



安權控股有限公司
FORTEI HOLDINGS LIMITED
ANNUAL REPORT 1995

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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 Tuesday, 18th June, 1996 at 3:00 p.m. for the following purposes:—

1. To receive and consider the audited financial statements and the reports of the directors and of the auditors for the year ended December 31, 1995.
2. To declare a final dividend of 1 cent per share for the year ended December 31, 1995.
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) below, 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 powers be and is hereby generally and unconditionally approved;
- (b) the approval in paragraph (a) above 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) above, otherwise than pursuant to a Rights Issue or on 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 as at the date of passing this resolution, 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;
- 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."

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

NOTICE OF ANNUAL GENERAL MEETING *(Cont'd)*

members on a fixed record date in proportion to their then holdings of such shares as at that date (subject to such exclusions 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).”

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.”

B. “**THAT**:—

(a) subject to paragraph (b) below, the exercise by the directors of the Company during the Relevant Period of all the 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 to be purchased by the Company pursuant to the approval in paragraph (a) above during the Relevant Period shall not exceed 10 per cent of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing 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;

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.”

On behalf of the Board

Kong Yun Kan

Chairman

Hong Kong, 22nd April, 1996

Principal Office in Hong Kong

9th Floor, Fortei Building

98 Texaco Road

Tsuen Wan

New Territories

Hong Kong

NOTICE OF ANNUAL GENERAL MEETING *(Cont'd)*

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 register of members will be closed from Monday, 10th June, 1996 to Tuesday, 18th June, 1996 both days inclusive. In order to qualify for the final dividend, all transfers 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 later than 4:00 p.m. on Friday, 7th June, 1996.

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, 1995.

Group Results

For the year ended 31st December, 1995, the audited consolidated turnover of the Company and its subsidiaries (the "Group") was HK\$285,660,000 and profit attributable to shareholders was HK\$6,997,000 representing an increase of 24.7% and decrease of 68.3% respectively when compared with 1994.



Business Review

Due to the sluggishness of the Hong Kong retail market as mentioned in the 1995 interim report, the chain stores of the Group in Hong Kong were not able to meet their own targets, therefore the results for the year were affected.

The Group desires to avoid carrying abundant stock and adopts the policy of boosting sales volume with thinner profit for some products. Although turnover was increased over the prior year, the profit margins dropped. The short-term earning of the Group was considerably affected under the above mentioned factors.



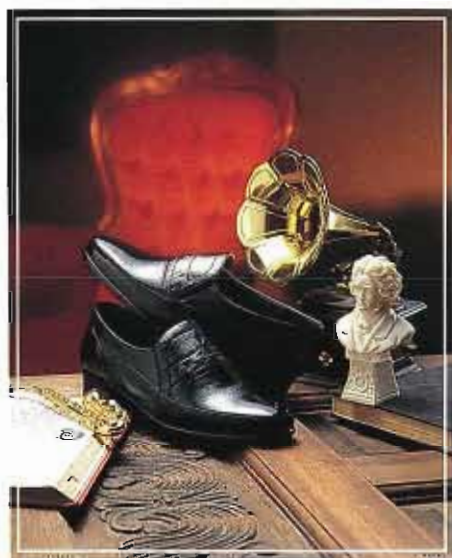
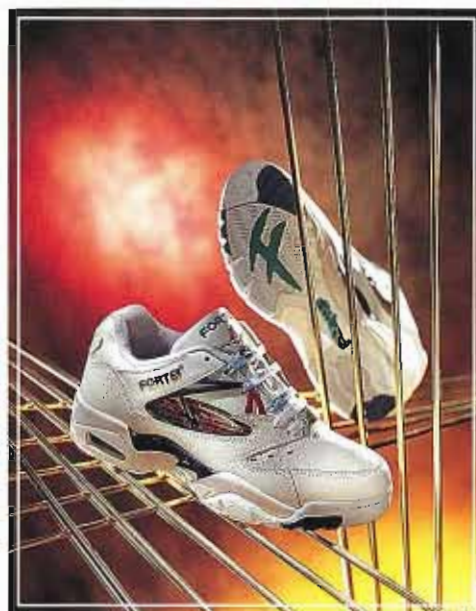
CHAIRMAN'S STATEMENT *(Cont'd)*

The consumers in the PRC have tended to purchase imported branded commodities at chain stores and counters. The Group has put much effort to cope with this trend, in addition to help the existing customers expanding their business, it rendered support to new customers in setting up more chain stores and counters with an aim to establish its market position in the PRC for the brandname of FORTEI and to consolidate the image to inspire sales.

