

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2002

## 1. GENERAL

The Company is an exempted company incorporated in Bermuda and its shares are listed on The Stock Exchange of Hong Kong Limited.

The Group is engaged in garment manufacturing and trading, branded products distribution, property rental and management, property development and investing activities.

## 2. ADOPTION OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE

In the current year, the Group has adopted for the first time a number of new and revised Statements of Standard Accounting Practice (“SSAP”s) issued by the Hong Kong Society of Accountants. The adoption of these new and revised standards has resulted in a change in the format of presentation of the consolidated cash flow statement and the inclusion of the consolidated statement of changes in equity, but has no material effect on the results for the current or prior accounting periods. Comparative amounts for the prior period have been restated in order to achieve a consistent presentation.

### Cash flow statements

In the current year, the Group has adopted SSAP 15 (Revised) “Cash flow statements”. Under SSAP 15 (Revised), cash flows are classified under three headings – operating, investing and financing, rather than the previous five headings. Interest and dividends, which were previously presented under a separate heading, are classified as operating, investing or financing cash flows. Cash flows arising from taxes on income are classified as operating activities, unless they can be separately identified with investing or financing activities. In addition, the amounts presented for cash and cash equivalents have been amended to exclude trust receipts and import loans that are financing in nature. The re-definition of cash and cash equivalents has resulted in a restatement of the comparative amounts shown in the consolidated cash flow statement.

### Employee benefits

In the current year, the Group has adopted SSAP 34 “Employee benefits”, which introduces measurement rules for employee benefits, including retirement benefit plans. The principal effect of the implementation of SSAP 34 is in connection with the recognition of costs for the Group’s defined benefit pension scheme. In prior periods, the expected costs of providing pensions under the Group’s pension scheme are charged to the income statement over the periods benefiting from the services of employees at a level percentage of pensionable salary.

Under SSAP 34, the cost of providing retirement benefits under the Group’s defined benefit retirement benefit plan is determined using the projected unit credit method, with actuarial valuation being carried out annually. Actuarial gains and losses which exceed 10% of the greater of the present value of the Group’s pension obligations and the fair value of plan assets are amortised over the expected average remaining working lives of the employees participating in the plan. Past service cost is recognised immediately to the extent that the benefits are already vested.

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This change in accounting policy has not had any material effect on the results for the current or prior accounting periods.

## 3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention, as modified for the revaluation of certain properties and investments in securities.

The principal accounting policies which have been adopted in preparing these financial statements and which conform with accounting principles generally accepted in Hong Kong are as follows:

### **Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries (hereinafter collectively referred to as the "Group") made up to 31 December each year.

The results of subsidiaries and associates acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

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

### **Goodwill**

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary and an associate at the date of acquisition. Goodwill is recognised as an asset and amortised on a straight line basis over its estimated useful life generally not exceeding twenty years.

Goodwill arising on the acquisition of an associate is included within the carrying amount of the associate. Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet.

### **Negative goodwill**

Negative goodwill represents the excess of the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary and an associate at the date of acquisition over the cost of acquisition. Negative goodwill is released to income based on an analysis of the circumstances from which the balance resulted. To the extent that the negative goodwill is attributable to losses or expenses anticipated at the date of acquisition, it is released to income in the period in which those losses or expenses arise. The remaining negative goodwill is recognised as income on a straight line basis over the remaining average useful life of the identifiable acquired depreciable assets. To the extent that such negative goodwill exceeds the aggregate fair value of the acquired identifiable non-monetary assets, it is recognised as income immediately.

Negative goodwill arising on the acquisition of an associate is deducted from the carrying amount of that associate or jointly controlled entity. Negative goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet as a deduction from assets.

### **Investments in subsidiaries**

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss.

### **Interests in associates**

The results and assets and liabilities of associates are incorporated in the consolidated financial statements using the equity method of accounting. The carrying amount of such investments is reduced to recognise any identified impairment loss in the value of individual investments.

### **Investments in securities**

Investments in securities are recognised on a trade-date basis and are initially measured at cost.

At subsequent reporting dates, debt securities that the Group intends to hold to maturity are measured at amortised cost, less any impairment loss recognised to reflect irrecoverable amounts. The annual amortisation of any discount or premium arising on the acquisition of a held-to-maturity security is aggregated with other investment income receivable over the term of the instrument so that the revenue recognised in each period represents a constant yield on the investment.

Investment securities, which are securities held for an identified long-term strategic purpose, are measured at subsequent reporting dates at cost, as reduced by any impairment loss that is other than temporary.

Other investments are stated at fair value, with unrealised gains and losses included in the net profit or loss for the period.

### **Revenue recognition**

Sales of goods are recognised when the goods are delivered and title has been passed.

Income from properties developed for sale is recognised on the execution of a binding sale agreement or when the relevant building occupation permit is issued by the building authority, whichever is later. Payments received from purchasers prior to this stage are recorded as deposits received, which are included in current liabilities.

Service revenue is recognised when the services are rendered.

Rental income, including rental invoiced in advance under operating leases, is recognised on a straight line basis over the period of the leases.

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Income from disposal of permanent or temporary textile quota entitlements is recognised upon execution of a legally binding, unconditional and irrecoverable transfer form to a third party.

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

Income from investments is recognised when the Group's right to receive payment has been established.

## **Impairment**

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another SSAP, in which case the impairment loss is treated as a revaluation decrease under that SSAP.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another SSAP, in which case the reversal of the impairment loss is treated as a revaluation increase under that other SSAP.

## **Investment properties**

Investment properties are completed properties which are held for their investment potential, any rental income derived therefrom being negotiated at arm's length.

No depreciation is provided in respect of investment properties which are held on leases with unexpired terms, including the renewable period, of more than 20 years. Where the investment properties are held on leases with unexpired terms of 20 years or less, depreciation is provided on the then carrying amount over the remaining term of the lease.

Investment properties are stated at open market value 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 in this reserve is insufficient to cover a deficit on a portfolio basis, in which case the excess of the deficit over the balance in the investment property revaluation reserve is charged to the income statement. Where a deficit has previously been charged to the income statement and a revaluation surplus subsequently arises, this surplus is credited to the income statement to the extent of the deficit previously charged.

On disposal of an investment property, the balance in the investment property revaluation reserve attributable to that property is transferred to the income statement.

### **Properties under development**

Properties under development which will not be completed within a year from the balance sheet date are stated at cost less any impairment loss.

Costs relating to the development of properties, including financial expenses, are capitalised and included as properties under development until such time when they are identified for transfer to the appropriate categories of properties.

### **Other properties, plant and equipment**

Other properties, plant and equipment (other than freehold land and construction in progress) are stated at cost or valuation, less depreciation and amortisation and accumulated impairment losses.

The cost or valuation of freehold land is not amortised whereas the cost of land use rights and leasehold land is amortised over the period of the right, using the straight line method.

The cost of a freehold property at No. 1 Savile Row, London, in the United Kingdom is not depreciated. The Group follows a programme of regular refurbishment and maintenance in respect of this property, including the reinstatement of the fabric of the building, where necessary, to maintain it to a high standard compatible with the “No. 1 Savile Row” brand name. Accordingly, having regard to the residual value at the date of the acquisition, in the opinion of the directors, any element of depreciation would be immaterial and no charge has been recognised in the financial statements.

The Group has adopted the transitional relief provided in paragraph 80 of SSAP 17 “Property, plant and equipment” with regard to the requirement to make regular revaluations of land and buildings other than investment properties. On subsequent sale of these revalued assets, any attributable revaluation surplus will be transferred to other distributable reserves.

