

Notes to the Accounts

As at 31 December 2002

1 Principal accounting policies

The principal accounting policies adopted in the preparation of these accounts are set out below:

(a) Basis of preparation

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants ("HKSA"). They have been prepared under the historical cost convention as modified by the revaluation of certain leasehold land and buildings as disclosed in the accounting policies below.

In the current year, the Group adopted the following Statements of Standard Accounting Practice ("SSAPs") issued by the HKSA which are effective for accounting periods commencing on or after 1 January 2002:

SSAP 1 (revised)	:	Presentation of financial statements
SSAP 15 (revised)	:	Cash flow statements
SSAP 34 (revised)	:	Employee benefits

The effect of adopting these revised standards is set out in the accounting policies detailed below.

(b) Group accounting

(i) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31 December. Subsidiaries are those entities in which the Group controls the composition of the board of directors, controls more than half of the voting power or holds more than half of the issued share capital or has power to govern the financial and operating policies. The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The gain or loss on disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any unamortised goodwill or negative goodwill or goodwill/negative goodwill taken to reserves and which was not previously charged or recognised in the consolidated profit and loss account.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

1 Principal accounting policies (continued)

(b) Group accounting (continued)

(ii) Associated companies

An associated company is a company, not being a subsidiary, in which an equity interest is held for the long-term and significant influence is exercised in its management.

The consolidated profit and loss account includes the Group's share of the results of associated companies for the year, and the consolidated balance sheet includes the Group's share of the net assets of the associated companies and also goodwill/negative goodwill (net of accumulated amortisation) on acquisition.

Equity accounting is discontinued when the carrying amount of the investment in an associated company reaches zero, unless the Group has incurred obligations or guaranteed obligations in respect of the associated company.

(iii) Translation of foreign currencies

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

The balance sheet of subsidiaries and associated companies expressed in foreign currencies are translated at rates of exchange ruling at the balance sheet date whilst the profit and loss is translated at an average rate. Exchange differences are dealt with as a movement in reserves.

(c) Fixed assets

(i) Properties

Freehold land is stated at cost.

Leasehold land and buildings are stated at cost or valuation less accumulated depreciation and accumulated impairment losses. Effective from 1994, no further revaluation of the Group's leasehold land and buildings in Hong Kong have been carried out. The Group places reliance on paragraph 80 of SSAP 17 which provides exemption from the need to make regular revaluation for such assets.

1 Principal accounting policies (continued)

(c) Fixed assets (continued)

(ii) Other fixed assets

Other fixed assets, comprising leasehold improvements, furniture, fixtures, computer and other equipment, plant and machinery, motor vehicles and company boats are stated at cost less accumulated depreciation and accumulated impairment losses.

(iii) Depreciation

Freehold land is not amortised. Leasehold land is depreciated over the period of the lease while other fixed assets are depreciated at rates sufficient to write off their cost less accumulated impairment losses over their estimated useful lives on a straight-line basis. The principal annual rates are as follows:

Buildings and leasehold improvements	2% - 20%
Furniture, fixtures, computer and other equipment	10% - 33 $\frac{1}{3}$ %
Plant and machinery	10% - 15%
Motor vehicles and company boats	15% - 20%

Major costs incurred in restoring fixed assets to their normal working condition are charged to the profit and loss account. Improvements are capitalised and depreciated over their expected useful lives to the Group.

(iv) Impairment and gain or loss on sale

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that assets included in properties and other fixed assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account except where the asset is carried at valuation and the impairment loss does not exceed the revaluation surplus for that same asset, in which case it is treated as a revaluation decrease.

The gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account. Any revaluation reserve balance remaining attributable to the relevant asset is transferred to retained earnings and is shown as a movement in reserves.

(d) Assets under leases

(i) Finance leases

Leases that substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as finance leases. Finance leases are capitalised at the inception of the leases at the lower of the fair value of the leased assets or the present value of the minimum lease payments. Each lease payment is allocated between the capital and finance charges so as to achieve a constant rate on the capital balances outstanding. The corresponding rental obligations, net of finance charges, are included in long-term liabilities. The finance charges are charged to the profit and loss account over the lease periods.

Assets held under finance leases are depreciated over the shorter of their estimated useful lives or the lease periods.

1 Principal accounting policies (continued)

(d) Assets under leases (continued)

(ii) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the profit and loss account on a straight-line basis over the lease periods.

(e) Intangibles

(i) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary/associated company at the date of acquisition.

Goodwill on acquisitions occurring on or after 1 January 2001 is included in intangible assets and is amortised using the straight-line method over its estimated useful life. Goodwill is generally amortised over a period of 15 years.

Goodwill on acquisitions that occurred prior to 1 January 2001 was taken to reserves. Any impairment arising on such goodwill is accounted for in profit and loss account.

The gain or loss on disposal of an entity includes the unamortised balance of goodwill relating to the entity disposed of or, for pre 1 January 2001 acquisitions, the related goodwill written off against reserves to the extent it has not previously been realised in the profit and loss account.

(ii) Research and development costs

Research costs are expensed as incurred. Costs incurred on system development projects relating to the design and testing of new or improved systems for internal use are recognised as an intangible asset where the technical feasibility and intention of completing the system under development has been demonstrated and the resources are available to do so, costs are identifiable and there is an ability to use the asset that will generate probable future economic benefits. Such development costs are recognised as an asset and amortised on a straight-line basis over their estimated useful lives of 3 - 5 years from the date on which the system commences operations to reflect the pattern in which the related economic benefits are recognised. Development costs that do not meet that above criteria are expensed as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

1 Principal accounting policies (continued)

(e) Intangibles (continued)

(iii) Impairment of intangible assets

Where an indication of impairment exists, the carrying amount of any intangible asset, including goodwill previously written off against reserves, is assessed and written down immediately to its recoverable amount. Any impairment loss is recognised as an expense in the profit and loss account.