Since the beginning of 1996, the Group has stopped renewing leases of retail shops with high rental or those suffering from losses.

Prospects

Facing the difficulties in Hong Kong retail industry, the Group will pay more effort in exploring the PRC market. I am confident that the Group will achieve better results in the PRC market with the dedication and loyalty of members of the board and all of the staffs.



Financial Summary

A summary of the past results and assets and liabilities of the Group is set out on pages 28 and 29.

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, 22nd April, 1996

DIRECTORS' REPORT

The directors have pleasure in presenting their annual report and audited financial statements for the year ended 31st December, 1995.

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 are very much inter-related and form an integral part of the Group's overall marketing strategy to promote the FORTEI name and sales of products under that name, 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. Except for sales of approximately HK\$55 million which were sold through the Group's retail shops in Hong Kong, it is the belief of the directors that the majority of the Group's products are sold in the PRC.

Results

The directors recommend the payment of a final dividend 1 cent (1994: 2.5 cents) per share. Details of the results of the Group for the year ended 31st December, 1995 are set out in the consolidated profit and loss account on page 11.

Financial Summary

A summary of the past results and assets and liabilities of the Group is set out on pages 28 and 29.

Reserves

Movements in reserves of the Group and the Company during the year are set out in note 16 to the financial statements.

Fixed Assets

During the year, the Group spent approximately HK\$4.8 million to set up retail shops in Hong Kong. The Group also revalued its investment property, resulting in a deficit on revaluation of HK\$3.5 million which has been charged 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, 1995 are set out in note 25 to the financial statements.

Borrowings

Details of the Group's bank borrowings are set out in note 13 to the financial statements.

No interest was capitalised by the Group during the year.

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

Non-executive directors:

Chan Cheung Ho
Liu Wing Ting, Stephen

In accordance with Bye-law 87 of the Company's Bye-laws, Kwong Yun Nin retires and, being eligible, offer himself for re-election.

The terms of office of non-executive directors are subject to retirement in accordance with the above Bye-law.

Kong Yun Kan and Kwong Yun Nin had service agreements with the Company for two years commencing 1st April, 1993 both of which had expired during the year. None of the other directors being proposed for re-election at the forthcoming annual general meeting has entered into a service agreement with the Company.

DIRECTORS' REPORT *(Cont'd)*

Brief Biographical Details in Respect of Directors

Executive directors

Mr. Kong Yun Kan, aged 49, 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, aged 40, 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, aged 42, is in charge of the personnel and administrative functions of the Group. He is also a brother of Mr. Kong Yun Kan, and joined the Group in 1986.

Mr. Tam Kung Lit, aged 52, 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, aged 47, 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, aged 43, has been practising as a Certified Public Accountant in Hong Kong for over 17 years. He has wide experience in auditing, taxation and financial management in various fields and industries.

Directors' and Chief Executives' Interests in Shares

As at 31st December, 1995, 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	278,954,600*

* Including 269,428,600 shares which are owned by Hoi Fat Investments (B.V.I.) Limited in which Cowin Enterprises Limited has a 42.26% interest and 9,526,000 shares which are owned by Cowin Enterprises Limited directly. 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.

The non-voting deferred shares in Onpower Company Limited, a subsidiary of the Company, are 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 and the holding of certain nominee shares in trust for the Group, none of the directors and chief executives 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, 1995.

Substantial Shareholders

As at 31st December, 1995, the register of substantial shareholders required to be maintained by the Company pursuant to section 16(1) of the SDI Ordinance shows that, other than the interests disclosed above in respect of directors' and chief executives, the Company was not notified of any interest which represents 10% or more of the issued share capital of the Company.

DIRECTORS' REPORT *(Cont'd)*

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 15 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, 1995.

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 the 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.

Major Suppliers and Customers

During the year the aggregate purchases attributable to the Group's five largest suppliers represents approximately 59.4% of the Group's total purchases for the year and the percentage of purchase attributable to the Group's largest supplier is approximately 20.8%.

No directors, their associates or any shareholders (which to the knowledge of the directors own more than 5% of the Company's issued share capital) were interested at any time in the year in the five largest suppliers.

