

FORTEI®



安權控股有限公司

FORTEI HOLDINGS LIMITED

於百慕達註冊成立之有限公司

(Incorporated in Bermuda with limited liability)

ANNUAL REPORT 1997

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors	KONG Yun Kan (<i>Chairman</i>) KWONG Yun Nin (<i>Managing Director</i>) 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 1998 annual general meeting of shareholders of Fortei Holdings Limited ("the Company") will be held at Shek O Room, Lower Level I, Kowloon Shangri-La Hotel, 64 Mody Road, Kowloon on Monday, 29th June, 1998 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 31st December, 1997.
2. To elect directors and to authorise the board of directors to fix their remuneration.
3. To appoint auditors and to authorise the board of directors to fix their remuneration.
4. 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.

"Right 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 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

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

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) 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;
- 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. 4B above being 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. 4B 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. 4A above.”

On behalf of the Board
Kong Yun Kan
Chairman

Hong Kong, 25th May, 1998

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 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.

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, 1997.

GROUP RESULTS

The audited consolidated turnover of the Company and its subsidiaries (the "Group") for the year ended 31st December, 1997 amounted to HK\$145,669,000 (1996: HK\$286,058,000), and the loss attributable to shareholders amounted to HK\$59,779,000 (1996: profit of HK\$21,103,000).



REVIEW AND PROSPECTS

In respect of the trading environment, the Group has experienced a very tough year in 1997. The slump in economic growth in mainland China has inserted negative impacts on domestic retail sales. Unfortunately, this was also the case in Hong Kong. The poor retail market was further undermined by the outbreak of the Asia financial crisis during the second half of the year. Aiming at saving operating costs during these harsh times, the Group has implemented major rationalization measures so as to reduce operating overheads, including winding up several retail outlets which had been incurring losses, dismissing a number of staff and freezing wages. Measures mentioned above are all aimed at creating a solid base for the operation of the Group in the future.

On behalf of Hoi Fat Investments (B.V.I.) Limited, I initiated the negotiation regarding the disposal of part of the shareholding of Hoi Fat Investments (B.V.I.) Limited, which was a major shareholder of the Group, with Tasmanian Treasure Limited in early 1998. Details

CHAIRMAN'S STATEMENT *(Cont'd)*

of these were stated in the press announcement on 29th April, 1998. Consequently, Tasmanian Treasure Limited acquired 51% shares in Fortei Holdings Limited, amounting to 204,000,000 shares, held by Hoi Fat Investments (B.V.I.) Limited. The purchaser is an experienced garment manufacturer and the major shareholder of which has good commercial back ground and possesses extensive retail sales network in the PRC. All these are key factors for the Group to



explore the PRC market. As a result, the change of shareholding is beneficial to the future development of the Group. I believe that the board of directors and management of the Group will be stronger and more competitive after the change in 1998.

FINANCIAL SUMMARY

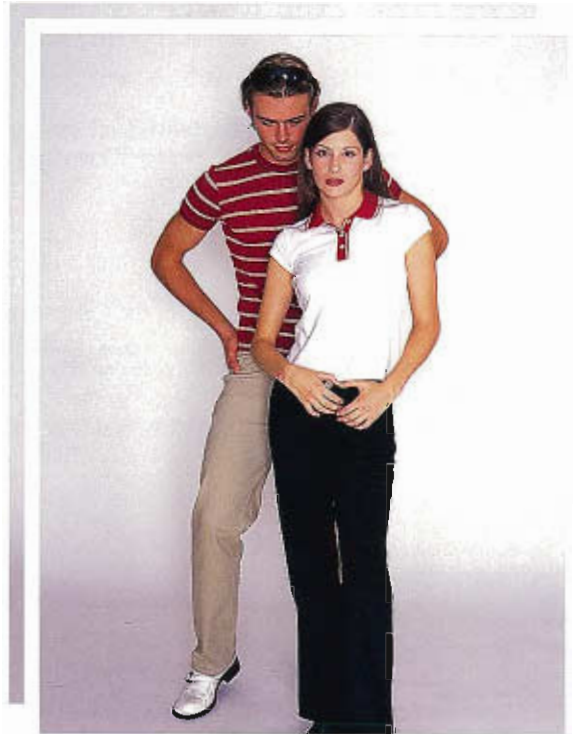
A summary of the past results and assets and liabilities of the Group is set out on pages 31 and 32.

