



ANNUAL REPORT
1994

FORTEI
HOLDINGS
LIMITED
安權控股有限公司

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CORPORATE INFORMATION

Board of Directors

Executive Directors

KONG Yun Kan (*Chairman*)
KWONG Yun Nin (*Managing Director*)
KWONG Yun Sing, Jarvis
TAM Kung Lit

Non-executive Directors

CHAN Cheung Ho
LIU Wing Ting, Stephen

Company Secretary

KWONG Yun Sing, Jarvis

Registered Office

Clarendon House
Church Street
Hamilton HM11
Bermuda

Registered Office in Hong Kong

9th Floor, Fortei Building
98 Texaco Road
Tsuen Wan, N.T.
Hong Kong.

Principal Bankers

The Hongkong and Shanghai Banking Corporation Limited
Standard Chartered Bank
Bank of China
Kincheng Banking Corporation

Solicitors

Conyers, Dill & Pearman
Vincent T.K. Cheung, Yap & Co.

Auditors

Deloitte Touche Tohmatsu

Principal Registrars

Butterfield Corporate Services Limited
Rosebank Centre, 14 Bermudiana Road
Pembroke
Bermuda

Hong Kong Branch Registrars and Transfer Office

Central Registration of Hong Kong Limited
17th Floor, Hopewell Centre
183 Queen's Road East
Hong Kong

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the annual general meeting of shareholders of Fortei Holdings Limited (the "Company") will be held at Island Shangri-La Hotel, Taishan Room, Supreme Court Road, 2 Pacific Place, Hong Kong on 27th June, 1995 at 10:00 a.m. for the following purposes:

1. To receive and consider the audited financial statements and the reports of the directors and auditors for the year ended 31st December, 1994.
2. To declare a final dividend of 2.5 cents per share for the year ended 31st December, 1994.
3. To elect directors and to authorise the board of directors to fix their remuneration.
4. To appoint auditors and to authorise the board of directors to fix their remuneration.
5. As special business, to consider and, if thought fit, pass the following resolutions as Ordinary Resolutions:

A. "THAT:

- (a) subject to paragraph (c), the exercise by the directors of the Company during the Relevant Period of all the powers of the Company to allot, issue and deal with additional shares in the capital of the Company and to make or grant offers, agreements and options which might require the exercise of such power be and is hereby generally and unconditionally approved;
- (b) the approval in paragraph (a) shall authorise the directors of the Company during, the Relevant Period to make or grant offers, agreements and options which might require the exercise of such power after the end of the Relevant Period;
- (c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) by the directors of the Company pursuant to the approval in paragraph (a), otherwise than pursuant to a Rights Issue or the exercise of the subscription rights under the share option scheme of the Company shall not exceed 20 per cent. of the aggregate nominal amount of the share capital of the Company in issue and the said approval shall be limited accordingly; and
- (d) for the purposes of this resolution:

"Relevant Period" means the period from the passing of this resolution until whichever is the earlier of:

- (i) the conclusion of the next annual general meeting of the Company; and
- (ii) the expiration of the period within which the next annual general meeting of the Company is required by the bye-laws of the Company or any applicable law to be held; and

"Rights Issue" means an offer of shares open for a period fixed by the directors of the Company to holders of shares on the register on a fixed record date in proportion to their

NOTICE OF ANNUAL GENERAL MEETING (continued)

then holdings of such shares (subject to such exclusion or other arrangements as the directors of the Company may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or any stock exchange in any territory outside Hong Kong)."

B. "THAT:

- (a) the exercise by the directors of the Company during the Relevant Period of all powers of the Company to purchase its own shares, subject to and in accordance with all applicable laws, be and is hereby generally and unconditionally approved;
- (b) the aggregate nominal amount of the shares of the Company purchase by the Company pursuant to the approval in paragraph (a) during the Relevant Period shall not exceed 10 per cent. of the aggregate nominal amount of the shares capital of the Company in issue as at the date of the passing of this resolution and the said approval be limited accordingly; and
- (c) for the purposes of this resolution:

"Relevant Period" means the period from the passing of this Resolution until whichever is the earlier of:

- (i) the conclusion of the next annual general meeting of the Company;
- (ii) the expiration of the period within which the next annual general meeting of the Company is required by the bye-laws of the Company or any applicable law to be held; and
- (iii) the revocation or variation of this resolution by an ordinary resolution of the shareholders of the Company in general meeting."

- C. "THAT** conditional upon resolution no. 5B above passed, the aggregate nominal amount of the number of shares in the capital of the Company which are repurchased by the Company under the authority granted to the directors as mentioned in resolution no. 5B above shall be added to the aggregate nominal amount of share capital that may be allotted or agreed conditionally or unconditionally to be allotted by directors of the Company pursuant to resolution no. 5A above."

By Order of the Board
Kong Yun Kan
Chairman

Hong Kong, 28th April, 1995

NOTICE OF ANNUAL GENERAL MEETING (continued)

Principal office in Hong Kong:
9th Floor, Fortei Building
98 Texaco Road
Tsuen Wan
New Territories
Hong Kong

Notes:

- (1) A member entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and, on a poll, vote on his/her behalf. A proxy need not be a member of the Company.
- (2) To be valid, a form of proxy and the power of attorney or other authority, if any, under which it is signed, or a notarially certified copy of such power of attorney or authority, must be lodged with the Company's branch registrars in Hong Kong, Central Registration Hong Kong Limited, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than 48 hours before the time appointed for holding the meeting.
- (3) The registers of members will be closed from Friday, 16th June, 1995 to Tuesday, 27th June, 1995 both days inclusive. In order to qualify for the final dividend, all transfers should be lodged with the Company's branch registrars in Hong Kong, Central Registration Hong Kong Limited, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:00 p.m. on Thursday, 15th June, 1995.

