

NEW ISSUE • FORTEI HOLDINGS LIMITED



SPONSOR AND UNDERWRITER
WARDLEY CORPORATE FINANCE LIMITED

IMPORTANT

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

A copy of this prospectus, having attached thereto the documents specified in paragraph 14 of Appendix VI, has been registered by the Registrar of Companies in Hong Kong as required by Section 342C of the Companies Ordinance of Hong Kong. A copy of this prospectus, together with copies of the application forms, has been filed with the Registrar of Companies in Bermuda. The Registrar of Companies in Hong Kong and the Registrar of Companies in Bermuda take no responsibility as to the contents of this prospectus or any of the documents referred to above.

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this prospectus, makes no representations as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.



FORTEI HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

NEW ISSUE

of

100,000,000 shares of \$0.10 each

at \$1.28 per share

payable in full on application

Sponsor and Underwriter

Wardley Corporate Finance Limited

The procedure for application is set out at the end of this prospectus.

The attention of nominees who wish to submit separate applications on behalf of different beneficial owners is drawn to paragraph 1 of the section headed "Procedure for application", set out at the end of this prospectus, relating to multiple applications.

The application lists for the shares now being offered will open at 11:45 a.m. on Monday, 28th June, 1993 and will close at 12:00 noon on the same day, subject as mentioned in the section headed "Procedure for application", set out at the end of this prospectus.

22nd June, 1993

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SUMMARY

The following selected information is derived from, and should be read in conjunction with, the full text of this prospectus.

BUSINESS

The Group is principally engaged in the design, marketing and distribution of sports and leather shoes and sports and leisure wear under its **FORTEI** brandname.

The Group's products are widely sold in southern China, where **FORTEI** is a leading brandname in the sports shoe and sports and leisure wear markets, with Hong Kong and Macau also being important markets. Although the Group's sales to customers in Hong Kong and Macau account for the greater part of its turnover, with the balance being sold by the Group direct to duty free shops and other customers in the PRC, the majority of the Group's products sold in Hong Kong and Macau are re-sold to the PRC and as a result the PRC is in fact the largest market for the Group's products. The Directors believe that, when aggregated, direct sales and re-sales to the PRC accounted for over 60 per cent. of the Group's combined turnover for the 15 months ended 31st March, 1993. Re-sales of the Group's products by its Hong Kong and Macau customers to the PRC minimise direct foreign exchange risks to the Group, since all of its sales are invoiced in Hong Kong dollars, and also reduce the Group's logistical and administrative costs. The Group provides active and coordinated marketing and promotional support to its customers who re-sell the Group's products to the PRC. In addition to the availability of the Group's products in general retail outlets in southern China, certain duty free shops and major retailers in southern China have established, with the assistance of the Group, separate counters which sell the Group's products and which help to raise further consumer awareness of the **FORTEI** brandname in the PRC. There are currently 24 such separate **FORTEI** counters in the PRC.

The Directors attribute the success of the Group to, and base their confidence in its future prospects on, the following principal factors:

- the growing popularity of the **FORTEI** brandname, particularly in the PRC;
- its efficient and cost effective distribution policy;
- its wide range of fashionable sports shoes and sports and leisure wear;
- its promotional and advertising policies in the PRC and Hong Kong;
- the knowledge and experience of its management in wholesale operations; and
- its commitment to strict quality control.

FUTURE PLANS AND PROSPECTS

With the anticipated further growth in consumer affluence in the Group's markets, particularly the PRC, and the related increase in demand for higher quality consumer products, the Directors are confident that demand for the Group's products will continue to rise. The Directors see the PRC as continuing to offer the best opportunities for the growth of the Group's business and intend to concentrate its expansion plans in this market. The Directors plan to increase further the Group's market share in southern China and, in particular, to expand the Group's business into other regions of the PRC where it currently has only a limited presence. As part of this strategy, in conjunction with certain of its Hong Kong and Macau customers the Group is discussing with a number of large retailers in major cities in the PRC, including Beijing, Dalian, Fuzhou, Guangzhou, Hainan, Hangzhou, Harbin, Shanghai, Shenyang and Xi'an, the possibility of establishing separate counters for the sale of the Group's products, some of these retailers having already signed letters of intent. In addition, the Group intends to establish a number of **FORTEI** showrooms. The Directors expect that an additional 70 separate **FORTEI** counters will be established in the PRC by mid-1994.

The Group also plans to increase expenditure on the advertising and promotion of its products in the PRC, Hong Kong and Macau to raise further consumer awareness of the **FORTEI** brandname.

SUMMARY

TRADING RECORD

The table set out below, which contains information extracted from the accountants' report set out in Appendix I, summarises the combined audited results of the Group for each of the three years ended 31st December, 1992 and for the three months ended 31st March, 1993 on the basis that the current Group structure had been in existence throughout that period:

	Year ended 31st December,			Three months ended
	1990	1991	1992	31st March, 1993
	\$'000	\$'000	\$'000	\$'000
Turnover	43,292	66,621	220,077	90,583
Profit before taxation	1,580	12,257	42,643	21,018
Taxation	333	2,195	7,491	3,891
Profit attributable to shareholders	1,247	10,062	35,152	17,127

As can be seen from the above table, between the years 1990 and 1992 the Group experienced substantial growth in turnover and profit attributable to shareholders, which increased by approximately four and 27 times respectively. For the three months ended 31st March, 1993, the Group's turnover and profit attributable to shareholders further increased by approximately two and four times respectively compared to the corresponding period in 1992. Such growth over the period was primarily attributable to the significant increases of direct sales and re-sales of the Group's products to the PRC.

FORECASTS FOR THE YEAR ENDING 31ST DECEMBER, 1993

Forecast combined profit after taxation but before extraordinary items (*Note 1*) not less than \$60 million

Forecast earnings per Share (*Note 2*):

(a) fully diluted 15.0 cents

(b) weighted average 17.2 cents

Forecast interim dividend per Share (*Note 3*) 1 cent

Forecast final dividend per Share (*Note 3*) 6 cents

NEW ISSUE STATISTICS (based on the New Issue price per Share of \$1.28)

Market capitalisation \$512 million

Prospective price/earnings multiple (*Note 4*):

(a) fully diluted 8.5 times

(b) weighted average 7.4 times

Pro forma dividend yield (*Note 5*) 7.8 per cent.

Adjusted net tangible asset value per Share (*Note 6*) 50.3 cents

Adjusted net asset value per Share (*Note 7*) \$1.05

SUMMARY

Notes:

1. The forecast combined profit after taxation but before extraordinary items of the Group for the year ending 31st December, 1993 has been arrived at on the bases and assumptions set out in Appendix II.
2. The calculations of the forecast earnings per Share are based on the forecast combined profit after taxation but before extraordinary items of the Group for the year ending 31st December, 1993 and, in respect of (a), 400,000,000 Shares in issue and to be issued as mentioned herein and, in respect of (b), the weighted average number of 349,315,068 Shares expected to be in issue during that year, but in each case take no account of any Shares which may be issued on the exercise of subscription rights attaching to options granted under the Share Option Scheme or which may be repurchased by the Company.
3. The forecast interim and final dividends per Share have been arrived at on the basis set out in the section headed "Profit and dividend forecasts" below.
4. The prospective price/earnings multiples are based on the forecast earnings per Share for the year ending 31st December, 1993 of 15.0 cents in the case of (a) and of 17.2 cents in the case of (b) and the New Issue price of \$1.28 per Share.
5. The pro forma dividend yield is based on the total dividends which would have been paid in respect of the year ending 31st December, 1993 if the Company had been a publicly listed company throughout that year as set out in the section headed "Profit and dividend forecasts" below.
6. The adjusted net tangible asset value per Share has been arrived at after the adjustments referred to in the section headed "Adjusted net tangible assets" below and on the basis of 400,000,000 Shares in issue and to be issued as mentioned herein, but takes no account of any Shares which may be issued on the exercise of the subscription rights attaching to options granted under the Share Option Scheme or which may be repurchased by the Company.
7. The adjusted net asset value per share has been arrived at after taking into account the valuation of the Group's trademarks carried out by American Appraisal Hongkong Limited, as set out in Appendix III, which will not be reflected in the Group's accounts for the year ending 31st December, 1993.

EXPECTED TIMETABLE

1993

Latest time for lodging applications	12:00 noon on Monday, 28th June
Refund cheques in respect of wholly or partially unsuccessful applications to be posted on or before	Monday, 5th July
Share certificates to be posted on or before	Monday, 5th July
Dealings in Shares to commence on	Thursday, 8th July

RISK FACTOR

The Group is subject to minimal direct foreign exchange risks since all the Group's sales are invoiced in Hong Kong dollars and nearly all of its purchases are denominated in either United States dollars or Hong Kong dollars. However, since the PRC is the largest market for the Group's products, potential investors in the Company should be aware of the risks associated with the depreciation of the Renminbi and its effect on consumer prices. To date the Group has not experienced any lessening in demand for its products in the PRC and, barring any unforeseen circumstances, the Directors remain confident in the growth prospects of the Company.

DEFINITIONS

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

“Company”	Fortei Holdings Limited
“Companies Act”	The Companies Act 1981 of Bermuda, as amended
“Group”	the Company and its subsidiaries or, where the context so requires, in respect of the period before the Company became the holding company of its present subsidiaries, its present subsidiaries
“Director(s)”	the director(s) of the Company
“New Issue”	the issue by the Company of the New Shares on and subject to the terms and conditions stated herein and in the related application forms
“Share(s)”	share(s) of \$0.10 each in the Company
“New Shares”	the 100,000,000 new Shares being offered for subscription under the New Issue
“Fortei BVI”	Fortei (B.V.I.) Limited, a wholly-owned direct subsidiary of the Company incorporated in the British Virgin Islands
“Onpower”	Onpower Company Limited, a wholly-owned indirect subsidiary of the Company incorporated in Hong Kong
“Hoi Fat”	Hoi Fat Investments (B.V.I.) Limited, a company incorporated in the British Virgin Islands which will hold 67.9 per cent. of the enlarged issued share capital of the Company following the New Issue and the capitalisation issue referred to in paragraph 1 of Appendix VI
“PRC” or “China”	the People’s Republic of China
“Share Option Scheme”	the share option scheme conditionally adopted by the Company, the principal terms of which are summarised in paragraph 6 of Appendix VI
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Wardley”	Wardley Corporate Finance Limited
“\$” and “cents”	Hong Kong dollars and cents respectively
“RMB”	Renminbi yuan
“US\$”	United States dollars

This prospectus includes particulars given in compliance with the Companies Act, the Companies Ordinance (Chapter 32 of the Laws of Hong Kong), the Securities (Stock Exchange Listing) Rules 1989 as amended and the Listing Rules for the purpose of giving information with regard to the Group. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this prospectus and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement in this prospectus misleading.

The Bermuda Monetary Authority has given its consent to the issue of Shares as mentioned herein and to the further issues of Shares pursuant to the exercise of options granted under the Share Option Scheme and pursuant to the general mandate referred to in paragraph 1 of Appendix VI. In granting such permission and in accepting this prospectus for filing, neither the Bermuda Monetary Authority nor the Registrar of Companies in Bermuda accepts responsibility for the financial soundness of any proposal or for the correctness of any of the statements made or opinions expressed in this prospectus.

This prospectus is published in connection with the New Issue, which is sponsored and fully underwritten by Wardley. Information relating to the underwriting arrangements is set out in paragraph 5 of Appendix VI.

No action has been taken to permit any offering of the New Shares or the distribution of this prospectus in any jurisdiction other than Hong Kong and Bermuda. Accordingly, this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such offer or invitation is not authorised or to any person to whom it is unlawful to make such an offer or invitation. In particular, (i) the New Shares may not be offered or sold, directly or indirectly in the United States of America, its territories, possessions or areas subject to its jurisdiction or to, or for the benefit of, nationals or residents thereof, or any corporation or other entity formed or organised therein, except pursuant to an exemption available under the United States Securities Act 1933; (ii) this prospectus has not been approved by an authorised person in the United Kingdom and has not been registered with the Registrar of Companies in the United Kingdom, accordingly neither this prospectus nor any other publication or document relating to the New Issue may be issued or be caused to be issued in the United Kingdom other than to persons whose ordinary business is to buy or sell shares or debentures, whether as principal or agent, and except in compliance with the Financial Services Act 1986 and, in particular, this prospectus may not be issued to any person in the United Kingdom who does not fall within Article 9(3) of the Financial Services Act 1986 (Investment Advertisements) (Exemptions) Order 1988 as amended; and (iii) this prospectus may not be distributed, nor may the New Shares be offered or sold, directly or indirectly, in Canada or Japan or to, or for, the benefit of residents thereof.

The New Shares are offered for subscription solely on the basis of the information contained and representations made in this prospectus. No person is authorised in connection with the New Issue to give any information or to make any representation not contained in this prospectus and any information or representation not contained herein must not be relied upon as having been authorised by the Company, Wardley, any of their respective directors or any other person involved in the New Issue.

Application has been made to the Listing Committee of the Stock Exchange for listing of and permission to deal in the Shares in issue and to be issued as mentioned herein and any Shares which may fall to be issued upon exercise of any options granted under the Share Option Scheme. No part of the share capital of the Company is listed on or dealt in on any other stock exchange and no such listing or permission to deal is being or proposed to be sought.

All the New Shares will be registered on the Hong Kong branch register of members of the Company in order to enable them to be traded on the Stock Exchange; dealings in Shares on that register will be subject to Hong Kong stamp duty.

Applicants are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of holding Shares. It is emphasised that none of the Company, the Directors or any other parties involved in the New Issue accepts responsibility for any tax effects or liabilities resulting from the subscription for, or holding of, Shares.

CONDITIONS OF THE NEW ISSUE

Acceptance of all applications for New Shares will be conditional on (i) the Listing Committee of the Stock Exchange granting listing of and permission to deal in the Shares in issue and to be issued as mentioned herein, and (ii) the obligations of Wardley under the underwriting agreement referred to in paragraph 5 of Appendix VI becoming unconditional (including, if relevant, the waiver of any condition(s) by Wardley) and not being terminated in accordance with the terms of that agreement or otherwise, in each case on or before 21st July, 1993. If such conditions have not been fulfilled on or before that date, all application monies will be returned, without interest and on the terms set out in the section headed "Procedure for application". In the meantime the application monies will be held in (a) separate bank account(s) with the receiving bankers or other bank(s) in Hong Kong licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong).

SHARE CAPITAL

<i>Authorised:</i>		\$
<u>600,000,000</u> Shares		<u>60,000,000</u>
<i>Issued and to be issued, fully paid or credited as fully paid:</i>		
300,000,000 Shares in issue		30,000,000
<u>100,000,000</u> Shares to be issued under the New Issue		<u>10,000,000</u>
<u>400,000,000</u> Shares		<u>40,000,000</u>

Notes:

1. The above table assumes that the New Issue and the capitalisation issue referred to in paragraph 1 of Appendix VI become unconditional and that the issues of Shares referred to in that paragraph and pursuant to the New Issue are made but takes no account of any Shares which may be issued either pursuant to the Share Option Scheme or the general mandate referred to in Note 4 below or which may be repurchased by the Company pursuant to the share repurchase mandate referred to in Note 5 below.
2. The New Shares will rank *pari passu* in all respects with all Shares currently in issue and to be issued as mentioned herein and, in particular, will rank in full for all dividends and other distributions hereafter declared, made or paid on those Shares save for the capitalisation issue referred to in paragraph 1 of Appendix VI.
3. The Company has conditionally adopted the Share Option Scheme, details of which are set out in paragraph 6 of Appendix VI, under which options to subscribe up to 10 per cent. of the issued share capital of the Company from time to time (excluding any Shares which may be issued pursuant to the Share Option Scheme) may be granted to executive Directors and the employees of the Group.
4. Subject to the New Issue becoming unconditional, a general unconditional mandate has been granted to the Directors to allot, issue and deal with Shares save that, otherwise than in connection with issues by way of rights, scrip dividend schemes or similar arrangements or pursuant to the exercise of options granted under the Share Option Scheme, such mandate is limited to Shares with an aggregate nominal value not exceeding the aggregate of (i) 20 per cent. of the aggregate nominal amount of the share capital of the Company in issue and to be issued as mentioned herein, and (ii) the aggregate nominal amount of the share capital of the Company repurchased under the authority referred to in Note 5 below.
5. Subject to the New Issue becoming unconditional, a general unconditional mandate has been granted to the Directors authorising them to exercise all powers of the Company to repurchase its own Shares with an aggregate value not exceeding 10 per cent. of the aggregate nominal amount of the Company's share capital in issue and to be issued as mentioned herein. Such mandate relates only to purchases made on the Stock Exchange and otherwise in accordance with the Listing Rules, as referred to in paragraph 7 of Appendix VI.

INDEBTEDNESS

At the close of business on 30th April, 1993 (being the latest practicable date prior to the printing of this prospectus for the purpose of this indebtedness statement), the Group had outstanding secured bank borrowings of approximately \$20.7 million. The bank borrowings comprised mortgage loans of approximately \$10.3 million, a short term bank loan of approximately \$8.0 million, a bank overdraft of approximately \$0.1 million and trust receipts and import loans of approximately \$2.3 million.

The Group's current banking facilities are secured by all of the Group's properties, bank deposits of the Group of approximately \$12.7 million and personal guarantees and assets of certain of the Directors and a director of one of the Group companies. The relevant banks have agreed that these personal guarantees and pledges of assets will be released and replaced by guarantees from the Company or other members of the Group following the listing of the Shares on the Stock Exchange.

Save as aforesaid and apart from intra-group liabilities, none of the companies in the Group had outstanding at the close of business on 30th April, 1993 any mortgages, charges, debentures, loan capital, bank overdrafts, loans or other indebtedness in the nature of borrowing, debt securities or other similar indebtedness, finance leases or hire-purchase commitments, or any guarantees or other material contingent liabilities.

Foreign currency amounts have been translated into Hong Kong dollars at the approximate rates of exchange as at 30th April, 1993.

DIRECTORS

Name	Address	Nationality
<i>Executive Directors:</i>		
Kong Yun Kan (Chairman)	10B Unicorn Height Tsing Lung Tau Tsuen Wan New Territories Hong Kong	Chinese
Kwong Yun Nin (Managing Director)	20E, Block 1 Greenview Court Tsuen Wan New Territories Hong Kong	British
Kwong Yun Sing, Jarvis	24E, Block 1 Greenview Court Tsuen Wan New Territories Hong Kong	British
Wong Wing Keung	Flat G, 41st Floor Block 8, Phase 2 Belvedere Garden Tsuen Wan New Territories Hong Kong	British
<i>Non-executive Directors:</i>		
Chan Cheung Ho	A-2, Block A Goodview Garden No. 24 Stubbs Road Hong Kong	British
Liu Wing Ting, Stephen	Flat 1502, Block B Villa Rocha 10 Broadwood Road Hong Kong	British
John Anthony Ellison*	"The Locusts" 31 Fractious Street Bailey's Bay Hamilton CR 04 Bermuda	British
John Charles Ross Collis*	"Saltcoats" 10 Keith Hall Road Warwick WK 06 Bermuda	British

DIRECTORS

Name	Address	Nationality
Donald Harrigan Malcolm* <i>(alternate director to John Anthony Ellison and John Charles Ross Collis)</i>	6 Inwood Mews Lovers Lane Paget PG 03 Bermuda	British

* *These Directors will resign after the listing of the Shares on the Stock Exchange and the appointment of a resident representative of the Company in Bermuda.*

PARTIES INVOLVED IN THE NEW ISSUE AND CORPORATE INFORMATION

Sponsor and Underwriter	Wardley Corporate Finance Limited 7th Floor Hutchison House 10 Harcourt Road Hong Kong
Principal Bankers	The Hongkong and Shanghai Banking Corporation Limited 1 Queen's Road Central Hong Kong Standard Chartered Bank 4-4A Des Voeux Road Central Hong Kong Bank of China <i>Hong Kong Branch</i> 1 Garden Road Hong Kong
Receiving Bankers	The Hongkong and Shanghai Banking Corporation Limited 1 Queen's Road Central Hong Kong
Hong Kong Legal Advisers	<i>To the Company:</i> Vincent T.K. Cheung, Yap & Co. 15th Floor Alexandra House 16-20 Chater Road Hong Kong <i>To Wardley:</i> Johnson Stokes & Master <i>in association with Norton Rose</i> 17th Floor Prince's Building 10 Chater Road Hong Kong
Bermuda Legal Advisers	Conyers, Dill & Pearman 1506 Two Exchange Square Central Hong Kong
Auditors and Reporting Accountants	Deloitte Touche Tohmatsu <i>Certified Public Accountants</i> 26th Floor Wing On Centre 111 Connaught Road Central Hong Kong

PARTIES INVOLVED IN THE NEW ISSUE AND CORPORATE INFORMATION

Property Valuers	Vigers Hong Kong Limited <i>International Property Consultants</i> 10th Floor Peregrine Tower Lippo Centre 89 Queensway Central Hong Kong
Trademark Valuers	American Appraisal Hongkong Limited Suite 2901, 29/F Central Plaza 18 Harbour Road Wanchai Hong Kong
Company Secretary	Hui Chi Kwai <i>ACCA AHKSA</i>
Registered Office	Clarendon House Church Street Hamilton HM11 Bermuda
Principal Office in Hong Kong	9th Floor Mappin House 98 Texaco Road Tsuen Wan New Territories Hong Kong
Principal Registrar and Transfer Office	Butterfield Corporate Services Limited Rosebank Centre 14 Bermudiana Road Pembroke Bermuda
Hong Kong Branch Registrar and Transfer Office	Central Registration Hong Kong Limited 17th Floor Hopewell Centre 183 Queen's Road East Hong Kong
Authorised Representatives	Kong Yun Kan Hui Chi Kwai <i>both of:</i> 9th Floor Mappin House 98 Texaco Road Tsuen Wan New Territories Hong Kong

THE CONSUMER MARKET IN THE PRC

INTRODUCTION

Since the adoption of an "open door" policy in 1979, the government of the PRC has implemented a series of economic reforms which have led to rapid growth in the PRC's economy with a related improvement in living standards and, particularly in southern China, an increase in disposable incomes. These trends are evidenced by a significant increase in expenditure per capita in the PRC, and a rise in the level of retail sales of approximately 340 per cent. from RMB214 billion to RMB942 billion between 1980 and 1991.