(f) Investments

Investments are stated at cost less any provision for impairment losses.

The carrying amounts of individual investments are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amount of such investments will be reduced to its fair value. The impairment loss is recognised as an expense in the profit and loss account. This impairment loss is written back to profit and loss account when the circumstances and events that led to the write-downs or write-offs cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

(g) Inventories

Inventories comprise merchandise, raw materials and finished goods and are stated at the lower of cost and net realisable value. Cost, calculated on the first-in, first-out basis, comprises purchase prices of inventories including direct expenses. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

(h) Accounts receivable

Provision is made against accounts receivable to the extent they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision.

(i) Export quota entitlements

Purchased permanent export quota entitlements are charged to the profit and loss account immediately upon acquisition.

Export quota entitlements allocated by the authorities in Hong Kong are not capitalised and are not included as assets in the balance sheet.

Temporary export quota entitlements acquired are charged to the profit and loss account in the year in which such quota entitlements are utilised.

(j) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash and bank balances which represent cash on hand and demand deposits at banks, net of short-term bank loans and bank overdrafts which are repayable on demand.

1 Principal accounting policies (continued)

(k) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

(l) Employee benefits

The Group participates in a number of defined contribution plans and defined benefit plans throughout the world, the assets of which are generally held in separate trustee - administrated funds. The pension plans are generally funded by payments from employees and by the relevant Group companies, taking account of the recommendations of qualified actuaries.

The Group's contributions to the defined contribution retirement scheme are charged to the profit and loss account in the year to which the contributions relate.

For defined benefit plans, pension costs are assessed using the projected unit credit method. Under this method, the cost of providing pensions is charged to the profit and loss account so as to spread the regular cost over the service lives of employees in accordance with the advice of the actuaries who carry out a full valuation of the plans on an annual basis. The pension obligation is measured as the present value of the estimated future cash outflows, discounted by reference to market yields on high quality corporate bonds which have terms to maturity approximating the terms of the related liabilities. Plan assets are measured at fair value. Actuarial gains and losses are recognised over the average remaining service lives of employees. Past service costs are recognised as an expense on a straight-line basis over the average period until the benefits become vested. This is a change in accounting policy, as in previous years, pension costs in respect of the defined benefit plans were charged to the profit and loss account to the extent of contributions paid to the funds.

Pursuant to the requirements of SSAP 34, the Group has transitional pension liability on initial adoption of the SSAP of approximately HK\$16,048,000. The Group chooses to recognise the transitional pension liability on a straight-line basis over five years from the date of adoption of this SSAP at 1 January 2002. For the year ended 31 December 2002, the transitional pension liability of approximately HK\$3,208,000 was charged to the consolidated profit and loss account (*note 24(b)*). As at 31 December 2002, transitional pension liability of approximately HK\$12,840,000 remained unrecognised.

(m) Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

1 Principal accounting policies (continued)

(m) Contingent liabilities and contingent assets (continued)

Contingent assets are not recognised but are disclosed in the notes to the accounts when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

(n) Deferred taxation

Deferred taxation is accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset is expected to be payable or recoverable in the foreseeable future.

(o) Revenue recognition

Revenue from the sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has been passed.

Operating lease rental income is recognised on a straight-line basis.

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

Dividend income is recognised when the right to receive payment is established.

Commission and value added services income are recognised when the services are rendered.

(p) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset.

All other borrowing costs are charged to the profit and loss account in the year in which they are incurred.

(q) Segment reporting

In accordance with the Group's internal financial reporting the Group has determined that geographical segments be presented as the primary reporting format and business as the secondary reporting format.

Segment assets consist primarily of intangible assets, fixed assets, inventories, receivables and operating cash, and mainly exclude investments. Segment liabilities comprise operating liabilities and exclude items such as taxation and certain corporate borrowings. Capital expenditure comprises additions to intangible assets (*note 11*) and fixed assets (*note 12*).

In respect of geographical segment reporting, sales, total assets and capital expenditure are based on the destination country to which goods are shipped.

1 Principal accounting policies (continued)**(r) Comparatives**

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

2 Turnover, revenues and segment information

(a) The Group is principally engaged in the export trading of consumer products. Turnover comprises sales at invoiced value to customers outside the Group less discounts and returns, and gross rental revenue derived from properties in and outside Hong Kong. Revenues recognised during the year are as follows:

	2002 HK\$'000	2001 HK\$'000
Turnover		
Sales at invoiced value	37,279,725	33,026,382
Rental income	1,635	2,193
	37,281,360	33,028,575
Other revenues		
Value added services income	126,747	53,539
Commission income	3,655	2,910
Others	5,485	5,650
	135,887	62,099
Interest income	49,581	112,837
Total revenues	37,466,828	33,203,511