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, 25th May, 1998



DIRECTORS' REPORT

The directors have pleasure in presenting their annual report and the audited financial statements of the Company for the year ended 31st December, 1997.

Principal Activities

The Company is an investment holding company. Its principal 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 of the Group's products are sold to customers in the People's Republic of China (the "PRC"), including Hong Kong, and Macau. Due to the proximity and close trading relationship of these areas, it is not possible to ascertain with reasonable certainty the respective percentages of the Group's products which are sold to end buyers in each of these areas. Except for sales of approximately HK\$32 million conducted in the Group's retail shops in Hong Kong during the year ended 31st December, 1997, it is the belief of the directors that the balance of the Group's sales for the year is principally made to ultimate customers in the other areas of the PRC.

Results

The directors do not recommend the payment of a final dividend. Details of the results and the interim dividend of the Group for the year ended 31st December, 1997 are set out in the consolidated profit and loss account on pages 13 and in note 7 to the financial statements.

Financial Summary

A summary of the results and assets and liabilities of the Group for the past five financial years is set out on pages 31 to 32.

Reserves

Movements in the reserves of the Group and of the Company during the year are set out in note 15 to the financial statements.

Fixed Assets

Details of changes in the 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, 1997 are set out in note 24 to the financial statements.

DIRECTORS' REPORT *(Cont'd)*

Borrowings

All of the Group's bank borrowings are repayable within one year and are shown under current liabilities in note 11 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

Independent non-executive directors:

Chan Cheung Ho
Liu Wing Ting, Stephen

In accordance with Bye-law 87 of the Company's Bye-laws, Mr. Tam Kung Lit will retire from office by rotation at the forthcoming annual general meeting but will not seek re-election.

The independent non-executive directors are subject to retirement by rotation in accordance with the Company's Bye-laws.

Brief Biographical Details in Respect of Directors

Executive directors

Kong Yun Kan, aged 51, 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.

Kwong Yun Nin, aged 42, 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 and joined the Group in 1983.

Kwong Yun Sing, Jarvis, aged 44, 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.

Tam Kung Lit, aged 54 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. He joined the Group in 1994.

DIRECTORS' REPORT (Cont'd)

Brief Biographical Details in Respect of Directors (Cont'd)

Independent non-executive directors

Chan Cheung Ho, aged 49, is a partner in the law firm of Bernard Wong & Co. He is a member of the law societies of Hong Kong and England and Wales and is also admitted as barrister and solicitor of the Supreme Court of the Australian Capital Territory and the High Court of Australia. He was appointed as a non-executive director of the Company in 1993.

Liu Wing Ting, Stephen, aged 45 has been practicing as a Certified Public Accountant in Hong Kong for over 19 years. He has wide experience in auditing, taxation and financial management in various fields and industries. He was appointed as a non-executive director of the Company in 1993.

Directors' Interests in Shares

At 31st December, 1997, the interests of the directors 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 (the "SDI Ordinance") were as follows:

Name of director	Number of shares	
	Personal interest	Other interest
Kong Yun Kan	6,285,700	286,226,600*

* Comprising 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 16,798,000 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 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, 1997.

DIRECTORS' REPORT *(Cont'd)*

Substantial Shareholders

At 31st December, 1997, the register of substantial shareholders maintained under section 16(1) of the SDI Ordinance showed that, other than the interests disclosed above in respect of a director, no other person was recorded in the register as having an interest of 10% or more in the issued share capital of the Company at 31st December, 1997.

Directors' 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 14 to the financial statements.

Except for the share option scheme of the Company, at no time during the year was the Company, its holding company or any of its subsidiaries or fellow 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 debt securities (including debentures) of, the Company or any other body corporate, and neither the directors nor any of their spouses or children under the age of 18 had any right to subscribe for securities of the Company or had exercised any such right.

Directors' Interest in Contracts

Mr. Chan Cheung Ho is a partner of Messrs. Bernard Wong & Co., a firm of solicitors which provides legal and professional services to the Group and receives normal professional fees for such services.

Save as disclosed above, no contracts of significance to which the Company, its holding company or any of its subsidiaries and fellow subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Convertible Securities, Options, Warrants Or Similar Rights

The Company had no outstanding convertible securities, options, warrants or other similar rights at 31st December, 1997 and there was no exercise of any convertible securities, options, warrants or similar rights during the year.