The following table set out the economic statistics for some of the major cities in the PRC for 1991, being the latest available:

	Population <i>thousand</i>	Gross domestic product per capita* <i>RMB</i>	Average annual wages of staff and workers <i>RMB</i>	Total value of retail sales <i>RMB million</i>	Increase in retail sales over 1990 %
<i>Special economic zones:</i>					
Shenzhen	432	30,509	4,901	6,690	18.4
Shantou	873	4,284	2,764	2,750	35.5
Xiamen	614	8,909	3,562	3,110	22.0
Zhuhai	279	21,147	4,480	2,370	41.9
<i>Major cities:</i>					
Beijing	7,050	6,847	2,849	30,120	16.0
Chengdu	2,842	4,039	2,536	7,140	23.3
Chongqing	3,010	3,405	2,416	7,210	15.9
Dalian	2,416	5,923	2,909	7,020	18.0
Fuzhou	1,308	4,297	2,430	3,510	14.3
Guangzhou	3,620	8,315	3,993	14,000	12.6
Hangzhou	1,350	7,304	2,659	5,380	19.8
Harbin	2,844	3,815	1,879	8,350	17.1
Nanjing	2,522	5,714	2,620	6,760	16.5
Qingdao	2,072	5,092	2,666	4,990	16.0
Shanghai	7,862	7,407	3,411	30,250	13.8
Shenyang	4,576	4,211	2,510	11,140	8.3
Tianjin	5,089	5,429	2,769	14,780	14.0
Wuhan	3,792	3,927	2,381	9,590	14.4
Xi'an	2,789	3,084	2,293	6,880	12.2
Zhengzhou	1,732	3,274	2,379	3,580	17.8

* at 1990 constant prices

Source: Extracted from or compiled from data set out in the China Statistical Yearbooks 1991 and 1992.

RECENT TRENDS

The rise in living standards in the PRC over recent years and the increased availability of consumer goods has resulted in PRC consumers becoming increasingly aware of product quality. As a consequence there has been an expansion in the demand for higher quality consumer goods, in particular branded products, especially those perceived to be of foreign origin. In southern China, this trend is evidenced by the increasing number of retailers and wholesalers, notably from Hong Kong, who are establishing

distribution networks and retail outlets in major cities in Guangdong province. It is generally considered that such networks and outlets have attracted not only consumers from Guangdong province itself but also from other provinces of the PRC, especially northern China, due to the wider selection of consumer goods offered. As the PRC consumer market has developed there has in turn been growth in the market for foreign brandname clothing and footwear, these products being generally recognised as being of a higher quality and more fashionable than equivalent PRC products. Accordingly, despite the fact that foreign brandname products are relatively expensive when compared to wage levels in the PRC, the PRC consumer is on average willing to spend a large proportion of his disposable income on such high quality products. This is expected to be particularly beneficial to Hong Kong brandname products, which are generally more easily adapted to suit the particular requirements and tastes of the PRC market compared to international brandname products.

IMPORT LAWS AND REGULATIONS

PRC law provides that the importation of consumer goods into the PRC must be conducted by licensed importers, most of which are state-owned, although certain foreign-owned enterprises or Sino-foreign joint ventures are also licensed as importers.

Under PRC law, all imported goods must be declared and duty paid thereon by the importer of the goods who is also responsible for compliance with import licences and other formalities. At present, the duties levied on the Group's leisure and sports wear range from 65 to 90 per cent. of their import value and on sports and leisure shoes are 75 per cent. of their import value although in certain cases, no import duty is, or lower import duties are, payable for example on sales or imports to PRC special economic zones or PRC duty free shops.

INTRODUCTION

The Group is principally engaged in the design, marketing and distribution of sports and leather shoes and sports and leisure wear under its **FORTEI** brandname. In two instances, the Group has also licensed the **FORTEI** brandname to third parties whom the Directors considered possessed greater expertise than the Group in the design and development and/or the marketing or distribution of the products concerned. The Group also holds a minority interest in a PRC based manufacturer of nylon sports and leisure bags, which is the principal supplier of nylon bags to one of the Group's licensees.

The Group's products are widely sold in southern China, where **FORTEI** is a leading brandname in the sports shoe and sports and leisure wear markets, with Hong Kong and Macau also being important markets. Although the Group's sales to customers in Hong Kong and Macau account for the greater part of its turnover, with the balance being sold by the Group direct to duty free shops and other customers in the PRC, the majority of the Group's products sold in Hong Kong and Macau are re-sold to the PRC and as a result the PRC is in fact the largest market for the Group's products. Re-sales of the Group's products by its Hong Kong and Macau customers to the PRC minimise direct foreign exchange risks to the Group, since all of its sales are invoiced in Hong Kong dollars, and also reduce the Group's logistical and administrative costs. The Group provides active and coordinated marketing and promotional support to its customers who re-sell the Group's products to the PRC. In addition to the availability of the Group's products in general retail outlets in southern China, certain duty free shops and major retailers in southern China have established, with the assistance of the Group, separate counters which sell the Group's products and which help to raise further consumer awareness of the **FORTEI** brandname in the PRC. There are currently 24 such separate **FORTEI** counters in the PRC.

The Directors attribute the success of the Group to, and base their confidence in its future prospects on, the following principal factors:

- the growing popularity of the **FORTEI** brandname, particularly in the PRC;
- its efficient and cost effective distribution policy;
- its wide range of fashionable sports shoes and sports and leisure wear;
- its promotional and advertising policies in the PRC and Hong Kong;
- the knowledge and experience of its management in wholesale operations; and
- its commitment to strict quality control.

HISTORY AND DEVELOPMENT

The establishment in the late 1970s and early 1980s of three sports shops in Hong Kong by Mr. Kong Yun Kan, the Chairman of the Company, and his brothers, two of whom are now executive Directors, marked their first involvement in the sportswear business. In 1982, Mr. Kong co-founded Onpower with three other partners, two of whom subsequently disposed of their interests to certain of Hoi Fat's existing shareholders. At that time, Onpower acted as a distributor in Hong Kong and Macau of sportswear and, to a lesser extent, sports equipment, sourced from various suppliers in Hong Kong, the PRC and Taiwan and marketed through some 50 independent sports shops in Hong Kong and Macau, the majority of which were contacts which Mr. Kong had developed through his involvement in the operation of his own sports shops.

In 1984, Onpower entered into a sub-licensing agreement with the Hong Kong licensee of Diadora, a well known European sports goods brand, whereby Onpower was appointed the sole distributor of Diadora sportswear in Hong Kong and Macau and was also granted the right to manufacture sportswear under that brandname for distribution in those markets. This sub-licence contributed significantly to Onpower's expansion between 1985 and 1988. On its expiry in 1988, the parties were unable to agree terms of renewal. Having anticipated the possibility of non-renewal of the sub-licence, and in order to avoid reliance on third party brands, Onpower had commenced the development of its own brandname, **FORTEI**. The **FORTEI** brand of products was launched in 1989 and initially comprised a range of clothing including

sportswear, jackets, swimwear, casual wear, jeans and socks. This range was expanded in 1990 to include men's shirts, men's suits and sports bags. Other than men's suits and sports bags which were produced by the Group's licencees, all of these products were designed and developed by the Group and produced by third party sub-contractors. Some of the Group's customers also started to re-sell their purchases of the Group's products in the PRC market and the Group has since actively supported and assisted this form of trade. Onpower introduced a limited collection of sports shoes under the **FORTEI** brandname on a trial basis in mid 1990. Continuing market research and product improvement resulted in the introduction of a wider range of sports shoes and a collection of leather shoes in 1991. Sports shoes are now the most important of the Group's products.

In 1990 the Group began to sell directly to the duty free shop in Shenzhen and to other duty free shops in Zhuhai and Shekou in 1992 and 1993 respectively. These duty free shops are responsible for the handling of all import licensing arrangements.

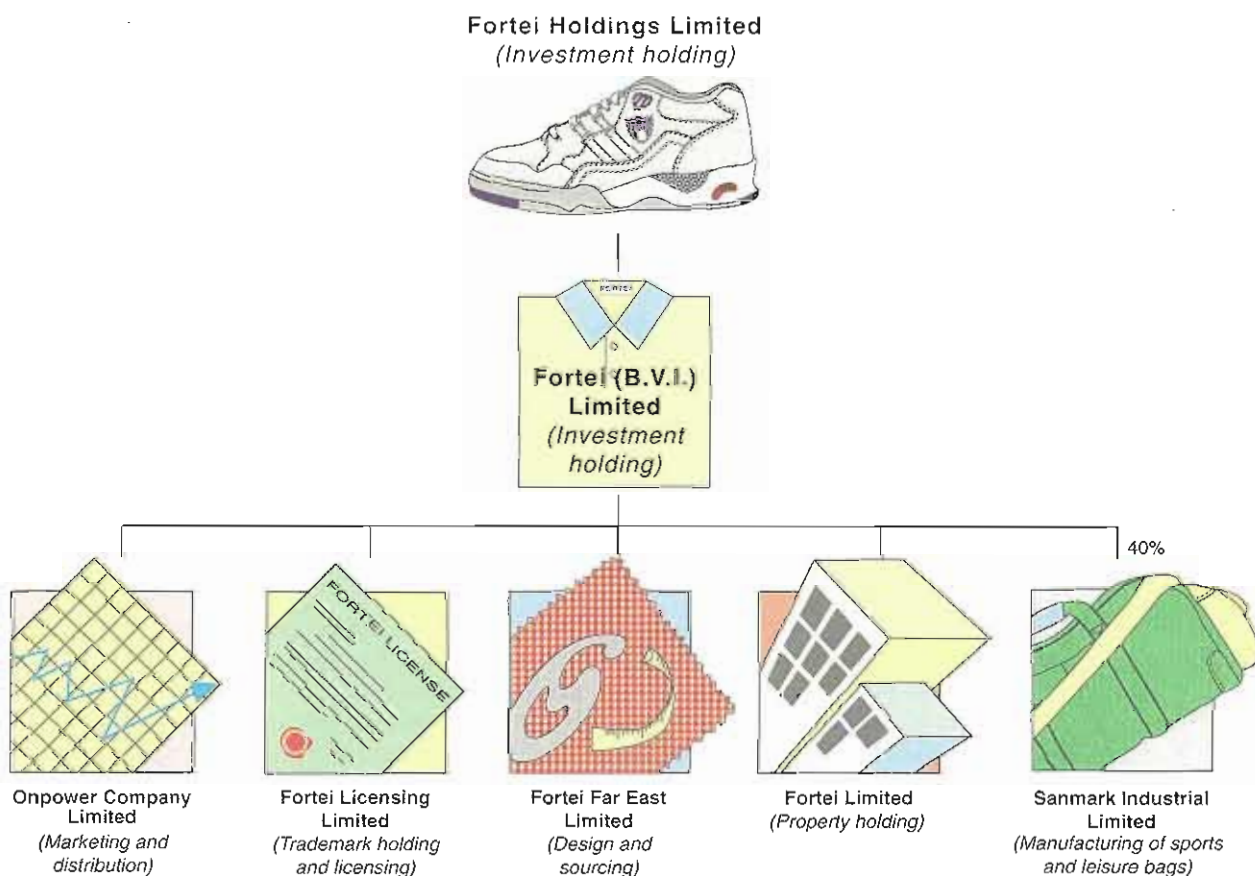
In 1990, the Group licensed the **FORTEI** brandname to a manufacturer of men's shirts in Macau for distribution there and to a Hong Kong manufacturer of sports and leisure bags, leather goods and other accessories for distribution in Hong Kong and the PRC.

In 1991, the Group and others established a PRC based manufacturer of nylon sports and leisure bags, which is the principal supplier of nylon bags to the Group's licensee for such products.

GROUP STRUCTURE

In June 1993, the Group underwent a reorganisation whereby the Company became the holding company of the Group.

The corporate structure of the Group and the principal activities of each member of the Group are set out below:



Note: All companies are wholly-owned subsidiaries unless otherwise stated.

PRODUCTS

The Group has two principal categories of products: (a) sports and leather shoes; and (b) sports and leisure wear. Sports shoes have become the Group's most important product and contribute significantly to market awareness of the **FORTEI** brandname. In addition, the Group licences the manufacture and distribution of men's shirts, sports and leisure bags, leather goods and other accessories. Other than its range of children's clothing, the Group's products are targeted at the 20 to 40 year age group.

The following is a breakdown of the Group's sales by principal products, together with details of the licence fees received by the Group, for the three years ended 31st December, 1992 and for the three months ended 31st March, 1993.

	Year ended 31st December,			Three months ended
	1990	1991	1992	31st March, 1993
	\$'000	\$'000	\$'000	\$'000
Sports and leather shoes	5,282	13,635	162,294	79,479
Sports and leisure wear	37,597	51,025	55,480	10,496
Licence fees received	<u>413</u>	<u>1,961</u>	<u>2,303</u>	<u>608</u>
Total	<u>43,292</u>	<u>66,621</u>	<u>220,077</u>	<u>90,583</u>

(a) Sports and leather shoes

The Group markets and distributes sports and leather shoes under its **FORTEI** brandname. Sports shoes, which accounted for approximately 70 per cent. of the Group's combined turnover for the year ended 31st December, 1992, are presently sourced from five Korean manufacturers. The Group's current range of sports shoes comprises a men's collection and a ladies' collection, all of which are all purpose sports shoes with leather uppers. The men's collection currently comprises 26 designs and the ladies' collection 18 designs.

The Group's range of leather shoes is more limited, comprising 13 designs all of which are for men. Leather shoes are supplied by an Italian and two Taiwanese shoe manufacturers.

(b) Sports and leisure wear

The Group markets and distributes a wide range of sports and leisure wear for adults under the **FORTEI** brandname which are manufactured to the Group's designs by some eleven independent sub-contractors and suppliers based in the PRC and Thailand. The current range includes men's suits, men's shirts, jackets, polo shirts, t-shirts, vests, jeans, trousers, shorts, track suits, jogging suits, swimwear, ties, men's underwear and socks. There is also a children's collection of similar products other than suits, jeans, underwear and socks.

For the year ended 31st December, 1992, the Group marketed and distributed approximately 265 styles of garments, comprising 226 for adults and 39 for children.

In addition, the Group has a licensing agreement with Ka Wang Company, a third party based in Macau which in the last financial year was the Group's second largest customer, for the production of men's shirts under the **FORTEI** brandname which the licensee has the exclusive right to distribute in Macau. The licence expires in September 1995 and includes an option for renewal for a further two years. The licensee is responsible for the design, development and manufacture of the licensed products, although the Group ensures that they meet with its quality standards. All the licensed products manufactured by the licensee are marketed directly through its own distribution channels. While the Group provides general advertising support, the licensee is required to spend a minimum amount equal to 2 per cent. of its annual retail sales revenue derived from the licensed products on advertising and promoting these products.

(c) **Bags, leather goods and other accessories**

The Group has entered into a licensing agreement with Potential Handbag Limited, a third party based in Hong Kong, for the production of sports and leisure bags, rucksacks, leather wallets, leather briefcases, leather belts and other leather accessories under the **FORTEI** brandname with distribution rights for such products in Hong Kong and the PRC. The licence expires in June 1995 and includes an option for renewal for a further two years. The licensee is responsible for the design, development and manufacture of the licensed products, with the Group retaining final approval. The licensee is also responsible for the distribution of these products. Certain of these products, in particular sports and leisure bags, complement the Group's own range of products and therefore from time to time it purchases limited quantities from the licensee for sale to its own customers. The Group provides general advertising support to the licensee, which is itself required to spend a minimum amount equal to 1.2 per cent. of its annual retail sales revenue derived from the licensed products on advertising and promoting these products.

The Group holds a 40 per cent. interest in Sanmark Industrial Limited, a PRC based manufacturer of nylon sports and leisure bags, which is presently Potential Handbag Limited's principal supplier of such products. Potential Handbag Limited also holds a 30 per cent. interest in Sanmark Industrial Limited; the balance being held by an independent third party. Sanmark Industrial Limited operates production facilities in Bao'an County, Shenzhen, the PRC with a gross floor area of approximately 10,000 square feet, and employs around 120 workers. Approximately 35 per cent. of the total turnover of Sanmark Industrial Limited for the year ended 31st December, 1992 represented sales to Potential Handbag Limited.

DISTRIBUTION

The Group makes direct sales of **FORTEI** products to customers in the PRC, Hong Kong and Macau. In addition, the Directors are aware that the Group's customers in Hong Kong and Macau re-sell the majority of the **FORTEI** products which they purchase from the Group into the PRC, in particular southern China. As a result the PRC is in fact the largest market for the Group's products.

The following table shows the direct sales of the Group in the PRC, Hong Kong and Macau for each of the three years ended 31st December, 1992 and for the three months ended 31st March, 1993:

	Year ended 31st December,			Three months ended
	1990	1991	1992	31st March, 1993
	\$'000	\$'000	\$'000	\$'000
PRC (Note)	1,226	3,604	27,501	10,500
Hong Kong (including re-sales to the PRC)	34,660	52,275	129,802	42,082
Macau (including re-sales to the PRC)	<u>6,993</u>	<u>8,781</u>	<u>60,471</u>	<u>37,393</u>
Total	<u>42,879</u>	<u>64,660</u>	<u>217,774</u>	<u>89,975</u>

Note: The Directors believe that, when aggregated, direct sales by the Group to the PRC and re-sales to the PRC of products sold by the Group in Hong Kong and Macau accounted for over 60 per cent. of the Group's combined turnover for the 15 months ended 31st March, 1993.

PRC

Although direct sales of the Group's products to the PRC only accounted for approximately 12 per cent. of its turnover for the 15 month period ended 31st March, 1993, the Directors are aware that the majority of the Group's direct sales in Hong Kong and Macau during that period were in turn re-sold in the PRC by its Hong Kong and Macau customers. As a result, in practice, the Group's largest market is the PRC, particularly the southern coastal provinces of Guangdong, Fujian and Hainan. As in its other markets, the greater part of the Group's business in the PRC comprises sports shoes.

The Group's distribution policy in the PRC aims to maximise efficiency and cost effectiveness. With the exception of direct sales by the Group to certain duty free shops and a few independent customers, all of which are invoiced in Hong Kong dollars, all **FORTEI** products sold into the PRC are re-sales by Hong Kong and Macau based customers of the Group. The Group actively assists and promotes these re-sales which, whilst significantly contributing to the increase in the Group's turnover, leave the Group free from the logistical and administrative costs which it would incur should it sell these products directly to the PRC. This method of distribution of the Group's products into the PRC also protects the Group from direct foreign exchange risks as the relevant goods are sold by the Group to Hong Kong and Macau customers who are invoiced in Hong Kong dollars. In addition, the customers of the Group who onsell into the PRC are solely responsible for all associated transport costs and for compliance with the PRC import rules and regulations. Although the approximately 50 Hong Kong and Macau customers of the Group who re-sell **FORTEI** products to the PRC are independent of the Group, they have established close business relationships with the Group. The Group coordinates their sales of **FORTEI** products so that they do not overlap with each other and it also provides advertising and promotional services in the PRC market. In addition, the Group liaises closely with these Hong Kong and Macau customers in seeking new customers in the PRC.

At present, the Group's products are re-sold into the PRC to major foreign trade corporations, friendship stores and department stores in Guangzhou, Xiamen, Shenzhen, Shantou, Zhuhai, Shanghai and Hangzhou. They are also re-sold to wholesalers and retailers, including individually owned enterprises, particularly in southern China.

In 1990, the Group commenced selling directly into the PRC to the duty free shop at Shenzhen and now sells to that shop and other duty free shops in Zhuhai and Shekou. Sales to these shops, which are open to both local and foreign customers, are simple to administer as they are free from any customs duty and the customers are responsible for compliance with PRC import rules and regulations. Similarly, the Group's other customers in the PRC actually take delivery of their purchases in Hong Kong and are solely responsible for the transportation of the products to the PRC and for compliance with PRC import rules and regulations. The Group invoices all these direct sales, both to the duty free shops and to its other PRC customers, in Hong Kong dollars.