2 Turnover, revenues and segment information (continued)

(b) Primary reporting format - geographical segments

	North America 2002 HK\$'000	Europe 2002 HK\$'000	Southern Hemisphere 2002 HK\$'000	East Asia 2002 HK\$'000	Group 2002 HK\$'000
Turnover					
Continuing operations	28,156,018	7,061,902	994,554	1,068,886	37,281,360
Segment results					
Continuing operations	864,456	236,962	29,258	3,929	1,134,605
Interest income					49,581
Interest expenses					(8,987)
Share of profits less losses of associated companies					393
Profit before taxation					1,175,592
Taxation					(94,896)
Profit after taxation					1,080,696
Minority interests					(228)
Profit attributable to shareholders					1,080,468
Continuing operations					
Segment assets	4,614,410	1,206,748	143,232	128,732	6,093,122
Unallocated assets					1,931,049
Total assets					8,024,171
Continuing operations					
Segment liabilities	3,073,403	667,369	90,905	87,583	3,919,260
Unallocated liabilities					279,643
Total liabilities					4,198,903
Capital expenditure					
Continuing operations	61,552	13,084	1,670	76,679	152,985
Depreciation					
Continuing operations	59,364	16,056	2,299	28,788	106,507
Amortisation charge					
Continuing operations	10,069	5,667	328	343	16,407

2 Turnover, revenues and segment information (continued)

(b) Primary reporting format - geographical segments (continued)

	North America 2001 HK\$'000	Europe 2001 HK\$'000	Southern Hemisphere 2001 HK\$'000	East Asia 2001 HK\$'000	Group 2001 HK\$'000
Turnover					
Continuing operations	24,762,981	6,731,966	1,003,023	443,422	32,941,392
Discontinued operations	87,183	—	—	—	87,183
	24,850,164	6,731,966	1,003,023	443,422	33,028,575
Segment results					
Continuing operations	707,405	187,017	24,487	9,833	928,742
Discontinued operations	(237,955)	—	—	—	(237,955)
	469,450	187,017	24,487	9,833	690,787
Provision for investments					(24,222)
Operating profit					666,565
Interest income					112,837
Interest expenses					(12,464)
Share of profits less losses of associated companies					1,443
Profit before taxation					768,381
Taxation					(55,637)
Profit after taxation					712,744
Minority interests					69,567
Profit attributable to shareholders					782,311
Continuing operations					
Segment assets	3,833,154	1,055,481	131,099	76,613	5,096,347
Unallocated assets					1,933,219
Total assets					7,029,566
Continuing operations					
Segment liabilities	2,579,213	624,790	94,443	49,237	3,347,683
Unallocated liabilities					212,867
Total liabilities					3,560,550
Capital expenditure					
Continuing operations	94,807	27,938	3,386	1,712	127,843
Discontinued operations	24,593	—	—	—	24,593
Total	119,400	27,938	3,386	1,712	152,436
Depreciation					
Continuing operations	76,197	26,230	3,415	1,879	107,721
Discontinued operations	5,479	—	—	—	5,479
Total	81,676	26,230	3,415	1,879	113,200
Amortisation charge					
Continuing operations	3,438	3,500	134	106	7,178

2 Turnover, revenues and segment information (continued)

(c) Secondary reporting format - business segments

	Turnover 2002 HK\$'000	Segment results 2002 HK\$'000	Total assets 2002 HK\$'000	Capital expenditure 2002 HK\$'000
Softgoods	25,497,622	841,245	4,421,444	97,791
Hardgoods	11,783,738	293,360	1,671,678	55,194
	37,281,360		6,093,122	152,985
Operating profit		1,134,605		
Unallocated assets			1,931,049	
Total assets			8,024,171	
	Turnover 2001 HK\$'000	Segment results 2001 HK\$'000	Total assets 2001 HK\$'000	Capital expenditure 2001 HK\$'000
Softgoods	23,804,901	756,289	3,858,558	90,816
Hardgoods	9,136,491	172,453	1,237,789	37,027
Discontinued operations	87,183	(237,955)	—	24,593
	33,028,575	690,787	5,096,347	152,436
Provision for investments		(24,222)		
Operating profit		666,565		
Unallocated assets			1,933,219	
Total assets			7,029,566	

3 Operating profit

Operating profit is stated after crediting and charging the following:

	2002 HK\$'000	2001 HK\$'000
Crediting		
Net exchange gains	15,549	19,809
Net rental income from land and buildings	1,032	1,806
Charging		
Amortisation of intangible assets		
Goodwill	12,258	3,256
Development costs	4,149	3,922
Depreciation of fixed assets	106,507	113,200
Loss on disposal of fixed assets	1,367	4,372
Operating leases rental in respect of land and buildings	84,869	65,822
Provision for doubtful debts	14,440	26,168
Staff costs, including directors' emoluments (note 9)	1,375,444	1,267,779
The remuneration to the auditors for audit and non-audit services is as follows:		
Audit services	5,069	5,195
Non-audit services		
– due diligence on acquisition	1,400	—
– taxation services	1,991	1,819
– others	170	71
Total remuneration to the auditors	8,630	7,085
Less: non-audit service fee capitalised	(1,400)	—
Net remuneration to auditors charged to consolidated profit and loss account	7,230	7,085

4 Interest expenses

	2002 HK\$'000	2001 HK\$'000
Interest on bank loans and overdrafts	8,987	12,464

5 Taxation

Hong Kong profits tax has been provided for at the rate of 16% (2001: 16%) on the estimated assessable profit for the year. Taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which subsidiaries of the Group operates.

