



A N N U A L   R E P O R T   1 9 9 6



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)*

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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, Forte 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 1997 annual general meeting of shareholders of Fortei Holdings Limited (the "Company") will be held at Shek O Room, Lower Level 1, Kowloon Shangri-La Hotel, 64 Mody Road, Kowloon on Friday, 23rd May, 1997 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, 1996.
2. To declare a final dividend of 2 cents per share for the year ended 31st December, 1996.
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 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

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

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. 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, 10th April, 1997

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

**Notes:**

- (1) A member entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and, on a poll, vote on his/her behalf. A proxy need not be a member of the Company.
- (2) To be valid, a form of proxy and the power of attorney or other authority, if any, under which it is signed, or a notarially certified copy of such power of attorney or authority, must be lodged with the Company's branch registrars in Hong Kong, Central Registration Hong Kong Limited, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than 48 hours before the time appointed for holding the meeting.
- (3) The registers of members will be closed from Monday, 19th May, 1997 to Friday, 23rd May, 1997 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, 16th May, 1997.

## 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, 1996.

### Group Results

The audited consolidated turnover of the Company and its subsidiaries (the "Group") for the year ended 31st December, 1996 amounted to HK\$286,058,000, and the profit attributable to shareholders amounted to HK\$21,103,000. Consolidated turnover recorded modest growth when compared with that of last year, while profit attributable to shareholders grew by more than 200%.



### Business Review

During the year, the Group has adopted the strategy of focussing its sales efforts by paying more attention to operators of specialty shops and counters which carry only Fortei products instead of the former practice of relying on individual retail operators who also carry competing brands. As a result, turnover grew only slightly during the year but it is expected that results will improve as soon as the transitional period is over.

The Group will take active steps to seek new sales avenues and to strengthen after-sales service and support provided to the various specialty shops and counters.

There is still no sign of a marked recovery in the local consumer market. The Group will continue to maintain its own shops, totalling seven of them, in Hong Kong so as to gather market information and to train its personnel.

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## CHAIRMAN'S STATEMENT *(Cont'd)*

### Prospects

The market potential in China is huge enough to accommodate the development of various products. The Group will endeavour to consolidate its market position and to achieve better results for shareholders.



### Financial Summary

A summary of the past results and assets and liabilities of the Group is set out on page 27.

### 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, 10th April, 1997

# DIRECTORS' REPORT

The directors have pleasure in presenting their annual report and audited financial statements for the year ended 31st December, 1996.

## 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 of 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\$61 million conducted in the Group's retail shops in Hong Kong during the year ended 31st December, 1996, 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 PRC.

## Results

The directors recommend the payment of a final dividend 2 cents (1995: 1 cent) per share. Details of the results and dividends of the Group for the year ended 31st December, 1996 are set out in the consolidated profit and loss account on page 10 and in note 7 to the financial statements.

## Financial Summary

A summary of the results and assets and liabilities of the Group in respect of the past five financial years is set out on page 27.

## Reserves

Movements in the reserves of the Group and of the Company during the year are set out in note 16 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, 1996 are set out in note 26 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 Sing, Jarvis retires and, being eligible, offers himself for re-election. None of the directors being proposed for re-election at the forthcoming annual general meeting has a service agreement with the Company.

The non-executive directors do not have specific terms of appointment but are subject to retirement as required by the Company's Bye-laws as indicated above.

## Brief Biographical Details in respect of Directors

### Executive directors

**Kong Yun Kan**, aged 50, 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.



## DIRECTORS' REPORT (Cont'd)

**Kwong Yun Nin**, aged 41, 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.

**Kwong Yun Sing, Jarvis**, aged 43, 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 53, 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

**Chan Cheung Ho**, aged 48, 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.

**Liu Wing Ting, Stephen**, aged 44, has been practicing as a Certified Public Accountant in Hong Kong for over 18 years. He has wide experience in auditing, taxation and financial management in various fields and industries.