As well as the duty free shops to which the Group makes direct sales, certain major retailers in southern China such as Guangzhou Friendship Store, Guangzhou Department Store, Guangzhou Foreign Trade Centre and Hainan Duty Free Shop have established separate **FORTEI** counters to sell the Group's products, and to help raise further consumer awareness of the **FORTEI** brandname in the PRC. There are currently 24 such separate **FORTEI** counters with floor areas ranging from 100 square feet to 800 square feet. The Group usually provides assistance in the setting up of these counters in order to ensure that they adopt a similar design and layout.

Hong Kong and Macau

Sales by the Group in Hong Kong and Macau are primarily to retailers such as department stores and sportswear and accessory shops. At present approximately 10 department stores (including Yaohan and Jusco), 230 sportswear retailers, 260 shoe retailers and 170 other retail outlets

sell the Group's products in Hong Kong and Macau. Sales are made direct to retail customers in Hong Kong and Macau rather than through wholesalers or other intermediaries in order to achieve higher profit margins for the Group.

Although the Group does not operate any retail stores of its own, it has entered into an agreement with Jusco department store for the establishment of a special menswear counter at its Kornhill store, which was opened in May 1993. The Group was responsible for the decoration and fitting out of the counter and is responsible for its management. Sales from the counter will be on a concessionary basis. The Directors intend to establish further counters in other major department stores in Hong Kong and Macau in order principally to promote further consumer awareness of the **FORTEI** brandname. In addition, some of the Group's Hong Kong retail customers have established special display stands for the Group's products, normally with the assistance of the Group so as to ensure uniformity of design. The Group also provides promotional items such as light boxes and signboards to certain of its retail customers for display both inside and outside their premises, together with other promotional materials such as posters and catalogues.

COMPETITION

The sports and leather shoe and the sports and leisure wear markets in Hong Kong and Macau and, to a lesser extent, the PRC are very competitive. Generally, competition in the PRC is less intense than in Hong Kong and Macau and the Group has a distinct advantage in the PRC in that it offers a far wider range of products than most of its existing competitors who, generally, have concentrated on either the footwear or the garment markets. In addition, the Directors consider that the Group's advertising and promotional activities during the past few years have resulted in an increasing consumer awareness of the **FORTEI** brandname and its products in each of its markets. The Directors believe that the Group's main competitors in the PRC sports shoe market are Mofork and Narado, whilst in the PRC sports and leisure wear market its main competitors are Playboy, Puma, Apple Jeans and Diadora.

The popularity of the **FORTEI** brandname and the Group's products has given rise to the sale of counterfeit products, particularly in southern China. These counterfeit products are generally of poor quality and are easily distinguishable from the Group's products. The Group's sales and marketing staff frequently visit retail shops and outlets in southern China in search of counterfeit products. If any counterfeit products are found, steps are taken to trace the source which is then reported to the relevant governmental authorities in order that such counterfeit products can be confiscated. Similar steps to protect the Group's products and trademarks will continue to be taken.

OPERATIONS

Design and product development

The Group's design department works closely with the sales and marketing and purchasing departments in developing new products and in improving and producing new designs for existing product ranges. It is also responsible for the design of packaging, labels and advertising displays for the Group's products and liaising with advertising agents, production houses and other professional parties in relation to promotional and advertising campaigns.

Each year the design department produces new styles for the Group's sports and leisure wear for the each of two main fashion seasons, summer and winter. The design process normally commences six to eight months prior to a selling season when preliminary concepts and ideas are developed. Product concepts and ideas are developed by the design department and are refined through discussions with the Group's sales and marketing department which is responsible for consulting with the Group's customers to assess market requirements. Once a concept is finalised, detailed design work then commences. This involves the creation of a large number of design sketches, which then go through a careful selection process. The purchasing department is responsible for seeking suppliers and arranging for them to

produce first samples. These samples are then put through a further selection process and refined into second samples. Further improvements are made to the second samples and display samples produced, which are placed in the Group's showrooms and presented to customers at viewings organised by the Group. Once the design of a product is finalised, the design department also commences the related packaging design work.

The design department works closely with the Group's suppliers in Korea, Italy and Taiwan to design shoes which reflect the latest fashion trends. Developments in sports shoe design and technology are relatively rapid and consequent changes and improvements are regularly made to enhance comfort, stability, foot protection and durability.

To ensure that the products manufactured by the Group's licensees also meet with the high quality standards of the Group, the licensees are required to send product samples to the Group's design department for assessment. All items designed by the licensees must be approved by the Group before production commences.

Purchasing and sub-contracting

The purchasing department, which works closely with the sales and marketing department, is responsible for placing orders for raw materials, accessories and finished goods with suppliers and sub-contractors.

Choices of raw materials and accessories for garment products are furnished by the purchasing department to the design department for selection during the design and development stage of the relevant products. Suppliers are engaged by the purchasing department at this stage to produce the product samples required. When the design of a product is finalised arrangements are made for its manufacture. The Group currently employs around ten third party garment sub-contractors or suppliers in the PRC and one garment supplier based in Thailand. The Group normally purchases the necessary raw materials and accessories from suppliers in Hong Kong and ships them to the sub-contractors for processing into finished products.

Sports shoes are purchased by the Group from five Korean manufacturers whilst leather shoes are sourced from an Italian and two Taiwanese shoe manufacturers.

The Group selects its suppliers and sub-contractors carefully and has excellent working relationships with them. In the year ended 31st December, 1992, no supplier of raw materials or of accessories accounted for more than 14 per cent. and 27 per cent. respectively of the Group's total purchases of such items. Over the same period, the top three suppliers in both categories did not account for more than 41 per cent. and 56 per cent. respectively of the Group's total purchases of such items. The Group has not experienced any significant difficulties in the sourcing and supply of raw materials, accessories and finished products and the Directors do not anticipate any material difficulties in this respect in the foreseeable future but, in any event, the Directors do not believe there would be any significant difficulty in finding alternative sources of supply for raw materials, accessories and finished products should any of the existing relationships with suppliers or sub-contractors be terminated.

In the year ended 31st December, 1992, approximately 79 per cent. of the Group's purchases were under letters of credit, with the balance made on an open account basis with an average of 14 days' credit. Nearly all of the Group's purchases are made in either Hong Kong or United States dollars. Consequently the Directors consider that the Group does not have significant foreign exchange exposure in relation to the procurement of raw materials and finished products.

Quality control

The quality control department is responsible for ensuring that the raw materials and finished products purchased from or manufactured by suppliers or sub-contractors respectively meet with the specifications laid down by the design department.

For garments, quality control procedures are applied at different stages of the production cycle. During the design and product development stage, independent laboratories are hired to perform various tests on the fabrics used including colour fastness and dimensional stability. A production sample is then made for selection by the sales and marketing department. During the production stage, a quality control inspector is assigned to carry out random checks in respect of each production process at the factory of the supplier or the sub-contractor. The quality control inspector is also responsible for the final inspection of the finished product and only if it meets with the required specifications will an inspection certificate be issued.

The quality control procedures for shoes are similar to those for garments, except that external quality control agents are engaged to perform random checks at suppliers' factories during the production stage. The final inspection of finished products is carried out by a quality control inspector of the Group before shipment is made.

In order to maintain the quality standards of the **FORTEI** brand, products manufactured by the Group's licensees are subject to the same quality standards established by the Group. All licensed products must be approved by the Group before production takes place and spot checks are made during the manufacturing process.

The Group has not experienced any significant claims or returns from its customers in respect of defective products during the past five years.

Sales, marketing and customers

The sales and marketing department currently has three managers and nine salesmen headed by the director of sales and marketing. Each of the sales managers and salesmen is assigned to a particular area in Hong Kong and/or Macau, and is responsible for liaising with existing customers as well as developing new business in that area. They all meet on a weekly basis to report to the management on sales results and market developments in order to assist management in formulating marketing strategies, setting sales targets and maintaining adequate stock levels.

In addition, the sales managers are responsible for maintaining a close working relationship between the Group and those of its customers in Hong Kong and Macau who export the Group's products to the PRC in order to co-ordinate the distribution of the Group's products by those customers so that they do not overlap. They regularly accompany those customers in visiting various retail outlets for the Group's products in the PRC to gather the latest information on sales results and customers' requirements, as well as actively seeking new customers in the PRC.

The Group's business is seasonal in nature. The garment business has two distinct seasons for which different ranges of garments are produced: the summer season from March to August and the winter season from September to February. Although shoes do not have the same distinct seasons a sizeable majority of the Group's shoe sales occur in the period from July to early February. The sales and marketing department organises shows and exhibitions for buyers at regular intervals and, based on the response from those buyers, the Group then decides on the types and quantity of products to be ordered from its suppliers and sub-contractors.

In promoting consumer awareness of the **FORTEI** brandname, the Group uses various forms of advertising and promotional activities including television, magazine and billboard advertising and store

INFORMATION RELATING TO THE GROUP

displays. In Hong Kong the principal emphasis is on television advertising and on poster campaigns on the Mass Transit Railway. In addition, the Group has contracts for certain TV and film personalities to wear **FORTEI** products in TV series and during public events. The Group has also sponsored sporting events such as "Climb the Lion Rock". In the PRC, the principal emphasis is on billboard advertising and, as Hong Kong television and satellite television broadcasts are receivable in most of Guangdong province and most of the PRC respectively, advertising via this medium is also very important in promoting the Group's products in the PRC.

The Group has also assisted in the establishment of separate counters for **FORTEI** products in department stores and other retail outlets in the PRC principally in order to promote further the **FORTEI** brandname. The Group is responsible for the decoration and fitting out of such counters. In addition, the Group operates a separate counter in the Jusco department store at Kornhill.

The Group requests its retail customers to sell **FORTEI** products at specified prices in order to maintain consistency, allowing discounts for specified periods to clear stock at the end of each season. Its pricing policy is based on thorough market analysis, including customer demand and price comparisons with its competitors. The Group endeavours to minimise the risk of carrying excess finished products by offering discount prices to customers who place bulk purchase orders as early as possible in order to enable the Group to plan properly its own purchasing and subcontracting arrangements. The Group has a policy of maintaining a stock level sufficient to meet customers' anticipated requirements for about three months.

The total volume of sales to the Group's ten most important customers accounted for less than 43 per cent. and 61 per cent. respectively of the Group's turnover for the year ended 31st December, 1992 and for the three month period ended 31st March, 1993. During these periods, no single customer accounted for more than 7 per cent. and 13 per cent. respectively of the Group's turnover. The Group's sales to customers in Hong Kong and Macau are made in Hong Kong dollars mostly on a cash basis or on open account terms with an average credit period of approximately 90 days. All direct exports to the PRC are invoiced in Hong Kong dollars on 45 days' open account terms. The level of bad debts experienced by the Group in the past has been negligible.

TRADING RECORD

A summary of the combined audited turnover and results of the Group for each of the three years ended 31st December, 1992 and for the three months ended 31st March, 1993, prepared on the assumption that the current structure of the Group had been in place throughout the period, which is extracted from and should be read in conjunction with the accountants' report in Appendix I, is set out below.

	Year ended 31st December,			Three months ended
	1990	1991	1992	31st March, 1993
	\$'000	\$'000	\$'000	\$'000
Turnover	<u>43,292</u>	<u>66,621</u>	<u>220,077</u>	<u>90,583</u>
Operating profit	1,580	12,257	42,606	21,026
Share of profits/(losses) of associated company	<u>—</u>	<u>—</u>	<u>37</u>	<u>(8)</u>
Profit before taxation	1,580	12,257	42,643	21,018
Taxation	<u>333</u>	<u>2,195</u>	<u>7,491</u>	<u>3,891</u>
Profit attributable to shareholders	<u>1,247</u>	<u>10,062</u>	<u>35,152</u>	<u>17,127</u>

As can be seen from the above table, between the years 1990 and 1992 the Group experienced substantial growth in turnover and profit attributable to shareholders, which increased by approximately four and 27 times respectively. Such growth was primarily attributable to the significant increases of direct sales and re-sales of the Group's products to the PRC.

The Group introduced the **FORTEI** brand of products in 1989 with a range of sports and leisure wear and in 1990 the Group expanded this range and also introduced a limited collection of sports shoes. In mid-1990, some of the Group's customers started to re-sell the Group's products into the PRC and these re-sales contributed materially to a significant increase in the Group's turnover in that year. In particular, the turnover for the last four months of that year increased approximately 100 per cent. over the corresponding period in 1989. Profit attributable to shareholders for 1990 also increased significantly as compared to 1989. However, net profit margin was only 2.9 per cent. owing to the relatively high product development costs and advertising and promotional expenses incurred by the Group in the initial introduction and marketing of the **FORTEI** brand of products.

Turnover for the year ended 31st December, 1991 increased by 54 per cent. over 1990 due mainly to the growth in demand for the Group's products in the PRC. The Directors believe the growth in demand resulted principally from the Group's advertising and marketing programme which increased consumer awareness of the **FORTEI** brandname. In addition, the Group introduced a wider range of sports shoes during 1991 which contributed to a 158 per cent. increase in shoes sales as compared to 1990. With increasing market recognition and acceptance of the **FORTEI** brandname, the Group was able to increase its wholesale prices while controlling its advertising, sales and administration expenses during that year. Consequently, profit attributable to shareholders increased by approximately seven times as compared to 1990 and net profit margin was improved to 15.1 per cent..

The Group recorded a very large increase in turnover for the year ended 31st December, 1992. In particular, sales of the **FORTEI** sports shoes increased around eleven times as compared to 1991. The buoyant market conditions in the PRC provided the main impetus for growth and the Group's expenditure on advertising and other promotional activities also succeeded in increasing further consumer awareness of the **FORTEI** brandname. Profit attributable to shareholders increased significantly by 249 per cent. while net profit margin improved slightly to 16.0 per cent..

The growth in turnover of the Group continued for the three months ended 31st March, 1993 increasing by 191 per cent. over the corresponding period in 1992, demonstrating the continued growth in popularity of the Group's products. Profit attributable to shareholders increased by 421 per cent. over the corresponding period in 1992, when there was a sharp increase in administration expenses. Net profit margin improved further to 18.9 per cent. owing to a smaller increase in advertising and administration expenses relative to the increase in turnover.

TRADEMARKS

The trademarks owned by the Group have been valued by American Appraisal Hongkong Limited as at 31st March, 1993 at \$220,090,000 and the text of their letter is set out in Appendix III. The valuation of the Group's trademarks has not been incorporated into the summary of combined net assets of the Group as set out in the accountants' report in Appendix I. In addition, such valuation will not be reflected in the Group's accounts for the year ending 31st December, 1993.

PROPERTIES

The Group owns three floors at Mappin House, 98 Texaco Road, Tsuen Wan, New Territories, Hong Kong with a total gross floor area of 19,749 square feet. Two floors are occupied by the Group as its head office, showroom and warehouse and the other floor is leased on an arm's length basis at a monthly rental of \$49,373 to Potential Handbag Limited, one of the Group's licensees. In addition, it owns retail premises at Mongkok with a saleable floor area of 410 square feet which has recently been let at a monthly rental of

\$135,000 to an independent third party. The Group also leases an additional floor at Mappin House with a gross floor of 8,364 square feet and one floor at SAAB Service Building, 100 Texaco Road, Tsuen Wan, New Territories, Hong Kong with a gross floor area of 32,152 square feet, both of which are used by the Group for warehousing. In addition, the Group leases a residential flat at Tsuen King Garden, Tsuen Wan, New Territories, Hong Kong with a gross floor area of 533 square feet which is used by the Group as staff quarters.

Properties owned or leased by the Group in Hong Kong have been valued by Vigers Hong Kong Limited as at 31st March, 1993. The aggregate value of the Group's property interests at that date was \$38,500,000, representing a surplus of approximately \$4,208,000 over their corresponding aggregate net book value. The texts of the letter and valuation certificate of Vigers Hong Kong Limited are set out in Appendix IV.

DIRECTORS, MANAGEMENT AND STAFF

Executive Directors

Mr. Kong Yun Kan, aged 46, is the Chairman of the Company and is responsible for the overall corporate strategy and planning of the Group. He is a co-founder of the Group. Before starting his own sports goods retailing business in 1978, he had more than 15 years working experience in the production departments of leading garment manufacturers in Hong Kong.

Mr. Kwong Yun Nin, aged 37, is the Managing Director of the Company and is responsible for the day to day operations of the Group. Before joining the Group in 1984, he was engaged in the operation of his own sports shop in Hong Kong. He was previously in charge of the Group's sales and marketing activities prior to his promotion to Managing Director in 1993. He is a brother of Mr. Kong Yun Kan.

Mr. Kwong Yun Sing, Jarvis, aged 39, is responsible for the personnel and administration functions of the Group. He holds a diploma in social science from Shue Yan College, Hong Kong. He joined the Group in 1986. He is a brother of Mr. Kong Yun Kan.

Mr. Wong Wing Keung, aged 39, is responsible for the sales and marketing activities of the Group with particular emphasis on the development of the PRC market for the Group's products. He joined the Group in 1989 and has more than 20 years' experience in sales and marketing.

Non-executive Directors

Mr. Chan Cheung Ho, aged 44, is a partner in the law firm of Bernard Wong & Co. and is a member of the law societies of Hong Kong and England and Wales and is admitted as barrister and solicitor of the Supreme Court of the Australian Capital Territory and the High Court of Australia.

Mr. Liu Wing Ting, Stephen, Badge of Honour, aged 40, has been practising as a Certified Public Accountant for over 14 years and is an appointed member of the Wan Chai District Board, the Building Ordinance Appeal Tribunal and the Tung Wah Eastern Hospital Governing Committee of the Hospital Authority. He has wide experience in auditing, taxation and financial management in various fields and industries.

*Mr. John Anthony Ellison**, aged 61, has been practising as a barrister and attorney in Bermuda for 28 years and is a partner of Conyers, Dill & Pearman, legal advisers to the Company on Bermuda law.

*Mr. John Charles Ross Collis**, aged 35, has been practising as a barrister and attorney in Bermuda for nine years and is a partner of Conyers, Dill & Pearman, legal advisers to the Company on Bermuda law.

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*Mr. Donald Harrigan Malcolm**, aged 38, an alternate director to Messrs. John Anthony Ellison and John Charles Ross Collis, has been practising as a barrister and attorney in Bermuda for 10 years and is a senior associate of Conyers, Dill & Pearman, legal advisers to the Company on Bermuda law.

* These Directors will resign after the listing of the Shares on the Stock Exchange and the appointment of a resident representative of the Company in Bermuda.

Management

Mr. Tang Chiu Hung, aged 31, is a sales manager of the Group responsible for co-ordination with the Group's customers. He joined the Group in 1983 and was previously in charge of the Group's warehousing and transportation functions prior to promotion to his present position.

Mr. Ma Hing Lam, aged 28, is the chief designer of the Group. He holds a diploma in fashion and fabrics design awarded by the Lee Wai Lee Technical Institute. He is primarily responsible for the creation and development of designs for the Group's garment products. He has over seven years' experience in the field of garment design.

Mr. Wong Ho Wa, aged 28, is a sales manager of the Group responsible for developing sales of the Group's garment products. He joined the Group in 1990 and has more than eight years' experience in sales and marketing.

Mr. Kwong Yun Wah, aged 44, is a manager of the Group responsible for product sourcing and quality control. Before joining the Group in 1991, Mr. Kwong was engaged in the operation of his own businesses including sports shops in Hong Kong. He is a brother of Mr. Kong Yun Kan.

Mr. Wong Sze Sing, aged 47, is a sales manager of the Group responsible for developing sales of the Group's shoe products. He joined the Group in 1991 and has more than 15 years' experience in sales and marketing.

Mr. Hui Chi Kwai, aged 41, is the company secretary of the Company and the financial controller of the Group. He is an associate member of both the Chartered Association of Certified Accountants and the Hong Kong Society of Accountants. He had more than 15 years' experience in accounting and finance with both international and local accounting firms as well as commercial organisations before joining the Group in 1991. He is responsible for the accounting and financial functions of the Group.

Staff

As at 30th April, 1993, the Group had 56 full time employees, all in Hong Kong. The following table analyses the employees of the Group by principal functions:

Design	4
Purchasing and quality control	8
Sales and marketing	13
Finance and administration	13
Warehousing	18
Total	<u>56</u>

In addition to normal benefits including a retirement fund scheme, the Group also pays discretionary performance bonuses to all staff. The Group provides on-the-job training to staff although no formal training programme exists. The Group also provides sponsorship for outside training courses for key management staff. Conditional on the New Issue being completed, the Company has adopted the Share Option Scheme which the Directors consider will assist in the recruitment and retention of high calibre executives and employees. The terms of this scheme are summarised in paragraph 6 of Appendix VI.

The Group maintains a good working relationship with its employees and has not experienced any disruption of its operations as a result of industrial disputes.