CHAIRMAN'S STATEMENT

I am pleased to present to the shareholders the annual report of Fortei Holdings Limited (the "Company") for the year ended 31st December, 1994.

GROUP RESULTS

The audited consolidated turnover of the Company and its subsidiaries (the "Group") for the year ended 31st December, 1994 was HK\$229,042,000 and profit attributable to shareholders was HK\$22,045,000. This represented a decline of approximately 34 per cent. and 69 per cent. respectively over 1993.

BUSINESS REVIEW

As previously stated in the Group's interim report for 1994, the results for the first half of the year had been affected by the introduction of the value-added tax system in the People's Republic of China (the "PRC") on 1st January, 1994. The adverse weather condition which had caused serious flooding in southern PRC also dampened



product sales. In view of the slow improvement of the PRC retail market under the continuation of austerity measures, the Group decided to adopt a more flexible pricing policy during the second half of 1994 in order to increase sales. Such policy had contributed to the significant increase in the Group's turnover for the second half of the year compared with the first half of the year, despite a decline in profit margin.

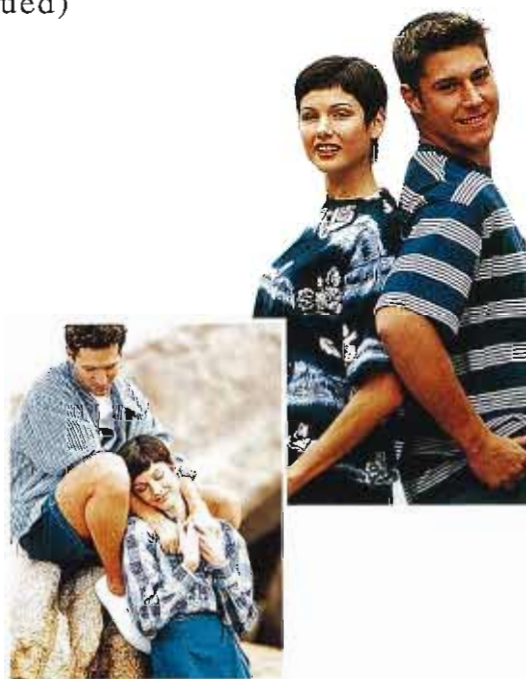
Traditionally, most of the Group's products were sold to Hong Kong-based customers, who in turn re-sold these products to individually-owned enterprises and department stores in southern PRC. As consumers in the PRC become more inclined to purchase imported brand-named goods from specialty stores, such change of consumption pattern had affected the Group's business to a certain extent in the past year. The Group had already taken appropriate measures to accommodate this trend by assisting customers in the PRC to establish more stores and counters to sell FORTEI products in shopping arcades and department stores. The increase in the number of these retail outlets will be instrumental in facilitating sales.

CHAIRMAN'S STATEMENT (continued)

Despite the considerable uncertainties pertinent to the PRC market, the board believes that it will be in the Group's best interest to continue to focus its resources on the development of this market which has tremendous potential. With the Group's established distribution and retailing infrastructure as well as growing public awareness of the FORTEI brandname in the PRC, the Group believes that it is well-poised to benefit from any improvements in the PRC market. It is expected that the PRC market will remain the Group's largest market in the future.

1994 was also a difficult year for the retail industry in Hong Kong. Declining consumer purchasing power, coupled with rising rental and labour costs, had dampened the business of the Group's retail customers in Hong Kong, which in turn affected the Group's product sales.

The Group had actively set up its own specialty stores for FORTEI products in Hong Kong. During the second half of 1994, their performance had been affected by the weak



retail sector. However, the board believes that such a chain network in Hong Kong will help raise consumer awareness of the FORTEI brandname, thus facilitating the Group's expansion in the PRC. As part of the Group's long-term development strategy and expansion plan, more chain stores will be opened throughout Hong Kong at selected prime locations.

PROSPECTS

The Group is actively transforming itself from a predominantly wholesale operation to a two-pronged wholesale and retail operation in order to generate a more balanced mix of income sources. With the concerted efforts of the Group's management and its staff, we believe that our competitiveness in both the PRC and Hong Kong markets will be further enhanced with the generation of greater benefits to the Group and the shareholders.



CHAIRMAN'S STATEMENT (continued)

MAJOR CUSTOMERS AND SUPPLIERS

The respective percentages of the Group's purchases from major suppliers and turnover attributable to major customers for the year ended 31st December, 1994 were as follows:

Percentage of purchases attributable to the Group's largest supplier	56.2%
Percentage of purchases attributable to the Group's five largest suppliers	68.8%
Percentage of turnover attributable to the Group's largest customer	16.6%
Percentage of turnover attributable to the Group's five largest customers	37.3%



FINANCIAL SUMMARY

A summary of the past results and assets and liabilities of the Group is set out on pages 32 and 33.