### Directors' Interests in Shares

At 31st December, 1996, 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 ("SDI Ordinance") were as follows:

Name of director	Number of shares	
	Personal interest	Corporate 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, 1996.

### Substantial Shareholders

At 31st December, 1996, the register of substantial shareholders required to be maintained by the Company pursuant to section 16(1) of the SDI Ordinance showed that, other than the interests disclosed above in respect of a director, the Company was not notified of any interest representing 10% or more of the issued share capital of the Company.

### 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 15 to the financial statements.

On 8th July, 1993, Kwong Yun Nin was granted an option to subscribe for 10,000,000 shares in the Company at HK\$1.28 each. The option expired during the year and no shares were issued. There were no other options outstanding at 31st December, 1996.

Save as aforesaid:

- (a) none of the directors or their spouses or children under the age of 18 had any right to subscribe for shares of the Company, or had exercised any such right; and

## **DIRECTORS' REPORT** *(Cont'd)*

- (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 amounted to approximately 66.7% of the Group's total purchases for the year and the percentage of purchases attributable to the Group's largest supplier was approximately 32.9%.

No director, associate of a director or any shareholder (which to the knowledge of the directors owns more than 5% of the Company's issued share capital) was 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 accounted for less than 30% of the Group's total sales for the year.

### **Compliance with the Code of Best Practice**

In the opinion of the directors, 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 throughout the year ended 31st December, 1996.

### **Auditors**

Messrs. Deloitte Touche Tohmatsu have acted as auditors of the Company for the last 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**  
*Chairman*

10th April, 1997

# AUDITORS' REPORT

## Deloitte Touche Tohmatsu



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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 10 to 26 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, 1996 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, 10th April, 1997

# CONSOLIDATED PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31ST DECEMBER, 1996

	NOTES	1996 HK\$'000	1995 HK\$'000
TURNOVER		<u>286,058</u>	<u>285,660</u>
PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION	3	21,539	3,179
TAXATION CHARGE (CREDIT)	5	<u>569</u>	<u>(3,818)</u>
PROFIT BEFORE MINORITY INTERESTS		20,970	6,997
MINORITY INTERESTS		<u>133</u>	<u>—</u>
PROFIT ATTRIBUTABLE TO SHAREHOLDERS	6	21,103	6,997
DIVIDENDS	7	<u>12,000</u>	<u>4,000</u>
PROFIT FOR THE YEAR RETAINED	16	<u>9,103</u>	<u>2,997</u>
EARNINGS PER SHARE	8	<u>5.3 cents</u>	<u>1.7 cents</u>

# CONSOLIDATED BALANCE SHEET

AT 31ST DECEMBER, 1996

	NOTES	1996 HK\$'000	1995 HK\$'000
FIXED ASSETS	9	42,521	45,329
NET CURRENT ASSETS	11	<u>190,536</u>	<u>178,534</u>
		<u>233,057</u>	<u>223,863</u>
Financed by:			
SHARE CAPITAL	14	40,000	40,000
RESERVES	16	<u>192,681</u>	<u>183,578</u>
SHAREHOLDERS' FUNDS		232,681	223,578
MINORITY INTERESTS		91	—
DEFERRED TAXATION	17	<u>285</u>	<u>285</u>
		<u>233,057</u>	<u>223,863</u>

The financial statements on pages 10 to 26 were approved by the Board of Directors on 10th April, 1997 and are signed on its behalf by:

**Kong Yun Kan**  
Director

**Kwong Yun Sing, Jarvis**  
Director

# BALANCE SHEET

AT 31ST DECEMBER, 1996

	NOTES	1996 HK\$'000	1995 HK\$'000
INTEREST IN SUBSIDIARIES	10	197,929	200,728
NET CURRENT ASSETS	11	<u>1,951</u>	<u>1,040</u>
NET ASSETS		<u>199,880</u>	<u>201,768</u>
Financed by:			
SHARE CAPITAL	14	40,000	40,000
RESERVES	16	<u>159,880</u>	<u>161,768</u>
SHAREHOLDERS' FUNDS		<u>199,880</u>	<u>201,768</u>