PROFIT AND DIVIDEND FORECASTS

(a) Profit forecast

The Directors forecast that, on the bases and assumptions set out in Appendix II and in the absence of unforeseen circumstances, the combined profit after taxation but before extraordinary items of the Group for the year ending 31st December, 1993 will be not less than \$60 million. At present, the Directors are not aware of, nor do they expect, any extraordinary items to arise in respect of the current year.

On the basis of the above forecast, forecast earnings are equivalent to 15.0 cents per Share on the basis of 400,000,000 Shares in issue and to be issued as mentioned herein and 17.2 cents per Share on the basis of the weighted average number of 349,315,068 Shares expected to be in issue during the current year. Based on the New Issue price of \$1.28 per Share, this is equivalent to a fully diluted prospective price/earnings multiple of 8.5 times and a weighted average prospective price/earnings multiple of 7.4 times respectively.

The texts of the letters from Deloitte Touche Tohmatsu and from Wardley in respect of the profit forecast are set out in Appendix II.

(b) Dividend forecast

On the basis of the above profit forecast and in the absence of unforeseen circumstances, the Directors intend to recommend an interim dividend of one cent per Share in respect of the year ending 31st December, 1993 payable in November 1993 and a final dividend of six cents per Share in respect of the same year payable in June 1994. At present, the Directors do not intend to recommend any other dividend for the year ending 31st December, 1993. However, had the Company been a publicly listed company for the whole year, the Directors would have expected to have paid an aggregate dividend of ten cents per Share representing a pro forma dividend yield of 7.8 per cent. at the New Issue price of \$1.28 per Share.

The Directors expect that, in future, interim and final dividends will be paid in November and June of each year respectively; interim dividends will normally represent approximately one-third of the expected total dividends for each year.

FUTURE PLANS AND PROSPECTS

With the anticipated continuing growth in consumer affluence in the Group's markets, particularly the PRC, and the related increase in demand for higher quality consumer products, the Directors are confident that demand for the Group's products will continue to rise. The Directors see the PRC as offering the best opportunities for the growth of the Group's business and intend to concentrate its expansion plans in this market both to increase further the Group's market share in southern China and, in particular, to expand the Group's business into other regions of the PRC where it currently has only a limited presence. As part of this strategy, in conjunction with certain of its Hong Kong and Macau customers the Group is discussing with a number of major department stores, duty free shops and friendship stores in major cities in the PRC, including Beijing, Dalian, Fuzhou, Guangzhou, Hainan, Hangzhou, Harbin, Shanghai, Shenyang and Xi'an, the possibility of establishing separate counters for the sale of **FORTEI** products, some of these retailers having already signed letters of intent. There are presently 24 separate **FORTEI** counters which sell the Group's products in the PRC and the Directors expect that an additional 70 such counters will be established in the PRC by mid-1994. The sales and marketing staff of the Group are currently negotiating with a number of the Group's existing customers in Hong Kong and Macau who are engaged in re-sales of **FORTEI** products into the PRC to coordinate the supply of the Group's products to the new separate counters.

The Group also plans to acquire suitable premises in Guangzhou, Shanghai and other major cities in the PRC for the purpose of setting up special **FORTEI** showrooms. Each showroom will be of around 3,000 square feet and will be used to display a full range of **FORTEI** products. Such showrooms are to be set up with a view to improving the appreciation and awareness of the Group's products by PRC retailers.

In Hong Kong and Macau, the Directors intend to increase the Group's expenditure on advertising and promotional activities to raise further consumer awareness of the **FORTEI** brandname. At the same time, since Hong Kong television and satellite television broadcasts are receivable in most of Guangdong province and most of the PRC respectively, television advertising will, in particular, be increased thereby helping to promote and increase consumer awareness of **FORTEI** products in the PRC. In addition, the Group also plans to establish additional separate **FORTEI** counters in major department stores in Hong Kong. Negotiations have already commenced between the Group and certain department stores in Hong Kong for the establishment of such counters and the Directors expect that an additional three counters will be set up in Hong Kong in 1993.

In addition, the Directors presently intend to extend the Group's existing product range on a selective basis in order to realise more fully the potential of the **FORTEI** brandname. A new line of men's suits and ties was launched at the end of 1992. The Group intends to launch further new product lines whenever the Directors consider there is likely to be assured market acceptance.

PROCEEDS OF THE NEW ISSUE AND WORKING CAPITAL

The proceeds of the New Issue, after deduction of expenses attributable to the Company in respect of the New Issue, are estimated to be approximately \$114.5 million. The Directors presently intend that the net proceeds will be used as follows:

- approximately \$21 million to finance the costs of decorating and fitting out additional separate counters for the Group's products in the PRC;
- approximately \$20 million to finance the acquisition of suitable premises for offices and showrooms for the Group's products in the PRC;
- approximately \$8 million towards the repayment of bank borrowings; and
- the balance as additional general working capital for the Group.

To the extent not immediately used for the above purposes, it is the present intention of the Directors that the net proceeds of the New Issue will be utilised in part to reduce other bank borrowings of the Group with any balance being placed on short term deposit.

Taking into account available banking facilities and the net proceeds of the New Issue, the Directors are of the opinion that the Group has sufficient working capital for its present requirements.

INFORMATION RELATING TO THE GROUP

ADJUSTED NET TANGIBLE ASSETS

The following pro forma statement of the adjusted net tangible assets of the Group is based on the combined net tangible assets of the companies now comprising the Group as at 31st March, 1993 adjusted as follows:

	\$'000
Combined audited net tangible assets as set out in the accountants' report in Appendix I	79,849
Unaudited combined profit after taxation of the Group for the month ended 30th April, 1993 based on unaudited management accounts	2,549
Surplus arising on the revaluation of property interests, other than investment properties, of the Group as at 31st March, 1993 (<i>Note 1</i>)	4,208
Estimated net proceeds of the New Issue	<u>114,500</u>
Adjusted net tangible assets	201,106
Valuation of the Group's trademarks as at 30th April, 1993 (<i>Note 2</i>)	<u>220,090</u>
Adjusted net assets	<u>421,196</u>
Adjusted net tangible asset value per Share (<i>Note 3</i>)	50.3 cents
Adjusted net asset value per Share (<i>Note 3</i>)	\$1.05

Notes:

1. The surplus arising on the revaluation of property interests, other than investment properties, of the Group will not be reflected in the Group's accounts for the year ending 31st December, 1993. Such surplus represents approximately 2.1 per cent. and 1.0 per cent. of the adjusted net tangible assets and the adjusted net assets respectively. The investment properties have been revalued at 31st March, 1993 and will be revalued again at 31st December, 1993.
2. Based on the valuation of the Group's trademarks by American Appraisal Hongkong Limited, as set out in Appendix III. This valuation will not be reflected in the Group's accounts for the year ending 31st December, 1993.
3. Based on the 400,000,000 Shares expected to be in issue immediately following the New Issue and the capitalisation issue referred to in paragraph 1 of Appendix VI but taking no account of any Shares which may fall to be issued upon the exercise of any option granted under the Share Option Scheme.

The following is the text of a report from the auditors and reporting accountants of the Company, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong:

**Deloitte Touche
Tohmatsu**



Certified Public Accountants
26th Floor
Wing On Centre
111 Connaught Road Central
Hong Kong

22nd June, 1993

The Directors
Fortei Holdings Limited
Wardley Corporate Finance Limited

Dear Sirs,

We set out below our report on the financial information regarding Fortei Holdings Limited (the "Company") and its subsidiaries (hereinafter together with the Company referred to as the "Group") for inclusion in the prospectus of the Company dated 22nd June, 1993 (the "Prospectus").

The Company was incorporated in Bermuda on 7th June, 1993 as an exempted company under the Companies Act 1981 of Bermuda (as amended). Through a group reorganisation as set out in the section headed "Corporate reorganisation" in Appendix VI of the Prospectus, the Company has since 16th June, 1993 become the holding company of the Group. Fortei (B.V.I.) Limited, which was formerly the holding company prior to the reorganisation, remains as the intermediate holding company of all the other subsidiaries.

As at the date of this report, the Company has the following subsidiaries and associated company:

Name of company	Date of incorporation	Issued and fully paid share capital	Attributable equity interest of the Group	Principal activities
<i>Subsidiaries:</i>				
Fortei (B.V.I.) Limited	14th February, 1992	Ordinary — US\$600	100%	Investment holding
Fortei Far East Limited	23rd December, 1991	Ordinary — \$2	100%	Design and sourcing of products for sale by the Group
Fortei Licensing Limited	28th February, 1992	Ordinary — US\$0.01	100%	Holding of trademarks and licensing
Fortei Limited	25th November, 1988	Ordinary — \$10,000	100%	Property holding
Onpower Company Limited	13th August, 1982	Ordinary — \$100 Non-voting deferred — \$5,000,000 (Note 3)	100%	Marketing and distribution of sports and leather shoes and sports and leisure wear
<i>Associated company:</i>				
Sanmark Industrial Limited	6th August, 1991	Ordinary — \$300,000	40%	Manufacture of sports and leisure bags

Notes:

1. The Company directly holds the interest in Fortei (B.V.I.) Limited, all other interests shown above are indirectly held.
2. With the exception of Fortei (B.V.I.) Limited and Fortei Licensing Limited which are incorporated in the British Virgin Islands, all other companies shown above are private companies incorporated in Hong Kong.
3. The rights and restrictions of the non-voting deferred shares of Onpower Company Limited are set out in the section headed "Disclosure of interests" in Appendix VI of the Prospectus. None of the non-voting deferred shares are held by the Group.

No audited financial statements have been prepared for the Company since its incorporation as the Company has not carried on any business, except for the transactions relating to the group reorganisation referred to herein, since that date. We have, however, reviewed all relevant transactions relating to the Company since its incorporation.

We have examined the audited financial statements of all the other companies comprising the Group and those of the associated company for the periods referred to in this report, or from their respective dates of incorporation to 31st March, 1993 where this is a shorter period, in accordance with the Auditing Guideline "Prospectuses and the Reporting Accountant" as recommended by the Hong Kong Society of Accountants. These financial statements have been audited by us except for:

- (1) The financial statements of Onpower Company Limited for each of the two years ended 31st December, 1991 which were audited by Messrs. Stephen Liu and Company, Certified Public Accountants, Hong Kong.
- (2) The financial statements of Fortei Limited for each of the two years ended 31st December, 1991 and the financial statements of Sanmark Industrial Limited for the period from 6th August, 1991 (date of incorporation) to 31st December, 1992 and for the period from 1st January, 1993 to 31st March, 1993 which were audited by Messrs. Chan Chak Chung & Company, Certified Public Accountants, Hong Kong.

The summaries of the combined results of the Group for each of the periods referred to in this report and of the combined net tangible assets of the Group as at 31st March, 1993 (the "Summaries") set out in this report have been prepared from the audited financial statements of the companies comprising the Group, on the basis set out in Section 1 below, after making such adjustments as we consider appropriate for the purpose of preparing our report for inclusion in the Prospectus.

In our opinion, on the basis of presentation set out in Section 1 below, the Summaries together with the notes thereon give, for the purpose of this report, a true and fair view of the combined results of the Group for each of the periods referred to in this report and of the combined net tangible assets of the Group as at 31st March, 1993.

1. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

The summary of the combined results includes the results of the companies comprising the Group as if the current group structure had been in existence throughout the period under review, or since the date of incorporation of the individual company where this is a shorter period. The summary of the combined net tangible assets of the Group as at 31st March, 1993 has been prepared to present the assets and liabilities of the companies comprising the Group as at that date, as if the current group structure was in existence at 31st March, 1993.

All significant intra-group transactions and balances have been eliminated on combination.

2. PRINCIPAL ACCOUNTING POLICIES

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

Turnover

Turnover represents the net amounts received and receivable for goods sold by the Group to outside customers and licence fees received and receivable from third parties.

Assets held under hire purchase contracts

Assets held under hire purchase contracts are capitalised at their fair values at the dates of inception of the contracts. The corresponding principal portions of the hire purchase commitments are shown as obligations of the Group in the balance sheet. The finance costs, which represent the difference between the total hire purchase commitments and the fair value of the assets acquired under hire purchase contracts, are charged to the profit and loss account as finance charges using the straight line method over the lives of the respective contracts.

Operating leases

Rental receipts or payments under operating leases are credited or charged to the profit and loss account on a straight line basis over the period of the respective leases.

Investment properties

Investment properties are properties which are income producing and are held for the long term for their investment potential.

No depreciation is provided for investment properties which are held on leases with an unexpired term, including the renewable period, of more than 20 years. Investment properties are stated at their open market values based on professional valuations at the balance sheet date.

Depreciation

Buildings, other than those included in investment properties, are depreciated over twenty years using the straight line method. No amortisation is provided in respect of leasehold land held under long term leases which have an unexpired term, including the renewable period, of more than 50 years.

Depreciation is provided to write off the cost of other fixed assets over their estimated useful lives, using the reducing balance method, at the following rates per annum:

Furniture and fixtures	15%
Motor vehicles	20%

Assets held under hire purchase contracts are depreciated over their expected useful lives on the same basis as owned assets.

Associated companies

An associated company is a company, other than a subsidiary, in which the Group has a long term equity interest and over which the Group is in a position to exercise significant influence in its financial and operating policy decisions.

Interest in associated companies is stated at the Group's share of net assets of the associated companies and the results of associated companies are accounted for using the equity method of accounting.

Stocks

Stocks are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average cost method. Net realisable value is determined by reference to actual or anticipated selling prices less estimated future costs to be incurred in marketing, selling and distribution.

Deferred taxation

Deferred taxation is provided, using the liability method, on all significant timing differences other than those which are not expected to crystallise in the foreseeable future.

Foreign currencies

Transactions in foreign currencies are translated at the approximate rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the approximate rates ruling on the balance sheet date. Profits and losses arising on exchange are dealt with in the profit and loss account.

3. RESULTS

The following is a summary of the combined results of the Group for each of the three years ended 31st December, 1992 and for the three months ended 31st March, 1993, prepared on the basis set out in Section 1 above, after making such adjustments as we consider appropriate:

	Notes	Year ended 31st December,			Three months ended
		1990	1991	1992	31st March, 1993
		\$'000	\$'000	\$'000	\$'000
Turnover		<u>43,292</u>	<u>66,621</u>	<u>220,077</u>	<u>90,583</u>
Operating profit	(a)	1,580	12,257	42,606	21,026
Share of profits/(losses) of associated company		—	—	37	(8)
Profit before taxation		1,580	12,257	42,643	21,018
Taxation	(b)	<u>333</u>	<u>2,195</u>	<u>7,491</u>	<u>3,891</u>
Profit attributable to shareholders		<u>1,247</u>	<u>10,062</u>	<u>35,152</u>	<u>17,127</u>
Dividends	(c)	<u>1,718</u>	<u>1,860</u>	<u>17,520</u>	—

Notes:

(a) Operating profit

	Year ended 31st December,			Three months ended
	1990 \$'000	1991 \$'000	1992 \$'000	31st March, 1993 \$'000
<i>Operating profit has been arrived after charging:</i>				
Auditors' remuneration	32	66	420	125
Directors' remuneration				
Fees	—	—	—	—
Other emoluments	997	1,438	2,258	563
Depreciation on				
Owned assets	711	669	982	216
Assets held under hire purchase contracts	26	40	17	3
Interest on bank borrowings				
Wholly repayable within five years	743	495	1,345	176
Not wholly repayable within five years	950	1,262	917	190
Other interest (<i>Note (e)</i>)	1,308	1,432	594	49
Finance charges on hire purchase contracts	7	14	16	3
Rental payments under operating leases in respect of land and buildings	78	78	821	573
<i>and after crediting:</i>				
Rental income under operating leases, net	518	538	1,167	458
Interest income	—	30	117	44
Licence fees	413	1,961	2,303	608

(b) Taxation

	Year ended 31st December,			Three months ended
	1990 \$'000	1991 \$'000	1992 \$'000	31st March, 1993 \$'000
The charge comprises:				
Hong Kong Profits Tax calculated at the applicable rates of taxation on the estimated assessable profits of the Group	263	2,195	7,484	3,891
Share of Hong Kong Profits Tax of the associated company	—	—	7	—
	263	2,195	7,491	3,891
Deferred taxation	70	—	—	—
	<u>333</u>	<u>2,195</u>	<u>7,491</u>	<u>3,891</u>

Deferred taxation represents the tax effect of timing differences attributable to the excess of depreciation allowances claimed on fixed assets for tax purposes over depreciation charged in the financial statements.

There was no significant unprovided deferred taxation in respect of each of the periods referred to in this report.

(c) Dividends

No dividends have been paid or declared by the Company since the date of its incorporation. However, during the relevant periods, the following dividends were paid by Onpower Company Limited and Fortei (B.V.I.) Limited to their then shareholders prior to becoming members of the Group:

	Number of shares ranking for dividend	Rate of dividend per share \$	Total dividend \$'000
Onpower Company Limited			
— Year ended 31st December, 1990	5,000,000	0.3436	1,718
— Year ended 31st December, 1991	5,000,000	0.3720	1,860
Fortei (B.V.I.) Limited			
— Year ended 31st December, 1992	60,000	292.0000	17,520

(d) Movement in the investment property revaluation reserve

	Year ended 31st December,			Three months ended 31st March,
	1990	1991	1992	1993
	\$'000	\$'000	\$'000	\$'000
Balance brought forward	—	—	—	—
Surplus on revaluation of investment properties	—	—	—	16,272
Balance carried forward	<u>—</u>	<u>—</u>	<u>—</u>	<u>16,272</u>

(e) Related party transactions

During the periods referred to in this report, there were the following transactions between the Group and companies in which certain directors of the Company had beneficial interests:

	Year ended 31st December,			Three months ended 31st March,
	1990	1991	1992	1993
	\$'000	\$'000	\$'000	\$'000
Sales to				
— Tung Sing Sports Company in which Mr. Kong Yun Kan had a beneficial interest	672	744	159	—
— Tung Fong Sports Company in which Mr. Kwong Yun Nin had a beneficial interest	368	617	96	—
— Montreal Sports Company in which Messrs. Kwong Yun Nin and Wong Wing Keung had beneficial interests	<u>503</u>	<u>—</u>	<u>—</u>	<u>—</u>

In the opinion of the directors, all the above transactions were carried out on normal commercial terms in the normal course of business of the Group. No related party transactions have taken place since the year ended 31st December, 1992 as one of the companies mentioned ceased business and the directors' interests in the other companies have been disposed of.

During the periods referred to in this report, the Group had interest-free advances from certain directors, their relatives and other related parties. For the purpose of preparing the combined results of the Group in this report, interest on these advances has been computed at the then prevailing market rates and shown in note (a) above under "Other interest" and the tax effect thereof has been accounted for in "Taxation" shown in note (b) above.

4. NET TANGIBLE ASSETS

The following is a summary of the combined net tangible assets of the Group as at 31st March, 1993, prepared on the basis set out in Section 1 above, after making such adjustments as we consider appropriate:

	Notes	\$'000	\$'000
Fixed assets	(a)		37,793
Interest in associated company	(b)		406
Current assets			
Stocks	(c)	38,404	
Debtors, deposits and prepayments		34,339	
Bank balances and cash		<u>16,377</u>	
		89,120	
Current liabilities			
Creditors and accrued charges		8,278	
Amount due to a director	(d)	2,600	
Taxation		9,172	
Bank borrowings due within one year — secured	(e)	<u>17,943</u>	
		37,993	
Net current assets			<u>51,127</u>
Liabilities due after one year			89,326
Bank borrowings due after one year — secured	(e)	9,192	
Deferred taxation	(f)	<u>285</u>	<u>9,477</u>
Net tangible assets			<u>79,849</u>

Notes:

(a) Fixed assets

	Cost \$'000	Valuation \$'000	Accumulated depreciation \$'000	Net book value \$'000
Investment properties	—	26,000	—	26,000
Other properties	8,366	—	74	8,292
Furniture and fixtures	3,612	—	1,191	2,421
Motor vehicles	<u>1,921</u>	<u>—</u>	<u>841</u>	<u>1,080</u>
	<u>13,899</u>	<u>26,000</u>	<u>2,106</u>	<u>37,793</u>

All the Group's properties are situated in Hong Kong and are held under leases, including the renewable period, of not less than 50 years. The investment properties are rented out under operating leases and their valuation was carried out on 31st March, 1993 by Vigers Hong Kong Limited, Chartered Surveyors, on an open market, existing use basis.

(b) **Interest in associated company**

	\$'000
The Group's share of net assets, other than goodwill	142
Amount due from associated company	<u>264</u>
	<u>406</u>

(c) **Stocks**

	\$'000
Raw materials	5,529
Finished goods	<u>32,875</u>
	<u>38,404</u>

(d) **Amount due to a director**

The amount was unsecured and was fully repaid to the director subsequent to 31st March, 1993. As described in note (e) of Section 3 above, the amount was interest free.