APPRECIATION

On behalf of the board of directors, I would like to express gratitude to the support of shareholders and the efforts of all employees of the Group.

Kong Yun Kan
Chairman

Hong Kong, 28th April, 1995



BRIEF BIOGRAPHICAL DETAILS IN RESPECT OF DIRECTORS

Executive Directors

Mr. Kong Yun Kan is the Chairman of the Company with responsibility for the overall corporate strategy and planning of the Group. He is a co-founder of the Group.

Mr. Kwong Yun Nin is the Managing Director of the Company with responsibility for the day-to-day operations of the Group. He is a brother of Mr. Kong Yun Kan.

Mr. Kwong Yun Sing, Jarvis is in charge of the personnel and administrative functions of the Group. Also a brother of Mr. Kong Yun Kan, he joined the Group in 1986.

Mr. Tam Kung Lit was appointed as director of the Company in 1994 with responsibility for the production and quality control functions of the Group. He has brought to the Group extensive experience in production management.

Non-executive Directors

Mr. Chan Cheung Ho is a partner in the law firm of Bernard Wong & Co., a member of the law societies of Hong Kong and England and Wales and also 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 has been practising as a Certified Public Accountant in Hong Kong for over 16 years. He has wide experience in auditing, taxation and financial management in various fields and industries.

DIRECTORS' REPORT

The directors have pleasure in submitting their annual report and audited financial statements for the year ended 31st December, 1994.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. Its subsidiaries are engaged in the design, marketing, distribution and retailing of sports and leather shoes and sports and leisure wear under the FORTEI brandname which is held by the Group. Since these activities form an integral part of the Group's overall marketing strategy to promote sales of FORTEI products and are very much inter-related, the directors consider any apportionment of the operating results between, or presentation of segment information on, the various activities would not be objective or meaningful.

All the Group's products are sold to customers in Hong Kong, Macau and the People's Republic of China (the "PRC"). Due to the proximity and close trading relationship of these areas, it is not possible to ascertain with reasonable certainty the respective percentage of the Group's products which are sold to end buyers in Hong Kong, Macau or the PRC. However, it is the belief of the directors that the majority of the Group's products are sold in the PRC.

RESULTS AND APPROPRIATIONS

The directors recommend the payment of a final dividend of 2.5 cents (1993: 8 cents) per share, which together with the interim dividend of 1 cent (1993: 1 cent) per share paid during the year makes a total dividend of 3.5 cents (1993: 9 cents) per share for the year and the retention of the remaining profit of the year of HK\$8 million.

Details of the results of the Group and appropriations of the Company for the year ended 31st December, 1994 are set out in the consolidated profit and loss account on page 14 and in note 7 to the financial statements.

RESERVES

Movements in reserves of the Group and the Company during the year are set out in note 17 to the financial statements.

FIXED ASSETS

During the year, the Group spent approximately HK\$4.5 million to set up retail shops in Hong Kong. The Group also revalued its investment properties, resulting in a surplus on revaluation of HK\$1.3 million which has been credited to the investment property revaluation reserve. Details of these and other changes in fixed assets of the Group during the year are set out in note 9 to the financial statements.

SUBSIDIARIES

Details of the Company's subsidiaries at 31st December, 1994 are set out in note 25 to the financial statements.

DIRECTORS' REPORT (continued)

BORROWINGS

Details of the Group's bank borrowings are set out in note 14 to the financial statements.

No interest was capitalised by the Group during the year.

APPLICATION OF PROCEEDS FROM NEW ISSUE OF SHARES IN 1993

At the time the Company went public in mid 1993, it had intended to use part of the proceeds from the new issue of shares for the following specific purposes:

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

The Group has adhered to such applications of proceeds except for the acquisition of offices and showrooms premises in the PRC. The directors still intend to make such acquisitions but will continue to exercise caution in order to select suitable locations at appropriate prices.

DIRECTORS AND SERVICE CONTRACTS

The directors during the year and up to the date of this report were:

Executive directors:

Kong Yun Kan

Kwong Yun Nin

Kwong Yun Sing, Jarvis

Tam Kung Lit

Wong Wing Keung

(appointed on 4th May, 1994)

(resigned on 31st March, 1994)

Non-executive directors:

Chan Cheung Ho

Liu Wing Ting, Stephen

In accordance with Bye-law 87 of the Company's Bye-laws, all remaining directors retire and, being eligible, offer themselves for re-election.

Except for Kong Yun Kan and Kwong Yun Nin who have service agreements with the Company for two years commencing 1st April, 1993, none of the other directors being proposed for re-election has entered into a service agreement with the Company.

DIRECTORS' REPORT (continued)

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES

As at 31st December, 1994, the interests of the directors and chief executives in the shares of the Company as recorded in the register required to be maintained under Section 29 of Hong Kong's Securities (Disclosure of Interests) Ordinance ("SDI Ordinance") were as follows:

Name of director	Number of shares	
	Personal interest	Corporate interest
Kong Yun Kan	6,285,700	271,428,600*
Kwong Yun Nin	—	—
Kwong Yun Sing, Jarvis	—	—
Tam Kung Lit	—	—
Chan Cheung Ho	—	—
Liu Wing Ting, Stephen	—	—

* These shares are owned by Hoi Fat Investments (B.V.I.) Limited in which Cowin Enterprises Limited has a 42.26% interest. Cowin Enterprises Limited is a company operated by a trustee for the benefit of a trust, the beneficiaries of which are Kong Yun Kan and his immediate family members.