Depreciation is provided to write off the cost or valuation of other items of property, plant and equipment, other than construction in progress, over their estimated useful lives, using the straight line method, at the following rates per annum:

Buildings	2% – 4%
Furniture, fixtures and equipment	10% – 33 <sup>1</sup> / <sub>3</sub> %
Motor vehicles	20% – 30%
Plant and machinery	7 <sup>1</sup> / <sub>2</sub> % – 35%

The gain or loss arising from the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

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Construction in progress is stated at cost. Cost includes all development expenditure and other direct costs attributable to such projects. It is not depreciated until completion of construction. Cost on completed construction works is transferred to the appropriate categories of other properties, plant and equipment.

## **Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are capitalised as part of the cost of these assets. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale. Capitalisation of borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

All other borrowing costs are recognised as expenses in the year in which they are incurred.

## **Textile quota entitlements**

Revenue from the sale of, and the cost of acquiring, temporary textile quota entitlements are dealt with in the income statement in the period in which they arise. Textile quota entitlements allocated by the authorities in Hong Kong are not capitalised and are not included as assets in the balance sheet. The cost of permanent textile quota entitlements acquired is amortised on a straight line basis over three years.

## **Trademark**

Costs incurred in the acquisition of trademarks are capitalised and amortised on a straight line basis over their estimated useful lives of ten years.

## **Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method and comprises all costs of purchase and, where applicable, costs of conversion and other costs that have been incurred in bringing the inventories to their present location and condition. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

## **Properties held for sale**

Properties held for sale are stated at the lower of cost and net realisable value.

## **Taxation**

The charge for taxation is based on the results for the year after adjusting for items which are non-assessable or disallowed. Certain items of income and expenses are recognised for tax purposes in a different accounting period from that in which they are recognised in the financial statements. The tax effect of the resulting 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 an asset will crystallise in the foreseeable future.

**Foreign currencies**

Transactions in foreign currencies are translated at the approximate rates ruling on the dates of the transactions or at the contracted settlement rate. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates ruling on the balance sheet date. Gains and losses arising on exchange are dealt with in the income statement.

In preparing the consolidated financial statements, the results of operations outside Hong Kong are translated using the average exchange rates for the year. The assets and liabilities of the operations outside Hong Kong are translated using the rates ruling on the balance sheet date. On consolidation, any differences arising on translation of operations outside Hong Kong are dealt with in the translation reserve.

**Operating leases**

Rentals payable under operating leases are charged to the income statement on a straight line basis over the term of the relevant lease.

**Retirement benefits cost**

Payments to the Group's defined contribution retirement benefit schemes, state-managed retirement benefit schemes and the Mandatory Provident Fund Scheme are charged as expenses as they fall due.

For the Group's defined benefit retirement benefit schemes, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuation being carried out at each balance sheet date. Actuarial gains and losses which exceed 10% of the greater of the present value of the Group's pension obligations and the fair value of scheme assets are amortised over the expected average remaining working lives of the participating employees. Past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight line basis over the average period until the amended benefits become vested.

The amount recognised in the balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and unrecognised past service cost, and as reduced by the fair value of scheme assets.

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## 4. TURNOVER

Turnover represents the net amounts received and receivable from third parties in connection with the following activities:

(HK\$'M)	2002	2001
Sales of goods	1,208.2	1,339.9
Property development	183.6	–
Rental and property management income	63.5	73.3
Income from investing activities (note)	10.6	28.6
	<u>1,465.9</u>	<u>1,441.8</u>

Note:

Income from investing activities comprises:

(HK\$'M)	2002	2001
Interest income from associates	5.9	26.2
Income from investments in securities	4.7	2.4
	<u>10.6</u>	<u>28.6</u>

## 5. BUSINESS AND GEOGRAPHICAL SEGMENTS

### Business segment

For management purposes, the Group is currently organised into five operating divisions - garment manufacturing and trading, branded products distribution, property rental and management, property development and investing activities. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

- |                                   |   |
|-----------------------------------|---|
| Garment manufacturing and trading | – Manufacture of garments for export to overseas markets, and source apparel, as buying and marketing agents                          |
| Branded products distribution     | – Principally engages in the retailing, wholesaling and licensing of branded apparel  |
| Property rental and management    | – Property rental and management and hospitality management services  |
| Property development              | – Residential development carried out by the Group  |
| Investing activities              | – Investments in securities and the underlying businesses of which are property investment and development, communications and others |



For the year ended 31 December 2002 (HK\$'M)	Garment manufacturing and trading	Branded products distribution	Property rental and management	Property development	Investing activities	Elimination	Consolidated
<b>Turnover</b>							
External sales	1,043.3	164.9	63.5	183.6	10.6	–	1,465.9
Inter-segment sales	–	–	7.6	–	–	(7.6)	–
Total	<u>1,043.3</u>	<u>164.9</u>	<u>71.1</u>	<u>183.6</u>	<u>10.6</u>	<u>(7.6)</u>	<u>1,465.9</u>
<b>Result</b>							
Segment result	55.3	(6.7)	21.4	3.4	(30.9)	–	42.5
Gain on disposal of properties	21.1	–	2.6	–	–	–	23.7
Profit from operations							<u>66.2</u>
Other interest income							0.8
Finance costs							(24.2)
Share of results of associates							(9.7)
Profit before taxation							<u>33.1</u>
Taxation							(8.8)
Profit before minority interests							<u>24.3</u>
Minority interests							(3.5)
Profit attributable to shareholders							<u>20.8</u>

Inter-segment sales are charged at prevailing market rates.

For the year ended 31 December 2001 (HK\$'M)	Garment manufacturing and trading	Branded products distribution	Property rental and management	Property development	Investing activities	Elimination	Consolidated
<b>Turnover</b>							
External sales	1,113.7	226.2	73.3	–	28.6	–	1,441.8
Inter-segment sales	–	–	4.5	–	–	(4.5)	–
Total	<u>1,113.7</u>	<u>226.2</u>	<u>77.8</u>	<u>–</u>	<u>28.6</u>	<u>(4.5)</u>	<u>1,441.8</u>
<b>Result</b>							
Profit from operations	66.9	(1.1)	26.5	–	(45.6)	–	46.7
Other non-operating income							85.0
Other interest income							2.0
Finance costs							(31.0)
Share of results of associates							(30.7)
Profit before taxation							<u>72.0</u>
Taxation							(14.0)
Profit before minority interests							<u>58.0</u>
Minority interests							(5.7)
Profit attributable to shareholders							<u>52.3</u>

Inter-segment sales are charged at prevailing market rates.

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For the year ended 31 December 2002

At 31 December 2002 (HK\$'M)	Garment manufacturing and trading	Branded products distribution	Property rental and management	Property development	Investing activities	Consolidated
<b>Assets</b>						
Segment assets	292.1	136.6	678.5	213.9	496.5	1,817.6
Interests in associates						438.8
Unallocated corporate assets						124.1
Consolidated total assets						<u>2,380.5</u>
<b>Liabilities</b>						
Segment liabilities	178.0	51.7	20.4	27.9	14.7	292.7
Unallocated corporate liabilities						757.3
Consolidated total liabilities						<u>1,050.0</u>
<b>Other information</b>						
Capital additions	11.3	14.9	0.1	68.5	0.8	95.6
Depreciation and amortisation	15.7	5.7	0.9	–	0.8	23.1
Impairment loss recognised in respect of investments in securities	–	–	–	–	2.5	2.5
Gain on disposal of investment properties	–	–	2.6	–	–	2.6
Gain on disposal of other properties, plant and equipment	21.2	–	–	–	–	21.2
	<u>21.2</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>21.2</u>
At 31 December 2001 (HK\$'M)	Garment manufacturing and trading	Branded products distribution	Property rental and management	Property development	Investing activities	Consolidated
<b>Assets</b>						
Segment assets	330.8	112.5	695.6	266.1	492.0	1,897.0
Interests in associates						306.5
Unallocated corporate assets						76.0
Consolidated total assets						<u>2,279.5</u>
<b>Liabilities</b>						
Segment liabilities	227.1	27.8	26.5	182.7	2.2	466.3
Unallocated corporate liabilities						485.5
Consolidated total liabilities						<u>951.8</u>
<b>Other information</b>						
Capital additions	16.2	3.5	0.2	85.4	1.6	106.9
Depreciation and amortisation	16.0	8.8	4.6	–	0.8	30.2
Impairment loss recognised in respect of investments in securities	–	–	–	–	26.4	26.4
Gain (loss) on disposal of other properties, plant and equipment	0.2	(2.1)	–	–	0.1	(1.8)
	<u>0.2</u>	<u>(2.1)</u>	<u>–</u>	<u>–</u>	<u>0.1</u>	<u>(1.8)</u>