During the year the aggregate sales attributable to the Group's five largest customers were less than 30% of the Group's total sales for the year.

Compliance with the Code of Best Practice

The Company has complied with the Code of Best Practice set out in Appendix 14 of the Listing Rules of The Stock Exchange of Hong Kong Limited, which specifies the best practice to be followed by directors and non-executive directors, for the period from 1st July, 1995 to 31st December, 1995.

Auditors

Messrs. Deloitte Touche Tohmatsu have acted as auditors of the Company for the preceding three years. A resolution will be submitted to the annual general meeting of the Company to re-appoint them.

On behalf of the Board

Kong Yun Kan

Director

April 22, 1996

AUDITORS' REPORT

**Deloitte Touche
Tohmatsu**



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 11 to 27 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 of the Group as at 31st December, 1995 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, 22nd April, 1996

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 31st December, 1995

	NOTES	1995 HK\$'000	1994 HK\$'000
TURNOVER		<u>285,660</u>	<u>229,042</u>
OPERATING PROFIT	3	3,179	23,824
SHARE OF PROFITS OF ASSOCIATED COMPANY		<u>—</u>	<u>88</u>
PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION		3,179	23,912
TAXATION (CREDIT) CHARGE	5	<u>(3,818)</u>	<u>1,867</u>
PROFIT ATTRIBUTABLE TO SHAREHOLDERS	6	6,997	22,045
DIVIDENDS	7	<u>4,000</u>	<u>14,000</u>
PROFIT FOR THE YEAR RETAINED	16	<u>2,997</u>	<u>8,045</u>
EARNINGS PER SHARE	8	<u>1.7 cents</u>	<u>5.5 cents</u>

CONSOLIDATED BALANCE SHEET

At 31st December, 1995

	NOTES	1995 HK\$'000	1994 HK\$'000
FIXED ASSETS	9	45,329	47,235
NET CURRENT ASSETS	11	<u>178,534</u>	<u>177,131</u>
		<u>223,863</u>	<u>224,366</u>
Financed by:			
SHARE CAPITAL	14	40,000	40,000
RESERVES	16	<u>183,578</u>	<u>184,081</u>
SHAREHOLDERS' FUNDS		223,578	224,081
DEFERRED TAXATION	17	<u>285</u>	<u>285</u>
		<u>223,863</u>	<u>224,366</u>

The financial statements on pages 11 to 27 were approved by the Board of Directors on 22nd April, 1996 and are signed on its behalf by:

Kong Yun Kan
Director

Kwong Yun Sing, Jarvis
Director

BALANCE SHEET

At 31st December, 1995

	NOTES	1995 HK\$'000	1994 HK\$'000
INTEREST IN SUBSIDIARIES	10	200,728	201,154
NET CURRENT ASSETS (LIABILITIES)	11	<u>1,040</u>	<u>(506)</u>
NET ASSETS		<u><u>201,768</u></u>	<u><u>200,648</u></u>
Financed by:			
SHARE CAPITAL	14	40,000	40,000
RESERVES	16	<u>161,768</u>	<u>160,648</u>
SHAREHOLDERS' FUNDS		<u><u>201,768</u></u>	<u><u>200,648</u></u>

Kong Yun Kan
Director

Kwong Yun Sing, Jarvis
Director

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31st December, 1995

	NOTES	1995 HK\$'000	1994 HK\$'000
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	18	<u>(30,225)</u>	<u>(38,254)</u>
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received		961	4,036
Interest paid		(598)	(457)
Dividends paid		<u>(10,000)</u>	<u>(36,000)</u>
NET CASH OUTFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		<u>(9,637)</u>	<u>(32,421)</u>
TAXATION			
Hong Kong Profits Tax refunded (paid)		<u>2,505</u>	<u>(9,728)</u>
INVESTING ACTIVITIES			
Purchase of fixed assets		(5,945)	(6,168)
Proceeds from disposal of fixed assets		64	204
Proceeds from disposal of associated company		—	659
Repayment of amount due from associated company		<u>—</u>	<u>264</u>
NET CASH OUTFLOW FROM INVESTING ACTIVITIES		<u>(5,881)</u>	<u>(5,041)</u>
DECREASE IN CASH AND CASH EQUIVALENTS		<u>(43,238)</u>	<u>(85,444)</u>
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		<u>25,634</u>	<u>111,078</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	19	<u><u>(17,604)</u></u>	<u><u>25,634</u></u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 1995

1. General

The Company was incorporated as an exempted company with limited liability in Bermuda. Its shares are listed on The Stock Exchange of Hong Kong Limited. Its ultimate holding company is Hoi Fat Investments (B.V.I.) Limited, a company incorporated in the British Virgin Islands.