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.

DIRECTORS' REPORT *(Cont'd)*

Major Suppliers and Customers

The five largest customers accounted for less than 30% of the Group's total turnover for the year. The five largest suppliers accounted for approximately 43.3% of the total purchases of the Group for the year and the largest supplier accounted for 15.3% of the total purchases.

None of the directors, their associates or any shareholder which to the knowledge of the directors owns more than 5% of the Company's issued share capital, has an interest in the share capital of any of the five largest suppliers of the Group.

Compliance With the Code of Best Practice

The Company has complied throughout the year with the Code of Best Practice set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

Auditors

Messrs. Deloitte Touche Tohmatsu acted as auditors of the Company for the year ended 31st December, 1997.

On behalf of the Board
Kong Yun Kan
Chairman

Hong Kong,
25th May, 1998

AUDITORS' REPORT

**Deloitte Touche
Tohmatsu**



**德勤 • 關黃陳方
會計師行**

Certified Public Accountants

26th Floor, Wing On Centre
111 Connaught Road Central
Hong Kong

執業會計師

香港中環干諾道中111號
永安中心26樓

TO THE SHAREHOLDERS OF FORTEI HOLDINGS LIMITED

(incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 13 to 30 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, 1997 and of the loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong,
25th May, 1998

FORTEI

CONSOLIDATED PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31ST DECEMBER, 1997

	NOTES	1997 HK\$'000	1996 HK\$'000
TURNOVER		<u>145,669</u>	<u>286,058</u>
OPERATING (LOSS) PROFIT			
From continuing operations excluding exceptional items	3	(27,950)	21,539
Exceptional items	4	<u>(31,590)</u>	<u>—</u>
(LOSS) PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION		(59,540)	21,539
TAXATION	5	<u>339</u>	<u>569</u>
(LOSS) PROFIT BEFORE MINORITY INTERESTS		(59,879)	20,970
LOSS ATTRIBUTABLE TO MINORITY INTERESTS		<u>(100)</u>	<u>(133)</u>
(LOSS) PROFIT ATTRIBUTABLE TO SHAREHOLDERS	6 & 15	<u>(59,779)</u>	<u>21,103</u>
DIVIDENDS	7	<u>4,000</u>	<u>12,000</u>
(LOSS) EARNINGS PER SHARE	8	<u>(14.9) cents</u>	<u>5.3 cents</u>

CONSOLIDATED BALANCE SHEET

AS 31ST DECEMBER, 1997

	NOTES	1997 HK\$'000	1996 HK\$'000
FIXED ASSETS	9	22,426	42,521
NET CURRENT ASSETS	11	<u>146,752</u>	<u>190,536</u>
		<u>169,178</u>	<u>233,057</u>
Financed by:			
SHARE CAPITAL	13	40,000	40,000
RESERVES	15	<u>128,893</u>	<u>192,681</u>
SHAREHOLDERS' FUNDS		168,893	232,681
MINORITY INTERESTS		—	91
DEFERRED TAXATION	16	<u>285</u>	<u>285</u>
		<u>169,178</u>	<u>233,057</u>

The financial statements on pages 13 to 30 were approved by the Board of Directors on 25th May, 1998 and are signed on its behalf by:

Kong Yun Kan
DIRECTOR

Kwong Yun Sing, Jarvis
DIRECTOR

BALANCE SHEET

AS 31ST DECEMBER, 1997

	NOTES	1997 HK\$'000	1996 HK\$'000
INTEREST IN SUBSIDIARIES	10	165,507	197,929
NET CURRENT (LIABILITIES) ASSETS	11	<u>(114)</u>	<u>1,951</u>
NET ASSETS		<u>165,393</u>	<u>199,880</u>
Financed by:			
SHARE CAPITAL	13	40,000	40,000
RESERVES	15	<u>125,393</u>	<u>159,880</u>
SHAREHOLDERS' FUNDS		<u>165,393</u>	<u>199,880</u>

