall be made in the number of Shares subject to any outstanding options and/or the exercise price of each outstanding option and/or the number of Shares in respect of which any further options may be granted as the auditors of the Company or the independent financial adviser shall certify in writing to the Board to be in their opinion fair and reasonable and in compliance with Rule 17.03(13) of the Listing Rules and the note thereto. No such alteration will be made the effect of which would be to enable a Share to be issued at less than its nominal value. The issue of securities as consideration in a transaction is not to be regarded as a circumstance requiring any such alterations.

19. *Alteration of New Share Option Scheme*

The New Share Option Scheme may be altered in any respect by resolution of the Board except that:

- (a) any alteration to the advantage of the grantees or the Eligible Participants (as the case may be) in respect of the matters contained in Rule 17.03 of the Listing Rules;
- (b) any material alteration to the terms and conditions of the New Share Option Scheme or any change to the terms of options granted (except any alterations which take effect automatically under the terms of the New Share Option Scheme),

shall first be approved by the Shareholders in general meeting provided that if the proposed alteration, shall adversely affect an option granted or agreed to be granted prior to the date of alteration, such alteration shall be further subject to the grantees' approval in accordance with the terms of the New Share Option Scheme. The amended terms of the New Share Option Scheme shall still comply with the Chapter 17 of the Listing Rules and any change to the authority of the Board in relation to any alteration to the terms of the New Share Option Scheme must be approved by Shareholders in general meeting.

20. *Cancellation of options*

Any cancellation of options granted but not exercised must be approved by the grantee of the relevant options. Where the Company cancels options and issues new ones to the same grantee, the issue of such new options may only be made under the New Share Option Scheme with available unissued options (excluding the cancelled options) within the limit approved by Shareholders.

21. *Termination of the New Share Option Scheme*

The Company may by resolution in general meeting at any time terminate the New Share Option Scheme and in such event no further option shall be offered but the provisions of New Share Option Scheme shall remain in force to the extent necessary to give effect to the exercise of any option granted prior to the termination or otherwise as may be required in accordance with the provisions of the New Share Option Scheme. Options granted prior to such termination at the time of termination shall, continue to be valid and exercisable in accordance with the New Share Option Scheme.

22. *Condition of the New Share Option Scheme*

The New Share Option Scheme is conditional on (a) the Shareholders' approval at the Special General Meeting; (b) the Listing Committee of the Stock Exchange granting approval for the listing of, and permission to deal in, the Shares which may fall to be issued pursuant to the exercise of options granted pursuant thereto; and (c) the Bermuda Monetary Authority granting approval for the granting of the options and the allotment and issue of the Shares upon the exercise of the options.

23. *Disclosure in annual and interim reports*

The Company will disclose details of the New Share Option Scheme in its annual and interim reports including the number of options, date of grant, exercise price, exercise period, vesting period and (if appropriate) a valuation of options granted during the financial year/period in the annual/interim reports in accordance with the Listing Rules in force from time to time.

24. *Present status of the New Share Option Scheme*

Application for the listing of 10 per cent. of the Shares in issue on the date of approval and adoption of the New Share Option Scheme by Shareholders has been made to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Shares which may fall to be issued pursuant to the exercise of the options granted under the New Share Option Scheme.

The maximum number of Shares which may be issued upon exercise of all options to be granted under the New Share Option Scheme and any other share option scheme(s) of the Company (which for this purpose, excludes the Existing Share Option Scheme) must not exceed 10 per cent. of the Shares in issue on the date of approval and adoption of the New Share Option Scheme by Shareholders unless the Company obtains a fresh approval from its Shareholders.

**III. Values of all options that can be granted under the New Share Option Scheme**

The Directors consider that it is not appropriate or helpful to Shareholders to state the value of all options that can be granted pursuant to the New Share Option Scheme as if they had been granted at the Latest Practicable Date. The Directors believe that any statement regarding the value of the options as at the Latest Practicable Date will not be meaningful to the Shareholders, since the options to be granted shall not be assignable, and no holder of the option shall in any way sell, transfer, charge, mortgage or create any interest (legal or beneficial) in favour of any third party over or in relation to any option.

In addition, the calculation of the value of the options is based on a number of variables such as the exercise price, the exercise period, interest rate, expected volatility and other relevant variables. The Directors believe that any calculation of the value of the options as at the Latest Practicable Date based on a great number of speculative assumptions would not be meaningful and would be misleading to the Shareholders.



## 1. RESPONSIBILITY STATEMENTS

This document includes particulars given in compliance with the Code and the Listing Rules for the purpose of giving information with regard to the Company and the Investor. The Kessel Provisional Liquidators, as agents of the Company, jointly and severally accept full responsibility for the accuracy of the information contained in this document other than the information relating to the Investor and Yue Fung and confirm, having made all reasonable enquires, that to the best of their knowledge and belief, the opinions expressed in this document other than the opinions expressed by the Investor and Yue Fung have been arrived at after due and careful consideration and there are no other facts not contained in this document, the omission of which would make any statement in this document misleading.