2. Summary of Significant Accounting Policies

The principal accounting policies which have been adopted in the preparation of the financial statements which conform with accounting principles generally accepted in Hong Kong are as follows:

Basis of consolidation

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

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.

Recognition of income

Sale of goods is recognised when goods are delivered and title has passed. Licence fee income is recognised in the period in which the licensed products are sold.

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. Any surplus or deficit arising on the revaluation of investment properties is credited or charged to the investment property revaluation reserve unless the balance of this reserve is insufficient to cover a deficit, in which case the excess of the deficit over the balance of the investment property revaluation reserve is charged to the profit and loss account.

Revaluation surplus on the sale of revalued investment properties are credited to the profit and loss account.

NOTES TO THE FINANCIAL STATEMENTS *(Cont'd)*

For the year ended 31st December, 1995

2. Summary of Significant Accounting Policies *(Cont'd)*

Fixed assets and depreciation

Fixed assets other than investment properties are stated at cost or valuation less depreciation. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to working condition and location for its intended use. Expenditure incurred after the fixed assets have been put into operation, such as repairs and maintenance and overhaul costs, are normally charged to the profit and loss account in the period in which they are incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of the fixed asset. When assets are sold or retired, their cost or valuation and accumulated depreciation are removed from the accounts and any gain or loss resulting from their disposal is included in the profit and loss account.

Any surplus arising on revaluation of fixed assets other than investment properties is credited to the revaluation reserve. A decrease in net carrying amount arising on revaluation of an asset is charged to the profit and loss account to the extent that it exceeds the surplus, if any, held in revaluation reserve relating to previous revaluation of that particular asset. On the subsequent sale of assets, the attributable revaluation surplus not yet transferred to retained profits in prior years is transferred to retained profits.

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%

Stocks

Stocks are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average 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, is recognised in the financial statements to the extent that it is probable a liability or asset will crystallise in the foreseeable future.

NOTES TO THE FINANCIAL STATEMENTS *(Cont'd)*

For the year ended 31st December, 1995

2. Summary of Significant Accounting Policies *(Cont'd)*

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.

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 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.

Cash equivalents

Cash equivalents represent short term, highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance.

3. Operating Profit

	1995	1994
	<i>HK\$'000</i>	<i>HK\$'000</i>
Operating profit has been arrived after charging:		
Auditors' remuneration	482	534
Depreciation	3,972	2,087
Interest on bank borrowings wholly repayable within five years	598	457
Rental payments under operating leases for land and buildings	27,041	13,790
Retirement benefits scheme contributions (see note 22)	490	361
and after crediting:		
Rental income under operating leases — net of outgoings	1,562	1,504
Licence fee income	31,458	29,252
Interest income	961	3,489
	<u> </u>	<u> </u>

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

For the year ended 31st December, 1995

4. Directors' and Employees' Remuneration

	1995 <i>HK\$'000</i>	1994 <i>HK\$'000</i>
Directors' fees		
Executive	—	—
Non-executive	284	258
	<u>284</u>	<u>258</u>
Other emoluments of executive directors		
Salaries and other benefits	3,674	3,155
Retirement benefits scheme contributions	177	150
	<u>3,851</u>	<u>3,305</u>
Total directors' remuneration	<u><u>4,135</u></u>	<u><u>3,563</u></u>

In 1995 the five highest paid individuals comprised 4 executive directors and an employee. The emoluments paid to each executive director were less than HK\$1,000,000. The remuneration received by the employee amounted to HK\$455,000, representing salaries and other benefits of HK\$339,000, performance related incentive payments of HK\$100,000 and retirement benefits scheme contributions of HK\$16,000.

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.