Certain shares in subsidiaries of the Company are also held by certain directors as follows:

- (a) Certain nominee shares in subsidiaries held by Kong Yun Kan in trust for the Group; and
- (b) The non-voting deferred shares in Onpower Company Limited, a subsidiary of the Group, held by the following directors:

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

Save as disclosed above, none of the directors and chief executives' and their associates had any interest in the share capital of the Company or any of its associated corporations as defined in the SDI Ordinance at 31st December, 1994.

SUBSTANTIAL SHAREHOLDERS

Other than the interests disclosed under the section headed "directors' and chief executives' interests in shares" above, the register of substantial shareholders maintained by the Company pursuant to section 16(1) of the SDI Ordinance shows that the following shareholder was interested in 10% or more of the issued share capital of the Company as at 31st December, 1994:

Name of shareholder	Number of shares of the Company held	%
Templeton International, Inc.	44,888,000	11.22

No other party had notified the Company of having an interest in 10% or more of the issued share capital of the Company as at 31st December, 1994.

DIRECTORS' REPORT (continued)

DIRECTORS' AND CHIEF EXECUTIVES' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

A share option scheme was approved at a special general meeting of the Company held on 16th June, 1993 under which the directors may, at their discretion, grant options to executive directors and full time employees of the Company or its subsidiaries to subscribe for shares in the Company. Details of the share option scheme are set out in note 16 to the financial statements.

On 8th July, 1993, Kwong Yun Nin was granted options to subscribe for 10,000,000 shares in the Company at an exercise price of HK\$1.28 each. None of the share options granted had been exercised as at 31st December, 1994.

Save as aforesaid:

- (a) none of the directors or their spouse or children under the age of 18 had any right to subscribe for the shares of the Company, or had exercised any such right; and
- (b) at no time during the year was the Company, or any of its subsidiaries, a party to any arrangements to enable the directors of the Company to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's shares during the year.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-laws although there are no restrictions against such rights under the laws in Bermuda.

AUDITORS

A resolution will be submitted to the annual general meeting of the Company to re-appoint the auditors, Messrs. Deloitte Touche Tohmatsu.

On behalf of the Board
Kong Yun Kan
Director

Hong Kong, 28th April, 1995

AUDITORS' REPORT

**Deloitte Touche
Tohmatsu**



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

To the shareholders of FORTEI HOLDINGS LIMITED
(Incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 14 to 31 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

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

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


BASIS OF OPINION

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

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

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31st December, 1994 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.



Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong, 28th April, 1995

CONSOLIDATED PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31ST DECEMBER, 1994

	NOTES	1994 HK\$'000	1993 HK\$'000 (NOTE 1)
TURNOVER		<u>229,042</u>	<u>348,673</u>
OPERATING PROFIT	3	23,824	85,582
SHARE OF PROFITS OF ASSOCIATED COMPANY		<u>88</u>	<u>509</u>
PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION		23,912	86,091
TAXATION	5	<u>1,867</u>	<u>14,035</u>
PROFIT ATTRIBUTABLE TO SHAREHOLDERS	6	22,045	72,056
DIVIDENDS	7	<u>14,000</u>	<u>36,000</u>
PROFIT FOR THE YEAR, RETAINED	17	<u>8,045</u>	<u>36,056</u>
EARNINGS PER SHARE	8	<u>5.5 cents</u>	<u>20.6 cents</u>

CONSOLIDATED BALANCE SHEET

AT 31ST DECEMBER, 1994

	NOTES	1994 HK\$'000	1993 HK\$'000 (NOTE 1)
FIXED ASSETS	9	47,235	42,107
INTEREST IN ASSOCIATED COMPANY	11	—	835
NET CURRENT ASSETS	12	<u>177,131</u>	<u>172,079</u>
		<u>224,366</u>	<u>215,021</u>
Financed by:			
SHARE CAPITAL	15	40,000	40,000
RESERVES	17	<u>184,081</u>	<u>174,736</u>
SHAREHOLDERS' FUNDS		224,081	214,736
DEFERRED TAXATION	18	<u>285</u>	<u>285</u>
		<u>224,366</u>	<u>215,021</u>

The financial statements on pages 14 to 31 were approved by the Board of Directors on 28th April, 1995 and are signed on its behalf by:

Kong Yun Kan
Director

Kwong Yun Sing, Jarvis
Director

BALANCE SHEET

AT 31ST DECEMBER, 1994

	NOTES	1994 HK\$'000	1993 HK\$'000
INTEREST IN SUBSIDIARIES	10	201,154	201,047
NET CURRENT LIABILITIES	12	<u>(506)</u>	<u>(512)</u>
NET ASSETS		<u>200,648</u>	<u>200,535</u>
Financed by:			
SHARE CAPITAL	15	40,000	40,000
RESERVES	17	<u>160,648</u>	<u>160,535</u>
SHAREHOLDERS' FUNDS		<u>200,648</u>	<u>200,535</u>