Kong Yun Kan
DIRECTOR

Kwong Yun Sing, Jarvis
DIRECTOR

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31ST DECEMBER, 1997

	NOTES	1997 HK\$'000	1996 HK\$'000
NET CASH (OUTFLOW) INFLOW FROM OPERATING ACTIVITIES	17	<u>(11,578)</u>	<u>48,585</u>
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received		884	360
Rental received		—	981
Interest paid		(58)	(368)
Dividends paid		<u>(12,000)</u>	<u>(8,000)</u>
NET CASH OUTFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		<u>(11,174)</u>	<u>(7,027)</u>
TAXATION			
Hong Kong Profits Tax paid		<u>(559)</u>	<u>(572)</u>
INVESTING ACTIVITIES			
Proceeds from disposal of fixed assets		26,615	13
Purchase of fixed assets		<u>(4,452)</u>	<u>(1,244)</u>
NET CASH INFLOW (OUTFLOW) FROM INVESTING ACTIVITIES		<u>22,163</u>	<u>(1,231)</u>
NET CASH (OUTFLOW) INFLOW BEFORE FINANCING		(1,148)	39,755
FINANCING			
Contributions from minority interests		<u>—</u>	<u>224</u>
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		(1,148)	39,979
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		<u>22,375</u>	<u>(17,604)</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	18	<u><u>21,227</u></u>	<u><u>22,375</u></u>

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 1997

1. General

The Company was incorporated in Bermuda as an exempted company with limited liability. Its shares are listed on The Stock Exchange of Hong Kong Limited.

2. Summary of Significant Accounting Policies

The principal accounting policies which have been adopted in the preparation of the financial statements, and 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 (hereinafter collectively referred to as the "Group") made up to 31st December each year.

The results of the subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from or up to the effective date of acquisition or disposal whichever is the case.

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

Goodwill or capital reserve on consolidation

Any goodwill or capital reserve arising on the acquisition of subsidiaries or associated companies, which represents the difference between the purchase consideration and the fair value ascribed to the separable net assets attributable to the Group at the date of acquisition, is dealt with through reserves in the year of acquisition.

On the disposal of a subsidiary or an associated company, any attributable amount of goodwill or capital reserve previously charged or credited to reserves is included in the determination of the profit or loss on disposal.

Subsidiaries

A subsidiary is a company in which the Company, directly or indirectly, holds more than half of the issued share capital, or controls more than half of the voting power, or controls the composition of the board of directors.

Investments in subsidiaries are included in the Company's balance sheet at cost less provision, if necessary, for permanent diminution in value.

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.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

FOR THE YEAR ENDED 31ST DECEMBER, 1997

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

Recognition of income

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

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

Fixed assets and depreciation

Fixed assets are stated at cost or valuation, less depreciation. The cost of an asset comprises its purchase price and any directly attributable cost of bringing the asset to its working condition and location for its intended use. Expenditure incurred after the fixed asset has been put into operation, such as repairs and maintenance and overhaul costs, is normally charged to the profit and loss account in the period in which it is 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 an asset is sold or retired, its cost or valuation and accumulated depreciation are removed from the accounts and any gains or losses resulting from the disposal is included in the profit and loss account.

The Group has adopted the transitional arrangement provided for in paragraph 72 of the Statement of Standard Accounting Practice No.17 "Property, plant and equipment" issued by the Hong Kong Society of Accountants with regard to the requirement to make regular revaluations of properties. Accordingly, no further revaluation of the Group's non-investment properties will be carried out. Our disposal of any of these properties, the balance in the property revaluation reserve attributable to the disposed property is transferred to retained profits.

The cost or valuation of buildings is depreciated using the straight line method over twenty years. The cost of land is depreciated using the straight line method over the lease period.

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.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

FOR THE YEAR ENDED 31ST DECEMBER, 1997

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

Taxation

The charge for taxation is based on the results for the year after adjusting 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 as deferred taxation in the financial statements to the extent that it is probable that 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 relevant lease.