5. Taxation (Credit) Charge

	1995 <i>HK\$'000</i>	1994 <i>HK\$'000</i>
The (credit) charge comprises:		
Hong Kong Profits Tax calculated at 16.5% on the estimated assessable profits for the year	596	1,867
Overprovision in prior years	(4,414)	—
	<u>(3,818)</u>	<u>1,867</u>

NOTES TO THE FINANCIAL STATEMENTS *(Cont'd)*

For the year ended 31st December, 1995

6. Profit Attributable to Shareholders

Of the profit attributable to shareholders of approximately HK\$6,997,000 (1994: HK\$22,045,000) for the year, a profit of approximately HK\$5,120,000 (1994: HK\$14,113,000) has been dealt with in the financial statements of the Company.

7. Dividends

	1995 <i>HK\$'000</i>	1994 <i>HK\$'000</i>
Interim dividend paid: nil (1994: 1 cent per share)	—	4,000
Final dividend proposed: 1 cent (1994: 2.5 cents) per share	<u>4,000</u>	<u>10,000</u>
	<u>4,000</u>	<u>14,000</u>

8. Earnings Per Share

The calculation of earnings per share is based on the profit attributable to shareholders of HK\$6,997,000 (1994: HK\$22,045,000) and the 400,000,000 shares in issue throughout the year.

Fully diluted earnings per share is not presented as the exercise of the outstanding share options (see note 15) would not have a diluting effect on the earnings per share.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

For the year ended 31st December, 1995

9. Fixed Assets

	Investment property in Hong Kong HK\$'000	Other properties in Hong Kong HK\$'000	Other properties outside Hong Kong HK\$'000	Furniture and fixtures HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
THE GROUP						
COST OR VALUATION						
At 1st January, 1995	25,000	15,166	—	10,601	1,162	51,929
Additions	—	—	808	4,837	300	5,945
Disposals	—	—	—	(828)	—	(828)
Deficit on revaluation	(3,500)	—	—	—	—	(3,500)
At 31st December, 1995	<u>21,500</u>	<u>15,166</u>	<u>808</u>	<u>14,610</u>	<u>1,462</u>	<u>53,546</u>
Comprising:						
At cost	—	8,366	808	14,610	1,462	25,246
At valuation — 1993	—	6,800	—	—	—	6,800
At valuation — 1995	<u>21,500</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>21,500</u>
	<u>21,500</u>	<u>15,166</u>	<u>808</u>	<u>14,610</u>	<u>1,462</u>	<u>53,546</u>
DEPRECIATION						
At 1st January, 1995	—	695	—	3,278	721	4,694
Provided for the year	—	322	—	3,501	149	3,972
Eliminated on disposals	—	—	—	(449)	—	(449)
At 31st December, 1995	<u>—</u>	<u>1,017</u>	<u>—</u>	<u>6,330</u>	<u>870</u>	<u>8,217</u>
NET BOOK VALUES						
At 31st December, 1995	<u>21,500</u>	<u>14,149</u>	<u>808</u>	<u>8,280</u>	<u>592</u>	<u>45,329</u>
At 31st December, 1994	<u>25,000</u>	<u>14,471</u>	<u>—</u>	<u>7,323</u>	<u>441</u>	<u>47,235</u>

All the Group's properties 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 as at 31st December, 1995 was carried out by Vigers Hong Kong Limited, an independent firm of professional property valuers, on an open market value basis.

Advantage has been taken of the transitional relief by paragraph 72 of the Statement of Standard Accounting Practice No. 17 "Property, plant and equipment" issued by the Hong Kong Society of Accountants from the requirement to make revaluations on a regular basis of the Group's land and buildings other than its investment property, accordingly no future revaluation of the Group's non-investment properties is carried out. Had the land and buildings been carried at cost less accumulated depreciation, the carrying value of the Group's non-investment properties would have been stated at approximately HK\$12,650,000 (1994: HK\$12,164,000).

NOTES TO THE FINANCIAL STATEMENTS *(Cont'd)*

For the year ended 31st December, 1995

10. Interest in Subsidiaries

	THE COMPANY	
	1995 HK\$'000	1994 HK\$'000
Unlisted shares, at directors' valuation	85,218	85,218
Amounts due from subsidiaries	115,510	115,936
	<u>200,728</u>	<u>201,154</u>

The directors' valuation is based on the book values of the underlying net tangible assets of the subsidiaries at the time they became members of the Group pursuant to a group reorganisation in 1993 in preparation for the listing of the Company's shares on The Stock Exchange of Hong Kong Limited.

Details of the Company's subsidiaries at 31st December, 1995 are set out in note 25 to the financial statements.