(e) **Bank borrowings — secured**

	\$'000
Bank overdraft	221
Trust receipts and import loans	8,521
Short term bank loan	8,000
Mortgage loans	<u>10,393</u>
	27,135
Less: Portion due within one year and shown under current liabilities	<u>17,943</u>
Bank borrowings due after one year	<u>9,192</u>

The bank borrowings bear interest at prevailing market rates and are repayable as follows:

	\$'000
Within one year or on demand	17,943
Between 1-2 years	1,268
Between 2-5 years	4,250
After 5 years	<u>3,674</u>
	<u>27,135</u>

(f) **Deferred taxation**

The balance of deferred taxation at 31st March, 1993 represents the tax effect of timing differences attributable to the excess of depreciation allowances claimed on fixed assets for tax purposes over depreciation charged in the financial statements.

The surplus on revaluation of investment properties is not subject to deferred taxation as profits arising on the disposal of these assets would not be subject to taxation. The surplus on revaluation therefore does not constitute a timing difference for taxation purpose.

There was no significant unprovided deferred tax asset or liability at 31st March, 1993.

(g) **Pledge of assets**

At 31st March, 1993, all the Group's properties with a book value of \$34.3 million and bank deposits amounting to \$12.7 million were pledged to banks to secure general banking facilities for the Group.

(h) Capital commitments

Neither the Group nor the Company had any significant capital commitments outstanding at the balance sheet date.

(i) Operating lease commitments

At 31st March, 1993, the Group had the following commitments payable within one year under operating leases for land and buildings:

	\$'000
Operating leases which expire:	
— Within one year	44
— In the second to fifth year inclusive	<u>2,176</u>
	<u><u>2,220</u></u>

(j) Contingent liabilities

Neither the Group nor the Company had any material contingent liabilities at the balance sheet date.

(k) Net tangible assets of the Company

The Company was incorporated on 7th June, 1993. Had the Company been in existence and the group reorganisation referred to herein been completed on 31st March, 1993, the net tangible assets of the Company as at 31st March, 1993 would have been \$79,849,000, representing investment in subsidiaries.

5. DIRECTORS' REMUNERATION

Save as disclosed herein, no remuneration has been paid or is payable to the Company's directors in respect of the periods covered by this report by the Company or any of the companies comprising the Group.

Under the arrangements presently in force, the aggregate remuneration of the Company's directors for the year ending 31st December, 1993 is estimated to be approximately \$3.2 million.

6. SUBSEQUENT EVENTS

- (a) The companies within the Group underwent a reorganisation to rationalise the structure of the Group in preparation for the listing of the shares of the Company on The Stock Exchange of Hong Kong Limited, the details of which are set out in the section headed "Corporate reorganisation" in Appendix VI of the Prospectus.
- (b) At the special general meeting held on 16th June, 1993, resolutions were passed to effect the transactions which are set out in the section headed "The Company" in Appendix VI of the Prospectus. Since that date, the Company has become the holding company of the Group. In the opinion of the Company's directors, the ultimate holding company of the Group is Hoi Fat Investments (B.V.I.) Limited, a company which is incorporated in the British Virgin Islands.

7. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of the Group, the Company or any of its subsidiaries have been prepared in respect of any period subsequent to 31st March, 1993 and, save as disclosed in this report, no dividend or other distribution has been declared, made or paid by the companies now comprising the Group in respect of any period subsequent to 31st March, 1993.

Yours faithfully,
DELOITTE TOUCHE TOHMATSU
Certified Public Accountants
 Hong Kong

The forecast combined profit after taxation but before extraordinary items of the Group for the year ending 31st December, 1993 is set out under the section headed "Profit and dividend forecasts" above.

1. BASES AND ASSUMPTIONS

The Directors have prepared the forecast of the combined profit after taxation but before extraordinary items of the Group for the year ending 31st December, 1993 based on the audited results of the Group for the three months ended 31st March, 1993, the unaudited management accounts of the Group for the month ended 30th April, 1993 and a forecast of the results of the Group for the remaining eight months of the year ending 31st December, 1993. The Directors are not aware of any extraordinary items in respect of the year ending 31st December, 1993. The forecast has been prepared on the basis of accounting policies consistent in all material respects with those currently adopted by the Group as summarised in the accountants' report, the text of which is set out in Appendix I, and is based on the following assumptions:

- (a) there will be no material change in existing political, legal, fiscal or economic conditions in Hong Kong, the PRC, Bermuda or any of the countries in which members of the Group currently operates or are incorporated or where the Group's customers carry on business or to which the Group exports its products or from which the Group imports its principal materials;
- (b) there will be no material change in the bases or rates of taxation in the countries in which members of the Group operate or are incorporated; and
- (c) interest rates and exchange rates will not differ materially from those presently prevailing.

2. LETTERS

Set out below are texts of the letters received by the Directors and Wardley from Deloitte Touche Tohmatsu, the auditors and reporting accountants of the Company, and by the Directors from Wardley in connection with the forecast combined profit after taxation but before extraordinary items of the Group for the year ending 31st December, 1993:

**Deloitte Touche
Tohmatsu**



Certified Public Accountants
26th Floor
Wing On Centre
111 Connaught Road Central
Hong Kong

22nd June, 1993

The Directors
Fortei Holdings Limited
Wardley Corporate Finance Limited

Dear Sirs,

We have reviewed the accounting policies adopted and the calculations made in arriving at the forecast of the combined profit after taxation but before extraordinary items of Fortei Holdings Limited (the "Company") and its subsidiaries (hereinafter together with the Company referred to as the "Group") for the year ending 31st December, 1993. The forecast, as set out in the prospectus of the Company dated 22nd June, 1993 and for which the directors of the Company are solely responsible, is based on the audited results of the Group for the three months ended 31st March, 1993, the unaudited management accounts of the Group for the month ended 30th April, 1993 and a forecast of the results of the Group for the remaining eight months of the year ending 31st December, 1993.

In our opinion the profit forecast, so far as the accounting policies and calculations are concerned, has been properly compiled on the basis of the assumptions made by the directors of the Company as set out in Appendix II of the prospectus and is presented on a basis consistent in all material respects with the accounting policies normally adopted by the Group.

Yours faithfully,
DELOITTE TOUCHE TOHMATSU
Certified Public Accountants
Hong Kong

7th Floor
Hutchison House
10 Harcourt Road
Hong Kong

22nd June, 1993

The Directors
Fortei Holdings Limited
9th Floor
Mappin House
98 Texaco Road
Tsuen Wan
New Territories
Hong Kong

Dear Sirs,

We refer to the forecast of the combined profit after taxation but before extraordinary items of Fortei Holdings Limited (the "Company") and its subsidiaries for the year ending 31st December, 1993 as set out in the prospectus of the Company dated 22nd June, 1993.

We have discussed with you the bases and assumptions upon which the profit forecast has been made. We have also considered the letter dated 22nd June, 1993 addressed to yourselves and ourselves from Deloitte Touche Tohmatsu regarding the accounting policies and calculations upon which the forecast has been made.

On the basis of the assumptions made by you and on the bases of the accounting policies and calculations reviewed by Deloitte Touche Tohmatsu, we are of the opinion that the profit forecast, for which you as directors are solely responsible, has been made after due and careful consideration.

Yours faithfully,
For and on behalf of
WARDLEY CORPORATE FINANCE LIMITED
Eamonn McManus
Director

The following is the text of a letter from American Appraisal Hongkong Limited in connection with their valuation as at 31st March, 1993 of the trademarks of the Group:



American Appraisal Hongkong Limited

Suite 2901, 29/F
Central Plaza
18 Harbour Road
Wanchai
Hong Kong

22nd June, 1993

The Directors
Fortei Holdings Limited
9th Floor
Mappin House
98 Texaco Road
Tsuen Wan
New Territories
Hong Kong

Dear Sirs,

In accordance with your instructions, we have made an appraisal of all the registered trademarks of Forte Holdings Limited and its subsidiaries (together referred to as the "Group"). This letter identifies the property appraised, describes the basis of valuation and assumptions, explains the valuation methodology utilized, and presents our conclusion of value.

The purpose of this appraisal is to express our opinion of the fair market value as at 30th April, 1993 of the registered trademarks of the Group on the premise of continued use.

Introduction

The Group is principally engaged in the design, marketing and distribution of sports and leather shoes and sports and leisure wear under its "Fortei" brandname.

The "Fortei" brand was launched in 1989 and initially comprised a range of clothing including sportswear, jackets, swimwear, casual wear, jeans and socks. This range was expanded in 1990 to include men's shirts, men's suits and sports bags. Other than men's suits and sports bags, which were produced by the Group's licencees, all of these products were designed and developed by the Group and produced by third party sub-contractors. In mid-1990, the Group introduced a limited collection of sports shoes under the "Fortei" brandname on a trial basis. Continuing market research and product improvement resulted in the introduction of a wider range of sports shoes and a collection of leather shoes in 1991.

At present the Group licenses the "Fortei" brandname to a manufacturer of men's shirts in Macau for distribution there and to a Hong Kong manufacturer of sports and leisure bags, leather goods and other accessories for distribution in Hong Kong and the PRC. These arrangements have been in operation since 1990.

The trademarks

A trademark is an intangible asset which takes the form of a name, sign, symbol, logo, design or any combination thereof. It is intended to identify the goods or services of one concern, and to differentiate them from those of competitors.

The following is a list of registered trademarks owned by the Group:

Trademark	Place of registration	Class	Number	Date of registration
Fortei	PRC	18	591896	20/04/92
	PRC	25	593265	30/04/92
福特	PRC	18	624188	30/12/92
Sail device	PRC	18	591897	20/04/92
	PRC	25	592091	20/04/92
Fortei & sail device	Hong Kong	18	3800/90	12/12/90
	Hong Kong	25	1150/91	12/04/91
	Hong Kong	25	3170/90	19/10/90
	PRC	18	535724	30/11/90
	PRC	25	535847	30/11/90
	Singapore	18	4618/90	27/06/90
	Singapore	25	4620/90	27/06/90
Fortei & sail device and Chinese word mark “福特”	PRC	18	624187	30/12/92
		25		
Fortei & flag device	Hong Kong	18	142/89	20/01/89
	Hong Kong	25	989/89	31/03/89
Velina & sail device	Hong Kong	18	136/89	20/01/89
	Hong Kong	25	137/89	20/01/89
Cross device	Hong Kong	18	315/89	30/01/89
	Hong Kong	25	316/89	30/01/89
Two circles device	Hong Kong	18	317/89	30/01/89
	Hong Kong	25	990/89	31/03/89
Pointer	Hong Kong	18	3284/88	14/10/88
	Hong Kong	25	3285/88	14/10/88
	Hong Kong	28	122/89	20/01/89

The Group has additional trademarks with registration pending in Macau, Thailand, South Korea, Hong Kong and the PRC.

Basis of valuation and assumptions

We have appraised the trademarks on the basis of fair market value in continued use. Fair market value is defined as the estimated amount at which a property might be expected to exchange between a willing buyer and a willing seller, neither being under compulsion, each having reasonable knowledge of all relevant facts, with equity to both. Continued use assumes the property will be used for the purpose for which the property was conceived or is currently used. An estimate of fair market value arrived at on the premise of continued use does not represent the amount that might be realized from piecemeal disposition of the property in the open market.

Implicit in this definition is the fact that a willing buyer would not pay more for the property appraised than such buyer could reasonably expect to earn in the future from an investment in the subject property.

For the purpose of this appraisal, we have reviewed the financial data of the Group as well as other records, documents, and sales forecasts supplied to us by the Group. We have relied upon such data, records, documents and forecasts in arriving at our opinion of value. We have not carried out an independent investigation of the said information.

Our investigation included discussions with members of the Group's management in relation to the history and nature of the business, operations and prospects of the Group. Before arriving at our opinion of value, we have considered the following principal factors:

- history and nature of the Group's business;
- specific economic and competitive elements affecting the Group and its industry;
- profitability of the products in relation to the trademarks of the Group;
- projected sales revenue of the products in relation to the trademarks of the Group; and
- cost of developing the trademarks.

For the purpose of this appraisal, we have assumed that no major changes will occur in the financial, economic or political conditions in Hong Kong and the markets where the Group's products are sold, which would materially affect the revenue attributable to the trademarks.

Valuation methodology

For this appraisal, we have adopted two approaches of appraisal, namely the relief-from-royalty approach and the cost approach.

The relief-from-royalty approach is applied to the trademarks registered under Fortei, sail device, flag device, 福特 or any combination of them. The cost approach is applied to all other registered brand names of the Group. Where one brand name has multiple trademark registrations, these registrations are valued as one concern and assigned one value.

Under the relief-from-royalty approach, the asset is valued based upon the incremental after-tax cash flow accruing to the owner by virtue of the fact that the owner does not have to pay a fair royalty to a third party for the use of that asset. Accordingly, a portion of the Group's earnings, equal to the after-tax royalty that could have been paid for use of the trademarks, can be attributed to the registered trademarks of the Group.

The cost approach is based on the proposition that an informed purchaser would pay no more for an asset than the cost of producing a substitute asset with the same utility as the subject asset. The cost approach was applied to those trademarks in respect of which future economic benefits to be generated could not be reasonably forecasted or in respect of which the associated sales revenue was insignificant.

Royalty license agreements are commonly constructed to cover the use of trademarks, patents, knowhow, technology, and other intangible assets. A number of methods are used to determine a reasonable royalty rate. The best evidence is to inquire whether the trademark owner has recently granted any licenses to other companies to use the trademark. However, for many product lines, there may not be

license agreements or prevailing rates which can provide guidelines to a trademark under appraisal. Under these circumstances, an estimate of a reasonable royalty must be made with the assumption that the trademark was licensed at a fair rate as a result of arm's length negotiations. The overriding consideration in estimating a fair royalty rate is to examine the pre-tax profit margin earned by the product to which the trademark was applied. There must be adequate profits available to a potential licensee to allow for a reasonable profit after the payment of the royalty.

Other factors to be considered in determining an appropriate royalty rate are:

- customer recognition of the trademark product;
- existing royalty rates for similar products;
- the advertising and promotional expenses incurred in developing customer recognition, along with periodically planned expenses;
- the importance of customer awareness and trademark recognition to sales;
- projected sales growth, as well as current sales conditions; and
- the immediate availability and usability of the trademark.

Conclusion of value

Based on the investigation and analysis outlined above and on the appraisal methods employed, it is our opinion that, as at 30th April, 1993, the fair market value of the trademarks appraised on the premise of continued use is reasonably represented by the amount of HONG KONG DOLLARS TWO HUNDRED AND TWENTY MILLION AND NINETY THOUSAND ONLY (HK\$220,090,000) distributed as below :

	Fair market value for continued use HK\$
Relief-from-royalty approach	
Fortei, sail device, flag device, 福特 or any combination of them	220,000,000
Cost approach	
Velina & sail device	20,000
Pointer	30,000
Cross device	20,000
Two circles device	<u>20,000</u>
Total	<u><u>220,090,000</u></u>

We have made no investigation of and assume no responsibility for the title to or any liabilities against the trademarks appraised.

We hereby certify that we have neither present nor prospective interests in the Group or the trademarks appraised or the value reported.

Yours faithfully,
For and on behalf of
AMERICAN APPRAISAL HONGKONG LIMITED
Keith C.C. Yan
Vice President

The following is the text of a letter and valuation certificate from Vigers Hong Kong Limited in connection with their valuation as at 31st March, 1993 of the property interests of the Group:

International Property Consultants

Vigers Hong Kong Ltd.
10th Floor, Peregrine Tower,
Lippo Centre, 89 Queensway,
Central, Hong Kong

The logo for Vigers Hong Kong, featuring the word "VIGERS" in a large, bold, sans-serif font above the words "HONG KONG" in a smaller, bold, sans-serif font. The logo is set against a dark rectangular background.

22nd June, 1993

The Directors
Fortei Holdings Limited
9th Floor
Mappin House
98 Texaco Road
Tsuen Wan
New Territories
Hong Kong

Dear Sirs,

In accordance with your instructions for us to value the property interests of Fortei Holdings Limited and its subsidiaries (together referred to as the "Group") in Hong Kong, 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 open market values of such property interests as at 31st March, 1993.

Our valuations are our opinion of the open market value which we would defined as intended to mean "the best price at which the sale of an interest in a property might reasonably be expected to have been completed unconditionally for cash consideration on the date of valuation, assuming:

- (a) a willing seller;
- (b) that, prior to the date of valuation, there had been a reasonable period (having regard to the nature of the property and the state of the market) for the proper marketing of the interest, for the agreement of price and terms and for the completion of the sale;

- (c) that the state of the market, level of values and other circumstances were, on any earlier assumed date of exchange of contracts, the same as on the date of valuation; and
- (d) that no account is taken of any additional bid by a purchaser with a special interest".

The properties which are owned by the Group have been assessed by reference to comparable market transactions and on a vacant possession basis. Property 3 which is let to a party outside the Group has been valued on the basis of capitalisation of the net rental income with due allowance for reversionary potential.

The properties which are occupied by the Group under tenancies have no commercial value due to the short term nature of the property interests and the restrictions imposed upon the tenant as contained in the tenancy agreements.

In valuing Hong Kong properties of which the Crown Leases expire prior to 30th June, 1997, we have taken into account the provisions of Annex III of the Joint Declaration of the Government of the United Kingdom and the Government of the People's Republic of China on the question of Hong Kong and of the New Territories Leases (Extension) Ordinance 1988 that such leases will be extended without premium until 30th June, 2047 and that a rent of three per cent of the rateable value will be charged per annum from the date of extension.

For all properties in Hong Kong, we have caused searches to be made at the Land Registry and in some instances we have been provided with extracts from title documents relating to those properties. We have not, however, searched the original documents to verify ownership or to verify the existence of any lease amendments which do not appear on the copies handed to us. All documents and leases have been used for reference only. All dimensions, measurements and areas are approximate.

We have inspected the exterior of all the properties valued and, where possible, we have also inspected the interior of the premises. However, no structural survey has been made, but in the course of our inspections, we did not note any serious defects. We are not, however, able to report that the properties are free from rot, infestation or any other structural defects. No tests were carried out on any of the services.

We have relied to a considerable extent on information provided by you and have accepted advice given to us by you on such matters as planning approvals or statutory notices, easements, tenure, occupation, lettings, site and floor areas and in the identification of those properties in which the Group has a valid interest.

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

We enclose herewith our summary of valuation and our valuation certificate.

Yours faithfully,
For and on behalf of
VIGERS HONG KONG LIMITED
David Cheung Wang Ip
ARICS AHKIS ASVA SCV CEI
Director

SUMMARY OF VALUATION

Property	Capital value in existing state as at 31st March, 1993 \$
Group I — Properties owned by the Group in Hong Kong	
1. Shop D on Ground Floor, Carprio Mansion, No. 1 Lai Chi Kok Road, Mongkok, Kowloon.	20,000,000
2. 9th Floor, Mappin House, No. 98 Texaco Road, Tsuen Wan, New Territories.	6,500,000
3. 19th Floor, Mappin House, No. 98 Texaco Road, Tsuen Wan, New Territories.	6,000,000
4. 18th Floor, Mappin House, No. 98 Texaco Road, Tsuen Wan, New Territories.	6,000,000
Group II — Properties rented by the Group in Hong Kong	
5. 3rd Floor, Mappin House, No. 98 Texaco Road, Tsuen Wan, New Territories.	No commercial value
6. 3rd Floor, SAAB Service Building No. 100 Texaco Road, Tsuen Wan, New Territories.	No commercial value
7. Room C, 14th Floor Block 6, Tsuen King Garden Tsuen Wan, New Territories.	No commercial value
	<hr/>
TOTAL:	<u>38,500,000</u>

VALUATION CERTIFICATE

Group I — Properties owned by the Group in Hong Kong

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31st March, 1993
1. Shop D on Ground Floor, Carpio Mansion, No. 1 Lai Chi Kok Road, Mongkok, Kowloon.	The property comprises a shop unit on the ground floor of a 14-storey commercial building completed in about 1980. The saleable floor area of the property is approximately 410 sq.ft..	The property is rented out to an independent third party pursuant to a tenancy agreement made 8th May, 1993 for a term of 3 years from 16th May, 1993 at a rental of \$135,000 per month exclusive of rates and management fees.	\$20,000,000
11/170th shares of and in the Remaining Portion of Kowloon Inland Lot No. 6335.	The property is held under Conditions of Exchange for a term of 75 years from 25th June, 1952 with a right of renewal for a further term of 75 years. The Crown Rent for the property is \$20 per annum.		

Notes:

- The registered owner of the property is Onpower Company Limited.
- The property is subject to an all monies legal charge in favour of The Hongkong and Shanghai Banking Corporation Limited.

2. 9th Floor, Mappin House, No. 98 Texaco Road, Tsuen Wan, New Territories.	The property comprises the whole of the 9th floor of a 26-storey industrial building completed in about 1981. The gross floor area of the property is approximately 6,583 sq.ft..	The property is used by the Group as an office and showroom.	\$6,500,000
100/2514th shares of and in Section A of Tsuen Wan Town Lot No. 92 and Section B of Tsuen Wan Town Lot No. 19 and Section C of Tsuen Wan Town Lot No. 19.	The property is held under 2 New Grants for respective terms of 99 years less the last 3 days thereof from 1st July, 1898. Both terms are extended until 30th June, 2047 pursuant to Section 6 of the New Territories Leases (Extension) Ordinance 1988. The Crown Rent for the lots is \$1,224 per annum.		