### Geographical segment

The following table provides an analysis of the Group's turnover by geographical market, irrespective of the origin of the goods/services:

For the year ended 31 December (HK\$'M)	Turnover by geographical market	
	2002	2001
North America	795.1	801.1
Hong Kong	252.1	109.9
United Kingdom	222.9	263.4
Other European countries	146.5	203.6
Other areas	49.3	63.8
	<u>1,465.9</u>	<u>1,441.8</u>

The Group's operations are principally located in Hong Kong, the People's Republic of China other than Hong Kong (the "PRC"), the United Kingdom and Netherlands.

The following is an analysis of the carrying amount of consolidated total assets, and additions to property, plant and equipment and intangible assets, analysed by the geographical area in which the assets are located.

(HK\$'M)	Carrying amount of consolidated total assets At 31 December		Additions to property, plant, equipment and intangible assets For the year ended 31 December	
	2002	2001	2002	2001
Hong Kong	1,998.2	1,939.0	72.9	92.0
PRC	123.3	108.7	6.8	8.6
United Kingdom	159.6	125.4	14.9	3.8
The Netherlands	13.3	30.7	0.1	–
Others	82.8	74.2	0.9	2.5
	<u>2,377.2</u>	<u>2,278.0</u>	<u>95.6</u>	<u>106.9</u>
Unallocated assets	3.3	1.5	–	–
	<u>2,380.5</u>	<u>2,279.5</u>	<u>95.6</u>	<u>106.9</u>

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### 6. GAIN ON DISPOSAL OF PROPERTIES

(HK\$'M)	2002	2001
Gain on disposal of properties comprises:		
– Gain on disposal of freehold properties held outside Hong Kong	21.1	–
– Gain on disposal of an investment property held outside Hong Kong	2.6	–
	<u>23.7</u>	<u>–</u>

### 7. OTHER OPERATING EXPENSES

(HK\$'M)	2002	2001
Pre-operating expenses incurred for setting up manufacturing operations outside Hong Kong	11.9	–
Translation reserve realised on cessation of operations outside Hong Kong	3.5	–
Allowance for amount due from an associate	2.3	–
Costs in respect of overseas audio books internet distribution	–	6.7
Restructuring costs in respect of operations outside Hong Kong	–	2.9
Redundancy payments and others	–	2.1
	<u>17.7</u>	<u>11.7</u>

## 8. PROFIT FROM OPERATIONS

(HK\$'M)	2002	2001
Profit from operations has been arrived at after charging:		
Staff costs including directors' remuneration	203.8	237.1
Retirement benefits costs, net of negligible forfeited contributions	4.5	6.9
Total staff costs	<u>208.3</u>	<u>244.0</u>
Auditors' remuneration	1.8	2.2
Amortisation of goodwill (included in administrative expenses)	1.9	3.1
Amortisation of		
– permanent textile quota entitlements (included in cost of sales)	1.6	6.1
– trademark (included in administrative expenses)	0.1	0.1
Cost of temporary textile quota entitlements written off on purchase	21.2	21.4
Depreciation and amortisation of other properties, plant and equipment	21.4	24.0
and after crediting:		
Quota income	22.4	28.5
Dividend income from investment securities – listed	2.8	–
Dividend income from other investments – unlisted	0.8	0.6
Write-back of allowance for doubtful debts	1.0	4.9
Release of negative goodwill to income (included in other revenue)	–	0.4

## 9. DIRECTORS' AND EMPLOYEES' REMUNERATION

### Directors' remuneration

(HK\$'M)	2002	2001
Directors' fees	0.5	0.5
Other directors' emoluments		
– Salaries and other benefits	5.6	5.6
– Bonus	1.7	1.8
– Retirement benefits costs	0.4	0.3
	<u>8.2</u>	<u>8.2</u>

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The emoluments of the directors were within the following bands:

Number of directors	2002	2001
Up to HK\$1,000,000	10	8
HK\$3,000,001 to HK\$3,500,000	1	1
HK\$4,000,001 to HK\$4,500,000	1	1

Total directors' fees paid to the Company's independent non-executive directors amounted to approximately HK\$0.3 million (2001: HK\$0.3 million). No other remuneration was paid to the independent non-executive directors.

During the year, no emoluments were paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors has waived any emoluments during the year.

### Employees' emoluments

The aggregate emoluments of the five highest paid individuals of the Group in 2001 and 2002 included two executive directors of the Company whose emoluments are included above. The aggregate emoluments of the remaining three highest paid individuals are as follows:

(HK\$'M)	2002	2001
Salaries and other benefits	3.8	3.2
Bonus	1.1	3.0
Retirement benefits costs	0.1	0.1
	5.0	6.3

Their emoluments were within the following bands:

Number of employees	2002	2001
HK\$1,000,001 to HK\$1,500,000	2	1
HK\$2,000,001 to HK\$2,500,000	1	1
HK\$2,500,001 to HK\$3,000,000	–	1

## 10. OTHER NON-OPERATING INCOME

(HK\$'M)	2002	2001
Other non-operating income comprises:		
– Gain on disposal of interest in an associate	–	44.5
– Gain on disposal of interest in a subsidiary	–	40.5
	<u>–</u>	<u>85.0</u>

## 11. FINANCE COSTS

(HK\$'M)	2002	2001
Interest on:		
– Bank and other borrowings wholly repayable within five years	23.7	30.9
– Bank and other borrowings not wholly repayable within five years	4.6	12.4
Total borrowing costs	<u>28.3</u>	<u>43.3</u>
Less: Interest capitalised in properties under development (note 16)	(4.1)	(12.3)
	<u>24.2</u>	<u>31.0</u>

## 12. TAXATION

(HK\$'M)	2002	2001
The charge comprises:		
Taxation of the Company and its subsidiaries		
– Hong Kong Profits Tax	6.7	8.1
– Taxation in other jurisdictions	2.1	5.1
	<u>8.8</u>	<u>13.2</u>
Share of overseas taxation of associates	–	0.8
	<u>8.8</u>	<u>14.0</u>

Hong Kong Profits Tax is calculated at 16% on the estimated assessable profits for the year. Taxation in other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

Details of deferred taxation are set out in note 34.

## 13. DIVIDEND

(HK\$'M)	2002	2001
Final proposed of HK1.0 cent (2001: HK2.5 cents) per share	<u>5.2</u>	<u>12.9</u>

The final dividend of HK1.0 cent (2001: HK2.5 cents) per share has been proposed by the directors and is subject to approval by the shareholders at the forthcoming annual general meeting.

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### 14. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the profit attributable to shareholders for the year of HK\$20.8 million (2001: HK\$52.3 million) and the 517,625,339 shares in issue throughout both years.