The information contained in this document relating to the Investor and Yue Fung has been supplied by Yue Fung. The directors of the Investor and Yue Fung jointly and severally accept full responsibility for the accuracy of the information contained in this document other than the information relating to the Group and confirm, having made all reasonable enquiries, that to the best of his knowledge and belief, the opinions expressed in this document other than the opinions expressed by the Group have been arrived at after due and careful consideration and there are no other facts not contained in this document, the omission of which would make any statement in this document misleading.

## 2. MARKET PRICES

The table below shows the closing prices of the Shares on the Stock Exchange on the last day on which trading in the Shares took place in each of the twelve calendar months immediately preceding the date of the First Announcement.

Date	Closing price per Share (\$)
March 2001	0.244
April 2001	0.26
May 2001	0.28 <i>(Note)</i>
June 2001	N/A <i>(Note)</i>
July 2001	N/A <i>(Note)</i>
August 2001	N/A <i>(Note)</i>
September 2001	N/A <i>(Note)</i>
October 2001	N/A <i>(Note)</i>
November 2001	N/A <i>(Note)</i>
December 2001	N/A <i>(Note)</i>
January 2002	N/A <i>(Note)</i>
February 2002	N/A <i>(Note)</i>
March 2002	N/A <i>(Note)</i>

*Note:* Trading in the Company's Shares has been suspended since 2:30 p.m. on 23 May 2001 and will remain suspended until completion of the Restructuring Agreement. The closing price before suspension, which was \$0.28 per Share, is therefore the closing price prior to the publication of the First Announcement and the Latest Practicable Date.

The highest and lowest closing prices of the Shares on the Stock Exchange during the period between the twelve months preceding the date of the First Announcement and the Latest Practicable Date were \$0.295 each on 9 March 2001 and \$0.24 each on 6 April 2001 respectively.

### 3. INTEREST IN SECURITIES OF THE COMPANY

#### (a) Directors

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

<b>Name of director</b>	<b>Type of interest</b>	<b>Number of shares held</b>
Mr. Shun Wing Chiu	Other ( <i>Note</i> )	211,200,000

*Note:* These shares are held by Stangee International Limited, a company incorporated in the British Virgin Islands with limited liability. The entire issued share capital of Stangee International Limited is held by the Trustee of The Stangee 1993 Trust, a discretionary trust in which Mr. Shun Wing Chiu and his spouse are included as beneficiaries.

Save as disclosed above, to the best knowledge of the Kessel Provisional Liquidators, having made all reasonable enquiries, as at the Latest Practicable Date none of the chief executive or Directors had any interest in the securities of the Company or any associated corporations (within the meaning of the SDI Ordinance) which were required to be notified to the Company and the Stock Exchange pursuant to section 28 of the SDI Ordinance (including interests which they were deemed or taken to have under section 31 or Part I of the Schedule to the SDI Ordinance) or which were required, pursuant to section 29 of the SDI Ordinance, to be entered in the register referred to therein or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules, to be notified to the Company and the Stock Exchange.

#### (b) Substantial Shareholders

Save as disclosed below, to the best knowledge of the Kessel Provisional Liquidators, having made all reasonable enquiries, as at the Latest Practicable Date there was no person who was, directly or indirectly, interested in ten per cent. or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group.

<b>Name of shareholder</b>	<b>Number of shares held</b>
Stangee International Limited ( <i>Note</i> )	211,200,000

*Note:* The beneficial interest of the shares held by Stangee International Limited is stated in note in 3(a) above in this appendix.

**(c) The Investor**

As at the Latest Practicable Date, neither the Investor, Yue Fung, their respective director, nor parties acting in concert with any of them had any interest in the securities of the Company, other than the agreement by the Investor to subscribe for the New Shares pursuant to the Restructuring Agreement.

**(d) Others**

As at the Latest Practicable Date, so far as the Kessel Provisional Liquidators are aware:

- (i) save as disclosed below, none of the subsidiaries or associates of the Company, nor any pension funds of the Company or of any of its subsidiaries, nor the Kessel Provisional Liquidators, REXCAPITAL (Hong Kong) Limited, CSC Asia, DoveBid-Hong Kong Limited, Landscape Surveyors Limited, Deloitte Touche Tohmatsu or advisers (as defined under the Code) to the Company and the Investor had any interest in the securities of the Company. TingKong-RexCapital Securities International Limited, a fellow subsidiary of REXCAPITAL (Hong Kong) Limited, holds 2,000 Existing Shares on behalf of its non-discretionary clients in its normal and ordinary course of business;
- (ii) no person who had any arrangement of the kind referred to in Note 8 to Rule 22 of the Code with the Company, the Investor, or with any person who is an associate of the Company by virtue of classes (1), (2), (3) or (4) of the definition of associate had any interest in any securities of the Company; and
- (iii) no person who, prior to the posting of this document, has irrevocably committed themselves to accept or reject the Restructuring Agreement had any interest in any securities of the Company.