Kong Yun Kan
Director

Kwong Yun Sing, Jarvis
Director

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31ST DECEMBER, 1994

	NOTES	1994 HK\$'000	1993 HK\$'000 (NOTE 1)
NET CASH (OUTFLOW) INFLOW FROM OPERATING ACTIVITIES	19	<u>(38,254)</u>	<u>37,739</u>
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received		4,036	4,040
Interest paid		(457)	(1,585)
Finance charges on hire purchase contracts		—	(3)
Dividends paid		<u>(36,000)</u>	<u>(21,520)</u>
NET CASH OUTFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		<u>(32,421)</u>	<u>(19,068)</u>
TAXATION			
Hong Kong Profits Tax paid		<u>(9,728)</u>	<u>(14,459)</u>
INVESTING ACTIVITIES			
Purchase of fixed assets		(6,168)	(1,024)
Proceeds from disposal of fixed assets		204	142
Proceeds from disposal of associated company		659	—
Repayment of amount due from associated company		<u>264</u>	<u>—</u>
NET CASH OUTFLOW FROM INVESTING ACTIVITIES		<u>(5,041)</u>	<u>(882)</u>
NET CASH (OUTFLOW) INFLOW BEFORE FINANCING		<u>(85,444)</u>	<u>3,330</u>
FINANCING			
Issue of shares for cash — net		—	111,831
Repayments of mortgage loans		—	(10,685)
Repayments of obligations under hire purchase contracts		<u>—</u>	<u>(11)</u>
NET CASH INFLOW FROM FINANCING		<u>—</u>	<u>101,135</u>
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		<u>(85,444)</u>	<u>104,465</u>
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		<u>111,078</u>	<u>6,613</u>
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	20	<u><u>25,634</u></u>	<u><u>111,078</u></u>

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 1994

1. GROUP REORGANISATION AND BASIS OF PREPARATION OF FINANCIAL STATEMENTS

Pursuant to a group reorganisation in preparation for the listing of the Company's shares on The Stock Exchange of Hong Kong Limited, the Company has since 16th June, 1993 been the holding company of the FORTEI group of companies.

The Group resulting from the above-mentioned reorganisation is regarded as a continuing entity and the comparative figures have been prepared on that basis.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31st December each year.

The consolidated profit and loss account includes the Group's share of results of associated companies for the year. Investment in associated companies in the consolidated balance sheet is accounted for by using the equity method to include the Group's share of net assets, other than goodwill, of the associated companies.

All significant inter-company transactions and balances within the Group are eliminated on consolidation.

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 during the year.

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 on investment properties which are held on leases with unexpired terms, including the renewable period, of more than twenty years. Investment properties are stated at their open market values based on annual professional valuation at the balance sheet date. Surplus arising on revaluation is credited to investment property revaluation reserve.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31ST DECEMBER, 1994

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 unexpired terms, including the renewable period, of more than fifty 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 - 50%
Motor vehicles	20%

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 management, including participation in financial and operating policy decisions.

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.

Taxation

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

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 duration of the leases.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31ST DECEMBER, 1994

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Retirement benefits cost

The retirement benefits cost charged to the profit and loss account represents the amount of contributions payable to the Group's defined contribution retirement benefits scheme.

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 rates ruling on the balance sheet date. Gains and losses arising on exchange are dealt with in the profit and loss account.

3. OPERATING PROFIT

	1994 HK\$'000	1993 HK\$'000
Operating profit has been arrived after charging:		
Auditors' remuneration	534	408
Depreciation	2,087	785
Interest on bank borrowings wholly repayable within five years	457	1,585
Finance charges on hire purchase contracts	—	3
Rental payments under operating leases for land and buildings	13,790	2,425
Retirement benefits scheme contributions (<i>see note 22</i>)	361	276
and after crediting:		
Rental income under operating leases	1,800	2,006
Licence fee income	29,252	25,305
Interest income (<i>see note below</i>)	<u>3,489</u>	<u>4,851</u>

Note: Included in the interest income for the year ended 31st December, 1993 is an amount of HK\$1,623,000 earned by the Company on the application monies received in connection with the new issue of shares by the Company during that year.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31ST DECEMBER, 1994

4. DIRECTORS' AND EMPLOYEES' REMUNERATION

	1994 <i>HK\$'000</i>	1993 <i>HK\$'000</i>
Directors' fees		
Executive	—	—
Non-executive	<u>258</u>	<u>120</u>
	<u>258</u>	<u>120</u>
Other emoluments of executive directors		
Salaries and other benefits	3,155	2,573
Retirement benefits scheme contributions	<u>150</u>	<u>133</u>
	<u>3,305</u>	<u>2,706</u>
Total directors' remuneration	<u>3,563</u>	<u>2,826</u>

In 1994 the five executive directors were the five highest paid individuals and the emoluments paid to each executive director were less than HK\$1,000,000.

In 1993 the five highest paid individuals comprised 4 executive directors and an employee. One of the directors was appointed during the year and the remuneration received by him before the date of appointment and by the highest paid employee amounted to HK\$216,000, representing salaries and other benefits of HK\$205,000 and retirement benefits scheme contributions of HK\$11,000. The emoluments paid to each of the five highest paid individuals in 1993 were less than HK\$1,000,000.

5. TAXATION

	1994 <i>HK\$'000</i>	1993 <i>HK\$'000</i>
The charge comprises:		
Hong Kong Profits Tax calculated at 16.5% (1993: 17.5%) on the estimated assessable profits of		
— the Company and its subsidiaries	1,867	13,947
— the associated company	<u>—</u>	<u>88</u>
	<u>1,867</u>	<u>14,035</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31ST DECEMBER, 1994

6. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

Of the profit attributable to shareholders of HK\$22,045,000 (1993: HK\$72,056,000) for the year, a profit of HK\$14,113,000 (1993: HK\$39,486,000) has been dealt with in the financial statements of the Company.

