

# Notes to the Accounts

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As at 31 December 2003

## 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 revised Statement of Standard Accounting Practice ("SSAP") 12 "Income Taxes" issued by the HKSA which are effective for accounting periods commencing on or after 1 January 2003.

The change to Group's accounting policies and the effect of adopting this revised standard is set out 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. 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, and any related accumulated foreign currency translation reserve.

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.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred.

#### (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.

#### (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.

## 1 Principal accounting policies (continued)

### (c) Fixed assets (continued)

#### (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 <sup>1</sup> / <sub>3</sub> %
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.

#### (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.

## 1 Principal accounting policies (continued)

### (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 and 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 on hand and demand deposits at banks, net of short-term bank loans and bank overdrafts which are repayable on demand.

### (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.

## 1 Principal accounting policies (continued)

### (I) Employee benefits

#### (i) Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity are not recognised until the time of leave.

#### (ii) Discretionary bonus

The expected cost of discretionary bonus payments are recognised as a liability when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

Liabilities for discretionary bonus are expected to be settled within 12 months and are measured at the amounts expected to be paid when they are settled.

#### (iii) Post-employment benefit obligations

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 independent qualified actuaries.

The Group's contributions to the defined contribution retirement scheme are charged to the consolidated 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 consolidated 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. 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.

The Group's contributions to defined benefit plans are charged to the consolidated profit and loss account in the year to which the contributions relate.

## 1 Principal accounting policies (continued)

### (l) Employee benefits (continued)

#### (iii) Post employment benefit obligations (continued)

The Group's net obligation in respect of long service payments on cessation of employment in certain circumstances under the Hong Kong Employment Ordinance is the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine the present value and reduced by entitlements accrued under the Group's retirement plans that are attributable to contributions made by the Group. The obligation is calculated using the projected unit credit method by a qualified actuary. The discount rate is determined by reference to market yields on high quality corporate bonds which have terms to maturity approximating the terms of the related liabilities.

Pursuant to the requirements of SSAP 34 (revised), the Group has transitional pension and long service payment liabilities on initial adoption of the SSAP of approximately HK\$16,048,000 and HK\$6,000,000 respectively. The Group chooses to recognise the transitional pension and long service payment liabilities on a straight-line basis over five years. For the year ended 31 December 2003, the transitional pension and long service payment liabilities of approximately HK\$3,208,000 and HK\$1,200,000 respectively were charged to the consolidated profit and loss account (note 24(a)(ii) and 24(b)). As at 31 December 2003, transitional pension and long service payment liabilities of approximately HK\$9,632,000 and HK\$4,800,000 respectively remained unrecognised.

#### (iv) Equity compensation benefits

Share options are granted to any employee including any executive or non-executive director of the Company and its subsidiaries at an exercise price which is at least the higher of (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of grant; (ii) the average closing prices of the shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of a share. No compensation cost is recognised in the consolidated profit and loss account. When the options are exercised, the proceeds received net of any transaction costs are credited to share capital (nominal value) and share premium.

### (m) Deferred taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries, associated companies except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

In prior year, deferred taxation was 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 was expected to be payable or recoverable in the foreseeable future. The adoption of the new SSAP 12 represents a change in accounting policy, which has been applied retrospectively. Since the adoption of this revised SSAP had no material impact on the Group's accounts in prior years, comparative figures have not been restated.

## 1 Principal accounting policies (continued)

### (n) 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.

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.

### (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 system development costs (*note 11*) and fixed assets (*note 12*), including additions resulting from acquisitions through purchases of subsidiaries.



**1 Principal accounting policies (continued)****(q) Segment reporting (continued)**

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

**(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:

	2003 HK\$'000	2002 HK\$'000
Turnover		
Sales at invoiced value	42,623,074	37,279,725
Rental income	7,436	1,635
	<b>42,630,510</b>	37,281,360
Other revenues		
Value added services income	137,535	126,747
Commission income	923	3,655
Others	28,037	5,485
	<b>166,495</b>	135,887
Interest income	<b>38,373</b>	49,581
Total revenues	<b>42,835,378</b>	37,466,828