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 re-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 advances.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

FOR THE YEAR ENDED 31ST DECEMBER, 1997

3. Operating (Loss) Profit from Continuing Operations Excluding Exceptional Items

	1997 HK\$'000	1996 HK\$'000
Operating (loss) profit from continuing operations excluding exceptional items has been arrived at after charging:		
Auditors' remuneration	625	583
Depreciation	3,252	3,899
Interest on bank borrowings wholly repayable within five years	58	368
Rental payments under operating leases for land and buildings	19,163	24,746
and after crediting:		
Interest income	884	360
Licence fee income	15,625	31,021
Rental income under operating leases — net of outgoings	—	948
	<u> </u>	<u> </u>

Notes:

(a) Information regarding directors' emoluments

	1997 HK\$'000	1996 HK\$'000
Independent non-executive directors		
Directors' fees	324	303
Executive directors		
Directors' fees	—	—
Salaries and other benefits	3,814	3,230
Retirement benefits scheme contributions	154	155
	<u>3,968</u>	<u>3,385</u>
Total directors' remuneration	<u>4,292</u>	<u>3,688</u>

The emoluments of the directors fall within the following bands:

	Number of director	
	1997	1996
Up to HK\$1,000,000	4	4
HK\$1,000,001 to HK\$1,500,000	1	2
HK\$1,500,001 to HK\$2,000,000	1	—
	<u> </u>	<u> </u>

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

FOR THE YEAR ENDED 31ST DECEMBER, 1997

3. Operating (Loss) Profit from Continuing Operations Excluding Exceptional Items (Cont'd)

- (b) Information regarding the emoluments of the five highest paid employees

In 1997 the five highest paid individuals of the Group during the year include four executive directors (three in 1996) whose emoluments are included in (a) above. The emoluments of the remaining highest paid employee (remaining two highest paid employees in 1996) of the Group, whose individual earnings are less than HK\$1,000,000 are as follows:

	1997 HK\$'000	1996 HK\$'000
Salaries and other benefits	798	1,050
Performance related incentive payments	177	250
Retirement benefits scheme contributions	23	28
	<u>998</u>	<u>1,328</u>

- (c) Retirement benefit scheme contributions of the Group (see note 21)

	1997 HK\$'000	1996 HK\$'000
Contributions to the Group's defined contribution scheme	665	606
Less: Forfeited contributions	(226)	(216)
	<u>439</u>	<u>390</u>

4. Exceptional Items

	1997 HK\$'000	1996 HK\$'000
Gain on disposal of a leasehold property in Hong Kong	5,461	—
Provision made to write down stocks to net realisable value	(26,696)	—
Provision for doubtful debts	(10,355)	—
	<u>(31,590)</u>	<u>—</u>

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

FOR THE YEAR ENDED 31ST DECEMBER, 1997

5. Taxation

	1997 HK\$'000	1996 HK\$'000
Hong Kong Profits Tax calculated at 16.5% on the estimated assessable profit for the year	339	577
Overprovision in prior years	—	(8)
	<u>339</u>	<u>569</u>

6. (Loss) Profit Attributable to Shareholders

Of the loss of the Group for the year, a loss of approximately HK\$30,487,000 (1996: profit of HK\$10,112,000) has been dealt with in the financial statements of the Company.

7. Dividends

	1997 HK\$'000	1996 HK\$'000
Interim dividend paid: 1 cent per share (1996: 1 cent per share)	4,000	4,000
Final dividend proposed: Nil (1996: 2 cents per share)	—	8,000
	<u>4,000</u>	<u>12,000</u>

8. (Loss) Earnings per share

The calculation of the (loss) earnings per share is based on the loss attributable to shareholders of HK\$59,779,000 (1996: profit of HK\$21,103,000) and the 400,000,000 shares in issue throughout the year.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

FOR THE YEAR ENDED 31ST DECEMBER, 1997

9. Fixed Assets

	Properties in Hong Kong HK\$'000	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, 1997	36,666	808	13,332	1,643	52,449
Additions	—	—	4,452	—	4,452
Disposals	(21,500)	—	(1,860)	—	(23,360)
At 31st December, 1997	<u>15,166</u>	<u>808</u>	<u>15,924</u>	<u>1,643</u>	<u>33,541</u>
Comprising:					
At cost	8,366	808	15,924	1,643	26,741
At valuation - 1993	<u>6,800</u>	—	—	—	<u>6,800</u>
	<u>15,166</u>	<u>808</u>	<u>15,924</u>	<u>1,643</u>	<u>33,541</u>
DEPRECIATION					
At 1st January, 1997	1,623	26	7,254	1,025	9,928
Provided for the year	880	26	2,222	124	3,252
Eliminated on disposals	(347)	—	(1,718)	—	(2,065)
At 31st December, 1997	<u>2,156</u>	<u>52</u>	<u>7,758</u>	<u>1,149</u>	<u>11,115</u>
NET BOOK VALUES					
At 31st December, 1997	<u>13,010</u>	<u>756</u>	<u>8,166</u>	<u>494</u>	<u>22,426</u>
At 31st December, 1996	<u>35,043</u>	<u>782</u>	<u>6,078</u>	<u>618</u>	<u>42,521</u>

The properties are for own use. They are either in Hong Kong or in the People's Republic of China and are held under leases or land use rights, the remaining terms of which are between twenty and fifty years.