7. DIVIDENDS

	1994 HK\$'000	1993 HK\$'000
Interim dividend paid of 1 cent (1993: 1 cent) per share	4,000	4,000
Final dividend proposed of 2.5 cents (1993: 8 cents) per share	<u>10,000</u>	<u>32,000</u>
	<u>14,000</u>	<u>36,000</u>

8. EARNINGS PER SHARE

The calculation of earnings per share is based on the profit attributable to shareholders of HK\$22,045,000 (1993: HK\$72,056,000) and the 400,000,000 shares (1993: weighted average number of 349,315,068 shares) in issue during the year.

Fully diluted earnings per share has not been presented as the exercise of the outstanding share options (see note 16) would not have a material diluting effect on the earnings per share.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31ST DECEMBER, 1994

9. FIXED ASSETS

	Investment properties HK\$'000	Other properties HK\$'000	Furniture and fixtures HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
THE GROUP					
COST OR VALUATION					
At 1st January, 1994	30,500	8,366	4,616	1,460	44,942
Reclassification	(6,800)	6,800	—	—	—
Additions	—	—	6,004	164	6,168
Disposals	—	—	(19)	(462)	(481)
Surplus on revaluation	<u>1,300</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>1,300</u>
At 31st December, 1994	<u>25,000</u>	<u>15,166</u>	<u>10,601</u>	<u>1,162</u>	<u>51,929</u>
Comprising:					
At cost	—	8,366	10,601	1,162	20,129
At valuation — 1993	—	6,800	—	—	6,800
At valuation — 1994	<u>25,000</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>25,000</u>
	<u>25,000</u>	<u>15,166</u>	<u>10,601</u>	<u>1,162</u>	<u>51,929</u>
DEPRECIATION					
At 1st January, 1994	—	430	1,593	812	2,835
Provided for the year	—	265	1,691	131	2,087
Eliminated on disposals	<u>—</u>	<u>—</u>	<u>(6)</u>	<u>(222)</u>	<u>(228)</u>
At 31st December, 1994	<u>—</u>	<u>695</u>	<u>3,278</u>	<u>721</u>	<u>4,694</u>
NET BOOK VALUES					
At 31st December, 1994	<u>25,000</u>	<u>14,471</u>	<u>7,323</u>	<u>441</u>	<u>47,235</u>
At 31st December, 1993	<u>30,500</u>	<u>7,936</u>	<u>3,023</u>	<u>648</u>	<u>42,107</u>

All the Group's properties are situated in Hong Kong and are held on leases, including the renewable period, of not less than fifty years.

All investment properties are rented out under operating leases. The valuation of the investment properties was carried out by Vigers Hong Kong Limited, an independent firm of professional property valuers, at December 31, 1994 on an open market value basis.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31ST DECEMBER, 1994

10. INTEREST IN SUBSIDIARIES

	THE COMPANY	
	1994 HK\$'000	1993 HK\$'000
Unlisted shares, at directors' valuation	85,218	85,218
Amounts due from subsidiaries	<u>115,936</u>	<u>115,829</u>
	<u>201,154</u>	<u>201,047</u>

The directors' valuation is based on the underlying net tangible assets of the subsidiaries at the time they became members of the Group pursuant to the group reorganisation referred to in note 1 to the financial statements.

Details of the Company's subsidiaries at 31st December, 1994 are set out in note 25 to the financial statements.

11. INTEREST IN ASSOCIATED COMPANY

	THE GROUP	
	1994 HK\$'000	1993 HK\$'000
Share of net assets, other than goodwill, of associated company	—	571
Amount due from associated company	<u>—</u>	<u>264</u>
	<u>—</u>	<u>835</u>

The Group disposed of its interest in associated company during the year.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31ST DECEMBER, 1994

12. NET CURRENT ASSETS

	THE GROUP		THE COMPANY	
	1994 HK\$'000	1993 HK\$'000	1994 HK\$'000	1993 HK\$'000
CURRENT ASSETS				
Stocks (<i>note 13</i>)	93,396	30,974	—	—
Debtors, deposits and prepayments	79,244	83,306	—	49
Dividend receivable	—	—	10,000	32,000
Tax recoverable	4,942	—	—	—
Bank balances and cash	<u>26,764</u>	<u>122,277</u>	<u>—</u>	<u>—</u>
	<u>204,346</u>	<u>236,557</u>	<u>10,000</u>	<u>32,049</u>
CURRENT LIABILITIES				
Creditors and accrued charges	10,549	12,824	88	166
Dividend payable	10,000	32,000	10,000	32,000
Taxation payable	5,536	8,455	418	395
Trust receipts and import loans (<i>note 14</i>)	<u>1,130</u>	<u>11,199</u>	<u>—</u>	<u>—</u>
	<u>27,215</u>	<u>64,478</u>	<u>10,506</u>	<u>32,561</u>
NET CURRENT ASSETS (LIABILITIES)	<u>177,131</u>	<u>172,079</u>	<u>(506)</u>	<u>(512)</u>