**2 Turnover, revenues and segment information (continued)**

(b) Primary reporting format – geographical segments

	North America 2003 HK\$'000	Europe 2003 HK\$'000	Southern Hemisphere 2003 HK\$'000	East Asia 2003 HK\$'000	Group 2003 HK\$'000
Turnover	31,858,928	8,200,869	1,319,738	1,250,975	42,630,510
Segment results	952,878	318,907	37,626	10,805	1,320,216
Amortisation of goodwill					(26,210)
Net investment loss					(8,054)
Interest income					38,373
Interest expenses					(9,813)
Share of profits less losses of associated companies					2,015
Profit before taxation					1,316,527
Taxation					(105,513)
Profit after taxation					1,211,014
Minority interests					12,104
Profit attributable to shareholders					1,223,118
Segment assets	5,249,148	1,407,406	203,327	198,641	7,058,522
Unallocated assets					2,186,049
Total assets					9,244,571
Segment liabilities	3,414,795	854,008	139,161	101,232	4,509,196
Unallocated liabilities					505,548
Total liabilities					5,014,744
	North America 2003 HK\$'000	Europe 2003 HK\$'000	Southern Hemisphere 2003 HK\$'000	East Asia 2003 HK\$'000	Group 2003 HK\$'000
Capital expenditure	276,528	74,571	11,241	10,984	373,324
Depreciation	85,392	26,427	4,197	3,829	119,845
Amortisation of goodwill	15,455	9,360	491	904	26,210

**2 Turnover, revenues and segment information (continued)**

## (b) Primary reporting format – geographical segments (continued)

	North America 2002 HK\$'000	Europe 2002 HK\$'000	Southern Hemisphere 2002 HK\$'000	East Asia 2002 HK\$'000	Group 2002 HK\$'000
Turnover	28,156,018	7,061,902	994,554	1,068,886	37,281,360
Segment results	873,714	239,284	29,585	4,280	1,146,863
Amortisation of goodwill					(12,258)
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
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
Segment liabilities	3,073,403	667,369	90,905	87,583	3,919,260
Unallocated liabilities					279,643
Total liabilities					4,198,903
	North America 2002 HK\$'000	Europe 2002 HK\$'000	Southern Hemisphere 2002 HK\$'000	East Asia 2002 HK\$'000	Group 2002 HK\$'000
Capital expenditure	117,704	27,170	3,653	4,458	152,985
Depreciation	78,569	20,874	2,978	4,086	106,507
Amortisation of goodwill	6,916	4,878	224	240	12,258

**2 Turnover, revenues and segment information** (continued)

(c) Secondary reporting format – business segments

	Turnover 2003 HK\$'000	Segment results 2003 HK\$'000	Total assets 2003 HK\$'000	Capital expenditure 2003 HK\$'000
Softgoods	28,402,198	938,876	5,004,141	236,532
Hardgoods	14,228,312	381,340	2,054,381	136,792
	<b>42,630,510</b>	<b>1,320,216</b>	<b>7,058,522</b>	<b>373,324</b>
Amortisation of goodwill		(26,210)		
Net investment loss		(8,054)		
Operating profit		<b>1,285,952</b>		
Unallocated assets			<b>2,186,049</b>	
Total assets			<b>9,244,571</b>	
	Turnover 2002 HK\$'000	Segment results 2002 HK\$'000	Total assets 2002 HK\$'000	Capital expenditure 2002 HK\$'000
Softgoods	25,497,622	849,624	4,421,444	97,791
Hardgoods	11,783,738	297,239	1,671,678	55,194
	<b>37,281,360</b>	<b>1,146,863</b>	<b>6,093,122</b>	<b>152,985</b>
Amortisation of goodwill		(12,258)		
Operating profit		<b>1,134,605</b>		
Unallocated assets			1,931,049	
Total assets			<b>8,024,171</b>	

### 3 Operating profit

Operating profit is stated after crediting and charging the following:

	2003 HK\$'000	2002 HK\$'000
Crediting		
Net exchange gains	<b>16,378</b>	15,549
Net rental income from land and buildings	<b>5,902</b>	1,032
Charging		
Amortisation of intangible assets		
Goodwill	<b>26,210</b>	12,258
System development costs	<b>5,382</b>	4,149
Depreciation of fixed assets	<b>119,845</b>	106,507
Loss on disposal of fixed assets	<b>854</b>	1,367
Operating leases rental in respect of land and buildings	<b>86,128</b>	84,869
Provision for doubtful debts	<b>16,655</b>	14,440
Staff costs, including directors' emoluments (note 9)	<b>1,546,296</b>	1,375,444
The remuneration to the auditors for audit and non-audit services is as follows:		
Audit services	<b>5,572</b>	5,069
Non-audit services		
– due diligence on acquisitions	<b>1,203</b>	1,400
– taxation services	<b>1,990</b>	1,991
– others	<b>231</b>	170
Total remuneration to auditors	<b>8,996</b>	8,630
Less: non-audit service fee capitalised	<b>(1,203)</b>	(1,400)
Net remuneration to auditors charged to consolidated profit and loss account	<b>7,793</b>	7,230

Note: Of the above audit and non-audit services fee of HK\$5,194,000 (2002: HK\$4,792,000) and HK\$3,252,000 (2002: HK\$3,547,000) respectively are payable to the Company's auditors.