**4. DEALINGS IN SECURITIES OF THE COMPANY****(a) Directors**

To the best knowledge of the Provisional Liquidators, having made all reasonable enquiries, none of the Directors or the Provisional Liquidators or parties acting in concert with any of them had dealt in the securities of the Company during the period commencing from 7 September 2001 (a date being six months prior to the date of the First Announcement) and ending on the Latest Practicable Date.

**(b) The Investor**

None of the Investor, Yue Fung, their respective directors or parties acting in concert with any of them had dealt in the securities of the Company during the period commencing from 7 September 2001 (a date being six months prior to the date of the First Announcement) and ending on the Latest Practicable Date.

**(c) Others**

To the best knowledge of the Provisional Liquidators, having made all reasonable enquiries,

- (i) save as disclosed below, none of the subsidiaries or associates of the Company, nor any pension funds of the Company or of any of its subsidiaries, nor the Kessel Provisional Liquidators, REXCAPITAL (Hong Kong) Limited, CSC Asia, DoveBid-Hong Kong Limited, Landscape Surveyors Limited and Deloitte Touche Tohmatsu or advisers (as defined under the Code) to the Company and the Investor had dealt in the securities of the Company during the Relevant Period. TingKong-RexCapital International Securities Limited had dealt in the Shares for its clients on a non-discretionary basis during the Relevant Period;
- (ii) no person who had any arrangement of the kind referred to in Note 8 to Rule 22 of the Code with the Company or with any person who is an associate of the Company by virtue of classes 1, 2, 3, 4 of the definition of associate had dealt in any securities of the Company during the Relevant Period; and
- (iii) no person who, prior to the posting of this document, has irrevocably committed themselves to accept or reject the Restructuring Agreement had dealt in any securities of the Company during the Relevant Period.

**5. INTERESTS AND DEALINGS IN THE SHARES OF THE INVESTOR AND YUE FUNG**

To the best knowledge of the Provisional Liquidators, having made all reasonable enquiries, neither the Company, the Directors nor parties acting in concert with any of them had any interest in the securities of the Investor or Yue Fung and none of them had dealt in any such securities during the period commencing from 7 September 2001 (a date being six months prior to the date of the First Announcement) and ending on the Latest Practicable Date.

**6. ARRANGEMENTS AFFECTING DIRECTORS**

To the best knowledge of the Provisional Liquidators, having made all reasonable enquiries,

- (a) None of the Directors have any service contract with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)) and no service contract has been entered into or amended within six months before the date of the First Announcement.
- (b) Save as disclosed below, since 31 March 2002 (being the date to which the latest published audited accounts of the Company were made up), none of the Directors had any interest, direct or indirect, in any assets which have been acquired or disposed of or are proposed to be acquired or disposed of by or leased to any member of the Group.

Mr. Shun Wing Chiu, a Director and his spouse, each have a personal interest in 5,000 deferred shares in Kessel Electronics (HK). The Company holds 100% of the issued share capital of Kessel Electronics (HK). Since the appointment of Kennic Lai Hang Lui and Lau Wu Kwai King, Lauren on 24 October 2001 as joint and several liquidators of Kessel Electronics (HK), the Company no longer has control over Kessel Electronics (HK). Mr. Shun Wing Chiu has a personal interest in 3,100 deferred shares in Kepo Time Limited. Kepo Time Limited is an indirect wholly-owned subsidiary of Kessel BVI, the entire issued share capital of which is held by the Company. Pursuant to the terms of the Restructuring Agreement, the Company is required to transfer the entire issued share capital of Kessel BVI to the Scheme Administrators for the sum of \$1.00 upon Closing. Upon Closing, the Company shall no longer control Kessel BVI and accordingly Kepo Time Limited.

- (c) There is no existing or proposed agreement or arrangement between the Investor or parties acting in concert with it and any of the Directors which is conditional on or dependent upon the outcome of the Restructuring Agreement or otherwise connected therewith.
- (d) There is no material contract or arrangement entered into by any of the Directors and the Investor or parties acting in concert with them in which a Director has a material personal interest.
- (e) No other benefits have been or will be given to the Directors as compensation for loss of office or otherwise in connection with the Restructuring Agreement.