The amount of taxation charged to the consolidated profit and loss account represents:

	2002 HK\$'000	2001 HK\$'000
Hong Kong profits tax	79,990	35,693
Overseas taxation	15,048	21,439
Overprovision in prior years	(3,524)	(35)
Deferred taxation (note 25)	1,351	(3,248)
	92,865	53,849
Share of taxation attributable to associated companies		
- Hong Kong	1,982	1,727
- Overseas	49	61
	2,031	1,788
	94,896	55,637

Deferred taxation (credit) / charge for the year has not been provided in respect of the following:

	2002 HK\$'000	2001 HK\$'000
Tax losses	(7,478)	7,892

At the date of approval of the accounts, certain subsidiaries of the Group have disputes with the Hong Kong Inland Revenue involving additional assessments of tax of approximately HK\$372 million on the non-taxable claim of certain non-Hong Kong sourced income and the deduction claim of marketing expenses for the years of assessment from 1992/1993 to 2001/2002. Under professional advice, the subsidiaries are pursuing objection against the additional assessments and the directors believe that no material tax liabilities will finally crystallise. Accordingly, the directors consider that sufficient tax provision has been made in this regard.

6 Profit attributable to shareholders

The profit attributable to shareholders is dealt with in the accounts of the Company to the extent of HK\$895,773,000 (2001: HK\$1,515,948,000).

7 Dividends

	2002 HK\$'000	2001 HK\$'000
Interim, paid, of HK\$0.085 (2001: HK\$0.08) per Share	245,651	229,848
Final, proposed, of HK\$0.22 (2001: HK\$0.185) per Share	635,803	532,887
	881,454	762,735

8 Earnings per Share

- (a) The calculation of basic earnings per Share and earnings per Share from continuing operations are based on the Group's profit attributable to shareholders and profit from continuing operations of HK\$1,080,468,000 (2001: HK\$782,311,000 and HK\$951,307,000 respectively) and on the weighted average number of 2,886,524,000 (2001: 2,870,679,000) Shares in issue during the year.
- (b) In the event that Share Options outstanding at 31 December 2002 and 2001 respectively were exercised in full, the diluted earnings per Share would not be significantly different from the basic earnings per Share as disclosed in the consolidated profit and loss account.

9 Staff costs including directors' emoluments

	2002 HK\$'000	2001 HK\$'000
Salaries and bonuses	1,244,139	1,170,001
Other staff-related expenses	70,233	62,080
Pension costs of defined benefits plans (note 24(b))	12,471	6,686
Pension costs of defined contribution plans	48,601	29,012
	1,375,444	1,267,779

10 Directors' and senior management's emoluments

(a) Directors' remuneration

The aggregate amounts of the emoluments payable to directors of the Company during the year are as follows:

	2002 HK\$'000	2001 HK\$'000
Executive:		
Fees	418	418
Basic salaries, housing allowances, other allowances and benefits in kind	12,125	12,344
Discretionary bonuses	23,897	28,931
Contributions to pension scheme	60	60
	36,500	41,753
Non-executive:		
Fees	582	582
	37,082	42,335

As at 31 December 2002, certain directors held options to acquire 1,200,000 (2001: 1,200,000), 1,200,000 (2001: 1,200,000) and 1,440,000 (2001: 1,440,000) Shares of the Company at an exercise price of HK\$15.26, HK\$10.5 and HK\$7.98 per Share respectively. The closing market price of the Shares as at 31 December 2002 was HK\$7.4.

During the year, a total of 1,440,000 (2001: 360,000) Shares were issued to certain directors of the Company at an exercise price of HK\$4.1525 under the Share Option Scheme. The weighted average closing market price per Share immediately before the dates on which the Share Options were exercised was HK\$11.77.

Directors' fees disclosed above include HK\$320,000 (2001: HK\$320,000) paid to independent non-executive directors.

10 Directors' and senior management's emoluments (continued)**(a) Directors' remuneration (continued)**

The emoluments of the directors fell within the following bands. The emoluments represent the amount paid to or receivable by the directors of the Company for the year and exclude the benefits derived or to be derived from the Share Options granted under the Share Option Scheme.

Emolument bands	Number of directors	
	2002	2001
Nil - HK\$1,000,000	7*	7*
HK\$4,000,001 - HK\$4,500,000	1	1
HK\$5,000,001 - HK\$5,500,000	1	—
HK\$5,500,001 - HK\$6,000,000	—	1
HK\$6,500,001 - HK\$7,000,000	—	1
HK\$7,500,001 - HK\$8,000,000	1	—
HK\$9,000,001 - HK\$9,500,000	1	—
HK\$10,000,001 - HK\$10,500,000	1	—
HK\$11,500,001 - HK\$12,000,000	—	1
HK\$13,000,001 - HK\$13,500,000	—	1

* Represents non-executive directors.

No directors waived their emoluments in respect of the years ended 31 December 2001 and 2002.

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include three (2001: four) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining two individuals (2001: one) during the year are as follows:

	2002 HK\$'000	2001 HK\$'000
Basic salaries, housing allowances, other allowances and benefits in kind	3,791	1,998
Discretionary bonuses	8,746	3,849
Contributions to pension scheme	82	12
	12,619	5,859

Emolument bands	Number of individuals	
	2002	2001
HK\$5,500,001 - HK\$6,000,000	—	1
HK\$6,000,001 - HK\$6,500,000	2	—

11 Intangible assets

	Goodwill HK\$'000	The Group System development costs HK\$'000	Total HK\$'000
Cost			
At 1 January 2002	61,053	30,319	91,372
Goodwill on acquisitions	253,806	—	253,806
Development costs recognised as assets	—	10,140	10,140
Written off	(452)	—	(452)
At 31 December 2002	314,407	40,459	354,866
Accumulated amortisation			
At 1 January 2002	3,256	8,531	11,787
Amortisation charge	12,258	4,149	16,407
Written off	(24)	—	(24)
At 31 December 2002	15,490	12,680	28,170
Net book value			
At 31 December 2002	298,917	27,779	326,696
At 31 December 2001	57,797	21,788	79,585