Kong Yun Kan  
Director

Kwong Yun Sing, Jarvis  
Director

# CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31ST DECEMBER, 1996

	NOTES	1996 HK\$'000	1995 HK\$'000
NET CASH INFLOW (OUTFLOW) FROM OPERATING ACTIVITIES	18	<u>48,585</u>	<u>(31,845)</u>
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received		360	961
Rental received		981	1,620
Interest paid		(368)	(598)
Dividends paid		<u>(8,000)</u>	<u>(10,000)</u>
NET CASH OUTFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		<u>(7,027)</u>	<u>(8,017)</u>
TAXATION			
Hong Kong Profits Tax (paid) refunded		<u>(572)</u>	<u>2,505</u>
INVESTING ACTIVITIES			
Purchase of fixed assets		(1,244)	(5,945)
Proceeds from disposal of fixed assets		<u>13</u>	<u>64</u>
NET CASH OUTFLOW FROM INVESTING ACTIVITIES		<u>(1,231)</u>	<u>(5,881)</u>
NET CASH INFLOW (OUTFLOW) BEFORE FINANCING		39,755	(43,238)
FINANCING			
Contributions from minority interests	19	<u>224</u>	<u>—</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		39,979	(43,238)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		<u>(17,604)</u>	<u>25,634</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	20	<u><u>22,375</u></u>	<u><u>(17,604)</u></u>

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 1996

## 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.

## 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 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.

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

### **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 reserves is charged to the profit and loss account.

Any revaluation surplus realised on sale of revalued investment properties is credited to the profit and loss account.

### **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 cost of bringing the asset to its 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, 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 assets are sold or retired, their cost or valuation and accumulated depreciation are removed from the accounts and any gain or loss on disposal is included in the profit and loss account.



# NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

FOR THE YEAR ENDED 31ST DECEMBER, 1996

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

The cost or valuation of leasehold land with unexpired terms of not less than fifty years, including the renewable period, was not depreciated prior to 1st January, 1996. However, the cost or valuation of such land, other than those included in investment properties, will be depreciated on a straight line basis over the remaining duration of the lease on a prospective basis with effect from 1st January, 1996 in accordance with the transitional arrangement provided in paragraph 74 of the Statement of Standard Accounting Practice No. 17 "Property, plant and equipment" ("SSAP 17") issued by the Hong Kong Society of Accountants. The Group has also adopted the transitional arrangement provided in paragraph 72 of SSAP 17 with regard to the requirement to make regular revaluations of non-investment properties and accordingly, no further revaluation of the Group's non-investment properties will be carried out.

The cost or valuation of buildings, other than those included in investment properties, are depreciated over twenty years using the straight line method.

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 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 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.

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

FOR THE YEAR ENDED 31ST DECEMBER, 1996

### 3. Profit from Ordinary Activities before Taxation

	1996 HK\$'000	1995 HK\$'000
Profit from ordinary activities before taxation has been arrived after charging:		
Auditors' remuneration	583	482
Depreciation	3,899	3,972
Interest on bank borrowings wholly repayable within five years	368	598
Rental payments under operating leases for land and buildings	24,746	27,041
Retirement benefits scheme contributions (see note 23)	390	490
and after crediting:		
Rental income under operating leases — net of outgoings	948	1,562
Licence fee income	31,021	31,458
Interest income	360	961
	<u>          </u>	<u>          </u>

### 4. Directors' and Employees' Remuneration

	1996 HK\$'000	1995 HK\$'000
Directors' fees		
Executive	—	—
Non-executive	303	284
	<u>          </u>	<u>          </u>
	303	284
Other emoluments of executive directors		
Salaries and other benefits	3,230	3,674
Retirement benefits scheme contributions	155	177
	<u>          </u>	<u>          </u>
	3,385	3,851
	<u>          </u>	<u>          </u>
Total directors' remuneration	<u>          </u>	<u>          </u>
	3,688	4,135
	<u>          </u>	<u>          </u>