11. Net Current Assets (Liabilities)

	THE GROUP		THE COMPANY	
	1995 HK\$'000	1994 HK\$'000	1995 HK\$'000	1994 HK\$'000
CURRENT ASSETS				
Stocks (note 12)	109,803	93,396	—	—
Trade debtors	81,846	63,881	—	—
Other debtors, deposits and prepayments	20,576	15,363	171	—
Bills receivable	3,000	—	—	—
Dividend receivable	—	—	5,000	10,000
Taxation recoverable	985	4,942	—	—
Bank balances and cash	9,535	26,764	—	—
	<u>225,745</u>	<u>204,346</u>	<u>5,171</u>	<u>10,000</u>
CURRENT LIABILITIES				
Trade creditors	7,439	2,059	—	—
Other creditors and accrued charges	8,367	8,490	105	88
Dividend payable	4,000	10,000	4,000	10,000
Taxation payable	266	5,536	26	418
Trust receipts and import loans (note 13)	27,139	1,130	—	—
	<u>47,211</u>	<u>27,215</u>	<u>4,131</u>	<u>10,506</u>
NET CURRENT ASSETS (LIABILITIES)	<u>178,534</u>	<u>177,131</u>	<u>1,040</u>	<u>(506)</u>

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

For the year ended 31st December, 1995

12. Stocks

	THE GROUP	
	1995 HK\$'000	1994 HK\$'000
Raw materials	15,788	8,497
Finished goods	94,015	84,899
	<u>109,803</u>	<u>93,396</u>

13. Trust Receipts and Import Loans

	THE GROUP	
	1995 HK\$'000	1994 HK\$'000
Secured	22,940	1,130
Unsecured	4,199	—
	<u>27,139</u>	<u>1,130</u>

14. Share Capital

	1995 & 1994	
	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>

15. 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 a exercise price of HK\$1.28 per share. The option has not been exercised in whole or in part to date nor has any further option been granted under the scheme.

NOTES TO THE FINANCIAL STATEMENTS *(Cont'd)*

For the year ended 31st December, 1995

16. Reserves

	Share premium <i>HK\$'000</i>	Investment property revaluation reserve <i>HK\$'000</i>	Other property revaluation reserve <i>HK\$'000</i>	Special reserve <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
THE GROUP						
At 1st January, 1995	72,131	19,765	2,307	17,314	72,564	184,081
Deficit on revaluation of investment property	—	(3,500)	—	—	—	(3,500)
Profit for the year retained	—	—	—	—	2,997	2,997
At 31st December, 1995	<u>72,131</u>	<u>16,265</u>	<u>2,307</u>	<u>17,314</u>	<u>75,561</u>	<u>183,578</u>

	Share premium <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
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THE COMPANY

At 1st January, 1995	72,131	84,918	3,599	160,648
Profit for the year (note 6)	—	—	5,120	5,120
Dividend declared (note 7)	—	—	(4,000)	(4,000)
At 31st December, 1995	<u>72,131</u>	<u>84,918</u>	<u>4,719</u>	<u>161,768</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 a group reorganisation in 1993.

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 at the time of the group reorganisation referred to above. Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus is available for distribution to shareholders. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if (a) it is, or would after the payment be, unable to pay its liabilities as they become due; or (b) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

In the opinion of the directors, the reserves of the Company which are available for distribution to shareholders at 31st December, 1995 amounted to HK\$89,637,000 (1994: HK\$88,517,000), comprising the contributed surplus account balance of HK\$84,918,000 (1994: HK\$84,918,000) and retained profits of HK\$4,719,000 (1994: HK\$3,599,000) of the Company at the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS *(Cont'd)*

For the year ended 31st December, 1995

17. 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 Group had at the balance sheet date an unrecognised deferred tax asset of approximately HK\$3,500,000 (1994: HK\$1,200,000) in respect of taxation losses of its subsidiaries. As it is not certain that the benefits of these taxation losses will be realised in the foreseeable future, 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.

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.