The property valuation in 1993 was carried out by Vigers Hong Kong Limited, an independent firm of professional property valuers, on an open market value basis as at 31st December, 1993 on a property in Hong Kong which was previously rented to a third party. The property has been taken back by the Group for its own use since then. Had the Group's properties always been carried at cost less accumulated depreciation, their carrying value would have been approximately HK\$11,705,000 (1996: HK\$12,178,000).

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

FOR THE YEAR ENDED 31ST DECEMBER, 1997

10. Interest in Subsidiaries

	THE COMPANY	
	1997 HK\$'000	1996 HK\$'000
Unlisted shares, at cost	85,218	85,218
Amounts due from subsidiaries	110,289	112,711
	<u>195,507</u>	<u>197,929</u>
Less: Provision	(30,000)	—
	<u>165,507</u>	<u>197,929</u>

Details of the Company's subsidiaries at 31st December, 1997 are set out in note 24.

11. Net Current Assets (Liabilities)

	THE GROUP		THE COMPANY	
	1997 HK\$'000	1996 HK\$'000	1997 HK\$'000	1996 HK\$'000
CURRENT ASSETS				
Stocks (note 12)	98,820	102,326	—	—
Trade debtors	30,897	63,230	—	—
Other debtors, deposits and prepayments	15,572	21,371	—	107
Bills receivable	1,300	7,090	—	—
Dividend receivable	—	—	—	10,000
Taxation recoverable	1,054	959	14	2
Bank balances and cash	22,673	25,877	3	1
	<u>170,316</u>	<u>220,853</u>	<u>17</u>	<u>10,110</u>
CURRENT LIABILITIES				
Trade creditors	6,725	11,284	—	—
Other creditors and accrued charges	15,281	7,294	131	159
Proposed dividend	—	8,000	—	8,000
Taxation payable	112	237	—	—
Trust receipts and import loans — secured	1,446	3,502	—	—
	<u>23,564</u>	<u>30,317</u>	<u>131</u>	<u>8,159</u>
NET CURRENT ASSETS (LIABILITIES)	<u>146,752</u>	<u>190,536</u>	<u>(114)</u>	<u>1,951</u>

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

FOR THE YEAR ENDED 31ST DECEMBER, 1997

12. Stocks

	THE GROUP	
	1997 HK\$'000	1996 HK\$'000
Raw materials	7,169	10,718
Finished goods	<u>91,651</u>	<u>91,608</u>
	<u>98,820</u>	<u>102,326</u>

13. Share Capital

	1997 & 1996	
	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>

14. Share Option Scheme

Under the Company's share option 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. The subscription price of the option shares is set at a price equal to the higher of the nominal value of the Company's 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 offer of the option. Options granted are exercisable within three years from the date of grant.

There was no option outstanding at any time during the year. The Company has not issued any shares under the share option scheme to date.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

FOR THE YEAR ENDED 31ST DECEMBER, 1997

15. Reserves

	Share premium HK\$'000	Non investment property revaluation reserve HK\$'000	Special reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
THE GROUP					
At 1st January, 1997	72,131	18,572	17,314	84,664	192,681
Transfer on disposal of property	—	(16,265)	—	16,265	—
Goodwill arising on acquisition of additional interest in a subsidiary	—	—	—	(9)	(9)
Loss for the year	—	—	—	(59,779)	(59,779)
Dividend (note 7)	—	—	—	(4,000)	(4,000)
	<u>72,131</u>	<u>2,307</u>	<u>17,314</u>	<u>37,141</u>	<u>128,893</u>
At 31st December, 1997	<u>72,131</u>	<u>2,307</u>	<u>17,314</u>	<u>37,141</u>	<u>128,893</u>
	Share premium HK\$'000	Share premium HK\$'000	Contributed surplus HK\$'000	Retained profits (deficit) HK\$'000	Total HK\$'000
THE COMPANY					
At 1st January, 1997		72,131	84,918	2,831	159,880
Loss for the year (note 6)		—	—	(30,487)	(30,487)
Dividend (note 7)		—	—	(4,000)	(4,000)
		<u>72,131</u>	<u>84,918</u>	<u>(31,656)</u>	<u>125,393</u>
At 31st December, 1997		<u>72,131</u>	<u>84,918</u>	<u>(31,656)</u>	<u>125,393</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 capital and share premium accounts of those companies 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 shares 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, a 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.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