## 7. EXPERTS

- (a) The following are the qualifications of the experts who have given an opinion or advice which is contained or referred to in this document:

<b>Name</b>	<b>Qualification</b>
Kessel Provisional Liquidators	Officers of the Bermuda Court
REXCAPITAL (Hong Kong) Limited	an investment adviser registered under the Securities Ordinance (Chapter 333 of the Laws of Hong Kong)
CSC Asia Limited	an investment adviser registered under the Securities Ordinance (Chapter 333 of the Laws of Hong Kong)
DoveBid-Hong Kong Limited	American Society of Appraisers
Landscape Surveyors Limited	Hong Kong Institute of Surveyors
Deloitte Touche Tohmatsu	Certified Public Accountants, Hong Kong
Ernst & Young	Certified Public Accountants, Hong Kong

- (b) Each of the Kessel Provisional Liquidators, REXCAPITAL (Hong Kong) Limited, CSC Asia Limited, Ernst & Young, Deloitte Touche Tohmatsu, DoveBid-Hong Kong Limited and Landscape Surveyors Limited have confirmed that they:

- (i) have no shareholding in any member of the Group nor any right to subscribe for or to nominate persons to subscribe for securities in any member of the Group;
- (ii) have given and have not withdrawn their written consents to the issue of this document with the inclusion of their respective letters and references to their names, as the case may be, in the form and context in which they respectively appear; and
- (iii) do not have any direct or indirect interest in any assets which have been since 31 March 2002, the date to which the latest published audited accounts of the Group were made up, acquired or disposed of by, or leased to, or which are proposed to be acquired or disposed of by, or leased to the Company or any of its subsidiaries.

## 8. TAXATION ON REVALUED ASSETS

### (a) Land and Building

If the revalued properties as shown in Appendix III to this document were to be sold at the amount of the valuation, which is lower than their original costs of acquisition and construction, the owner of the property will be subject to the following taxes:

#### (i) *Business Tax*

According to the PRC Business Tax Provisional Regulations, the owner of the property would be subject to Business Tax on the sale of immovable property and land use rights at 5% of the sales proceeds received.

#### (ii) *Stamp duty*

According to the PRC Stamp Duty Provisional Regulations, the contract in relation to the sale of land and buildings will be subject to stamp duty. The stamp duty to the vendor is calculated at 0.05 per cent. of the total amount of the sale consideration indicated in the sale document(s).

### (b) Plant and Machinery

If the revalued plant and machinery as shown in Appendix IV to this document were to be sold at the amount of the valuation, which is lower than their original cost of acquisition, the transferor will be subject to the following taxes:

#### (i) *Customs duty and import VAT*

It is noted that certain equipment was imported into the PRC free from these import taxes using the duty-free quota. This equipment is subject to customs' supervision for five years (the "Supervision Period"). Upon the end of the Supervision Period, a company should apply for a release from supervision from the PRC customs authorities.

According to the Foreign Investment Enterprise Import and Export Goods Supervision and Tariff Exemption Procedures issued by the PRC customs authorities, a company is required to repay part of these import taxes previously exempted before it can transfer the duty-free equipment which are still within the Supervision Period. The import taxes are calculated as follows:–

$$\begin{aligned} \text{Customs duty payable} &= \text{CIF value} \times \frac{(1 - \text{Number of months in use}/60)}{60} \times \text{customs duty rate applicable at the time of importation} \\ \text{Import VAT payable} &= (\text{CIF value} + \text{Customs duty payable}) \times 17\% \end{aligned}$$

(ii) *Stamp duty*

According to the PRC Stamp Duty Provisional Regulations, stamp duty would also be payable on the contract in relation to the sale of equipment. The amount of stamp duty payable is based on the total amount of sale consideration indicated in the sale document(s). The applicable stamp duty rate is 0.03%.

(iii) *Foreign Enterprise Income Tax*

If a transferor has generated any gains from the sale of equipment and/or land and buildings, the gain will be subject to Foreign Enterprise Income Tax at 24 per cent. if the transfer takes place during the normal operation year (assuming that the transferor is a production enterprise in Dongguan and has not applied for any Foreign Enterprise Income Tax incentives). However, if the gain is generated in the liquidation period, the Foreign Enterprise Income Tax rate of 33 per cent. would apply. The gain is calculated at the sale proceeds less the net book value of the assets. It can be used to set off against any tax loss arising from operation or non-operating activities during the same tax year.

The Investor has confirmed that it has no intention of disposing of the land and building or the plant and machinery of the Group as set out in Appendices III and IV to this document. Accordingly, it is unlikely that any such tax liability will crystallise.

## 9. MATERIAL CONTRACTS

To the best knowledge of the Provisional Liquidators, having made all reasonable enquiries, the following contracts (not being contracts entered into in the ordinary course of business carried on by the Group) have been entered into by members of the Group within the two years preceding the date of the First Announcement.