The computation of diluted earnings per share is as follows:

(HK\$'M)	2002	2001
Earnings for the purpose of calculating diluted earnings per share	20.8	52.3
<b>Number of Shares</b>	<b>2002</b>	<b>2001</b>
Weighted average number of shares for the purpose of calculating basic earnings per share	517,625,339	517,625,339
Effect of dilutive potential shares issuable under the Company's share option scheme	166,500	796,060
Weighted average number of shares for the purpose of calculating diluted earnings per share	517,791,839	518,421,399

### 15. INVESTMENT PROPERTIES

(HK\$'M)	THE GROUP	
	2002	2001
<b>Valuation</b>		
At 1 January	599.2	600.6
Currency realignment	2.1	(0.6)
Disposals	(13.2)	–
Transferred (to) from properties for own use	(3.8)	5.0
Deficit arising on revaluation	(4.8)	(5.8)
At 31 December	579.5	599.2
Investment properties comprise:		
Properties held under medium-term leases		
– in Hong Kong	555.2	565.2
– outside Hong Kong	24.3	22.8
Freehold properties outside Hong Kong	–	11.2
	579.5	599.2

The Group's investment properties were valued on an open market value basis as at 31 December 2002 by Chesterton Petty Limited, a firm of independent professional property valuers.

The valuation of the Group's investment properties has been adopted by the directors and is reflected in the financial statements. The deficit arising on the revaluation is charged to the investment property revaluation reserve.



## 16. PROPERTIES UNDER DEVELOPMENT

(HK\$'M)	THE GROUP	
	2002	2001
<b>Cost less impairment loss recognised</b>		
At 1 January	266.1	180.7
Development costs incurred	64.4	73.1
Interest capitalised during the year (note 11)	4.1	12.3
Transferred to properties held for sale	(334.6)	–
At 31 December	–	266.1

The properties under development are situated in Hong Kong on land held under medium-term leases. At 31 December 2001, total interest capitalised amounted to HK\$42.3 million (2002: nil).

All the Group's properties under development were completed and transferred to properties held for sale during the year.

## 17. OTHER PROPERTIES, PLANT AND EQUIPMENT

(HK\$'M)	Properties for own use	Construction in progress	Furniture, fixtures and equipment	Motor vehicles	Plant and machinery	Total
<b>THE GROUP</b>						
<b>Cost or valuation</b>						
At 1 January 2002	173.8	6.1	115.6	9.4	68.5	373.4
Currency realignment	6.3	–	5.8	–	–	12.1
Additions	9.8	2.6	10.4	0.5	2.8	26.1
Disposals	(11.2)	–	(1.8)	(1.0)	(2.6)	(16.6)
Transferred from investment properties	3.8	–	–	–	–	3.8
Transferred from construction in progress	4.8	(6.1)	1.0	–	0.3	–
At 31 December 2002	187.3	2.6	131.0	8.9	69.0	398.8
Comprising:						
At cost	101.9	2.6	131.0	8.9	69.0	313.4
At valuation – 1994	85.4	–	–	–	–	85.4
	187.3	2.6	131.0	8.9	69.0	398.8
<b>Depreciation and amortisation</b>						
At 1 January 2002	24.8	–	95.0	6.1	53.3	179.2
Currency realignment	1.2	–	4.7	–	–	5.9
Provided for the year	6.0	–	8.9	1.2	5.3	21.4
Eliminated on disposals	(2.8)	–	(1.4)	(1.0)	(2.5)	(7.7)
At 31 December 2002	29.2	–	107.2	6.3	56.1	198.8
<b>Net book values</b>						
At 31 December 2002	158.1	2.6	23.8	2.6	12.9	200.0
At 31 December 2001	149.0	6.1	20.6	3.3	15.2	194.2

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2002

(HK\$'M)	THE GROUP	
	2002	2001
The net book value of the Group's properties for own use comprises:		
Properties held under medium-term leases		
– in Hong Kong	76.8	75.4
– outside Hong Kong	19.5	15.3
Properties held under short-term leases outside Hong Kong	5.6	5.4
Freehold properties outside Hong Kong	56.2	52.9
	<u>158.1</u>	<u>149.0</u>

Had the above property interests not been revalued, their net book value on the historical cost basis at 31 December 2002 would have been approximately HK\$21.8 million (2001: HK\$31.1 million).

## 18. GOODWILL

### THE GROUP

The goodwill arising during the year from the acquisition of additional interest in a subsidiary amounted to HK\$1.9 million (2001: HK\$3.1 million) and is charged to the consolidated income statement as the amount involved is not significant.

## 19. INTERESTS IN SUBSIDIARIES

(HK\$'M)	THE COMPANY	
	2002	2001
Unlisted shares, at cost	590.8	590.8
Amounts due from subsidiaries	617.3	629.4
	<u>1,208.1</u>	<u>1,220.2</u>

Details of the Company's principal subsidiaries at 31 December 2002 are set out in note 42.

## 20. INTERESTS IN ASSOCIATES

(HK\$'M)	THE GROUP	
	2002	2001
Share of net liabilities	(72.2)	(52.4)
Advances to associates (note b)	515.3	373.9
Impairment losses recognised in respect of associates engaged in property development	(4.3)	(15.0)
	<u>438.8</u>	<u>306.5</u>

Details of the Group's principal associates at 31 December 2002 are set out in note 43.

## Notes:

- (a) The share of post acquisition deficits of associates in 2002 included an amount of HK\$10.7 million (2001: HK\$24.0 million) which was provided for in 2000 as impairment loss recognised in respect of associates engaged in property development.
- (b) The advances are unsecured. Other than an aggregate amount of HK\$282.9 million (2001: HK\$299.9 million) which carries interest at market rates, the remaining balance is interest free. There are no fixed repayment terms.
- (c) The goodwill arising from acquisition of additional interest in an associate during the year amounted to HK\$1.8 million and is charged to the consolidated income statement as the amount involved is not significant. Such charge was included in the amount reported as share of results of associates in the consolidated income statement.

## 21. INVESTMENTS IN SECURITIES

(HK\$'M)	THE GROUP	
	2002	2001
Investment securities		
– listed shares, at cost (note a)	341.6	328.1
Listed debt securities (note b)	6.0	5.6
Other investments (note c)	143.2	147.6
	<u>490.8</u>	<u>481.3</u>

## Notes:

- (a) The listed shares comprise principally the Group's minority stakes in Winsor Properties Holdings Limited ("Winsor") and SUNDAY Communications Limited ("SUNDAY").

Winsor is engaged in property investment and its shares are listed on The Stock Exchange of Hong Kong Limited. SUNDAY is engaged in the provision of telecommunications and mobile phone services and its shares are listed on the NASDAQ National Market in the United States of America and on The Stock Exchange of Hong Kong Limited.

The market value of the listed shares as at 31 December 2002 amounted to HK\$128.9 million (2001: HK\$173.8 million).

In the opinion of the directors, the difference between the book value of the Group's investment in SUNDAY and the market value as at the balance sheet date does not represent an impairment loss. This is after considering the continuous improvement in the operating performance of SUNDAY since its listing on The Stock Exchange of Hong Kong Limited and the NASDAQ National Market in the United States of America, particularly in respect of its improving operating cash flow as well as substantial reduction in operating loss. Accordingly, the directors consider that no provision for impairment loss is necessary.

- (b) The debt securities comprise bonds listed overseas and are intended to be held-to-maturity by the Group. The market value of the listed bonds at 31 December 2002 amounted to HK\$6.4 million (2001: HK\$5.8 million).
- (c) Other investments comprise principally the Group's minority stakes in various property development projects.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2002

In the opinion of the directors, the investment securities are held for identified long-term strategic purpose and their carrying amounts are fully recoverable, and the carrying values of the other investments represent their fair value at the balance sheet date.