12 Fixed assets

	Land and buildings HK\$'000	Leasehold improvements HK\$'000	The Group Furniture, fixtures, computer and other equipment HK\$'000	Plant and machinery HK\$'000	Motor vehicles and company boats HK\$'000	Total HK\$'000
Cost or valuation						
At 1 January 2002	1,132,266	135,336	292,798	8,608	31,733	1,600,741
Acquisition of subsidiaries	—	1,832	5,664	—	1,288	8,784
Additions	75,122	15,355	46,842	1,616	3,910	142,845
Disposals	—	(4,620)	(12,145)	(1,130)	(4,885)	(22,780)
Exchange adjustment	2,579	1,131	3,323	820	521	8,374
At cost	864,555	149,034	336,482	9,914	32,567	1,392,552
At directors' 1994 valuation	345,412	—	—	—	—	345,412
At 31 December 2002	1,209,967	149,034	336,482	9,914	32,567	1,737,964
Accumulated depreciation						
At 1 January 2002	108,348	61,531	184,546	4,174	17,788	376,387
Acquisition of subsidiaries	—	1,467	2,641	—	852	4,960
Charge for the year	27,251	22,761	49,672	1,909	4,914	106,507
Disposals	—	(3,368)	(9,276)	(1,083)	(3,975)	(17,702)
Exchange adjustment	133	942	2,201	408	290	3,974
At 31 December 2002	135,732	83,333	229,784	5,408	19,869	474,126
Net book value						
At 31 December 2002	1,074,235	65,701	106,698	4,506	12,698	1,263,838
At 31 December 2001	1,023,918	73,805	108,252	4,434	13,945	1,224,354

12 Fixed assets (continued)

The Group's interests in land and buildings at their net book values are analysed as follows:

	2002 HK\$'000	The Group 2001 HK\$'000
In Hong Kong, held on:		
Leases over 50 years	104,065	106,189
Leases of between 10 to 50 years	921,330	870,541
Outside Hong Kong, held on:		
Freehold	37,402	34,985
Leases over 50 years	10,034	10,765
Leases of between 10 to 50 years	1,404	1,438
	1,074,235	1,023,918

The original cost and accumulated depreciation based on cost of leasehold land and buildings in Hong Kong are as follows:

	2002 HK\$'000	The Group 2001 HK\$'000
Original cost	1,032,314	957,628
Accumulated depreciation based on cost	(111,955)	(91,123)
	920,359	866,505

At 31 December 2002, the net book value of fixed assets pledged as security for the Group's long-term loans amounted to HK\$30,477,000 (2001: HK\$27,927,000).

13 Investments in subsidiaries

	2002 HK\$'000	The Company 2001 HK\$'000
Unlisted shares, at cost	111,210	111,210
Loan to a subsidiary	1,952,493	1,952,493
	2,063,703	2,063,703

The loan to a subsidiary is interest free, unsecured and has no fixed terms of repayment.

Details of principal subsidiaries are set out on pages 81 to 88.

14 Associated companies

	2002 HK\$'000	The Group 2001 HK\$'000
Share of net assets	11,097	8,482
Loans to associated companies	11,158	25,806
	22,255	34,288

The loans to associated companies are interest free and unsecured, except for amounts of HK\$7,247,000 (2001: HK\$9,654,000) which are secured and interest bearing.

Details of principal associated companies are set out on page 89.

15 Investments

	2002 HK\$'000	The Group 2001 HK\$'000
Shares listed overseas, at cost	37,861	32,647
Unlisted shares, at cost	125,483	62,113
Less: provision for diminution in value	(30,012)	(30,012)
	133,332	64,748
Club debentures, at cost	6,600	6,600
	139,932	71,348
Market value of listed shares	19,327	17,998

16 Inventories

	2002 HK\$'000	The Group 2001 HK\$'000
Merchandise	85,509	100,313
Finished goods	3,837	3,420
Raw materials	28,736	26,655
	118,082	130,388

At 31 December 2002, inventories that are carried at net realisable value amounted to HK\$543,000 (2001: HK\$1,148,000).

At 31 December 2002, inventories pledged as security for banking facilities amounted to HK\$36,684,000 (2001: HK\$53,884,000).

17 Due from related companies

	The Group		The Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Due from:				
Subsidiaries	—	—	5,713,162	4,871,768
Associated companies	22,155	19,825	—	—
	22,155	19,825	5,713,162	4,871,768

The amounts are unsecured, interest free and repayable on demand, except for amounts due from associated companies amounting to HK\$2,418,000 (2001: HK\$2,414,000) which are secured and interest bearing.

18 Trade and bills receivable

Majority of the Group's business are on sight letter of credit, usance letter of credit up to a tenor of 120 days, documents against payment or customers' letter of credit to suppliers. The remaining balances of the business are on open account terms payable against deliveries of shipments which are mostly covered by customers' standby letters of credit or bank guarantees. The ageing analysis of trade and bills receivable is as follows:

	The Group	
	2002 HK\$'000	2001 HK\$'000
Current to 90 days	3,039,277	2,261,347
91 to 180 days	87,477	127,956
181 to 360 days	19,835	15,166
Over 360 days	6,247	2,579
	3,152,836	2,407,048

19 Due to related companies

	The Group		The Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Due to:				
A subsidiary	—	—	2,773,306	1,993,881
Associated companies	97	809	—	—
	97	809	2,773,306	1,993,881

The amounts are unsecured, interest free and repayable on demand.