Notes:

- The registered owner of the property is Fortei Limited (formerly Workfit Industrial Limited).
- The property is subject to an all monies legal charge in favour of Bank of China.

			Capital value in existing state as at 31st March, 1993
Property	Description and tenure	Particulars of occupancy	
3. 19th Floor, Mappin House, No. 98 Texaco Road, Tsuen Wan, New Territories. 100/2514th shares of and in Section A of Tsuen Wan Town Lot No. 92 and Section B of Tsuen Wan Town Lot No. 19 and Section C of Tsuen Wan Town Lot No. 19.	<p>The property comprises the whole of the 19th floor of a 26-storey industrial building completed in about 1981.</p> <p>The gross floor area of the property is approximately 6,583 sq.ft..</p> <p>The property is held under 2 New Grants for terms of 99 years less the last 3 days thereof from 1st July, 1898. Both terms are extended until 30th June, 2047 pursuant to Section 6 of the New Territories Leases (Extension) Ordinance 1988.</p> <p>The Crown Rent for the lots is \$1,226 per annum.</p>	<p>The property is rented out to Potential Handbag Limited pursuant to a tenancy agreement made 1st March, 1993 for a term of 2 years from 1st April, 1993 at a rental of \$49,372.50 per month exclusive of rates and management fees with an option to renew for a term of 2 years at a rent to be mutually agreed and if not at market rent.</p>	\$6,000,000

Notes:

1. The registered owner of the property is Fortei Limited (formerly Workfit Industrial Limited).
2. The property is subject to an all monies legal charge in favour of Standard Chartered Bank.

4. 18th Floor, Mappin House, No. 98 Texaco Road, Tsuen Wan, New Territories. 100/2514th shares of and in Section A of Tsuen Wan Town Lot No. 92 and Section B of Tsuen Wan Town Lot No. 19 and Section C of Tsuen Wan Town Lot No. 19.	<p>The property comprises the whole of the 18th floor of a 26-storey industrial building completed in about 1981.</p> <p>The gross floor area of the property is approximately 6,583 sq.ft..</p> <p>The property is held under 2 New Grants for respective terms of 99 years less the last 3 days thereof from 1st July, 1898. Both terms are extended until 30th June, 2047 pursuant to Section 6 of the New Territories Leases (Extension) Ordinance 1988.</p> <p>The Crown Rent for the lots is \$1,226 per annum.</p>	<p>The property is used by the Group as a warehouse.</p>	\$6,000,000
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Notes:

1. The registered owner of the property is Fortei Limited (formerly Workfit Industrial Limited).
2. The property is subject to an all monies legal charge in favour of Bank of China.

Group II — Properties rented by the Group in Hong Kong

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31st March, 1993
5.	3rd Floor, Mappin House, No. 98 Texaco Road, Tsuen Wan, New Territories.	<p>The property comprises the whole of the 3rd floor of a 26-storey industrial building completed in about 1981.</p> <p>The gross floor area of the property is approximately 8,364 sq.ft..</p>	<p>The property is let to Onpower Company Limited for a term of 3 years from 1st August, 1992 to 31st July, 1995 at \$52,693.20 per month exclusive of rates and management fees with an option to renew for 3 years at the open market rent.</p> <p>The property is used by the Group as a warehouse.</p>	No commercial value
6.	3rd Floor, SAAB Service Building, No. 100 Texaco Road, Tsuen Wan, New Territories.	<p>The property comprises the whole of the 3rd floor of a 10-storey industrial building completed in about 1972.</p> <p>The gross floor area of the property is approximately 32,152 sq.ft..</p>	<p>The property is let to Onpower Company Limited for a term of 31 months from 1st January, 1993 to 31st July, 1995 at \$128,608 per month exclusive of rates and management fees with an option to renew for 3 years at the open market rent.</p> <p>The property is used by the Group as a warehouse.</p>	No commercial value
7.	Room C, 14th Floor, Block 6, Tsuen King Garden, Tsuen Wan, New Territories.	<p>The property comprises a domestic flat on the 14th floor of a 29-storey residential building completed in about 1987.</p> <p>The gross floor area of the property is approximately 533 sq.ft..</p>	<p>The property is let to Onpower Company Limited for a term of 1 year from 15th December, 1992 to 14th December, 1993 at \$5,200 per month inclusive of rates but exclusive of management charges.</p> <p>The property is used by the Group as staff quarters.</p>	No commercial value

Set out below is a summary of certain provisions of the Memorandum of Association and Bye-laws of the Company and of certain aspects of Bermuda company law.

1. MEMORANDUM OF ASSOCIATION

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

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

2. BYE-LAWS

The following is a summary of certain provisions of the Bye-laws of the Company as conditionally adopted on 16th June, 1993:

(1) Directors

(a) *Power to allot and issue shares and warrants*

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

Subject to the provisions of the Companies Act and the Bye-laws and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company are at the disposal of the board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares may issue at a discount.

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

(b) *Power to dispose of the assets of the Company or any subsidiary*

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

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

(c) *Compensation or payments for loss of office*

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

(d) *Loans to Directors*

There are no provisions in the Bye-laws relating to the making of loans to Directors. However, the Companies Act contains restrictions on companies making loans to their directors, the relevant provisions of which are summarised in paragraph 4 of this appendix.

(e) *Financial assistance to purchase shares of the Company or its holding company*

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

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

A Director may hold any other office or place of profit with the Company (except that of auditor) in conjunction with his office of Director for such period and upon such terms as the board may determine, and may be paid such extra remuneration therefor (whether by way of salary, commission, participation in profits or otherwise) as the board may determine. A Director may be or become a director or other officer of, or otherwise interested in, any company promoted by the Company or any other company in which the Company may be interested, and will not be liable to account to the Company or the members for any remuneration, profit or other benefit received by him as a director, officer or member of or from his interest in such other company. The board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

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

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

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

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

(g) *Remuneration*

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

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

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

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

(h) *Retirement, appointment and removal*

At each annual general meeting all the Directors for the time being must retire from office but shall be eligible for re-election. There are no provisions relating to retirement of Directors upon reaching any age limit. The Company at any general meeting at which any Directors retire in manner aforesaid may fill the vacated office by electing a like number of persons to be Directors. Subject to the Companies Act, if the annual general meeting or the election of Directors does not take place at the proper time, it will be lawful for the Company to continue its business and for the existing Directors to continue in office.

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

Subject to authorisation by the members in general meeting, the Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy or as an addition to the board but so that the number of Directors so appointed may not exceed the maximum number determined from time to time by the members in general meeting. The Directors and their alternates are not required to hold any shares in the Company by way or qualification. Any Director so appointed will hold office only until the next following annual general meeting of the Company and will then be eligible for re-election at that meeting.

A Director may be removed by a special resolution of the Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) provided that the notice of any such meeting convened for the purpose of removing a Director shall contain a statement of the intention to do so and be served on such Director 14 days before the meeting and, at such meeting, such Director will be entitled to be heard on the motion for his removal. Unless otherwise determined by the Company in general meeting, the number of Directors may not be less than two. There is no maximum number of Directors.

The board may from time to time appoint one or more of its body to be managing director, joint managing director, deputy managing director or to hold any other employment or executive office with the Company for such period and upon such terms as the board may determine and the board may revoke or terminate any of such appointments. The board may delegate any of its powers, authorities and discretions to committees consisting of such director or directors of their body as the board thinks fit, and it may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the board.

(i) *Borrowing powers*

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

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

(2) Alterations to constitutional documents

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

(3) Alteration of capital

The Company may from time to time by ordinary resolution:

- (i) increase its capital by such sum, to be divided into shares of such amounts, as the resolution shall prescribe;
- (ii) consolidate and divide all or any of its capital into shares of a larger amount than is fixed by the Memorandum of Association;
- (iii) divide its shares into several classes and without prejudice to any special rights previously conferred on the holders of existing shares as the directors may determine;
- (iv) sub-divide its shares or any of them into shares of a smaller amount than is fixed by the Memorandum of Association;
- (v) change the currency denomination of its share capital; and
- (vi) cancel any shares which at the date of the passing of the resolution have not been taken, or agreed to be taken, by any person, and diminish the amount of its capital by the amount of the shares so cancelled.

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

Subject to the Companies Act, all or any of the special rights attached to the shares or any class of shares shall unless otherwise provided for by the terms of issue of the shares of that class and whether or not the Company is being wound up,

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

(5) Special resolution — majority required

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

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

Subject to any special rights or restrictions as to voting for the time being attached to any shares, at any general meeting on a show of hands every member who is present in person (or, being a corporation, by its duly authorised representative) or by proxy will have one vote and on a poll every member present in person or by proxy (or, in the case of a member being a corporation, by its duly authorised representative) will have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or instalments is treated for the foregoing purposes as paid up on the share. On a poll, a member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

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

(7) Requirements for annual general meetings

An annual general meeting must be held once in every year and within not more than 15 months after the last preceding annual general meeting unless a longer period would not infringe the rules of the Designated Stock Exchange (as defined in the Bye-laws).

(8) Accounts and audit

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

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

Subject to the Companies Act, a copy of the balance sheet and profit and loss account (including every document required by law to be annexed thereto) which is to be laid before the Company at its annual general meeting, together with a copy of the Directors' report and a copy of the auditors' report, must, not less than 21 days before the date of the next annual general meeting, be sent to every person entitled to receive notices of general meetings of the Company under the provisions of the Companies Act or of the Bye-laws.

Auditors must be appointed and the terms and tenure of such appointment and their duties at all times regulated in accordance with the provisions of the Companies Act. The remuneration of the auditors is fixed by the Company in general meeting or in such manner as the members may determine.

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

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

An annual general meeting and any special general meeting at which it is proposed to pass a special resolution must (save as set out in sub-paragraph (5) above) be called by at least 21 clear days' notice in writing, and any other special general meeting shall be called by at least 14 clear days' notice (in each case exclusive of the day on which the notice is served or deemed to be served and of the day for which it is given). The notice must specify the time and place of the meeting and, in the case of special business, the general nature of that business.

(10) Transfer of shares

All transfers of shares may be effected by transfer in writing in the usual or common form or in such other form as the board may approve. The instrument of transfer of any share must be executed by or on behalf of the transferor and the transferee provided that the board may dispense with the execution of the instrument of transfer by the transferee in any case in which it thinks fit, at its discretion, to do so, and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect thereof. The board may also resolve, either generally or in any particular case, upon request by either the transferor or the transferee, to accept mechanically executed transfers.

The board may, in its absolute discretion, at any time and from time to time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

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

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

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

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

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

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

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

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

(13) Dividends and other methods of distribution

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

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

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

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

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

(14) Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member may appoint a proxy in respect of part only of his holding of shares. On a poll or on a show of hands, votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy. A proxy need not be a member of the Company.

(15) Calls on shares and forfeiture of shares

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

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

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

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

(16) Inspection of register of member

The register and branch register of members shall be open to inspection between 10:00 a.m. and 12:00 noon on every business day by members without charge, or by any other person, upon a maximum payment of five Bermuda dollars, at the registered office or such other place in Bermuda at which the register is kept in accordance with the Companies Act or, upon a maximum payment of \$10, at the registration office, unless the register is closed in accordance with the Companies Act.

(17) Quorum for meetings and separate class meetings

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

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

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

(19) Procedures on liquidation

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

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

(20) Other provisions

The Bye-laws provide that to the extent that it is not prohibited by and is in compliance with the Companies Act, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of a share, a subscription rights reserve may be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

The Bye-laws also provide that the Company is required to maintain at its registered office a register of directors and officers in accordance with the provisions of the Companies Act which must be made available for inspection for not less than two hours in each day by members of the public without charge.

3. VARIATION OF MEMORANDUM OF ASSOCIATION AND BYE-LAWS

The Memorandum of Association of the Company may, with the consent of the Minister of Finance of Bermuda, be altered by the Company in general meeting. The Bye-laws may be amended by the directors subject to the confirmation of the Company in general meeting. The Bye-laws state that a special resolution shall be required to alter the provisions of the Memorandum of Association or to confirm any amendment of the Bye-laws or to change the name of the Company. For these purposes, a resolution is a special resolution if it has been passed by a majority of not less than three-fourths of votes cast by such members of the Company as, being entitled to do so, vote in person or, in the case of such members as are corporations, by their respective duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which not less than 21 clear days' notice specifying the intention to propose the

resolution as a special resolution has been duly given. Except in the case of an annual general meeting the requirement of 21 clear days' notice may be waived by a majority in number of the members having the right to attend and vote at the relevant meeting, being a majority together holding not less than 95 per cent. in nominal value of the shares giving that right.

4. BERMUDA COMPANY LAW

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

(a) Share capital

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

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

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

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

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

The Companies Act includes certain protection for holders of special classes of shares, requiring their consent to be obtained before their rights may be varied. Where provision is made by the memorandum of association or bye-laws for authorising the variation of rights attached to any class of shares in the company, the consent of the specified proportions of the holders of the issued shares of that class or the sanction of a resolution passed at a separate meeting of the holders of those shares is required, and where no provision for varying such rights is made in the memorandum of association or bye-laws and nothing therein precludes a variation of such rights, the written consent of the holders of three-fourths of the issued shares of that class or the sanction of a resolution passed as aforesaid is required.

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

A company is prohibited from providing financial assistance for the purpose of an acquisition of its own or its holding company's shares. However, in certain circumstances, prohibition from giving financial assistance may be excluded such as where the assistance is only an incidental part of a larger purpose or the assistance is of an insignificant amount such as the payment of minor costs. In addition, the Companies Act expressly permits the grant of financial assistance where (i) the financial assistance does not reduce the company's net assets or, to the extent the net assets are reduced, such financial assistance is provided for out of profits otherwise available for distribution or contributed surplus; (ii) an affidavit of solvency is sworn by the directors of the company; and (iii) the financial assistance is approved by resolution of shareholders of the company.

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

A company may, if authorised by its memorandum of association, purchase its own shares. Such purchases may only be effected out of the capital paid up on the purchased shares, profits otherwise available for dividends or out of the proceeds of a new issue of shares made for the purpose. Any premium payable on purchase over the par value of the shares to be purchased must be provided for out of profits otherwise available for dividends, out of the company's share premium account or contributed surplus account.

Any purchase by the company of its own shares may be authorised by its board of directors or otherwise by or in accordance with the provisions of its bye-laws. Such purchase may only be made if at least two directors, by affidavit, declare that on the effective date of the purchase and taking into account the purchase, the company is solvent or that all of its creditors on that date have consented in writing to the purchase. In the case where a company is listed on an appointed stock exchange, the affidavit may, at the option of the company, be sworn within thirty days after the end of each calendar quarter giving details of the purchases made during each quarter. The shares so purchased will be treated as cancelled and the company's issued, but not its authorised, capital will be diminished accordingly.

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

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

(d) Dividends and distributions

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

(e) Protection of minorities

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

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

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

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

(f) Management

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

(g) Accounting and auditing requirements

The Companies Act requires a company to cause proper records of accounts to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure take place; (ii) all sales and purchases of goods by the company; and (iii) the assets and liabilities of the company. Furthermore, it requires the records of accounts to be kept at the registered office of the company or, subject to the Companies Act, at such other place as the directors think fit and shall at all times be open to inspection by the directors.

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

(h) Exchange control

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

Permission of the Bermuda Monetary Authority will normally be granted for the issue and transfer of shares and warrants of the company to and between persons regarded as resident outside Bermuda for exchange control purposes without specific consent for so long as the shares and warrants are listed on an appointed stock exchange. Transfers and issues involving persons regarded as “resident” for exchange control purposes in Bermuda will be subject to specific exchange control authorisation.

(i) Taxation

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

(j) Stamp duty

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

(k) Loans to directors

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

(l) Inspection of corporate records

Members of the general public have the right to inspect the public documents of a company available at the office of the Registrar of Companies in Bermuda which will include the company's certificate of incorporation, its memorandum of association (including its objects and powers) and any alteration to the company's memorandum of association. The members have the additional right to inspect the bye-laws of the company, minutes of general meetings and the company's audited financial statements, which must be presented to the annual general meeting. The register of members of the company is also open to inspection by members without charge and to members of the general public for a fee. The company is required to maintain its share register in Bermuda but may, subject to the provisions of the Companies Act, establish a branch register outside Bermuda. Bermuda law does not, however, provide a general right for members to inspect or obtain copies of any other corporate records.

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

(m) Winding up

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

The company may be wound up voluntarily when the members so resolve in general meeting. In the case of a voluntary winding up the company is obliged to cease to carry on its business from the time of passing the resolution for voluntary winding up. Upon the appointment of a liquidator, the responsibility for the company's affairs vests entirely in his hands and no future executive action may be carried out without his approval.

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

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

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

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

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

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

5. MISCELLANEOUS

(a) Registration procedures

Subject to the provisions of the Companies Act, the register of members of the Company will be maintained in Bermuda by Butterfield Corporate Services Limited and the branch register of members of the Company will be maintained in Hong Kong by Central Registration Hong Kong Limited. Unless the Directors otherwise agree, all transfers and other documents of title to Shares must be lodged for registration with, and registered by, the Company's registrars in Hong Kong and may not be lodged in Bermuda.

(b) Taxation of holders of shares

(i) *Bermuda*

Under present Bermuda law, transfers of Shares are exempt from Bermuda stamp duty.

(ii) *Hong Kong*

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

(iii) *General*

Potential shareholders are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of subscribing, purchasing, holding or disposing of

Shares. It is emphasized that none of the Company, the Directors or any other parties involved in the New Issue can accept responsibility for any tax effect on, or liabilities of, holders of Shares resulting from the subscription for, purchasing or holding or disposal of Shares.

6. GENERAL

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

1. THE COMPANY

The Company was incorporated in Bermuda under the Companies Act as an exempted company on 7th June, 1993. The Company has established its principal place of business at 9th Floor, Mappin House, 98 Texaco Road, Tsuen Wan, New Territories, Hong Kong and intends to apply to the Registrar of Companies in Hong Kong for registration as an overseas company under Part XI of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong), such registration containing a notice of the appointment of Messrs. Kong Yun Kan and Hui Chi Kwai as the authorised representatives of the Company for the acceptance of service of process in Hong Kong.

As at the date of incorporation of the Company, its authorised share capital was \$126,000 consisting of 1,260,000 Shares of \$0.10 each all of which were issued nil paid on 8th June, 1993 and held as follows:

Name	Number of Shares
Hoi Fat	1,140,000
Parkview Enterprises Inc.	60,000
Kong Yun Kan	26,400
Yu Yu Foon	16,800
Hui Chi Kwai	16,800

The above persons being referred to in this Appendix as the "Existing Shareholders".

At a special general meeting of the Company held on 16th June, 1993, resolutions were passed to the effect that:

1. the authorised share capital of the Company was increased from \$126,000 to \$60,000,000 by the creation of an additional 598,740,000 Shares;
2. the acquisition of Fortei BVI from the Existing Shareholders and the issue of 1,740,000 Shares to them in consideration therefor were approved, and the Directors were authorised to capitalise the sum of \$126,000, being part of the amount standing to the credit of the contributed surplus account of the Company arising from the acquisition, and to set aside such sum for distribution among the Existing Shareholders in proportion to the 1,260,000 nil paid Shares already issued to and held by them, on the condition that the same be paid not in cash but be applied as full payment for the nil paid Shares;
3. the Company adopted its existing Bye-laws;
4. the New Issue was approved and the Directors were authorised to allot and issue the New Shares;
5. conditional on the share premium account of the Company being credited as a result of the New Issue, the sum of \$29,700,000 standing to the credit of that account be capitalised and the Directors were authorised to appropriate that sum as to capital to be applied in paying up in full 297,000,000 unissued Shares as bonus shares to be distributed amongst the members of the Company as at 16th June, 1993 on the basis of 99 Shares for each Share then held by them;
6. the Share Option Scheme (summarised in paragraph 6 of this Appendix) was approved and adopted and the Directors were authorised to allot, issue and deal with Shares pursuant thereto;
7. a general unconditional mandate was given to the Directors to allot, issue and deal with, otherwise than by way of rights or pursuant to the exercise of any options granted under the Share Option Scheme or any shares allotted in lieu of the whole or part of a dividend on Shares of the Company pursuant to the Bye-laws of the Company, Shares with an aggregate nominal value not exceeding 20 per cent. of the aggregate nominal amount of the share capital of the Company in issue and to be issued as mentioned herein. The mandate will remain in effect until

the annual general meeting of the Company to be held in 1994, or until the expiration of the period within which the next annual general meeting of the Company is required by law or the Bye-laws of the Company to be held, or unless and until its revocation or variation by an ordinary resolution in any general meeting of the Company, whichever occurs earlier;

8. a general and unconditional mandate was given to the Directors to exercise all powers of the Company to repurchase such number of Shares as will represent up to 10 per cent. of the aggregate nominal amount of the share capital of the Company in issue and to be issued as mentioned herein, such authority relating only to purchases made on the Stock Exchange and otherwise in accordance with the Listing Rules, as referred to in paragraph 7 of this Appendix. The mandate will remain in effect until the annual general meeting of the Company to be held in 1994, or until the expiration of the period within which the next annual general meeting of the Company is required by law or the Bye-laws of the Company to be held, or unless and until its revocation or variation by an ordinary resolution in any general meeting of the Company, whichever occurs earlier; and
9. the general unconditional mandate mentioned in sub-paragraph 7 above was extended by the addition to the aggregate nominal value of the share capital of the Company which may be allotted or agreed to be allotted by the Directors pursuant to such general mandate of any amount representing the aggregate nominal value of the share capital of the Company repurchased by the Company pursuant to the general mandate referred to in sub-paragraph 8 above, provided that such amount shall not exceed 10 per cent. of the aggregate nominal value of the share capital of the Company in issue and to be issued as mentioned herein.