- (a) the deposit agreement dated 13 July 2000 as amended by a supplemental agreement dated 21 July 2000 between HKD Holding SA, Kessel Telecom and the Company whereby
  - (i) Kessel Telecom agreed to grant an exclusive right to HKD Holding SA to consider terms and conditions for subscribing 30% of the shares of Kessel Telecom;

- (ii) HKD Holding SA agreed to pay a refundable deposit of \$13,500,000 with Kessel Telecom as earnest money for the subscription of the shares of Kessel Telecom; and
- (iii) The Company agreed to guarantee the repayment obligations of Kessel Telecom to HKD Holding SA.

(The deposit agreement has been terminated in accordance with to its terms. The claims of HKD Holdings SA against the Company are included in the aggregate liabilities of the Company as at 30 June 2002.)

- (b) the deed of charge dated 19 December 2001 between Keview and HSBC pursuant to which Keview created a fixed and floating charge over all of its assets in favour of HSBC as a security to HSBC in consideration of making available a general banking facility to the Keview Provisional Liquidators (acting in their capacities as provisional liquidators and as agents of Keview);
- (c) the Restructuring Agreement;
- (d) the DK Loan Agreement;
- (e) the DK Subordination Agreement; and
- (f) the Creditors' Schemes.

#### **10. MISCELLANEOUS**

- (a) As at the Latest Practicable Date, there are no agreements, arrangements or understandings as to the transfer of any New Shares to be acquired by the Investor or parties acting in concert with it pursuant to the Restructuring Agreement to any other persons.
- (b) The Company's Hong Kong branch share registrar is Secretaries Limited at 5th Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong.
- (c) The principal place of business of the Company is 8th Floor, Prince's Building, 10 Chater Road, Central, Hong Kong.
- (d) The principal place of business of the Kessel Provisional Liquidators is 27th Floor, Alexandra House, 16-20 Chater Road, Central, Hong Kong.
- (e) The registered office of the Investor is Jipfa Building, 3rd Floor, Main Street, Road Town, Tortola, British Virgin Islands. The correspondence address of the Investor in Hong Kong is c/o Yue Fung International Group Holding Limited, Units 11-12, 32nd Floor, Cable TV Tower, 9 Hoi Shing Road, Tsuen Wan, New Territories, Hong Kong.
- (f) The authorised representatives of the Company to be appointed immediately after Closing are Mr. Li Wing Bun and Mr. Lo Wing Ming, Kevin, both of Units 11-12, 32nd Floor, Cable TV Tower, 9 Hoi Shing Road, Tsuen Wan, New Territories, Hong Kong.



- (g) The secretary of the Company to be appointed immediately after Closing is Mr. Lo Wing Ming, Kevin, AHKSA, CPA (Australia).
- (h) The registered office of REXCAPITAL (Hong Kong) Limited is Suite 3203, 32nd Floor, Nine Queen's Road Central, Hong Kong.
- (i) The registered office of CSC Asia Limited is 28th Floor, COSCO Tower, Grand Millennium Plaza, 183 Queen's Road Central, Hong Kong.
- (j) The registered office of DoveBid-Hong Kong Limited is 19/F, Morrison Commercial Building, 31 Morrison Hill Road, Wanchai, Hong Kong.
- (k) The registered office of Landscape Surveyors Limited is Unit 1304, 13th Floor, Admiralty Centre Tower 1, 18 Harcourt Road, Hong Kong.
- (l) The registered office of Deloitte Touche Tohmatsu is 26th Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong.
- (m) The English text of this document and form of proxy shall prevail over the Chinese text in the case of any inconsistency.

#### **11. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents are available for inspection during normal business hours at the office of the Provisional Liquidators at 27th Floor, Alexandria House, 16-20 Chater Road, Central, Hong Kong up to and including date of the Special General Meeting:

- (a) the memorandum and articles of association and bye-laws of the Company, the Investor and Yue Fung;
- (b) the annual reports of the Company for the two financial years ended 31 March 2001 and Yue Fung for the two financial years ended 31 May 2001;
- (c) the letter of advice from CSC Asia, the text of which is set out in on pages 28 to 40 of this document;
- (d) the letter of comfort from Ernst & Young and REXCAPITAL (Hong Kong) Limited as set out in Appendix II to this document.
- (e) the summary of the valuation provided by DoveBid-Hong Kong Limited, the text of which is set out in Appendix IV to this document;
- (f) the summary of the valuation provided by Landscape Surveyors Limited, the text of which is set out in Appendix III to this document;
- (g) the auditors' reports, the text of which is set out in section 3 of Appendix I to this document;
- (h) the written consents referred to in subsection 7(b) under the section headed "Experts" in this Appendix;

- (i) the material contracts referred to in subsection 9 under the section headed “Material Contracts” in this Appendix;
- (j) the rules of the New Share Option Scheme; and
- (k) terms and conditions of the Convertible Notes.