### 22. OTHER NON-CURRENT ASSETS

(HK\$'M)	Balance at 1.1.2002	Additions	Amortisation for the year	Balance at 31.12.2002
<b>THE GROUP</b>				
Mortgage loans receivable (note a)	–	1.9	–	1.9
Textile quota entitlements (note b)	2.1	1.0	(1.6)	1.5
Trademark (note c)	0.7	–	(0.1)	0.6
	<u>2.8</u>	<u>2.9</u>	<u>(1.7)</u>	<u>4.0</u>

Notes:

- (a) The mortgage loans receivable are second mortgage financing provided to the purchasers of developed properties of the Group. The loans bear interest at market rates and are secured by second mortgage over the relevant properties. The amounts are receivable twenty-five months after the date of advance of the respective loans by monthly instalments within twenty years.
- (b) Permanent textile quota entitlements are acquired for the Group's apparel operations.
- (c) The trademark is related to the Group's hospitality operations.

### 23. INVENTORIES

(HK\$'M)	THE GROUP	
	2002	2001
Raw materials	29.7	35.1
Work in progress	59.3	51.5
Finished goods	43.1	42.4
	<u>132.1</u>	<u>129.0</u>
Comprising:		
At cost	131.5	128.5
At net realisable value	0.6	0.5
	<u>132.1</u>	<u>129.0</u>

## 24. PROPERTIES HELD FOR SALE

### THE GROUP

The properties held for sale are situated in Hong Kong and are held under medium-term leases. All the properties held for sale are stated at net realisable value at the balance sheet date.

During the year, an impairment loss of HK\$16.6 million (2001: nil) was recognised and charged to the income statement.

## 25. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

The Group allows varying credit periods to its trade customers. Credit periods vary from 30 to 90 days in accordance with the industry practice.

The following is an aged analysis of the Group's trade receivables at 31 December:

(HK\$'M)	THE GROUP	
	2002	2001
0 – 30 days	82.5	52.4
31 – 90 days	25.6	30.5
Over 90 days	17.3	10.1
	<u>125.4</u>	<u>93.0</u>
Other receivables and prepayments (note)	43.0	29.1
Total	<u>168.4</u>	<u>122.1</u>

Note: Included in the balance of other receivables and prepayments above is an amount of HK\$10.4 million (2001: nil), representing consideration receivable from disposal of properties.

## 26. TRADE AND OTHER PAYABLES

The following is an aged analysis of the Group's trade payables at 31 December:

(HK\$'M)	THE GROUP	
	2002	2001
0 – 30 days	66.9	52.2
31 – 90 days	22.8	25.6
Over 90 days	8.3	12.6
	<u>98.0</u>	<u>90.4</u>
Other payables	163.8	174.1
Total	<u>261.8</u>	<u>264.5</u>

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2002

## 27. PROVISIONS

(HK\$'M)	Long service payments provision	THE GROUP	
		Restructuring provision	Total
At 1 January 2002	16.0	3.1	19.1
Utilisation of provision	(5.9)	(2.4)	(8.3)
At 31 December 2002	<u>10.1</u>	<u>0.7</u>	<u>10.8</u>

The long service payments provision represents the Group's best estimate of the long service payments that are required to be made to the employees of certain Hong Kong subsidiaries of the Group with reference to the Employment Ordinance in Hong Kong.

The restructuring provision relates to redundancy costs incurred for the Group's restructuring exercise.

The Company had no provisions at the balance sheet date.

## 28. SHORT-TERM BANK BORROWINGS

(HK\$'M)	THE GROUP	
	2002	2001
Bank overdrafts	7.2	8.9
Trust receipts and import loans	0.3	0.9
	<u>7.5</u>	<u>9.8</u>
Analysed as:		
– secured	3.5	–
– unsecured	4.0	9.8
	<u>7.5</u>	<u>9.8</u>

## 29. BANK LOANS

The bank loans carry interest at the prevailing market rates and are repayable as follows:

(HK\$'M)	THE GROUP	
	2002	2001
Within one year	53.6	39.3
Between one to two years	437.9	179.5
Between two to five years	146.1	320.1
After five years	28.0	51.0
	<u>665.6</u>	<u>589.9</u>
Less: Amount due within one year shown under current liabilities	(53.6)	(39.3)
Amount due after one year	<u>612.0</u>	<u>550.6</u>
Analysed as:		
– secured	371.6	426.9
– unsecured	294.0	163.0
	<u>665.6</u>	<u>589.9</u>

## 30. SHARE CAPITAL

	2002 & 2001 Number of shares	2002 & 2001 Amount (HK\$'M)
Authorised:		
Ordinary shares of HK\$0.50 each	<u>1,320,000,000</u>	<u>660.0</u>
Issued and fully paid:		
Ordinary shares of HK\$0.50 each	<u>517,625,339</u>	<u>258.8</u>

There were no changes in the Company's authorised and issued share capital in both years.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2002

### 31. SHARE OPTION SCHEME

Pursuant to the 2001 Share Option Scheme of the Company (the "Scheme") adopted on 26 June 2001 and effective on 1 July 2001 for the primary purpose of providing incentives to executive directors and eligible employees, the Board of Directors may, on or before 30 June 2011, at its discretion offer to grant options at an option price of HK\$1.00 to any employees, including executive directors, of the Company or any of its subsidiaries to subscribe for shares of the Company. The subscription price is the higher of 80% of the average of the closing prices of the shares of the Company on The Stock Exchange of Hong Kong Limited for the five trading days immediately preceding the date of the offer of options and the nominal value of the shares. The maximum aggregate number of shares issued and to be issued on the exercise of options and in respect of which options may be granted under the Scheme may not exceed 10% of the total number of shares in issue from time to time excluding any shares issued on the exercise of options. No option shall be granted to any employee which if exercised in full would result in the total number of shares already issued and issuable to him or her under the Scheme exceeding 25% of the aggregate number of shares for the time being issued and issuable under the Scheme.

No options were granted under the Scheme during the year.

Prior to the adoption of the Scheme, the Company had a share scheme (the "Old share option scheme") which came into operation on 18 November 1991 and expired on 17 November 2001. Principal terms of the Old share option scheme are in substance the same as the Scheme. The movements of the options granted under the Company's Old share option scheme, which remains valid, during the year are as follows:

Date of grant	Exercise price HK\$	Number of share options					
		At 1.1.2001	Lapsed during the year	At 31.12.2001 and 1.1.2002	Lapsed during the year	Cancelled upon termination of employment during the year	At 31.12.2002
26 July 1996	2.151	2,883,325	(2,883,325)	–	–	–	–
29 July 1996	2.151	1,111,111	(1,111,111)	–	–	–	–
26 February 1997	2.500	80,000	–	80,000	(80,000)	–	–
30 August 1997	2.330	3,270,000	–	3,270,000	(3,120,000)	(150,000)	–
15 November 1999	0.800	9,875,000	–	9,875,000	–	(250,000)	9,625,000
18 August 2000	2.025	5,422,222	(5,422,222)	–	–	–	–
Total		<u>22,641,658</u>	<u>(9,416,658)</u>	<u>13,225,000</u>	<u>(3,200,000)</u>	<u>(400,000)</u>	<u>9,625,000</u>



Details of share options held by directors and senior management included in the above table are as follows:

Date of grant	Exercise price HK\$	Number of share options				
		At 1.1.2001	Lapsed during the year	At 31.12.2001 and 1.1.2002	Lapsed during the year	At 31.12.2002
26 July 1996	2.151	1,749,997	(1,749,997)	–	–	–
29 July 1996	2.151	1,111,111	(1,111,111)	–	–	–
30 August 1997	2.330	2,100,000	–	2,100,000	(2,100,000)	–
15 November 1999	0.800	6,660,000	–	6,660,000	–	6,660,000
18 August 2000	2.025	5,422,222	(5,422,222)	–	–	–
Total		<u>17,043,330</u>	<u>(8,283,330)</u>	<u>8,760,000</u>	<u>(2,100,000)</u>	<u>6,660,000</u>

The options are generally exercisable in stages within a period of one to five years from the date of grant.