13. STOCKS

	THE GROUP	
	1994 HK\$'000	1993 HK\$'000
Raw materials	8,497	8,826
Finished goods	<u>84,899</u>	<u>22,148</u>
	<u>93,396</u>	<u>30,974</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31ST DECEMBER, 1994

14. TRUST RECEIPTS AND IMPORT LOANS

	THE GROUP	
	1994 HK\$'000	1993 HK\$'000
Secured	1,130	7,239
Unsecured	<u>—</u>	<u>3,960</u>
	<u>1,130</u>	<u>11,199</u>

15. SHARE CAPITAL

	1994 & 1993	
	Number of shares	Amount HK\$'000
Authorised: Shares of HK\$0.10 each	<u>600,000,000</u>	<u>60,000</u>
Issued and fully paid: Shares of HK\$0.10 each	<u>400,000,000</u>	<u>40,000</u>

16. SHARE OPTION SCHEME

At a special general meeting of the Company held on 16th June, 1993, a share option scheme was approved and adopted. Under the scheme the directors may at their discretion grant options to executive directors and full time employees of the Company and its subsidiaries to subscribe for shares in the Company. Options granted under the scheme will entitle the holder to subscribe for shares within three years from the date the option is granted. The subscription price of the option shares shall be at a price equal to the higher of the nominal value of the shares and 80% of the average of the closing prices of the shares of the Company on The Stock Exchange of Hong Kong Limited on the five trading days immediately preceding the date of the offer to grant an option.

On 8th July, 1993, a director of the Company, Kwong Yun Nin, was granted an option to subscribe up to 10,000,000 shares in the Company at an exercise price of HK\$1.28 per share.

None of the granted options were exercised, and no further options were granted under the share option scheme, during the year.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31ST DECEMBER, 1994

17. RESERVES

	Share premium HK\$'000	Investment property revaluation reserve HK\$'000	Other properties revaluation reserve HK\$'000	Special reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
THE GROUP						
At 1st January, 1994	72,131	20,772	—	17,314	64,519	174,736
Valuation surplus transferred upon reclassification of properties	—	(2,307)	2,307	—	—	—
Surplus on revaluation of investment properties	—	1,300	—	—	—	1,300
Profit for the year, retained	—	—	—	—	8,045	8,045
At 31st December, 1994	<u>72,131</u>	<u>19,765</u>	<u>2,307</u>	<u>17,314</u>	<u>72,564</u>	<u>184,081</u>

	Share premium HK\$'000	Contributed surplus HK\$'000	Retained profits HK\$'000	Total HK\$'000	
THE COMPANY					
At 1st January, 1994		72,131	84,918	3,486	160,535
Profit for the year (<i>note 6</i>)		—	—	14,113	14,113
Dividends (<i>note 7</i>)		—	—	(14,000)	(14,000)
At 31st December, 1994		<u>72,131</u>	<u>84,918</u>	<u>3,599</u>	<u>160,648</u>

The special reserve of the Group represents the difference between the nominal value of the share capital issued by the Company and the nominal value of the share capitals and share premium of the companies now forming the Group pursuant to the group reorganisation explained in note 1 to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31ST DECEMBER, 1994

17. RESERVES (continued)

The contributed surplus of the Company represents the difference between the underlying net tangible assets of the subsidiaries acquired by the Company and the nominal value of the share capital issued by the Company under the group reorganisation explained in note 1 to the financial statements. Contributed surplus is available for distribution to shareholders under the laws in Bermuda.

The reserves of the Company which are available for distribution to shareholders at 31st December, 1994 amounted to HK\$88,517,000 (1993: HK\$88,404,000), comprising the contributed surplus account balance of HK\$84,918,000 (1993: HK\$84,918,000) and retained profits of HK\$3,599,000 (1993: HK\$3,486,000) of the Company at the balance sheet date.

18. DEFERRED TAXATION

The balance of deferred taxation at the balance sheet date 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 arising on revaluation of investment properties and other properties does not constitute a timing difference for taxation purposes as any profits realised on their subsequent disposals would not be subject to taxation.

In addition, the Group had at the balance sheet date an unrecognised deferred tax asset of approximately HK\$1,200,000 (1993: nil) in respect of taxation losses of a subsidiary. There is no certainty that the benefits of these taxation losses will be realised in the foreseeable future. Therefore, the deferred tax asset relating thereto has not been recognised in the financial statements.

The Group and the Company had no other significant unprovided or unrecognised deferred taxation for the year or at the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31ST DECEMBER, 1994

19. RECONCILIATION OF PROFIT BEFORE TAXATION TO NET CASH (OUTFLOW) INFLOW FROM OPERATING ACTIVITIES

	1994 HK\$'000	1993 HK\$'000
Profit before taxation	23,912	86,091
Interest income	(3,489)	(4,851)
Interest expenses	457	1,585
Finance charges on hire purchase contracts	—	3
Depreciation	2,087	785
Loss on disposal of fixed assets	49	147
Share of profits of associated company	(88)	(509)
Increase in stocks	(62,422)	(4,787)
Decrease (increase) in debtors, deposits and prepayments	3,515	(39,615)
Decrease in amount due to a director	—	(2,600)
(Decrease) increase in creditors and accrued charges	<u>(2,275)</u>	<u>1,490</u>
Net cash (outflow) inflow from operating activities	<u>(38,254)</u>	<u>37,739</u>

20. ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS

	1994 HK\$'000	1993 HK\$'000
Bank balances and cash	26,764	122,277
Trust receipts and import loans	<u>(1,130)</u>	<u>(11,199)</u>
	<u>25,634</u>	<u>111,078</u>

21. CONTINGENT LIABILITIES

	THE COMPANY	
	1994 HK\$'000	1993 HK\$'000
Extent of banking facilities utilised by subsidiaries at the balance sheet date which were guaranteed by the Company	<u>1,130</u>	<u>11,199</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31ST DECEMBER, 1994

22. RETIREMENT BENEFITS SCHEME

The Group has a defined contribution pension scheme for all qualified employees. The assets of the scheme are held in a separate fund managed by an independent trustee. Pursuant to the rules of the scheme, the employer and its employees are each required to make contributions to the scheme calculated at 5% of the employees' basic salaries on a monthly basis. The employees are entitled to 100% of the employer's contributions and the accrued interest thereon after 10 complete years of service, or at an increasing scale of between 30% to 90% after completion of 3 to 9 years of service.

Where there are employees who leave the scheme prior to vesting fully in the contributions, in accordance with the rules of the scheme, the forfeited employers' contributions will be allocated to the benefit of the remaining employees instead of being used to reduce the future contributions of the employer.

23. OPERATING LEASE COMMITMENTS

At the balance sheet date, the Group had annual commitments payable in the following year for land and buildings under non-cancellable operating leases as follows:

	1994 <i>HK\$'000</i>	1993 <i>HK\$'000</i>
Operating leases which expire:		
Within one year	2,226	—
In the second to fifth year inclusive	<u>22,568</u>	<u>3,964</u>
	<u>24,794</u>	<u>3,964</u>

The Company had no lease commitments at the balance sheet date.

24. CAPITAL COMMITMENTS

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31ST DECEMBER, 1994

25. SUBSIDIARIES

Details of the Company's subsidiaries, all of which are wholly-owned, at 31st December, 1994 are as follows:

Name of company	Place of incorporation/ operation	Issued and fully paid share capital	Principal activities
Fortei (B.V.I.) Limited*	British Virgin Islands	Ordinary US\$600	Investment holding
Fortei Far East Limited	Hong Kong	Ordinary \$2	Retail operations
Fortei International Limited	Hong Kong	Ordinary \$2	Not yet commenced business
Fortei Licensing Limited	British Virgin Islands	Ordinary US\$0.01	Holding of trademarks and licensing
Fortei Limited	Hong Kong	Ordinary \$10,000	Property holding
Onpower Company Limited	Hong Kong	Ordinary \$10 Non-voting deferred \$5,000,000	Marketing and distribution of sports and leather shoes and sports and leisure wear

* Directly held by the Company

None of the subsidiaries had any loan capital subsisting at 31st December, 1994 or at any time during the year.

The non-voting deferred shares of Onpower Company Limited, which are not held by the Group, carry minimal right to dividend or return of capital on winding up.

FINANCIAL SUMMARY

RESULTS	For the year ended 31st December,				
	1990 HK\$'000	1991 HK\$'000	1992 HK\$'000	1993 HK\$'000	1994 HK\$'000
Turnover	<u>43,292</u>	<u>66,621</u>	<u>220,077</u>	<u>348,673</u>	<u>229,042</u>
Operating profit	1,580	12,257	42,606	85,582	23,824
Share of profits of associated company	<u>—</u>	<u>—</u>	<u>37</u>	<u>509</u>	<u>88</u>
Profit before taxation	1,580	12,257	42,643	86,091	23,912
Taxation	<u>333</u>	<u>2,195</u>	<u>7,491</u>	<u>14,035</u>	<u>1,867</u>
Profit attributable to shareholders	<u>1,247</u>	<u>10,062</u>	<u>35,152</u>	<u>72,056</u>	<u>22,045</u>
Dividends	<u>1,718</u>	<u>1,860</u>	<u>17,520</u>	<u>36,000</u>	<u>14,000</u>

FINANCIAL SUMMARY (continued)

ASSETS AND LIABILITIES	At 31st December,		
	1992 HK\$'000	1993 HK\$'000	1994 HK\$'000
Fixed assets	21,385	42,107	47,235
Interest in associated company	414	835	—
Net current assets	34,062	172,079	177,131
Borrowings due after one year	(9,499)	—	—
Deferred taxation	<u>(285)</u>	<u>(285)</u>	<u>(285)</u>
Shareholders' funds	<u>46,077</u>	<u>214,736</u>	<u>224,081</u>

Notes:

1. Fortei Holdings Limited (the "Company") was incorporated in Bermuda under the Companies Act 1981 of Bermuda (as amended) on 7th June, 1993 and became the holding company of the FORTEI group of companies (collectively referred to as the "Group") as a result of a group reorganisation which became effective on 16th June, 1993.
2. The results for each of the three years ended 31st December, 1992 presented above have been extracted from the prospectus of the Company dated 22nd June, 1993 and have been prepared as if the current group structure had been in existence throughout the three years. The results for each of the two years under 31st December, 1994 have been extracted from the published financial statements of the Company.
3. As the Company was incorporated on 7th June, 1993, the only balance sheets of the Group which have been prepared are those set out above which have been extracted from the published financial statements of the Company.