## NOTICE OF SPECIAL GENERAL MEETING



### KESSEL INTERNATIONAL HOLDINGS LIMITED

佳信科技集團有限公司\*

(Provisional Liquidators Appointed)  
(Incorporated in Bermuda with limited liability)

**NOTICE IS HEREBY GIVEN** that a special general meeting of Kessel International Holdings Limited (Provisional Liquidators Appointed) (the “**Company**”) will be held at Auditorium, 1st Floor, Duke of Windsors Social Service Building, 15 Hennessy Road, Wanchai, Hong Kong on 12 August 2002 at 10:00 a.m. for the purpose of considering and, if thought fit, passing (with or without modifications) the following resolutions:

#### SPECIAL RESOLUTIONS

1. “**THAT**, conditional upon the approval of Resolutions No. 4 and 5 set out in the notice dated 19 July 2002 convening the special general meeting of which this Resolution forms part and conditional upon the Listing Committee of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) granting the listing of, and permission to deal in, the Shares (as defined below) to be issued pursuant to the Share Consolidation (as defined below) and the Capital Reduction (as defined below) and compliance with section 46(2) of the Companies Act 1981 of Bermuda (the “**Act**”):
  - (a) every eight issued and unissued ordinary shares of \$0.10 each in the capital of the Company be consolidated (“**Share Consolidation**”) into one ordinary share of \$0.80 each (“**Consolidated Share**”);
  - (b) the par value of each of the Consolidated Shares be reduced (the “**Capital Reduction**”) from \$0.80 to \$0.007 by cancelling paid up capital or authorised capital (as the case may be) to the extent of \$0.793 on each Consolidated Share so that the nominal value of each share of the Company shall become \$0.007 (“**Reduced Share**”);
  - (c) every Reduced Share of \$0.007 in the issued share capital of the Company be and is hereby subdivided (the “**Share Subdivision**”) into seven shares of \$0.001 each (“**New Share**”);
  - (d) all of the New Shares of \$0.001 each in the capital of the Company after completion of the Share Consolidation, the Capital Reduction and the Subdivision shall rank pari passu in all respects with each other and have the rights and privileges and be subject to the restrictions contained in the bye-laws of the Company;
  - (e) the amount which shall arise as a result of the Capital Reduction shall be credited to the contributed surplus account of the Company and the directors of the Company (the “**Directors**”) be and are hereby authorised to apply such credit in such manner as may be permitted by law; and
  - (f) any Director be and is hereby authorised generally to do all things appropriate to effect and implement any of the foregoing.”

## NOTICE OF SPECIAL GENERAL MEETING

2. **“THAT**, conditional upon completion of the Restructuring Agreement and the Subscription Agreement referred to in Resolutions no. 4 and 5 respectively as set out in the notice dated 19 July 2002 convening the special general meeting of which this Resolution forms part and subject to the approval by the Registrar of Companies in Bermuda, the name of the Company be changed from “Kessel International Holdings Limited” to “A-Max Holdings Limited” and the Chinese translation of the name of the Company, for identification purposes, be changed from “佳信科技集團有限公司” to “奧瑪仕控股有限公司” with effect from the date of entry of the new name on the register maintained by the Registrar of Companies in Bermuda in place of the former name.”

### ORDINARY RESOLUTIONS

3. **“THAT**, conditional upon the approval of Resolution No. 1 set out in the notice dated 19 July 2002 convening the special general meeting of which this Resolution forms part (the **“Notice”**) and conditional upon the Share Consolidation, the Capital Reduction and the Share Subdivision becoming effective, the authorised share capital of the Company shall be increased from \$875,000 to \$40,000,000 divided into 40,000,000,000 New Shares (as defined in Resolution No. 3 set out in the Notice) by the creation of 39,125,000,000 New Shares (the **“Authorised Share Capital Increase”**), such New Shares to rank pari passu in all respects with the existing shares then in issue in the capital of the Company.”
4. **“THAT** the entry by the Company into the Restructuring Agreement (as defined in the composite document to the Company’s shareholders dated 19 July 2002 (the **“Document”**)), a copy of which together with a copy of the Document have been produced to the meeting marked “A” and “B” respectively, and in each case signed by the Chairman of the meeting for identification purposes, and the transactions contemplated by the Restructuring Agreement and the performance thereof by the Company, be and are hereby confirmed, ratified and approved, and that the Directors be and are hereby authorised to the extent of their authority so to act, to do all such things and take all such action as they may consider to be necessary or desirable to give effect to the terms of the Restructuring Agreement including, without limiting the foregoing, to complete the transactions contemplated by the Restructuring Agreement.”
5. **“THAT**, conditional upon the approval of Resolution No. 5 set out in the notice dated 19 July 2002 convening the special general meeting of which this Resolution forms part (the **“Notice”**), the entry by the Company into the Subscription Agreement (as defined in the composite document to the Company’s shareholders dated 19 July 2002 (the **“Document”**)), a copy of which has been produced to the meeting marked “C”, and signed by the Chairman of the meeting for identification purposes, and the transactions contemplated by the Subscription Agreement and the performance thereof by the Company, be and are hereby confirmed, ratified and approved, and conditional upon the Authorised Share Capital Increase (as defined in Resolution No. 3 set out in the Notice) becoming effective, the Directors be and are hereby authorised to allot and issue New Shares (as defined in Resolution No. 1 set out in the Notice) upon completion of the Subscription Agreement on the terms set out in the Subscription Agreement.”