18. Reconciliation of Profit from Ordinary Activities Before Taxation to Net Cash Outflow from Operating Activities

	1995 <i>HK\$'000</i>	1994 <i>HK\$'000</i>
Profit from ordinary activities before taxation	3,179	23,912
Interest income	(961)	(3,489)
Interest expenses	598	457
Depreciation	3,972	2,087
Loss on disposal of fixed assets	315	49
Share of profits of associated company	—	(88)
Increase in stocks	(16,407)	(62,422)
(Increase) decrease in trade debtors	(17,965)	14,680
Increase in other debtors, deposits and prepayments	(5,213)	(11,165)
Increase in bills receivable	(3,000)	—
Increase in trade creditors	5,380	726
Decrease in other creditors and accrued charges	(123)	(3,001)
	<hr/>	<hr/>
Net cash outflow from operating activities	<u>(30,225)</u>	<u>(38,254)</u>

NOTES TO THE FINANCIAL STATEMENTS *(Cont'd)*

For the year ended 31st December, 1995

19. Analysis of the Balances of Cash and Cash Equivalents

	1995 <i>HK\$'000</i>	1994 <i>HK\$'000</i>
Bank balances and cash	9,535	26,764
Trust receipts and import loans	(27,139)	(1,130)
	<u>(17,604)</u>	<u>25,634</u>

20. Pledge of Assets

At the balance sheet date, the Group had pledged certain of its property interests in Hong Kong with a carrying value of approximately HK\$29 million to secure general banking facilities granted to its subsidiaries.

21. Contingent Liabilities

	THE COMPANY	
	1995 <i>HK\$'000</i>	1994 <i>HK\$'000</i>
Extent of banking facilities which were guaranteed by the Company and utilised by its subsidiaries at the balance sheet date	<u>22,940</u>	<u>1,130</u>

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

For the year ended 31st December, 1995

22. Retirement Benefits Scheme

The Group has a defined contribution pension scheme for its 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 rate of between 30% to 90% after completion of 3 to 9 years of service.

Where there are employees who terminate their employment with the Group and leave the scheme prior to vesting fully in the contributions, 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:

	1995 HK\$'000	1994 HK\$'000
Operating leases which expire:		
Within one year	8,157	2,226
In the second to fifth year inclusive	10,752	22,568
	<u>18,909</u>	<u>24,794</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 *(Cont'd)*

For the year ended 31st December, 1995

25. Subsidiaries

Details of the Company's subsidiaries, all of which are wholly-owned, at 31st December, 1995 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 HK\$2	Retail operations
Fortei International Limited	Hong Kong	Ordinary HK\$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 HK\$10,000	Property holding
Onpower Company Limited	Hong Kong	Ordinary HK\$10 Non-voting deferred HK\$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, 1995 or at any time during the year.

The deferred shares, which are not held by the Group, practically carry no rights to dividends or to receive notice of or to attend or vote at any general meeting of the respective companies or to participate in any distribution in winding up.

26. Comparative Figures

Certain comparative figures have been reclassified to conform with the current year's presentation.

FINANCIAL SUMMARY

RESULTS	For the year ended 31st December,				
	1991 <i>HK\$'000</i>	1992 <i>HK\$'000</i>	1993 <i>HK\$'000</i>	1994 <i>HK\$'000</i>	1995 <i>HK\$'000</i>
Turnover	<u>66,621</u>	<u>220,077</u>	<u>348,673</u>	<u>229,042</u>	<u>285,660</u>
Operating profit	12,257	42,606	85,582	23,824	3,179
Share of profits of associated company	<u>—</u>	<u>37</u>	<u>509</u>	<u>88</u>	<u>—</u>
Profit from ordinary activities before taxation	12,257	42,643	86,091	23,912	3,179
Taxation charge (credit)	<u>2,195</u>	<u>7,491</u>	<u>14,035</u>	<u>1,867</u>	<u>(3,818)</u>
Profit attributable to shareholders	<u>10,062</u>	<u>35,152</u>	<u>72,056</u>	<u>22,045</u>	<u>6,997</u>
Dividends	<u>1,860</u>	<u>17,520</u>	<u>36,000</u>	<u>14,000</u>	<u>4,000</u>

FINANCIAL SUMMARY *(Cont'd)*

ASSETS AND LIABILITIES	At 31st December,			
	1992	1993	1994	1995
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Fixed assets	21,385	42,107	47,235	45,329
Interest in associated company	414	835	—	—
Net current assets	34,062	172,079	177,131	178,534
Borrowings due after one year	(9,499)	—	—	—
Deferred taxation	(285)	(285)	(285)	(285)
	<u>46,077</u>	<u>214,736</u>	<u>224,081</u>	<u>223,578</u>
Shareholders' funds				

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 two 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 two years. The results for each of the three years ended 31st December, 1995 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.