20 Trade and bills payable

The ageing analysis of the trade and bills payable is as follows:

	2002 HK\$'000	The Group 2001 HK\$'000
Current to 90 days	3,218,305	2,605,208
91 to 180 days	108,140	95,320
181 to 360 days	31,718	28,648
Over 360 days	11,538	16,595
	3,369,701	2,745,771

21 Share capital and options

	2002		2001	
	Number of shares (in thousand)	HK\$'000	Number of shares (in thousand)	HK\$'000
Authorised				
At 1 January and 31 December, ordinary HK\$0.025 each	3,200,000	80,000	3,200,000	80,000
Issued and fully paid				
At 1 January, ordinary HK\$0.025 each	2,878,978	71,974	2,750,990	68,775
Exercise of share options (note a)	11,034	276	10,200	254
Issue of shares on a share exchange transaction (note b)	—	—	4,600	115
Issue of shares for the acquisition of Colby (note c)	—	—	113,188	2,830
At 31 December, ordinary of HK\$0.025 each	2,890,012	72,250	2,878,978	71,974
Shares to be allotted and issued				
At 1 January, ordinary HK\$0.025 each	—	—	113,188	2,830
Issue of shares during the year	—	—	(113,188)	(2,830)
At 31 December, ordinary of HK\$0.025 each	—	—	—	—
	2,890,012	72,250	2,878,978	71,974

21 Share capital and options (continued)

(a) Details of Share Options granted by the Company pursuant to the Share Option Scheme and the Share Options outstanding at 31 December 2002 are as follows:

Date of grant	Subscription price per Share	Exercisable period	At 1 January 2002	Share options exercised during the year	Share options lapsed during the year	At 31 December 2002
16 July 1999	HK\$4.1525	16 July 2000 - 15 July 2002	11,034,000	(11,034,000)	—	—
7 July 2000	HK\$15.26	7 July 2001 - 6 July 2003	9,256,000	—	(184,000)	9,072,000
18 July 2001	HK\$10.50	18 July 2002 - 17 July 2004	10,668,000	—	(148,000)	10,520,000
28 August 2001	HK\$7.98	28 August 2003 - 27 August 2005	11,844,000	—	(240,000)	11,604,000

Subsequent to 31 December 2002, no Shares have been allotted and issued under the Share Option Scheme.

- (b) In November 2001 the Company entered into a share exchange agreement with Nichimen Corporation (“Nichimen”) of Japan, which is listed on the Tokyo Stock Exchange. Pursuant to the agreement, the Company issued and allotted 4,600,000 new Shares at HK\$7.3974 per Share to Nichimen in exchange for 4,000,000 shares in Nichimen.
- (c) Pursuant to the sale and purchase agreement with the ex-shareholders of Colby Group Holdings Limited (“Colby”), the Company issued 113,188,000 new Shares to satisfy the remaining balance of the share consideration for the acquisition of Colby.

22 Reserves

The Group	Share premium HK\$'000	Capital reserve HK\$'000	Exchange reserve HK\$'000	Retained earnings HK\$'000	Total HK\$'000
At 1 January 2002	2,833,787	5,630	(65,905)	597,565	3,371,077
2001 final dividend paid	—	—	—	(534,065)	(534,065)
Share premium on issue of new shares	45,543	—	—	—	45,543
Exchange adjustment on translation of the accounts of overseas subsidiaries and associated companies	—	—	8,398	—	8,398
Transfer to capital reserve	—	181	—	(181)	—
Profit for the year	—	—	—	1,080,468	1,080,468
2002 interim dividend paid	—	—	—	(245,651)	(245,651)
Reserves	2,879,330	5,811	(57,507)	262,333	3,089,967
Proposed dividend	—	—	—	635,803	635,803
At 31 December 2002	2,879,330	5,811	(57,507)	898,136	3,725,770
Company and subsidiaries	2,879,330	5,811	(56,108)	893,861	3,722,894
Associated companies	—	—	(1,399)	4,275	2,876
At 31 December 2002	2,879,330	5,811	(57,507)	898,136	3,725,770

22 Reserves (continued)

The Group	Share premium HK\$'000	Capital reserve HK\$'000	Exchange reserve HK\$'000	Retained earnings HK\$'000	Total HK\$'000
At 1 January 2001	2,762,442	4,959	(53,390)	556,439	3,270,450
2000 final dividend paid	—	—	—	(516,303)	(516,303)
Share premium on issue of new shares	71,345	—	—	—	71,345
Exchange adjustment on translation of the accounts of overseas subsidiaries and associated companies	—	—	(12,515)	—	(12,515)
Profit for the year	—	—	—	782,311	782,311
Transfer to capital reserve	—	671	—	(671)	—
Goodwill released upon disposal of a subsidiary	—	—	—	5,637	5,637
2001 interim dividend paid	—	—	—	(229,848)	(229,848)
Reserves	2,833,787	5,630	(65,905)	64,678	2,838,190
Proposed dividend	—	—	—	532,887	532,887
At 31 December 2001	2,833,787	5,630	(65,905)	597,565	3,371,077
Company and subsidiaries	2,833,787	5,630	(65,900)	603,166	3,376,683
Associated companies	—	—	(5)	(5,601)	(5,606)
At 31 December 2001	2,833,787	5,630	(65,905)	597,565	3,371,077