At 31 December 2002, the exercise price of the outstanding options was HK\$0.80 per share. If all the outstanding share options were exercised, the Company would receive gross proceeds, before expenses, of approximately HK\$7.7 million from the issue of 9,625,000 new shares of HK\$0.50 each in the Company.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2002

## 32. RESERVES

(HK\$'M)	Share premium	Investment property revaluation reserve	Other property revaluation reserve	Translation reserve	Non- distributable reserve	Con- tributed surplus	Other distributable reserve (deficit)	Total
<b>THE GROUP</b>								
At 1 January 2001	438.4	40.4	21.9	(29.7)	(21.4)	649.9	(154.8)	944.7
Deficit arising on revaluation	–	(5.8)	–	–	–	–	–	(5.8)
Exchange differences arising on translation of financial statements of operations outside Hong Kong	–	–	–	(4.3)	–	–	–	(4.3)
Share of reserves of an associate	–	–	–	1.7	(1.6)	–	–	0.1
Share of reserves by minority shareholders	–	0.2	–	0.9	–	–	–	1.1
Released on disposal of interest in a subsidiary	–	–	–	1.3	–	–	–	1.3
Released on disposal of interest in an associate	–	–	–	(12.2)	23.0	–	1.9	12.7
Profit attributable to shareholders	–	–	–	–	–	–	52.3	52.3
At 31 December 2001 and 1 January 2002	438.4	34.8	21.9	(42.3)	–	649.9	(100.6)	1,002.1
Deficit arising on revaluation	–	(4.8)	–	–	–	–	–	(4.8)
Exchange differences arising on translation of financial statements of operations outside Hong Kong	–	–	–	7.5	–	–	–	7.5
Share of reserves of an associate	–	–	–	(0.9)	–	–	–	(0.9)
Share of reserves by minority shareholders	–	(2.0)	–	–	–	–	–	(2.0)
Realised on disposal of properties	–	(7.0)	–	7.8	–	–	–	0.8
Realised on cessation of operations outside Hong Kong	–	–	–	3.0	–	–	–	3.0
2001 final dividend paid	–	–	–	–	–	(12.9)	–	(12.9)
Profit attributable to shareholders	–	–	–	–	–	–	20.8	20.8
At 31 December 2002	438.4	21.0	21.9	(24.9)	–	637.0	(79.8)	1,013.6
Attributable to associates:								
At 31 December 2002	–	–	–	(0.9)	–	–	(73.8)	(74.7)
At 31 December 2001	–	–	–	–	–	–	(53.4)	(53.4)
<b>THE COMPANY</b>								
At 1 January 2001	438.4	–	–	–	–	635.0	(114.9)	958.5
Profit attributable to shareholders	–	–	–	–	–	–	0.2	0.2
At 31 December 2001 and 1 January 2002	438.4	–	–	–	–	635.0	(114.7)	958.7
2001 final dividend paid	–	–	–	–	–	(12.9)	–	(12.9)
Profit attributable to shareholders	–	–	–	–	–	–	2.1	2.1
At 31 December 2002	438.4	–	–	–	–	622.1	(112.6)	947.9

The contributed surplus account of the Group and the Company arose as a result of the group reorganisation in 1991 and the Company's capital reduction in 1996 less distribution made.

Under the Companies Act 1981 of Bermuda (as amended), contributed surplus of a company is available for distribution to shareholders in addition to accumulated profits. However, a company cannot declare or pay a dividend, or make a distribution out of contributed surplus if:

- (a) the company is, or would after the payment be, unable to pay its liabilities as they become due; or
- (b) the realisable value of the company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

### 33. OTHER LONG-TERM LOANS

(HK\$'M)	THE GROUP	
	2002	2001
Interest bearing loans	34.4	25.6
Interest free loan	45.4	17.3
	<u>79.8</u>	<u>42.9</u>

The loans are from minority shareholders of subsidiaries. The interest bearing loans carry interest at market rates. All the loans are unsecured and have no fixed repayment terms. The loans above include amounts of HK\$62.5 million (2001: HK\$25.6 million) which are extended to the Group to finance property development projects. In the opinion of the directors, demand for repayment of these loans will not be made within one year of the balance sheet date. The loans are therefore shown in the balance sheet as non-current liabilities.

### 34. DEFERRED TAXATION

(HK\$'M)	THE GROUP	
	2002	2001
Balance at 1 January and 31 December	<u>0.6</u>	<u>0.6</u>

The above deferred taxation liability principally arose from the excess of tax allowance over depreciation.

The Group had no significant unprovided deferred taxation during the year and at 31 December 2002 except for an unrecognised deferred taxation asset of HK\$25.2 million (2001: HK\$28.2 million) arising from tax losses which are available to set off against future assessable profits. The deferred taxation asset has not been recognised in the financial statements as it is not certain that the benefit will be realised in the foreseeable future.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2002

In the opinion of the directors, the surplus or deficit arising on revaluation of the Group's investment properties situated in Hong Kong does not constitute a timing difference for tax purposes. In addition, the directors contend that the Group has no intention of disposing of its investment properties situated outside Hong Kong in the foreseeable future. Accordingly, deferred taxation has not been provided on the revaluation surplus or deficit of the Group's property interests.

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

### 35. DISPOSAL OF A SUBSIDIARY

(HK\$'M)	2002	2001
Net assets disposed of:		
Other property, plant and equipment	–	7.1
Inventories	–	19.2
Trade and other receivables	–	33.2
Trade and other payables	–	(19.0)
Taxation payable	–	(1.8)
Bank loans	–	(4.1)
Minority interests	–	(10.0)
	–	24.6
Translation reserve released	–	1.3
	–	25.9
Gain on disposal	–	40.5
Total consideration	–	66.4
Satisfied by:		
Cash consideration	–	66.4

The subsidiary disposed of in 2001 made no significant impact on the Group's cash flows for that year.

The subsidiary disposed of in 2001 contributed HK\$73.7 million to the Group's turnover and made a loss of HK\$6.4 million to the Group's profit from operations for that year.

### 36. OPERATING LEASE

#### The Group as lessee

(HK\$'M)	2002	2001
Minimum lease payments charged to the income statement during the year:		
– land and buildings	27.7	18.8
– equipment and motor vehicles	0.4	1.1
	<u>28.1</u>	<u>19.9</u>

Under the leases entered into by the Group, the lease payments are fixed and predetermined. At 31 December 2002, future minimum lease payments under non-cancellable operating leases are payable by the Group as follows:

(HK\$'M)	2002	2001
For land and buildings		
– Within one year	16.2	16.6
– After one year and not later than five years	61.5	55.4
– Over five years	32.5	38.5
	<u>110.2</u>	<u>110.5</u>
For equipment and motor vehicles		
– Within one year	0.6	0.5
– After one year and not later than five years	0.8	0.2
	<u>1.4</u>	<u>0.7</u>
Total	<u>111.6</u>	<u>111.2</u>

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

#### The Group as lessor

(HK\$'M)	2002	2001
Gross rental income credited to the income statement during the year	49.4	51.8
Less: Outgoings	(1.5)	(2.1)
	<u>47.9</u>	<u>49.7</u>

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2002

The Group's investment properties are held for rental purposes. Rental income is fixed and predetermined. At the balance sheet date, the amount of future rentals receivable by the Group is as follows:

(HK\$'M)	2002	2001
Within one year	30.0	28.2
After one year and not later than five years	19.0	8.7
Over five years	0.2	0.3
	<u>49.2</u>	<u>37.2</u>

### 37. CAPITAL COMMITMENTS

(HK\$'M)	THE GROUP	
	2002	2001
Capital expenditure contracted for but not provided in the financial statements in respect of property development	–	<u>59.3</u>

The Company had no capital commitment at the balance sheet date.