## NOTICE OF SPECIAL GENERAL MEETING

6. “**THAT**, subject to the passing of Resolutions No. 5 and 6 set out in the notice dated 19 July 2002 convening the special general meeting of which this Resolution forms part (the “**Notice**”), the waiver (the “**Whitewash Waiver**”) granted by the Executive Director of the Corporate Finance Division of the Securities and Futures Commission pursuant to Note 1 of the Notes on Dispensations from Rule 26 of the Hong Kong Code on Takeovers and mergers waiving any obligation on the part of A-Max (Asia) Limited and parties acting in concert with it, to make a general offer for all the shares of the Company not already owned by them or agreed to be acquired upon completion of the Subscription Agreement (as defined in Resolution No. 5 of the Notice) and the transactions contemplated therein, be and is hereby approved, and the Directors be and are hereby authorised to the extent that they have authority so to act, to do all such things and take all such action as they may consider to be necessary or desirable to give effect to any of the matters relating to, or incidental to, the Whitewash Waiver.”
7. “**THAT**:
- (a) the proposed conditional subscription agreements to be entered into between the Company and each of Yue Fung International Group Holding Limited (“Yue Fung”) and Simply Noble Limited (“Simply Noble”) (together, the “**Proposed Convertible Notes Subscription Agreements**”), copies of each of the Proposed Convertible Notes Subscription Agreements having been produced to the meeting marked “D” and “E” respectively, and signed by the Chairman of the meeting for identification purposes, pursuant to which the Company shall issue 5-year zero coupon convertible notes in the aggregate principal amount of \$30,000,000 to Yue Fung and Simply Noble in equal proportion (the “**Convertible Notes**”) subject to the terms and conditions of the Proposed Convertible Notes Subscription Agreements are hereby confirmed and approved;
  - (b) the directors of the Company be and are hereby authorised to issue the Convertible Notes and allot and issue shares of the Company upon the exercise of the conversion rights under the Convertible Notes on and subject to the terms and conditions thereof; and
  - (c) any one director of the Company, or any two directors of the Company if the affixation of the common seal is necessary, be and is/are hereby authorised for and on behalf of the Company to execute all such other documents, instruments and agreements and to do all such acts or things deemed by him/her to be incidental to, ancillary to or in connection with the matters contemplated under the Proposed Convertible Notes Subscription Agreements.”
8. “**THAT**, subject to and conditional upon the Listing Committee of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) granting listing of, and permission to deal in, the new shares of \$0.001 each in the capital of the Company (“**Shares**”) to be issued pursuant to the exercise of options which may be granted under the new share option scheme, a copy of which is produced to this meeting and signed by the chairman of this meeting for the purpose of identification) (“**New Share Option Scheme**”):

## NOTICE OF SPECIAL GENERAL MEETING

- (a) the operation of the share option scheme (“**Existing Share Option Scheme**”) adopted by the Company by ordinary resolution of its shareholders on 2 September 1997 be terminated and that no further options will be granted under the Existing Share Option Scheme but in all other respects the provisions of the Existing Share Option Scheme shall remain in force to the extent necessary to give effect to the exercise of any options granted prior thereto or otherwise as may be required in accordance with the provisions of the Existing Share Option Scheme and options granted prior to such termination shall continue to be valid and exercisable in accordance with the Existing Share Option Scheme; and
- (b) the rules of the New Share Option Scheme be and are hereby approved and adopted and that the Directors be and they are hereby authorised:
  - (i) to administer the New Share Option Scheme under which the options will be granted to eligible participants under the New Share Option Scheme to subscribe for Shares;
  - (ii) to modify and/or amend the rules of the New Share Option Scheme from time to time subject to the provisions of such rules;
  - (iii) to issue and allot from time to time such number of Shares as may be required to be issued pursuant to the exercise of the options under the New Share Option Scheme; and
  - (iv) to make application at the appropriate time to the Stock Exchange, and any other stock exchange upon which the Shares may for the time being be listed, for listing of, and permission to deal in, the Shares which may thereafter from time to time issued and allotted pursuant to the exercise of the options under the New Share Option Scheme.”