22 Reserves (continued)

The Company	Share premium HK\$'000	Contributed surplus account HK\$'000	Retained earnings HK\$'000	Total HK\$'000
At 1 January 2002	2,833,787	2,060,673	773,983	5,668,443
Share premium on issue of new shares	45,543	—	—	45,543
Profit for the year	—	—	895,773	895,773
2001 final dividend paid	—	—	(534,065)	(534,065)
2002 interim dividend paid	—	—	(245,651)	(245,651)
Reserves	2,879,330	2,060,673	254,237	5,194,240
Proposed dividend	—	—	635,803	635,803
At 31 December 2002	2,879,330	2,060,673	890,040	5,830,043
At 1 January 2001	2,762,442	2,060,673	4,186	4,827,301
Share premium on issue of new shares	71,345	—	—	71,345
Profit for the year	—	—	1,515,948	1,515,948
2000 final dividend paid	—	—	(516,303)	(516,303)
2001 interim dividend paid	—	—	(229,848)	(229,848)
Reserves	2,833,787	2,060,673	241,096	5,135,556
Proposed dividend	—	—	532,887	532,887
At 31 December 2001	2,833,787	2,060,673	773,983	5,668,443

(a) Capital reserve represents amount set aside from the profit of an overseas subsidiary of the Group in accordance with the local statutory requirement.

(b) The contributed surplus account of the Company represents:-

- (i) the difference between the nominal value of the Company's shares issued in exchange for the issued ordinary shares of Li & Fung (B.V.I.) Limited and the value of net assets of the underlying subsidiaries acquired as at 2 June 1992 amounting to HK\$111,010,000. At Group level, the amount is reclassified into its components of reserves of the underlying subsidiaries.
- (ii) the difference between the issue price and the nominal value of the Company's shares issued in connection with the acquisition of Colby in 2000 amounting to HK\$1,949,663,000. At Group level, the amount is set off against goodwill arising from the acquisition.

23 Long-term liabilities

	2002 HK\$'000	The Group 2001 HK\$'000
Long-term bank loans, secured (note 29)	45,274	48,115
Other loans	36,622	29,905
	81,896	78,020
Current portion of long-term liabilities	(51,496)	(50,300)
	30,400	27,720

At 31 December 2002, the Group's long-term bank loans and other borrowings (excluding finance lease liabilities) are repayable as follows:

	Long-term bank loans		Other loans	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Within one year	45,274	41,330	6,222	8,970
In the second year	—	6,785	6,175	8,970
In the third to fifth year	—	—	24,225	11,965
	45,274	48,115	36,622	29,905

24 Pension obligations

The Group participates in a number of defined benefit plans in certain countries. Most of the pension plans are final salary defined benefit plans. The assets of the funded plans are held independently of the Group's assets in separate trustee administered funds. The Group's major plans are valued by qualified actuaries annually using the projected unit credit method.

(a) The amount recognised in the consolidated balance sheet is determined as follows:

	The Group 2002 HK\$'000
Present value of funded obligations	111,160
Fair value of plan assets	(79,977)
	31,183
Unrecognised actuarial gains	(14,314)
Unrecognised liability on initial adoption of SSAP34 paragraph 155 (b)	(12,840)
Pension obligations	4,029

24 Pension obligations (continued)

(b) The amount recognised in the consolidated profit and loss account is as follows:

	The Group 2002 HK\$'000
Current service cost	9,438
Interest cost	4,962
Expected return on plan assets	(5,137)
Amortisation of unrecognised liability on initial adoption of SSAP34	3,208
Total, included in staff costs (note 9)	12,471

(c) Movement in the pension obligations recognised in the consolidated balance sheet:

	The Group 2002 HK\$'000
At 1 January	—
Total expense - as shown above	12,471
Contributions paid	(8,442)
At 31 December	4,029

(d) The principal actuarial assumptions used are as follows:

	The Group 2002 %
Discount rate	4 – 5.5
Expected rate of return on plan assets	3.25 – 7.5
Expected rate of future salary increases	2 – 4.5
Expected rate of future pension increases	2.5

25 Deferred taxation

	The Group			
	2002	2002	2001	2001
	Full potential liabilities/ (assets) HK\$'000	Provision made HK\$'000	Full potential liabilities/ (assets) HK\$'000	Provision made HK\$'000
Accelerated depreciation allowances	5,238	5,238	5,609	5,609
Tax losses	(31,546)	—	(24,068)	—
Other timing differences	(227)	(227)	(1,641)	(1,641)
	(26,535)	5,011	(20,100)	3,968

Movements in the provision for deferred taxation are as follows:

	The Group	
	2002 HK\$'000	2001 HK\$'000
At 1 January	3,968	7,216
Transferred from/(to) profit and loss account (note 5)	1,351	(3,248)
Acquisition of subsidiaries (note 26(c))	(308)	—
At 31 December	5,011	3,968

No provision has been made for deferred tax liability in respect of the timing differences relating to the revaluation of certain leasehold land and buildings of the Group. The revaluation does not constitute timing differences for taxation purposes because management of the Group intend to operate these properties on a long-term basis.