The approval and implementation of the resolutions referred to in sub-paragraphs 3 to 9 above are subject to and conditional upon the Listing Committee of the Stock Exchange granting a listing of and permission to deal in the Shares in issue and to be issued as mentioned herein (either unconditionally or on conditions acceptable to the Directors) and on the obligations of Wardley under the underwriting agreement referred to in paragraph 5 of this Appendix (material contract (i)) becoming unconditional (including, if relevant, the waiver of any condition(s) by Wardley) and not being terminated in accordance with the terms of that agreement or otherwise, in each case on or before 21st July, 1993.

Upon the above resolutions becoming unconditional and following the capitalisation issue referred to in sub-paragraph 5 above being effected, the authorised share capital of the Company will be \$60,000,000 divided into 600,000,000 Shares and the issued share capital will be \$40,000,000 divided into 400,000,000 Shares, all fully paid or credited as fully paid, and 200,000,000 Shares will remain unissued. Other than pursuant to the exercise of any options granted under the Share Option Scheme, there is no present intention to issue any of the authorised but unissued share capital of the Company and, without the prior approval of the members in general meeting, no issue of Shares will be made which would effectively alter the control of the Company.

Save as disclosed herein, there has been no alteration in the share capital of the Company since its incorporation.

2. CORPORATE REORGANISATION

The companies comprising the Group were reorganised to rationalise the Group structure in preparation for the listing of the Shares on the Stock Exchange, under which Fortei BVI became the intermediate holding company and the Company became the holding company of the Group on 16th June, 1993.

The corporate reorganisation involved the following:

- (a) on 25 June, 1992, the authorised share capital of Onpower was increased from \$5,000,000 to \$5,001,000 by the creation of 1,000 shares of \$1.00 each. Fortei BVI and its nominee subscribed for and were allotted 100 of such new shares of \$1.00 each for cash at par. By a special resolution of Onpower passed later that day, the 5,000,000 shares of \$1.00 each in issue prior to that allotment were converted into non-voting deferred shares of \$1.00 each with the rights and restrictions described in paragraph 4(c) of this Appendix in consideration of Fortei

BVI allotting and issuing 49,999 shares of US\$0.01 each to those shareholders credited as fully paid, and the remaining 100 issued shares of \$1.00 each and 900 unissued shares of \$1.00 each were redesignated as ordinary shares (see material contract (a));

- (b) on 25th June, 1992, Hoi Fat acquired the entire issued share capital of Fortei BVI in consideration of the allotment and issue of an aggregate of 50,000 shares of US\$0.01 each in Hoi Fat, credited as fully paid, to Kong Yun Kan, Tam Kung Lit, Kwong Yun Sing, Jarvis, Chiu Kwok Ching, Kwong Yun Wah, Kwong Yun Tak, Kwong Yun Nin and Kwong Sui King in proportion to their respective holdings of shares in Fortei BVI (see material contract (b));
- (c) on 7th May 1993, Fortei BVI acquired the entire issued share capital of Fortei Limited in consideration of the allotment and issue of an aggregate of 3,000 shares credited as fully paid to Kong Yun Kan, Kwong Yun Sing, Jarvis and Kwong Yun Nin in proportion to their respective holdings of shares in Fortei Limited (see material contract (f)); and
- (d) on 16th June, 1993, the Company acquired the entire issued share capital of Fortei BVI in consideration of the allotment and issue of an aggregate of 1,740,000 Shares credited as fully paid to Hoi Fat, Parkview Enterprises Inc. and Kong Yun Kan, Yu Yu Foon and Hui Chi Kwai in proportion to their respective holdings of shares in Fortei BVI (see material contract (g)).

3. SUBSIDIARIES

Details of the subsidiaries of the Company are set out in the accountants' report, the text of which is set out in Appendix I.

On 19th October, 1992, Fortei BVI increased its issued share capital from US\$500 to US\$600 by issuing 7,000 shares of US\$0.01 each to Hoi Fat and 3,000 shares of US\$0.01 each to Parkview Enterprises Inc., at an issue price of \$1,260 per share, satisfied in cash.

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

4. DISCLOSURE OF INTERESTS

- (a) Immediately following the New Issue and the capitalisation issue referred to in paragraph 1 of this Appendix, the interests of the Directors in the share capitals of the Company and its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance (Chapter 396 of the Laws of Hong Kong) ("SDI Ordinance")), which will have to be notified to the Company and the Stock Exchange pursuant to Section 28 of the SDI Ordinance (including interests in which they are taken or deemed to have under Section 31 of, or Part I of the Schedule to, the SDI Ordinance) once the Shares are listed or which will be required pursuant to Section 29 of the SDI Ordinance to be entered in the register referred to therein, once the Shares are listed, will be as follows:

(i) Name	Type of interest	Number of Shares
Kong Yun Kan	Personal ⁽¹⁾ /Others ⁽²⁾	277,714,300
Kwong Yun Nin	Others ⁽³⁾	Nil
Kwong Yun Sing, Jarvis		Nil
Wong Wing Keung		Nil
Chan Cheung Ho		Nil
Liu Wing Ting, Stephen		Nil
John Anthony Ellison		Nil
John Charles Ross Collis		Nil

Notes:

- (1) 6,285,700 Shares will be owned by and registered in the name of Mr. Kong Yun Kan.

- (2) 24,087 shares of Hoi Fat representing 42.26 per cent. of its issued share capital will be owned by and registered in the name of Cowin Enterprises Limited, a British Virgin Islands company operated by a trustee for the benefit of a trust the beneficiaries of which are Mr. Kong Yun Kan and his immediate family members. Pursuant to the provisions of the SDI Ordinance, Mr. Kong Yun Kan is deemed to be in control of Cowin Enterprises Limited and Hoi Fat and is therefore interested in all of the Shares to be owned by Hoi Fat. Mr. Kong Yun Kan's interest in Hoi Fat is also registrable pursuant to Section 29 of the SDI Ordinance.
- (3) The Company intends to grant to Mr. Kwong Yun Nin an option under the Share Option Scheme to subscribe up to 10,000,000 Shares at an initial subscription price equal to the New Issue price of \$1.28 per Share, the shares the subject of such option representing 2.5 per cent. of the issued share capital of the Company following the New Issue and the capitalisation issue referred to in paragraph 1 of this Appendix.
- (4) In addition, certain of the Directors hold non-voting deferred shares in Onpower, details of which are set out in sub-paragraph (c) below.
- (b) Immediately following the New Issue and the capitalisation issue referred to in paragraph 1 of this Appendix, the only holder of 10 per cent. or more of the Shares then in issue of which the Directors are aware will be:

Name	Number of Shares	Percentage of holding
Hoi Fat	271,428,600	67.9

- (c) (i) The following Directors beneficially own non-voting deferred shares in Onpower:

Name	Number of non-voting deferred shares
Kong Yun Kan	1,816,579
Kwong Yun Nin	380,842
Kwong Yun Sing, Jarvis	331,224

- (ii) The rights and restrictions of the above non-voting deferred shares are set out below:
- (1) as regards income: the non-voting deferred shares shall entitle the holders thereof to a fixed non-cumulative dividend at the rate of one per cent. per annum for any financial year of the company in respect of which the net profit of the company available for dividend (as certified by the auditors of the company whose decision shall be final and binding) exceeds \$1,000,000,000,000,000;
- (2) as regards capital: on a winding up the holders of the non-voting deferred shares shall be entitled out of the surplus assets of the Company to a return of the capital paid up on the non-voting deferred shares held by them after a total of \$1,000,000,000,000,000 has been distributed in such winding up in respect of each of the issued ordinary share of the company;
- (3) as regards voting: the non-voting deferred shares shall not entitle the holders thereof to receive notice of, attend or vote at any general meeting of the company; and
- (4) save as described above, the holders of such non-voting deferred shares are not entitled to any participation in the profits or assets of the company.
- (d) (i) On 16th June, 1993, Mr. Kong Yun Kan entered into a service agreement with the Company effective for two years from 1st April, 1993 and thereafter automatically renewed for consecutive yearly periods subject to termination by either party by six months notice in writing. Under the agreement, Mr. Kong will be paid \$900,000 during the first year of the agreement, which remuneration shall be reviewed and adjusted annually at the discretion of the board.

- (ii) On 16th June, 1993, Mr. Kwong Yun Nin entered into a service agreement with the Company effective for two years from 1st April, 1993 and thereafter automatically renewed for consecutive yearly periods subject to termination by either party by six months notice in writing. Under the agreement, Mr. Kwong will be paid \$843,780 during the first year of the agreement, which remuneration shall be reviewed and adjusted annually at the discretion of the board.
- (iii) No other Director has entered into a service agreement with the Company.
- (e) Each of Messrs. John Anthony Ellison and John Charles Ross Collis is a partner in and Donald Harrigan Malcolm, who is the alternate director to John Anthony Ellison and John Charles Ross Collis, is a senior associate of the firm of Conyers, Dill & Pearman, legal advisers on Bermuda law to the Company. Conyers, Dill & Pearman will receive usual professional fees in connection with the incorporation of the Company and the New Issue.
- (f) Mr. Chan Cheung Ho is a partner in the firm of Bernard Wong & Co., which has received and will continue to receive usual professional fees for services rendered to the Group.
- (g) Wardley, which will receive an underwriting commission and a documentation fee as mentioned in paragraph 5 of this Appendix, is a subsidiary of HSBC Holdings plc, the holding company of The Hongkong and Shanghai Banking Corporation Limited, which will receive a fee for its services as receiving bankers to the New Issue. Wardley Holdings Limited, the holding company of Wardley and a subsidiary of HSBC Holdings plc, has a 50 per cent. beneficial interest in Central Registration Hong Kong Limited, the branch registrar of the Company in Hong Kong. Wardley Nominees Limited, a subsidiary of Wardley Holdings Limited, will receive a fee for its services in connection with holding the application monies received pursuant to the New Issue.
- (h) In 1991 and 1992, the Group made sales totalling approximately \$744,000 and \$159,000 respectively to Tung Sing Sports Company on normal commercial terms and in the normal course of the Group's business. Mr. Kong Yun Kan, the Chairman of the Company, was beneficially interested in Tung Sing Sports Company, but that company ceased trading in 1992.
- (i) In 1991 and 1992, the Group made sales totalling approximately \$617,000 and \$96,000 respectively to Tung Fong Sports Company on normal commercial terms and in the normal course of the Group's business. Mr. Kwong Yun Nin, the Managing Director of the Company, was beneficially interested in Tung Fong Sports Company, but that interest was disposed in 1992.
- (j) Save as disclosed herein:
 - (i) none of the Directors or any chief executive of the Company has an interest in any shares in or debentures of the Company or any of its associated corporations (within the meaning of the SDI Ordinance) which will have to be notified to the Company and the Stock Exchange pursuant to Section 28 of the SDI Ordinance (including interests which they are taken or deemed to have under Section 31 of, or Part I of the Schedule to, the SDI Ordinance) once the Shares are listed or which will be required, pursuant to Section 29 of the SDI Ordinance, to be entered in the register referred to therein, once the Shares are listed;
 - (ii) no Director is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of the Group taken as a whole;
 - (iii) none of the Directors or the experts named in paragraph 13 of this Appendix has been interested in the promotion of, or has any direct or indirect interest in any assets acquired or disposed of by or leased to, any member of the Group within the two years immediately preceding the date of this prospectus, or which are proposed to be acquired or disposed of by or leased to any member of the Group;

- (iv) none of the experts named in paragraph 13 of this Appendix has any shareholding in any company in the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any company in the Group; and
- (v) the Directors are not aware of any person who will, immediately following the completion of the New Issue and capitalisation issue referred to in paragraph 1 of this Appendix, hold or be beneficially interested in Shares representing 10 per cent. or more of the Shares then in issue.

5. UNDERWRITING ARRANGEMENTS AND EXPENSES

Wardley has agreed under the underwriting agreement (material contract (i)) that, subject to the Listing Committee of the Stock Exchange granting listing of and permission to deal in the Shares in issue and to be issued as mentioned herein on or before 21st July, 1993, it will subscribe or procure subscribers for the New Shares now being offered and which are not taken up under the New Issue, on the terms and conditions of this prospectus and the application forms. The obligations of Wardley under the underwriting agreement to subscribe or procure subscribers for those New Shares are subject to termination if certain events, including force majeure, occur prior to 5:00 p.m. on the third business day following the closure of the application lists.

In the underwriting agreement Mr. Kong Yun Kan, Hoi Fat and Parkview Enterprises Inc. have undertaken with the Company and Wardley that they will not dispose of any Shares in which they are interested immediately following completion of the New Issue during the period of six months from the date of this prospectus without the prior written consent of Wardley and that, in the event of a disposal of any such interests after the expiry of such six month period, all reasonable steps will be taken to ensure that any such disposal will not create a disorderly or false market. In addition, certain of the shareholders of each of Hoi Fat and Parkview Enterprises Inc. have also undertaken to the Company and Wardley to procure such companies to comply with the undertakings.

The Company has also undertaken that, save as mentioned in this prospectus or pursuant to the Share Option Scheme, within six months from the date of this prospectus it will not issue or agree to issue any shares or other securities of the Company or grant or agree to grant any options over any shares or other such securities during the period of six months from the date of this prospectus without the prior written consent of Wardley.

Wardley will receive a commission of 2.5 per cent. of the New Issue price on all the New Shares, out of which it will pay any sub-underwriting commissions and Wardley will also receive a documentation fee and be reimbursed its expenses. Such commission, documentation fee and expenses, together with the Stock Exchange listing fees, legal and other professional fees and printing and other expenses relating to the New Issue, which are estimated in aggregate to be approximately \$13.5 million, will be payable by the Company.

6. SHARE OPTION SCHEME

The following is a summary of the principal terms of the Share Option Scheme:

- (a) the Directors may at their discretion grant options to executive Directors and full time employees of the Group to subscribe for Shares;
- (b) options will entitle the holder to subscribe for Shares within three years of the date the option is granted at a price (subject to adjustments as provided therein) equal to the higher of the nominal value of the Shares and 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 the offer to grant an option;

- (c) the maximum number of Shares in respect of which options may be granted under the Share Option Scheme when aggregated with any securities subject to any other scheme shall not exceed 10 per cent. of the share capital of the Company in issue from time to time (excluding for the purpose Shares issued pursuant to the exercise of options granted under the Share Option Scheme) 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 in respect of which options may be granted under the Share Option Scheme;
- (d) an option may not be transferred or assigned and will be personal to the holder of the option;
- (e) if a holder of an option dies, is disabled or retires in accordance with the terms of his employment, the holder or his personal representatives may exercise the option within a period of six months thereafter or at the expiration of the relevant option period, whichever is earlier, failing which the option will lapse. If the holder of an option is dismissed from the employment of the Group on the basis of misconduct or has become bankrupt or insolvent, the option of such holder will thereupon lapse;
- (f) Shares allotted on the exercise of options will rank *pari passu* with the other Shares in issue at the date of exercise of the relevant option;
- (g) if notice is duly given of a general meeting at which a resolution will be proposed for the voluntary winding-up of the Company, every option shall be exercisable in whole or in part at any time thereafter until 21 days after the resolution is duly passed after which all options shall, to the extent that they have not been exercised, thereupon cease and terminate;
- (h) in the event of, *inter alia*, any reduction, sub-division or consolidation of the share capital of the Company or capitalisation issue, rights issue or distribution of capital assets by the Company, or by way of the Company repurchasing Shares (but excluding the issue of Shares or other securities as consideration in a transaction), the number or nominal amount of Shares comprised in each option and/or the option price may be adjusted in such manner as the auditors of the Company shall certify in their opinion fair and reasonable provided always that an option holder shall have the same proportion of the equity capital of the Company as that to which he was entitled before such adjustments and no increase shall be made in the aggregate subscription price relating to any option; and
- (i) the Share Option Scheme will remain in force for a period of 10 years from the date of its adoption.

As at the date of this prospectus, no option has been granted although the Company intends to grant an option as disclosed in paragraph 4 of this Appendix.

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

7. SECURITIES REPURCHASE MANDATE

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

(a) Stock Exchange rules

The Listing Rules permit companies with a primary listing on the Stock Exchange to purchase their equity securities subject to certain restrictions, the most important of which are summarised below:

(i) *Shareholders' approval*

All proposed repurchase of securities by a company with a primary listing on the Stock Exchange must be approved in advance by an ordinary resolution, either by way of general mandate or by special approval given to a particular transaction. The Company's sole listing will be on the Stock Exchange.

Note: At a special general meeting held on 16th June, 1993, a general unconditional mandate ("Repurchase Mandate") was given to the Directors authorising the repurchase by the Company on the Stock Exchange or any other stock exchange on which the securities of the Company may be listed and which is recognised by the Securities and Futures Commission and the Stock Exchange for this purpose, of up to 10 per cent. of its share capital in issue immediately following completion of the New Issue and the capitalisation issue referred to in paragraph 1 of this Appendix, such mandate to expire at the conclusion of the next annual general meeting of the Company or when revoked or varied by ordinary resolution of shareholders in general meeting of the Company, whichever occurs first.

(ii) *Source of funds*

Repurchases must be funded out of funds legally available for the purpose at the date of the resolution authorising the repurchase.

(iii) *Trading restrictions*

A maximum of 10 per cent. of the outstanding share capital at the date of the resolution authorising the repurchase may be repurchased on the Stock Exchange. A company may not issue or announce a proposed issue of new shares for a period of 30 days immediately following a repurchase (other than an issue of securities pursuant to an exercise of share options or similar instruments requiring the company to issue securities which were outstanding prior to such repurchase). In addition, all repurchases of securities on the Stock Exchange in any calendar month are limited to a maximum of 25 per cent. of the trading volume of such securities on the Stock Exchange in the immediately preceding calendar month. The Listing Rules also prohibit a company from repurchasing its securities on the Stock Exchange if the repurchase would result in the number of listed securities which are in the hands of the public falling below the relevant prescribed minimum percentage as required by the Stock Exchange.

(iv) *Status of repurchased shares*

The Listing Rules provide that the listing of all repurchased securities is automatically cancelled and the certificates for those securities must be destroyed. Under Bermuda law, a company's repurchased shares are treated as cancelled.

(v) *Suspension of repurchase*

The Listing Rules prohibit any repurchase of securities at any time after a price sensitive development has occurred or has been the subject of a decision until such time as the price sensitive information is made publicly available. In addition, the Stock Exchange may prohibit repurchases of securities on the Stock Exchange if a company has breached the Listing Rules.

(vi) *Reporting requirements*

Repurchases of securities on the Stock Exchange or otherwise must be reported to the Stock Exchange not later than 9:30 a.m. on the following business day. In addition, the company's annual report is required to disclose details regarding securities repurchased during the year, including the number of securities repurchased and the aggregate prices paid.

(vii) *Connected parties*

The Listing Rules prohibit a company from knowingly repurchasing shares on the Stock Exchange from a "connected person" (as defined in the Listing Rules) which includes directors, substantial shareholders or their associates or a connected person knowingly selling his shares to the company on the Stock Exchange.

(b) Reasons for repurchases

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

(c) Funding of repurchases

In repurchasing securities, the Company may only apply funds legally available for such purpose in accordance with its Memorandum of Association and Bye-laws and the laws of Bermuda and as considered appropriate by the Directors.

If the repurchase mandate were to be exercised in full, it might have a material adverse effect on the working capital or the gearing position of the Company as compared with the position disclosed in this prospectus. However, the Directors do not propose to exercise the repurchase mandate to such extent as would, in the circumstances, have a material adverse effect on the working capital requirements of the Group or the gearing levels which in the opinion of the Directors are from time to time appropriate for the Group.

Exercise in full of the repurchase mandate, on the basis of 400,000,000 Shares in issue immediately after the New Issue and the capitalisation issue referred to in paragraph 1 of this Appendix could accordingly result in up to 40,000,000 Shares being repurchased by the Company during the course of the period prior to the annual general meeting in 1994.

(d) General

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

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

If as a result of a securities repurchase, a shareholder's proportionate interest in the voting rights of the Company is increased, such increase will be treated as an acquisition for the purpose of the Hong Kong Code on Takeovers and Mergers. Accordingly, a shareholder or a group of shareholders acting in concert could obtain or consolidate control of the Company and become obliged to make a mandatory offer in accordance with rule 26 of the Hong Kong Code on Takeovers and Mergers and the provisions thereof may apply as a result of any such increase. The Directors do not intend to make any purchases which will give rise to any consequence under the Hong Kong Code on Takeovers and Mergers on the bases of the shareholding structure of the Company immediately after the New Issue.