### 38. CONTINGENT LIABILITIES

(HK\$'M)	The Group		The Company	
	2002	2001	2002	2001
Export bills discounted with recourse	<u>28.4</u>	<u>13.9</u>	<u>–</u>	<u>–</u>
Guarantees given to banks in respect of utilised credit facilities extended to				
– subsidiaries	–	–	421.5	391.1
– associates	<u>172.1</u>	<u>37.0</u>	<u>172.1</u>	<u>37.0</u>
	<u>172.1</u>	<u>37.0</u>	<u>593.6</u>	<u>428.1</u>

At 31 December 2002, the Company's share of several and proportionate guarantees in respect of unutilised credit facilities granted to associates engaged in property development amounted to HK\$389.9 million (2001: HK\$125.0 million).

### 39. PLEDGE OF ASSETS

The Group's advances to associates at 31 December 2002 include amounts of HK\$405.1 million (2001: HK\$373.9 million) which are subordinated to the loans facilities of associates. The associates are engaged in property development. The Group's advances to the associates are assigned, and the shares in these associates beneficially owned by the Group are pledged, to the financial institutions.

At 31 December 2002, shares in an investee company engaged in property development were pledged to secure credit facilities for that investee company. Certain of the Group's investment properties with carrying value of HK\$552.7 million (2001: HK\$479.5 million) and properties for own use with carrying value of HK\$133.0 million (2001: HK\$119.1 million), and shares in certain subsidiaries engaged in property development, were pledged to secure credit facilities for the Group.

### 40. RETIREMENT BENEFITS AND PENSION SCHEMES

Certain Hong Kong subsidiaries of the Company have complied with the Mandatory Provident Fund ("MPF") legislation. All existing and new employees are required to participate in the MPF Scheme. Mandatory benefits are being provided under the MPF scheme. In addition to the MPF scheme, certain Hong Kong subsidiaries of the Company have restructured the former defined contribution retirement benefits schemes to defined contribution top up retirement benefits schemes, under which qualifying employees are provided with additional voluntary benefits to the extent that they would otherwise have under the defined contribution retirement benefits schemes and after taking into consideration the mandatory benefits provided under the MPF scheme.

The employees of the Group's subsidiaries in the PRC have participated in a retirement benefit scheme established by the local PRC Social Insurance Industry Management Centre. The subsidiaries are required to contribute 11% of payroll costs to the retirement benefit scheme to fund the benefits. The only obligations of the Group with respect to the retirement benefit scheme is to make the specified contributions.

The Group also operates a defined benefit pension scheme for certain qualifying employees of its overseas subsidiaries. Under the scheme, the employees are entitled to a pension of 1.25% of final salary for each year of pensionable service at a normal retirement age of 65. No other post-retirement benefits are provided. The most recent actuarial valuations of scheme assets and the present value of the defined benefit obligations were carried out at 1 May 2002 by Mr. Nigel P. Hacking, Fellow of the Institute of Actuaries, of Barnett Waddingham and was updated to 31 December 2002 for the accounting reporting purpose. The present value of the defined obligation, the related current service cost and past service cost were measured using the projected unit credit method.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2002

The main actuarial assumptions used were as follows:

Discount rate	5.75%
Expected return on scheme assets	7.90%
Expected rate of salary increases	3.25%
Future pension increases	2.25%

The actuarial valuation updated to 31 December 2002 showed that the market value of scheme assets was approximately HK\$40.8 million and that the actuarial value of these assets represented 82% of the benefits that had accrued to members. The shortfall of approximately HK\$9.9 million is to be cleared over the estimated remaining service period of the current membership of 15 years.

Amounts recognised in the consolidated income statement in respect of the defined benefit pension scheme are as follows:

<b>(HK\$'M)</b>	<b>2002</b>
Current service cost	1.5
Interest cost	2.7
Expected return on scheme assets	(3.3)
	<u>0.9</u>

The charge for the year has been included in administrative expenses.

The actual loss on scheme assets was approximately HK\$9.6 million.

The unrecognised defined benefit asset arising from the Group's obligations in respect of its defined benefit pension scheme is as follows:

<b>(HK\$'M)</b>	<b>2002</b>
Fair value of scheme assets	40.8
Present value of funded obligations	(49.6)
	<u>(8.8)</u>
Unrecognised actuarial losses	9.9
Unrecognised defined benefit asset	<u>1.1</u>



Movements in the net asset (liability) in the current year were as follows:

<b>(HK\$'M)</b>	<b>2002</b>
At 1 January	0.1
Exchange differences	(0.1)
Amounts charged to the consolidated income statement	(0.9)
Contributions	2.0
At 31 December	<u>1.1</u>

No comparative figures are presented in respect of the Group's defined benefit pension scheme as it is impractical to recreate the information.

#### 41. RELATED PARTY TRANSACTIONS

During the year, property management fee income and interest income received and receivable by the Group from its associates amounted to HK\$11.5 million (2001: HK\$18.6 million) and HK\$5.9 million (2001: HK\$26.2 million) respectively. These transactions were carried out on terms similar to those applicable to transactions with independent third parties.

Details of advances and other credit arrangements provided by the Group to its associates at the balance sheet date are set out in notes 20, 38 and 39.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2002

## 42. PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries at 31 December 2002 are as follows:

<b>Name of subsidiary</b>	<b>Place of incorporation / operation</b>	<b>Nominal value of issued and fully paid share capital / registered capital</b>	<b>Attributable proportion of nominal value of issued / registered capital held by the Company</b>	<b>Principal activities</b>
Accuway Investments Limited	British Virgin Islands	US\$1	100%	Investment holding
Aldburg Assets Limited	British Virgin Islands	US\$1	100%	Investment holding
Aptex Europe B.V.	Netherlands	DFL40,000	100%	Garment trading
Bostar Limited	Hong Kong	HK\$100	87.5%	Property development
Caringbah Limited	British Virgin Islands	US\$1	100%	Investment holding
Charmax Trading Limited	Hong Kong	HK\$100	91%	Garment trading
Charter Star Trading Limited	Hong Kong	HK\$100,000	70%	Garment trading
Charterex Trading Limited	Hong Kong	HK\$2	100%	Garment manufacturing
Cheong Ka Limited	British Virgin Islands/ People's Republic of China	US\$1	78%	Property holding
Chung Fook Limited	British Virgin Islands/ People's Republic of China	US\$1	100%	Property holding
Churrasco Holdings Limited	British Virgin Islands	US\$1	100%	Investment holding
Datas Industries Limited	Hong Kong	HK\$2	86.4%	Garment manufacturing and trading
Delimont Holdings Limited	British Virgin Islands	US\$1	100%	Investment holding
Dongguan Grandnice Fashion Limited*	People's Republic of China	HK\$5,500,000	86.4%	Property holding
Eternal Way (Cambodia) Limited	Kingdom of Cambodia	US\$250,000	77.8%	Garment manufacturing
Eternal Way Holdings Limited	Hong Kong	HK\$2	86.4%	Investment holding
Gentful Limited	Hong Kong	HK\$2	100%	Investment holding
Gieves & Hawkes International Limited	United Kingdom	£250,000	100%	Licensors
Gieves & Hawkes plc	United Kingdom	£3,111,097	100%	Investment holding
Gieves Limited	United Kingdom	£10,100	100%	Retailer
Grandeur Investments Limited	British Virgin Islands/ Hong Kong	US\$1	100%	Property investment
Grandnice Fashion Limited	Hong Kong	HK\$2	86.4%	Garment manufacturing
Grandslam Limited	British Virgin Islands	US\$1	100%	Investment holding