9. **“THAT:**

- (a) the general mandate granted to the Directors to exercise the powers of the Company to allot shares of the Company pursuant to the ordinary resolution set out in paragraph 5 of the notice convening the annual general meeting dated 17 August 2001 as approved by the shareholders of the Company at the annual general meeting held on 21 September 2001 be revoked (but without prejudice to any exercise of such mandate prior to the date on which this resolution becomes effective);
- (b) subject to paragraphs (c) and (d) hereunder, the granting of an unconditional general mandate to the board of Directors (“**Board**”), during the Relevant Period (as defined in paragraph (e) below) to issue, allot and deal with additional shares in the capital of the Company (“**Shares**”) or securities convertible into Shares or options, warrants or similar rights to subscribe for any Shares and to make or grant offers, agreements and options which would or might require Shares, to be issued, allotted or dealt with, be and is hereby generally and unconditionally approved;

## NOTICE OF SPECIAL GENERAL MEETING

- (c) the unconditional general mandate under paragraph (b) above shall not extend beyond the Relevant Period save the Board may during the Relevant Period make or grant offers, agreement and options which might require the exercise of such powers after the end of the Relevant Period;
- (d) the aggregate nominal amount of shares in the capital of the Company allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) by the Board otherwise than pursuant to:
  - (i) a Rights Issue (as defined in paragraph (e) below);
  - (ii) the exercise of rights of subscription or conversion under the terms attaching to any warrants issued by the Company or any securities which are convertible into Shares;
  - (iii) the exercise of options granted under any option scheme or similar arrangement for the time being adopted for the grant of issue of shares or rights to acquire shares in the capital of the Company to officers and/or employees of the Company and/or any of its subsidiaries; and
  - (iv) any scrip dividend or similar arrangement providing for the allotment of shares in the share capital of the Company implemented in accordance with the bye-laws of the Company,

shall not exceed 20 per cent. of the aggregate nominal amount of the share capital of the Company in issue immediately at the date of the passing of this resolution and as enlarged by the issue of New Shares upon completion of the Share Consolidation, the Capital Reduction and the Subdivision (each as defined in Resolution No. 1 as set out in the notice dated 19 July 2002 convening the special general meeting of which this Resolution forms part) or if the Share Consolidation, the Capital Reduction and the Subdivision are not completed, on the date of this resolution; and

- (e) for the purpose of this resolution:

“**Relevant Period**” means the period from the passing of this resolution until whichever is the earlier of:

- (i) the conclusion of the next annual general meeting of the Company; or
- (ii) the expiration of the period within which the next annual general meeting of the Company is required by the Company’s bye-laws or any applicable laws to be held; or
- (iii) the date on which the authority set out under this resolution is revoked or varied by an ordinary resolution of the Company’s shareholders in general meeting.

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“**Rights Issue**” means the allotment, issue or grant of shares in the capital of the Company pursuant to an offer of shares open for a period fixed by the Directors made to holders of shares in the capital of the Company on the register of members of the Company on a fixed record date in proportion to their then holdings of such shares (subject to such exclusion or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of, any recognised regulatory body or any stock exchange in, or in any territory application to the Company).”

For and on behalf of  
**KESSEL INTERNATIONAL HOLDINGS LIMITED**  
(Provisional Liquidators Appointed)  
**Tam Chi Kok, Gabriel**  
*Joint and Several Provisional Liquidator*

Hong Kong, 19 July, 2002.

*Principal place of business in Hong Kong*  
8th Floor, Prince's Building  
10 Chater Road, Central  
Hong Kong

*Notes:*

- (1) Any member entitled to attend and vote at the Special General Meeting 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 of the Company may appoint one or more proxies to attend and vote instead of him/her. A proxy need not be a member of the Company.
- (2) A form of proxy for use at the meeting is enclosed herewith.
- (3) The form of proxy must be signed by you or your attorney duly authorised in writing or, in the case of a corporation, must be under its seal or the hand of an officer, attorney or other person duly authorised.
- (4) The form of proxy and the power of attorney or other authority, if any, under which it is signed or a notarially certified copy thereof must be lodged at the office of the Provisional Liquidators of the Company at 27th Floor, Alexandra House, 16-20 Chater Road, Central, Hong Kong (Attention to Mr. Gabriel Tam/Mr. Jacky Muk), not later than 48 hours before the time appointed for holding the Special General Meeting or any adjourned meeting (as the case may be) and in default the proxy shall not be treated as valid. Completion and return of the form of proxy shall not preclude members from attending and voting in person at the Special General Meeting or at any adjourned meeting (as the case may be) should they so wish.
- (5) Where there are joint registered holders of any share, any one of such persons may vote at any meeting, either in personal or by proxy, in respect of such share as if he/she was solely entitled thereto; but if more than one of such joint holders be present at the meeting in personal or by proxy, that the vote of one of the said persons so present whose name stands first on the register of members in respect of such share shall be accepted to the exclusion of the votes of the other joint holders.