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

FOR THE YEAR ENDED 31ST DECEMBER, 1996

## 4. Directors' and Employees' Remuneration *(Cont'd)*

The emoluments of the directors were within the following bands:

	Number of director	
	1996	1995
Up to HK\$1,000,000	4	6
HK\$1,000,001 to HK\$1,500,000	2	—

In 1996 the five highest paid individuals of the Group comprised three (1995: four) executive directors whose emoluments are shown above. The emoluments paid in 1996 to the remaining two (1995: one) highest paid employees of the Group, who are not directors of the Company and each earning less than HK\$1,000,000, were as follows:

	1996 <i>HK\$'000</i>	1995 <i>HK\$'000</i>
Salaries and other benefits	1,050	455
Performance related incentive payments	250	339
Retirement benefits scheme contributions	28	16
	1,328	810

## 5. Taxation Charge (Credit)

	1996 <i>HK\$'000</i>	1995 <i>HK\$'000</i>
Hong Kong Profits Tax calculated at 16.5% on the estimated assessable profit for the year	577	596
Overprovision in prior years	(8)	(4,414)
	569	(3,818)

## 6. Profit Attributable to Shareholders

Of the profit attributable to shareholders for the year, a profit of approximately HK\$10,112,000 (1995: HK\$5,120,000) has been dealt with in the financial statements of the Company.

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

FOR THE YEAR ENDED 31ST DECEMBER, 1996

### 7. Dividends

	1996 <i>HK\$'000</i>	1995 <i>HK\$'000</i>
Interim dividend paid: 1 cent per share (1995: nil)	4,000	—
Final dividend proposed: 2 cents (1995: 1 cent) per share	<u>8,000</u>	<u>4,000</u>
	<u>12,000</u>	<u>4,000</u>

### 8. Earnings per Share

The calculation of earnings per share is based on the profit attributable to shareholders of HK\$21,103,000 (1995: HK\$6,997,000) and the 400,000,000 shares in issue throughout the year.

# NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

FOR THE YEAR ENDED 31ST DECEMBER, 1996

## 9. Fixed Assets

	Investment property in Hong Kong <i>HK\$'000</i>	Other properties in Hong Kong <i>HK\$'000</i>	Other properties outside Hong Kong <i>HK\$'000</i>	Furniture and fixtures <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>THE GROUP</b>						
<b>COST OR VALUATION</b>						
At 1st January, 1996	21,500	15,166	808	14,610	1,462	53,546
Reclassification	(21,500)	21,500	—	—	—	—
Additions	—	—	—	1,063	181	1,244
Disposals	—	—	—	(2,341)	—	(2,341)
At 31st December, 1996	—	36,666	808	13,332	1,643	52,449
Comprising:						
At cost	—	8,366	808	13,332	1,643	24,149
At valuation — 1993	—	6,800	—	—	—	6,800
At valuation — 1995	—	21,500	—	—	—	21,500
	—	36,666	808	13,332	1,643	52,449
<b>DEPRECIATION</b>						
At 1st January, 1996	—	1,017	—	6,330	870	8,217
Provided for the year	—	606	26	3,112	155	3,899
Eliminated on disposals	—	—	—	(2,188)	—	(2,188)
At 31st December, 1996	—	1,623	26	7,254	1,025	9,928
<b>NET BOOK VALUES</b>						
At 31st December, 1996	—	35,043	782	6,078	618	42,521
At 31st December, 1995	21,500	14,149	808	8,280	592	45,329

All the properties are currently held for use by the Group. They are either in Hong Kong or in The People's Republic of China and are held under leases, including the renewable period, or land use right of not less than fifty years.

The property valuations in 1993 and 1995 were 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 or 1995 on properties in Hong Kong which were then rented to third parties. The properties have since been taken back by the Group for its own use. Had the Group's properties been carried at cost less accumulated depreciation, their carrying value would have been approximately HK\$17,374,000 at 31st December, 1996 (HK\$17,885,000 at 31st December, 1995).

# NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

FOR THE YEAR ENDED 31ST DECEMBER, 1996

## 10. Interest in Subsidiaries

	The Company	
	1996 HK\$'000	1995 HK\$'000
Unlisted shares, at directors' valuation	85,218	85,218
Amounts due from subsidiaries	112,711	115,510
	<u>197,929</u>	<u>200,728</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, 1996 are set out in note 26.

## 11. Net Current Assets

	The Group		The Company	
	1996 HK\$'000	1995 HK\$'000	1996 HK\$'000	1995 HK\$'000
<b>CURRENT ASSETS</b>				
Stocks (note 12)	102,326	109,803	—	—
Trade debtors	63,230	81,846	—	—
Other debtors, deposits and prepayments	21,371	20,576	107	171
Bills receivable	7,090	3,000	—	—
Dividend receivable	—	—	10,000	5,000
Taxation recoverable	959	985	2	—
Bank balances and cash	25,877	9,535	1	—
	<u>220,853</u>	<u>225,745</u>	<u>10,110</u>	<u>5,171</u>
<b>CURRENT LIABILITIES</b>				
Trade creditors	11,284	7,439	—	—
Other creditors and accrued charges	7,294	8,367	159	105
Dividend payable	8,000	4,000	8,000	4,000
Taxation payable	237	266	—	26
Trust receipts and import loans (note 13)	3,502	27,139	—	—
	<u>30,317</u>	<u>47,211</u>	<u>8,159</u>	<u>4,131</u>
<b>NET CURRENT ASSETS</b>	<u>190,536</u>	<u>178,534</u>	<u>1,951</u>	<u>1,040</u>

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

FOR THE YEAR ENDED 31ST DECEMBER, 1996

### 12. Stocks

	The Group	
	1996 HK\$'000	1995 HK\$'000
Raw materials	10,718	15,788
Finished goods	91,608	94,015
	<u>102,326</u>	<u>109,803</u>

### 13. Trust Receipts and Import Loans

	The Group	
	1996 HK\$'000	1995 HK\$'000
Secured	3,502	22,940
Unsecured	—	4,199
	<u>3,502</u>	<u>27,139</u>

### 14. Share Capital

	1996 & 1995	
	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, an option was granted to a director of the Company to subscribe up to 10,000,000 shares in the Company at HK\$1.28 per share. The option expired during the year and no shares were issued. There were no other options outstanding at 31st December, 1996.

# NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

FOR THE YEAR ENDED 31ST DECEMBER, 1996

## 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>
<b>THE GROUP</b>						
At 1st January, 1996	72,131	16,265	2,307	17,314	75,561	183,578
Reclassification ( <i>see note 9</i> )	—	(16,265)	16,265	—	—	—
Profit for the year retained	—	—	—	—	9,103	9,103
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31st December, 1996	72,131	—	18,572	17,314	84,664	192,681
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

	Share premium <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>THE COMPANY</b>				
At 1st January, 1996	72,131	84,918	4,719	161,768
Profit for the year ( <i>note 6</i> )	—	—	10,112	10,112
Dividends ( <i>note 7</i> )	—	—	(12,000)	(12,000)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31st December, 1996	72,131	84,918	2,831	159,880
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

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 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, 1996 amounted to HK\$87,749,000 (1995: HK\$89,637,000), comprising the contributed surplus account balance of HK\$84,918,000 (1995: HK\$84,918,000) and the balance of retained profits, after the proposed final dividend, of HK\$2,831,000 (1995: HK\$4,719,000).



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

FOR THE YEAR ENDED 31ST DECEMBER, 1996

### 17. Deferred Taxation

The deferred taxation shown 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\$5,363,000 (1995: HK\$3,500,000) 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.

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.