FOR THE YEAR ENDED 31ST DECEMBER, 1997

16. Deferred Taxation

The deferred taxation provided in the consolidated balance sheet 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\$11,443,000 (1996: HK\$5,363,000) in respect of taxation losses which are available to set off against future assessable profits and unprovided deferred tax liabilities of approximately HK\$2,850,000 (1996: HK\$101,000) in respect of other timing differences. The net deferred tax asset of approximately HK\$8,593,000 (1996: HK\$5,262,000) has not been recognised in the financial statements as it is not certain that the benefits will be realised in the foreseeable future.

Other than as disclosed above, the Group and the Company had no significant unprovided or unrecognised deferred taxation for the year or at the balance sheet date.

Surpluses arising on property revaluations do not constitute timing differences for taxation purposes as any profits realised on their ultimate disposals would not be subject to taxation.

17. Reconciliation of (Loss) Profit from Ordinary Activities before Taxation to net Cash (Outflow) Inflow from Operation Activities

	1997 HK\$'000	1996 HK\$'000
(Loss) profit from ordinary activities before taxation	(59,540)	21,539
Provision made to write down stocks to net realisable value	26,696	—
Provision for doubtful debts	10,355	—
Depreciation	3,252	3,899
Interest expenses	58	368
Interest income	(884)	(360)
Rental income – gross	—	(981)
(Gain) loss on disposal of fixed assets – net	(5,320)	140
(Increase) decrease in stocks	(23,190)	7,477
Decrease in trade debtors	21,978	18,616
Decrease (increase) in other debtors, deposits and prepayments	5,799	(795)
Decrease (increase) in bills receivable	5,790	(4,090)
(Decrease) increase in trade creditors	(4,559)	3,845
Increase (decrease) in other creditors and accrued charges	7,987	(1,073)
Net cash (outflow) inflow from operating activities	<u>(11,578)</u>	<u>48,585</u>

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

FOR THE YEAR ENDED 31ST DECEMBER, 1997

18. Analysis of the Balances of Cash and Cash Equivalents

	1997 HK\$'000	1996 HK\$'000
Bank balances and cash	22,673	25,877
Trust receipts and import loans	(1,446)	(3,502)
	<u>21,227</u>	<u>22,375</u>

19. Pledge of Assets

The Group has pledged property interests in Hong Kong with a carrying value of approximately HK\$13 million at 31st December, 1997 (1996: HK\$29 million) to secure general banking facilities for its own use.

20. Contingent Liabilities

	THE COMPANY	
	1997 HK\$'000	1996 HK\$'000
Extent of banking facilities which were guaranteed by the Company and utilised by its subsidiaries at the balance sheet date	<u>1,446</u>	<u>3,502</u>

21. Retirement Benefits Scheme

The Group has a defined contribution pension scheme for its employees, including directors. Pursuant to the rules of the scheme, the employer and the employees are each required to make contributions to the scheme calculated at 5% of the employees' basic salaries on a monthly basis. In addition to their own contributions, the employees are entitled to 100% of the employer's contributions and the accrued interest thereon after completing 10 years of service, or at an increasing rate of between 30% to 90% after completing 3 to 9 years of service.

When employees terminate their employment with the Group and leave the scheme prior to becoming fully vested in the contributions, their share of the unvested employer's contributions will be forfeited and used to reduce the future contributions otherwise payable by the employer. There were no material unutilised forfeited contributions at the balance sheet date.