<b>Name of subsidiary</b>	<b>Place of incorporation / operation</b>	<b>Nominal value of issued and fully paid share capital / registered capital</b>	<b>Attributable proportion of nominal value of issued / registered capital held by the Company</b>	<b>Principal activities</b>
Guangzhou Nansha Riches Faith Ktg & Gmt Ltd.*	People's Republic of China	HK\$5,460,000	100%	Garment manufacturing, subcontracting and trading
Impact (Cook Islands) Limited	Cook Islands	US\$1,000	100%	Sourcing agent
Impact Textiles B.V.	Netherlands	DFL30,000	90%	Garment trading
Impact Textiles Company Limited	Hong Kong	Ordinary shares HK\$4,450,000 Non-voting deferred shares HK\$12,310,000	100% 99%	Investment holding and garment trading
Impact Textiles International Limited	British Virgin Islands	US\$1	100%	Investment holding
Joy Alliance Limited	Hong Kong	HK\$100	87.5%	Property development
Kih-Oskh Holding N.V.	Netherlands Antilles	US\$6,000	100%	Investment holding
Kowloon Station Development Company Limited	Cayman Islands	US\$1	100%	Investment holding
Lanson Place Hospitality Management Limited	British Virgin Islands	US\$1	100%	Investment holding, hospitality and property management
Lanson Place Hospitality Management (Jakarta) Limited	British Virgin Islands/ Indonesia	US\$1	100%	Hospitality and property management
Lanson Place Hospitality Management (Singapore) Pte Limited	Singapore	S\$100	100%	Hospitality and property management
Lanson Place Hotels & Residences (Bermuda) Limited	Bermuda	US\$12,000	100%	Investment holding and licensing
Lanson Place Hotels & Residences (Holdings) Limited	British Virgin Islands	US\$1	100%	Investment holding
Lanson Place Hotels & Residences (Netherlands) B.V.	Netherlands	DFL40,000	100%	Licensing, hospitality and property management
Lanson Place Management Limited (formerly known as Lanson Place Hospitality Management (Hong Kong) Limited)	Hong Kong	HK\$2	100%	Hospitality and property management

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2002

<b>Name of subsidiary</b>	<b>Place of incorporation / operation</b>	<b>Nominal value of issued and fully paid share capital / registered capital</b>	<b>Attributable proportion of nominal value of issued / registered capital held by the Company</b>	<b>Principal activities</b>
L'impact Lingerie B.V.	Netherlands	DFL40,000	100%	Garment trading
L'impact Lingerie Limited	Hong Kong	HK\$400,000	100%	Garment trading
Longrise (HK) Limited	Hong Kong	HK\$2	78%	Garment trading
Marvinbond Limited	British Virgin Islands	US\$1	100%	Investment holding
Mezereum Limited	British Virgin Islands/ Hong Kong	US\$1	100%	Property investment
Potter Enterprises Limited	British Virgin Islands	US\$1	100%	Investment holding
Shui Hing Textiles International Limited	Hong Kong	HK\$75,000,000	100%	Investment holding and garment trading
Shui Hung Knitting and Garment Factory Limited	Hong Kong	HK\$20,000,000	100%	Investment holding and garment manufacturing
Shui Mei Textiles Limited	Hong Kong	HK\$9,000,000	95%	Garment manufacturing
Shui Ming Garments Manufacturing Company Limited	Hong Kong	HK\$18,000,000	100%	Investment holding and garment trading
Shui Pang Enterprise (Macau) Limited	Macau	MOP825,600	49%	Garment manufacturing
Shui Pang Garment & Knitting Factory Limited	Hong Kong	HK\$2,000,000	70%	Investment holding and garment manufacturing
Shui Wo Garment & Knitting Factory Limited	Hong Kong	HK\$2,000,000	95%	Garment trading
Shui Ying Knitting & Garment Factory Limited	Hong Kong	HK\$8,000,000	100%	Investment holding and garment manufacturing
Success First Development Limited	Hong Kong	HK\$2	100%	Property investment
Sun Hung International Limited	Hong Kong	HK\$7,500,000	78%	Investment holding and garment manufacturing
Teamdoor Investments Limited	Hong Kong	HK\$2	86.4%	Garment trading
Telwin Industrial Limited	Hong Kong	HK\$2	86.4%	Garment manufacturing and trading
Townhill Enterprises Limited	British Virgin Islands	US\$1	100%	Investment holding
Triberg Company Limited	Hong Kong	HK\$2	86.4%	Garment trading
Twin Dragon Investments Limited	British Virgin Islands/ Hong Kong	US\$1	100%	Investment holding

<b>Name of subsidiary</b>	<b>Place of incorporation / operation</b>	<b>Nominal value of issued and fully paid share capital / registered capital</b>	<b>Attributable proportion of nominal value of issued / registered capital held by the Company</b>	<b>Principal activities</b>
Unimix Exporters Limited	Hong Kong	HK\$300,000	86.4%	Garment trading
Unimix Holdings Limited	Hong Kong	HK\$1,100,000	86.4%	Investment holding
Unimix Limited	Hong Kong	HK\$10,000,000	86.4%	Garment manufacturing and trading
Unimix Properties Limited	Hong Kong	HK\$200	86.4%	Property investment
United Success International Investment B.V.	Netherlands	DFL40,000	100%	Investment holding
United Success International Limited	Hong Kong	HK\$227,750,062	100%	Investment holding
Universal Team Industrial Limited	Hong Kong	HK\$2	100%	Investment holding
Universal Plus Limited	British Virgin Islands/ Hong Kong	US\$100	80%	Investment holding
USI Holdings (B.V.I.) Limited	British Virgin Islands	US\$50,000	100%	Investment holding
USI Properties International Limited	British Virgin Islands	US\$1	100%	Investment holding
USI Property Management Limited	Hong Kong	HK\$2	100%	Property development and project management

\* These subsidiaries are wholly foreign owned enterprises established in the People's Republic of China.

Only USI Holdings (B.V.I.) Limited is directly held by the Company.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results or assets and liabilities of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

None of the subsidiaries had any debt securities subsisting as at 31 December 2002 or at any time during the year.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2002

### 43. PRINCIPAL ASSOCIATES

Details of the Group's principal associates at 31 December 2002 are as follows:

Name of company	Place of incorporation	Attributable proportion of nominal value of issued capital held by the Company indirectly	Principal activities
Landyork Investment Limited	Hong Kong	40%	Property development
Mancas Investment Limited	Hong Kong	50%	Property development
Mission System Consultant Limited	Hong Kong	37.5%	Computer software consultancy
Oneword Radio Limited	United Kingdom	50%	Digital radio broadcasting
Smart Gainful Limited	Hong Kong	33.3%	Provision of second mortgage financing
Union Charm Development Limited*	Hong Kong	7.5%	Property development
Winner Max Enterprises Limited	Hong Kong	33.3%	Property development

\* The Group has the ability to exercise significant influence over this associate. Accordingly, it is regarded as an associate of the Group.

The above table lists the associates of the Group which, in the opinion of the directors, principally affected the results or net assets of the Group. To give details of other associates would, in the opinion of the directors, result in particulars of excessive length.