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

8. ESTATE DUTY

Hoi Fat, Y.K. Kong, K.L. Tam, Y.S. Kwong, K.C. Chiu, Y.W. Kwong, Y.N. Kwong, S.K. Kwong, Cowin Enterprises Limited, Jarvis Investment Limited, Shu Pu Investment Limited, Wing Yin Investment Limited, Parkview Enterprises Inc. and L.H. Chan have given joint and several indemnities (material contract (h)) in connection with, inter alia, any liability for Hong Kong estate duty which might be payable by any member of the Group and/or its associated companies by reason of any transfer of property (within the meaning of Section 35 of the Estate Duty Ordinance of Hong Kong) to any member of the Group and/or its associated companies on or before the date on which the New Issue becomes unconditional.

The Directors have been advised that no material liability for estate duty is likely to fall on the Company or any of its subsidiaries in Bermuda or the British Virgin Islands, being jurisdictions in which one or more companies comprising the Group are incorporated.

9. MATERIAL CONTRACTS

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








- (a) an agreement dated 25th June, 1992 between Y.K. Kong, K.L. Tam, Y.S. Kwong, K.C. Chiu, Y.W. Kwong, Y.T. Kwong, Y.N. Kwong and S.K. Kwong (being the then existing shareholders of Onpower), Fortei BVI and Onpower pursuant to which:
 - (i) Fortei BVI and its nominee subscribed for 100 shares of \$1.00 each in Onpower for a total consideration of \$100 paid in cash;
 - (ii) the then existing shareholders of Onpower procured the passing of a special resolution converting all the issued ordinary shares in Onpower (other than those issued to Fortei BVI and its nominee referred to in sub-paragraph (i) above) into non-voting deferred shares (each with rights described in paragraph 4 of this Appendix); and

- (iii) in consideration of the conversion of rights referred to in sub-paragraph (ii) above, Fortei BVI allotted and issued an aggregate of 49,999 shares of US\$0.01 each, credited as fully paid, to the then existing shareholders of Onpower;
- (b) an agreement dated 25th June, 1992 between Y.K. Kong, K.L. Tam, Y.S. Kwong, K.C. Chiu, S.K. Kwong, Y.W. Kwong, Y.T. Kwong and Y.N. Kwong (being the then existing shareholders of Fortei BVI) and Hoi Fat pursuant to which Hoi Fat acquired the entire issued share capital of Fortei BVI in consideration of the issue by Hoi Fat to those persons of an aggregate of 50,000 shares of US\$0.01 each credited as fully paid;
- (c) an agreement dated 27th June, 1992 between Onpower and Fortei Licensing Limited whereby Onpower assigned to Fortei Licensing Limited all its rights and benefits as the proprietor of the Group's then registered and pending trademarks, for a consideration of \$153,310,000 in cash;
- (d) an agreement dated 27th June, 1992 (as subsequently amended) between Fortei Licensing Limited and Potential Handbag Limited for the licence of the trademark "Fortei" and the sail device in connection with the manufacture, sale and distribution of bags and leather belts etc. in Hong Kong and the PRC and under which the licensee is required to pay a licence fee equal to 9 per cent. of the retail sales revenue derived from the licensed products to Fortei Licensing Limited;
- (e) an agreement dated 1st October, 1992 between Fortei Licensing Limited and Ka Wang Company for the licence of the trademark "Fortei" and the sail device in connection with the manufacture, sale and distribution of shirts in the territory of Macau and under which the licensee is required to pay a licence fee equal to 9 per cent. of the retail sales revenue derived from the licensed products to Fortei Licensing Limited;
- (f) an agreement dated 7th May, 1993 between Y.K. Kong, Y.S. Kwong and Y.N. Kwong and Fortei BVI pursuant to which Fortei BVI acquired the entire issued share capital of Fortei Limited in consideration of the sum of \$3,800,010, to be satisfied by the issue and allotment of an aggregate of 3,000 shares of \$0.10 each in Fortei BVI to those persons, credited as fully paid;
- (g) an agreement dated 16th June, 1993 between Hoi Fat, Parkview Enterprises Inc., Y.F. Yu, Y.K. Kong, C.K. Hui and the Company pursuant to which the Company acquired the entire issued share capital of Fortei BVI in consideration of the issue and allotment of an aggregate of 1,740,000 Shares to those persons, credited as fully paid;
- (h) a deed of indemnity dated 21st June, 1993 between Hoi Fat, Y.K. Kong, K.L. Tam, Y.S. Kwong, K.C. Chiu, S.K. Kwong, Y.W. Kwong, Y.N. Kwong, Cowin Enterprises Limited, Jarvis Investment Limited, Shu Pu Investment Limited, Wing Yin Investment Limited, Parkview Enterprises Inc., L.H. Chan and the Company and its subsidiaries containing indemnities in respect of taxation and estate duty given in favour of the Company and its subsidiaries; and
- (i) an underwriting agreement dated 21st June, 1993 between the Company, Y.K. Kong, K.L. Tam, Y.S. Kwong, K.C. Chiu, S.K. Kwong, Y.W. Kwong, Y.N. Kwong, Cowin Enterprises Limited, Jarvis Investment Limited, Shu Pu Investment Limited, Wing Yin Investment Limited, L.H. Chan, Hoi Fat, Parkview Enterprises Inc., Wardley and Wardley Nominees Limited relating to the New Issue, being the underwriting agreement referred to in paragraph 5 of this Appendix.

10. TRADEMARKS





The Group has the following registered trademarks:

Registered trademarks

Trademark	Place of registration	Class	Number	Date of registration
FORTEI	PRC	18	591896	20/04/92
	PRC	25	593265	30/04/92
福特	PRC	18	624188	30/12/92
	PRC	18	591897	20/04/92
	PRC	25	592091	20/04/92
	Hong Kong	18	3800/90	12/12/90
	Hong Kong	25	1150/91	12/04/91
	Hong Kong	25	3170/90	19/10/90
	PRC	18	535724	30/11/90
	PRC	25	535847	30/11/90
	Singapore	18	4618/90	27/06/90
	Singapore	25	4620/90	27/06/90
	Italy	18, 25	555441	10/04/89
	PRC	18	624187	30/12/92
FORTEI and Chinese word mark “福特”	PRC	18	624187	30/12/92
	Hong Kong	18	142/89	20/01/89
	Hong Kong	25	989/89	31/03/89
	Hong Kong	18	136/89	20/01/89
	Hong Kong	25	137/89	20/01/89
	Hong Kong	18	315/89	30/01/89
	Hong Kong	25	316/89	30/01/89
	Hong Kong	18	317/89	30/01/89
	Hong Kong	25	990/89	31/03/89
POINTER	Hong Kong	18	3284/88	14/10/88
	Hong Kong	25	3285/88	14/10/88
	Hong Kong	28	122/89	20/01/89

In addition, the Group has applied for registration the following trademarks:

Pending trademarks

Trademark	Place of application	Class	Number	Date of application
	Macau	18	2419	03/07/90
	Macau	25	2420	03/07/90
	Thailand	18	245598	01/06/93
	Thailand	25	245599	01/06/93
FORTEI	Hong Kong	18	2492/91	18/04/91
	Hong Kong	25	2493/91	18/04/91
	Hong Kong	18	2489/91	18/04/91
	Hong Kong	25	2488/91	18/04/91
	Hong Kong	25	15931	17/09/92
	Hong Kong	25	15930	17/09/92
	Hong Kong	25	6229/91	29/08/91
	Hong Kong	25	6230/91	29/08/91
POINTER	Hong Kong	18	10371/92	16/04/92
	South Korea	27	15182/92	01/06/92
	PRC	18	92074289	10/11/92
	PRC	25	92074288	10/11/92

The Fortei and sail device trademarks are of fundamental importance to the Group.

11. SPONSOR

Wardley has made an application on behalf of the Company to the Listing Committee of the Stock Exchange for the listing of and permission to deal in the Shares in issue and to be issued as mentioned herein and any Shares which may be issued upon the exercise of options granted under the Share Option Scheme.

12. MISCELLANEOUS

- (a) Neither the Company nor any of its subsidiaries is engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened against the Company or any of its subsidiaries.

- (b) Save as disclosed herein:
- (i) since the date two years prior to the date of this prospectus:
 - (1) no share or loan capital of the Company or of any of its subsidiaries has been issued, agreed to be issued or is proposed to be issued fully or partly paid either for cash or for a consideration other than cash; and
 - (2) no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any share or loan capital of the Company or any of its subsidiaries; and
 - (ii) no share or loan capital of the Company or any of its subsidiaries is under option or is agreed conditionally or unconditionally to be put under option.
- (c) There has been no material adverse change in the financial position or prospects of the Group since 31st March, 1993.
- (d) The estimated preliminary expenses of the Company of approximately US\$5,000 will be paid by the Company.
- (e) The promoters of the Company are Messrs. Kong Yun Kan and Kwong Yun Nin. Save as disclosed in this prospectus, within the two years preceding the date of this prospectus, no amount or benefit has been paid or given to any of the promoters in connection with the New Issue or the related transactions described in this prospectus.
- (f) For the purpose of Section 28 of the Companies Act, the minimum subscription which must be raised by the New Issue in order to provide the sums required to be provided in respect of each of the following matters is as follows:
- (i) the purchase price of assets purchased or to be purchased which is to be defrayed in whole or in part out of the proceeds of the New Issue — nil;
 - (ii) the expenses payable by the Company in relation to the New Issue, and commission payable to any person in consideration of his agreeing to subscribe for, or of his procuring or agreeing to procure subscriptions for, any Shares — approximately \$13.5 million;
 - (iii) the repayment of monies borrowed by the Company in respect of any of the foregoing matters — nil; and
 - (iv) working capital — nil.
- No amount is to be provided in respect of such matters otherwise than out of the proceeds of the New Issue.
- (g) The Company has no founders shares, management shares or deferred shares.

13. CONSENTS

Wardley, Deloitte Touche Tohmatsu, Vigers Hong Kong Limited, American Appraisal Hongkong Limited and Conyers, Dill & Pearman have given and have not withdrawn their respective written consents to the issue of this prospectus with copies of their reports, valuation or letters (as the case may be) and the references to their names included herein in the form and context in which they are respectively included.

14. DOCUMENTS DELIVERED TO THE REGISTRARS OF COMPANIES

Attached to the copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration were copies of the application forms, the written consents referred to in paragraph 13 of this Appendix, a statement of the adjustments made by Deloitte Touche Tohmatsu in arriving at the figures set out in their accountants' report and giving their reasons therefor, and copies of the material contracts referred to in paragraph 9 of this Appendix. The copy of this prospectus delivered to the Registrar of Companies in Bermuda had attached to it copies of the application forms.

15. BINDING EFFECT

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of Sections 44A and 44B of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) so far as applicable.

16. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the offices of Vincent T.K. Cheung, Yap & Co. at 15th Floor, Alexandra House, 16-20 Chater Road, Hong Kong during normal business hours up to and including 6th July, 1993:

- (a) the Memorandum of Association and the Bye-laws of the Company;
- (b) the audited accounts of the Company's subsidiaries for the two years ended 31st December, 1992 and the three months ended 31st March, 1993 or since their respective dates of incorporation if incorporated after 1st January, 1991;
- (c) the accountants' report, the text of which is set out in Appendix I, and the related statement of adjustments;
- (d) the letters relating to the profit forecast of the Group, the texts of which are set out in Appendix II;
- (e) the letter prepared by American Appraisal Hongkong Limited, the text of which is set out in Appendix III;
- (f) the letter and valuation certificate prepared by Vigers Hong Kong Limited, the texts of which are set out in Appendix IV;
- (g) the rules of the Share Option Scheme;
- (h) the Companies Act;
- (i) a copy of the letter of advice prepared by Conyers, Dill & Pearman referred to in the section headed "General" in Appendix V summarising certain aspects of Bermuda company law;
- (j) the service agreements referred to in the paragraph 4(d) of this Appendix;
- (k) the material contracts referred to in paragraph 9 of this Appendix; and
- (l) the written consents referred to in paragraph 13 of this Appendix.

PROSPECTUSES AND APPLICATION FORMS

Copies of this prospectus, together with application forms, may be obtained from:

**Any member of
The Stock Exchange of Hong Kong Limited**

**Wardley Corporate Finance Limited
4th Floor, Hutchison House
10 Harcourt Road
Hong Kong**

or any of the following branches of **The Hongkong and Shanghai Banking Corporation Limited**:

Hong Kong Island:	Hong Kong Main Office	Level 3, 1 Queen's Road Central
	China Building Office	29 Queen's Road Central
	International Building Office	141 Des Voeux Road Central
	North Point Office	306-316 King's Road, North Point
	Des Voeux Road West Office	40-50 Des Voeux Road West
Kowloon:	Wayfoong House Office	82-84 Nathan Road, Tsimshatsui
	Peninsula Centre Office	Peninsula Centre, 67 Mody Road Tsimshatsui East
	Mongkok Office	673 Nathan Road, Mongkok
	Kwun Tong Office	1 Yue Man Square, Kwun Tong
New Territories:	Tsuen Wan Office	Shop Nos. 5-6, 1st Floor, Fou Wah Centre, 210 Castle Peak Road, Tsuen Wan

Application forms (to which cheques or banker's cashier orders should be securely stapled) should be deposited in the special collection boxes provided at the branches of The Hongkong and Shanghai Banking Corporation Limited referred to above at the following times:

Tuesday, 22nd June, 1993 — 9:00 a.m. to 4:00 p.m.
Wednesday, 23rd June, 1993 — 9:00 a.m. to 4:00 p.m.
Friday, 25th June, 1993 — 9:00 a.m. to 4:00 p.m.
Saturday, 26th June, 1993 — 9:00 a.m. to 12:00 noon
Monday, 28th June, 1993 — 9:00 a.m. to 12:00 noon

PROCEDURE FOR APPLICATION

1. The Public

Applications must be for a minimum of 2,000 Shares and thereafter in accordance with the following multiples:

2,000 to 18,000	—	in multiples of 2,000
20,000 to 90,000	—	in multiples of 10,000
100,000 to 450,000	—	in multiples of 50,000
500,000 to 900,000	—	in multiples of 100,000
1,000,000 and above	—	in multiples of 500,000

In addition to the New Issue price, applicants will be required to pay, at the time of application, brokerage at the rate of one per cent. of the New Issue price and a Stock Exchange transaction levy at the rate of 0.025 per cent. of the New Issue price. The total amount to be paid for every 2,000 Shares will therefore be \$2,586.24. The brokerage will be paid to members of the Stock Exchange and the transaction levy will be paid to the Stock Exchange itself, in each case in respect of successful applications. The proposed board lot for trading in the Shares is 2,000 Shares. The basis of allocation of the New Shares will be determined by Wardley after consultation with the Company.

The application lists under the New Issue will open at 11:45 a.m. on Monday, 28th June, 1993 and will close at 12:00 noon on the same day or, in the event of a tropical cyclone warning signal number 8 or above or a "black" rainstorm warning signal being in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on that day, then the application lists will open at 11:45 a.m. and close at 12:00 noon on the next banking day on which none of such signals remains in force at any time between 9:00 a.m. and 12:00 noon and all references in this prospectus and in the application forms to the time of opening and closing of the application lists shall be construed accordingly.

Applications by the public must be made on the WHITE application forms provided and must be lodged not later than 12:00 noon on Monday, 28th June, 1993 (or such later date as may apply in the case of a tropical cyclone or a "black" rainstorm warning signal being in force as aforesaid) at any one of the branches of The Hongkong and Shanghai Banking Corporation Limited listed under the section headed "Prospectuses and application forms" above together with a remittance in Hong Kong dollars for the full amount payable on application. A table setting out the precise amounts payable is included in the application forms.

Nominees who wish to submit separate applications in their own names on behalf of different owners are requested to designate on each application form in the box marked "Application submitted by nominees" account numbers or other identification codes for each beneficial owner or, in the case of joint beneficial owners, for each such joint beneficial owner.

Each WHITE application form must be accompanied by either a separate cheque drawn on the applicant's Hong Kong dollar bank account in Hong Kong and bearing the account name (either pre-printed by the applicant's bank before issue to the customer or certified by an authorised signatory of such bank on the reverse of the cheque) which must correspond with the name of the applicant (or, in the case of joint applicants, the name of the first named applicant), or a separate bankers' cashier order on the reverse of which the bank has certified by an authorised signatory the name of the purchaser, which must correspond with the name of the applicant (or, in the case of joint applicants, the name of the first named applicant). All such cheques or banker's cashier orders must be made payable to "**Wardley Nominees Limited — Forte New Issue**" and crossed "Account Payee Only". All interest on application monies will be retained for the benefit of the Company.

Applications which do not comply with the foregoing, multiple or suspected multiple applications and applications in respect of which cheques are dishonoured on first presentation are liable to be rejected and returned by post together with the accompanying cheque(s) or bankers cashier order(s) to the applicant at

PROCEDURE FOR APPLICATION

the address stated on the application form. Applications made through a duly authorised attorney may be accepted at the discretion of the Directors and Wardley and subject to such conditions and the production of such evidence of authority as they may think fit. Wardley (in their capacity as agents for the Company) have full discretion, without assigning any reason therefor, to reject or accept any application or to accept any application in part only. The right is reserved to present all or any cheques for payment but not before 28th June, 1993. The right is reserved to retain any share certificates and any surplus application monies pending clearance of applicants' cheques.

Applications will not be accepted if the underwriting agreement referred to in paragraph 5 of Appendix VI fails to become unconditional or is terminated in accordance with its terms or otherwise, in which event application monies will be refunded, without interest, in accordance with paragraph 4 below.

No proceedings will be taken on applications for the New Share and no allotment of any of the New Shares will be made until the closing of the application lists. No allotment of any of the New Shares will be made later than 21st July, 1993.

Completion of an application form will constitute an agreement by the applicant(s), as a collateral contract with the Company which will become binding on delivery of the application form to one of the branches of The Hongkong and Shanghai Banking Corporation Limited listed under the section headed "Prospectuses and application forms" above, and in consideration of the Company agreeing that prior to 21st July, 1993, it will not offer any New Shares to any person other than by means of one of the procedures referred to in this prospectus, that the application cannot be revoked before acceptance prior to 21st July, 1993 unless some person responsible for this prospectus pursuant to Section 40 of the Companies Ordinance gives a public notice having the effect under the section of excluding or limiting the responsibility of the person giving it. Applications which have been accepted will not be capable of revocation. For this purpose, acceptance of applications which are not rejected will be constituted by notification to the press of the basis of allocation and, where such basis of allocation provides for allocation by ballot, such acceptance will be subject to the results of such ballot.

Any allocation made in respect of any application will be void if permission for listing the Shares on the Stock Exchange has been refused before the expiration of three weeks from the closing of the application lists, or such longer period not exceeding six weeks as may, within the said three weeks, be notified to the Company by or on behalf of the Stock Exchange.

2. Employees

Preference will be given to applications from employees of the Company or its subsidiaries (other than the Directors and existing beneficial owners of shares and their respective associates) for up to an aggregate maximum of 10,000,000 Shares representing 10 per cent. of the New Shares if made on the special PINK application forms available from the Company Secretary, 9th Floor, Mappin House, 98 Texaco Road, Tsuen Wan, New Territories, Hong Kong. Such applications must be for a minimum of 2,000 Shares or in multiples of 2,000 Shares. **The special PINK application forms, completed in accordance with the instructions printed thereon and accompanied by the appropriate remittance, must be returned to the Company Secretary at 9th Floor, Mappin House, 98 Texaco Road, Tsuen Wan, New Territories, Hong Kong not later than 12:00 noon on Saturday, 26th June, 1993.**

3. Directors and existing shareholders

In order to comply with the Listing Rules, no Director or any existing beneficial owner of Shares or their respective associates is permitted to apply for any Shares which are the subject of the New Issue either in his own name or in the name of nominees.

4. Posting of certificates and return of application monies

No receipt will be issued in respect of any application monies received and no temporary documents of title will be issued, but separate certificates in respect of Shares will be sent through the post to successful applicants (or, in the case of joint applicants, to the first named applicant) in due course, at their own risk, to the address specified on the relevant application form. If an application is rejected or is accepted in part only, or if the conditions of the New Issue are not fulfilled in accordance with the section headed "Conditions of the New Issue" or if any application is revoked or any allotment shall become void as provided above, the application monies, or the appropriate portion thereof, together with the related brokerage of one per cent. and Stock Exchange transaction levy of 0.025 per cent. will be refunded, without interest, either by returning the relevant cheque or banker's cashier order or by sending a cheque made out to the applicant (or, in the case of joint applicants, to the first named applicant) and crossed "Account Payee Only" in each case through the post at the risk of the relevant applicant(s) to the address specified in the relevant application form.

Refund cheques in respect of wholly or partially unsuccessful applications are expected to be posted on or before Monday, 5th July, 1993.

Share certificates are expected to be posted on or before Monday, 5th July, 1993. Dealings in the Shares on the Stock Exchange are expected to commence on Thursday, 8th July, 1993.