The assets of the scheme are held in a separate fund managed by an independent trustee.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

FOR THE YEAR ENDED 31ST DECEMBER, 1997

22. Operating Lease Commitments

At the balance sheet date, the Group and the Company had commitments under non-cancellable operating leases for land and buildings. The Group and the Company were committed to pay the following amounts within one year in respect of:

	THE GROUP		THE COMPANY	
	1997 HK\$'000	1996 HK\$'000	1997 HK\$'000	1996 HK\$'000
Operating leases expiring				
— Within one year	3,540	5,823	273	—
— In the second to fifth year inclusive	17,818	4,591	—	—
— After five years	469	1,208	420	—
	<u>21,827</u>	<u>11,622</u>	<u>693</u>	<u>—</u>

23. Capital Commitments

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

24. Subsidiaries

Details of the Company's subsidiaries at 31st December, 1997 are as follows:

Name of company	Place of incorporation/ operation	Issued and fully paid share capital	Attributable equity interest of the Group	Principal activities
Anluck Limited	Hong Kong	Ordinary HK\$100	60%	Garment trading
Fortei (B.V.I.) Limited *	British Virgin Islands	Ordinary US\$600	100%	Investment holding
Fortei Far East Limited	Hong Kong	Ordinary HK\$2	100%	Retail of sports and leisure wear
Fortei International Limited	Hong Kong	Ordinary HK\$2	100%	Investment holding
Fortei Licensing Limited	British Virgin Islands	Ordinary US\$0.01	100%	Holding of trademarks and licensing

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

FOR THE YEAR ENDED 31ST DECEMBER, 1997

24. Subsidiaries (Cont'd)

Name of company	Place of incorporation/ operation	Issued and fully paid share capital	Attributable equity interest of the Group	Principal activities
Fortei Limited	Hong Kong	Ordinary HK\$10,000	100%	Property holding
Onpower Company Limited	Hong Kong	Ordinary HK\$10 Non-voting deferred HK\$5,000,000	100%	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, 1997 or at any time during the year.

The non-voting deferred shares are not held by the Group. They practically carry no rights to dividends or to participate in any distribution in winding up. They carry no rights to receive notice of or to attend or vote at any general meeting.

25. Subsequent Event

On 18th May, 1998, Tasmanian Treasure Limited became the ultimate holding company of the Company in place of Hoi Fat Investments (B.V.I.) Limited. Both the present and former ultimate holding companies are incorporated in the British Virgin Islands.

FINANCIAL SUMMARY

Results

	For the year ended 31st December,				1997 HK\$'000
	1993 HK\$'000	1994 HK\$'000	1995 HK\$'000	1996 HK\$'000	
Turnover	348,673	229,042	285,660	286,058	145,669
Operating profit (loss)					
From continuing operations excluding exceptional items	85,582	23,824	3,179	21,539	(27,950)
Exceptional items	—	—	—	—	(31,590)
	<u>85,582</u>	<u>23,824</u>	<u>3,179</u>	<u>21,539</u>	<u>(59,540)</u>
Share of profits of associated company	<u>509</u>	<u>88</u>	<u>—</u>	<u>—</u>	<u>—</u>
Profit (loss) from ordinary activities before taxation	86,091	23,912	3,179	21,539	(59,540)
Taxation charge (credit)	<u>14,035</u>	<u>1,867</u>	<u>(3,818)</u>	<u>569</u>	<u>339</u>
Profit (loss) before minority interests	72,056	22,045	6,997	20,970	(59,879)
Loss attributable to minority interests	<u>—</u>	<u>—</u>	<u>—</u>	<u>(133)</u>	<u>(100)</u>
Profit (loss) attributable to shareholders	<u><u>72,056</u></u>	<u><u>22,045</u></u>	<u><u>6,997</u></u>	<u><u>21,103</u></u>	<u><u>(59,779)</u></u>
Dividends	<u><u>36,000</u></u>	<u><u>14,000</u></u>	<u><u>4,000</u></u>	<u><u>12,000</u></u>	<u><u>4,000</u></u>

FINANCIAL SUMMARY (Cont'd)

Assets and Liabilities

	At 31st December,				
	1993 HK\$'000	1994 HK\$'000	1995 HK\$'000	1996 HK\$'000	1997 HK\$'000
Fixed assets	42,107	47,235	45,329	42,521	22,426
Interest in associated company	835	—	—	—	—
Net current assets	172,079	177,131	178,534	190,536	146,752
Minority interests	—	—	—	(91)	—
Borrowings due after one year	—	—	—	—	—
Deferred taxation	(285)	(285)	(285)	(285)	(285)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Shareholders' funds	<u>214,736</u>	<u>224,081</u>	<u>223,578</u>	<u>232,681</u>	<u>168,893</u>