26 Notes to the consolidated cash flow statement**(a) Reconciliation of profit before taxation to net cash inflow from operations**

	2002 HK\$'000	2001 HK\$'000
Profit before taxation	1,175,592	768,381
Interest income	(49,581)	(112,837)
Interest expenses	8,987	12,464
Share of profits less losses of associated companies	(393)	(1,443)
Depreciation	106,507	113,200
Amortisation of goodwill	12,258	3,256
Amortisation of development costs	4,149	3,922
Write off of development costs	—	89,150
Write off of goodwill	428	—
Write off of fixed assets	—	43,425
Provision for investments	—	24,222
Profit on disposal of subsidiaries	—	(2,588)
Profit on disposal of associated companies	(161)	—
Loss on disposal of fixed assets	1,367	4,372
Decrease in inventories	12,306	16,107
(Increase)/decrease in trade and bills receivable, other receivables, prepayments and deposits including amounts due from associated companies	(871,722)	62,454
Decrease/(increase) in trade and bills payable, accrued charges and sundry payables, and pension obligations including amounts due to associated companies	582,102	(126,167)
Net cash inflow generated from operations	981,839	897,918

26 Notes to the consolidated cash flow statement (continued)**(b) Disposal of subsidiaries**

	2002 HK\$'000	2001 HK\$'000
Net assets disposed of:		
Fixed assets	—	2,862
Inventories	—	20,485
Trade and other receivables	—	8,880
Cash and bank balances	—	2,320
Trade and other payables	—	(23,674)
Minority interests	—	(14,384)
Exchange reserve	—	88
	—	(3,423)
Profit on disposal of subsidiaries	—	2,588
Goodwill realised upon disposal of subsidiaries	—	5,637
	—	4,802
Satisfied by:		
Cash consideration	—	249
Investments	—	4,553
	—	4,802
Analysis of outflow of cash and cash equivalents in respect of disposal of subsidiaries:		
	2002 HK\$'000	2001 HK\$'000
Cash consideration	—	249
Cash and cash equivalents disposed	—	(2,320)
Net outflow of cash and cash equivalents in respect of disposal of subsidiaries	—	(2,071)

26 Notes to the consolidated cash flow statement (continued)**(c) Purchase of subsidiaries**

	2002 HK\$'000	2001 HK\$'000
Net assets acquired:		
Fixed assets	3,824	—
Investment securities	5	—
Deferred taxation (note 25)	308	—
Trade and other receivables	12,004	812
Cash and bank balances	36,973	26,882
Trade and other payables	(12,825)	(85)
Taxation	(118)	—
Minority interests	—	6,945
	40,171	34,554
Goodwill on consolidation	253,806	56,742
	293,977	91,296
Satisfied by:		
Cash consideration	271,653	77,251
Expenses incurred in respect of acquisition of subsidiaries	22,324	—
Interests in associated companies	—	14,045
	293,977	91,296

Analysis of the net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries:

	2002 HK\$'000	2001 HK\$'000
Cash consideration paid	271,653	77,251
Expenses incurred in respect of acquisition of subsidiaries	22,324	—
Cash and cash equivalents acquired	(36,973)	(26,882)
Net outflow of cash and cash equivalents in respect of acquisition of subsidiaries	257,004	50,369

26 Notes to the consolidated cash flow statement (continued)**(d) Analysis of changes in financing during the year**

	2002			2001			
	Share capital including share premium HK\$'000	Long-term bank loans HK\$'000	Other loans and minority interests HK\$'000	Share capital including share premium HK\$'000	Long-term bank loans HK\$'000	Obligations under finance leases HK\$'000	Other loans and minority interests HK\$'000
At 1 January	2,905,761	48,115	55,870	2,834,047	101,404	5,195	81,517
Non cash movement							
Share of losses	—	—	228	—	—	—	(69,567)
Further acquisition of subsidiaries	—	—	—	—	—	—	(6,945)
Disposal of subsidiaries	—	—	—	—	—	—	(14,384)
Exchange adjustment	—	4,208	736	—	(818)	—	66
	2,905,761	52,323	56,834	2,834,047	100,586	5,195	(9,313)
Proceeds from issue of shares	45,819	—	—	71,714	—	—	—
Bank and other loans raised	—	—	10,831	—	31,993	—	15,908
Repayment of bank loans	—	(7,049)	—	—	(84,464)	—	—
Capital element of finance lease payments	—	—	—	—	—	(5,195)	—
Dividends paid	—	—	(532)	—	—	—	(4,843)
Repayment of other loans	—	—	(3,549)	—	—	—	(9,424)
Capital contribution from a minority shareholder	—	—	286	—	—	—	63,542
At 31 December	2,951,580	45,274	63,870	2,905,761	48,115	—	55,870

27 Contingent liabilities

	The Group		The Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Bills of exchange discounted with recourse	1,069,929	645,008	—	—
Guarantees in respect of banking facilities granted to:				
Subsidiaries	—	—	11,303,180	10,483,212
Associated companies	99,437	99,418	46,794	46,785
Other guarantees	9,600	9,600	—	—
	1,178,966	754,026	11,349,974	10,529,997

28 Commitments

(a) Operating lease commitments

At 31 December 2002, the Group had total future aggregate minimum lease payments under non-cancellable operating leases as follows:

	2002		2001	
	Land and buildings HK\$'000	Others HK\$'000	Land and buildings HK\$'000	Others HK\$'000
Within one year	56,827	1,522	49,671	1,458
In the second to fifth year inclusive	111,969	2,320	47,708	1,811
After the fifth year	123,023	—	10,179	—
	291,819	3,842	107,558	3,269

(b) Capital commitments

	2002	The Group
	HK\$'000	2001 HK\$'000
Contracted but not provided for:		
Property, plant and equipment	203,688	2,226
Capital contribution to an associated company	—	1,677
	203,688	3,903

29 Charge of assets

At 31 December 2002, there were charges on the assets and undertakings of two (2001: one) overseas subsidiaries with net book value amounting to HK\$114,530,000 (2001: HK\$142,883,000) in favour of banks to cover banking facilities granted to the subsidiaries.

30 Approval of accounts

The accounts were approved by the Board of Directors on 24 March 2003.