The surplus arising on property revaluation 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 Inflow (Outflow) from Operating Activities

	1996 HK\$'000	1995 HK\$'000
Profit from ordinary activities before taxation	21,539	3,179
Interest income	(360)	(961)
Rental income — gross	(981)	(1,620)
Interest expenses	368	598
Depreciation	3,899	3,972
Loss on disposal of fixed assets	140	315
Decrease (increase) in stocks	7,477	(16,407)
Decrease (increase) in trade debtors	18,616	(17,965)
Increase in other debtors, deposits and prepayments	(795)	(5,213)
Increase in bills receivable	(4,090)	(3,000)
Increase in trade creditors	3,845	5,380
Decrease in other creditors and accrued charges	(1,073)	(123)
	<hr/>	<hr/>
Net cash inflow (outflow) from operating activities	<u>48,585</u>	<u>(31,845)</u>

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

FOR THE YEAR ENDED 31ST DECEMBER, 1996

### 19. Analysis of Changes in Financing during the Year

	<i>HK\$'000</i>
Minority interests:	
Balance at 1st January, 1996	—
Contributions from minority interests	224
Loss attributable to minority interests	(133)
	<hr/>
Balance at 31st December, 1996	<u>91</u>

### 20. Analysis of the Balances of Cash and Cash Equivalents

	1996	1995
	<i>HK\$'000</i>	<i>HK\$'000</i>
Bank balances and cash	25,877	9,535
Trust receipts and import loans	(3,502)	(27,139)
	<hr/>	<hr/>
	<u>22,375</u>	<u>(17,604)</u>

### 21. 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 (1995: HK\$29 million) to secure general banking facilities.

### 22. Contingent Liabilities

	The Company	
	1996	1995
	<i>HK\$'000</i>	<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>3,502</u>	<u>22,940</u>

### 23. Retirement Benefits Scheme

The Group has a defined contribution pension scheme for its qualified employees, including directors. 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 the 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 completing 10 years of service, or at an increasing rate of between 30% to 90% after completing 3 to 9 years of service.

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

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

FOR THE YEAR ENDED 31ST DECEMBER, 1996

### 24. Operating Lease Commitments

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

	1996 <i>HK\$'000</i>	1995 <i>HK\$'000</i>
Operating leases expiring		
— Within one year	5,823	8,157
— In the second to fifth year inclusive	4,591	10,752
— After five years	1,208	—
	<u>11,622</u>	<u>18,909</u>

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

### 25. 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, 1996

### 26. Subsidiaries

Details of the Company's subsidiaries at 31st December, 1996 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	55%	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
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, 1996 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 receive notice of or to attend or vote at any general meeting or to participate in any distribution in winding up.

## FINANCIAL SUMMARY

RESULTS	For the year ended 31st December,				
	1992 HK\$'000	1993 HK\$'000	1994 HK\$'000	1995 HK\$'000	1996 HK\$'000
Turnover	220,077	348,673	229,042	285,660	286,058
Operating profit	42,606	85,582	23,824	3,179	21,539
Share of profits of associated company	37	509	88	—	—
Profit from ordinary activities before taxation	42,643	86,091	23,912	3,179	21,539
Taxation charge (credit)	7,491	14,035	1,867	(3,818)	569
Profit before minority interests	35,152	72,056	22,045	6,997	20,970
Minority interests	—	—	—	—	133
Profit attributable to shareholders	35,152	72,056	22,045	6,997	21,103
Dividends	17,520	36,000	14,000	4,000	12,000
<b>ASSETS AND LIABILITIES</b>	<b>At 31st December,</b>				
	1992 HK\$'000	1993 HK\$'000	1994 HK\$'000	1995 HK\$'000	1996 HK\$'000
Fixed assets	21,385	42,107	47,235	45,329	42,521
Interest in associated company	414	835	—	—	—
Net current assets	34,062	172,079	177,131	178,534	190,536
Minority interests	—	—	—	—	(91)
Borrowings due after one year	(9,499)	—	—	—	—
Deferred taxation	(285)	(285)	(285)	(285)	(285)
Shareholders' funds	46,077	214,736	224,081	223,578	232,681

### 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 the year ended 31st December, 1992 presented above have been extracted from the prospectus of the Company dated 22nd June, 1993. All other financial information has been extracted from the published financial statements of the Company.