### 4 Interest expenses

	2003 HK\$'000	2002 HK\$'000
Interest on bank loans and overdrafts	<b>9,813</b>	8,987

## 5 Taxation

Hong Kong profits tax has been provided for at the rate of 17.5% (2002: 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/(credited) to the consolidated profit and loss account represents:

	2003 HK\$'000	2002 HK\$'000
Hong Kong profits tax	84,011	79,990
Overseas taxation	28,607	15,048
Overprovision in prior years	(2,663)	(3,524)
Deferred taxation relating to the origination and reversal of temporary differences	(6,701)	1,351
Deferred taxation resulting from an increase in tax rate	675	–
	<b>103,929</b>	92,865
Share of taxation attributable to associated companies		
– Hong Kong	1,317	1,982
– Overseas	267	49
	<b>1,584</b>	2,031
<b>Total taxation charge</b>	<b>105,513</b>	94,896

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the taxation rate of the home country of the Company as follows:

	2003 %	2002 %
Calculated at a taxation rate of	17.5	16.0
Effect of different taxation rates in other countries	0.4	0.5
Income net of expenses not subject to taxation	(11.6)	(8.9)
Utilisation of previously unrecognised tax losses	(0.2)	(0.4)
Unrecognised tax losses	1.9	0.9
<b>Effective tax rate</b>	<b>8.0</b>	8.1

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\$521 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 2002/2003. 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\$1,035,100,000 (2002: HK\$895,773,000).

## 7 Dividends

	2003 HK\$'000	2002 HK\$'000
Interim, paid, of HK\$0.1 (2002: HK\$0.085) per ordinary share	<b>289,343</b>	245,651
Final, proposed, of HK\$0.25 (2002: HK\$0.22) per ordinary share	<b>726,977</b>	635,803
	<b>1,016,320</b>	881,454

## 8 Earnings per share

- (a) The calculation of basic earnings per share is based on the Group's profit attributable to shareholders of HK\$1,223,118,000 (2002: HK\$1,080,468,000) and on the weighted average number of 2,893,046,000 (2002: 2,886,524,000) shares in issue during the year.
- (b) In the event that share options outstanding at 31 December 2003 and 2002 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

	2003 HK\$'000	2002 HK\$'000
Salaries and bonuses	<b>1,397,275</b>	1,244,139
Other staff-related expenses	<b>81,665</b>	70,233
Pension costs of defined contribution plans	<b>50,853</b>	48,601
Pension costs of defined benefits plans (note 24(a)(ii))	<b>15,303</b>	12,471
Long service payments (note 24(b))	<b>1,200</b>	–
	<b>1,546,296</b>	1,375,444

## 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:

	2003 HK\$'000	2002 HK\$'000
Executive:		
Fees	418	418
Basic salaries, housing allowances, other allowances and benefits in kind	11,977	12,125
Discretionary bonuses	26,148	23,897
Contributions to pension scheme	60	60
	<b>38,603</b>	36,500
Non-executive:		
Fees	882	582
	<b>39,485</b>	37,082

As at 31 December 2003, certain directors held options to acquire 720,000 (2002: 1,200,000), 960,000 (2002: 1,440,000), 2,400,000 (2002: Nil), 2,400,000 (2002: Nil) and 2,400,000 (2002: Nil) Shares of the Company at an exercise price of HK\$10.5, HK\$7.98, HK\$9.2, HK\$9.2 and HK\$9.2 per Share respectively. The closing market price of the Shares as at 31 December 2003 was HK\$13.3.

During the year, a total of 480,000 (2002: Nil) and 480,000 (2002: Nil) Shares were issued to a director of the Company at an exercise price of HK\$10.5 and HK\$7.98 respectively under the Old Scheme. The weighted average closing market price per Share immediately before the dates on which the share options were exercised was HK\$13.17.

Directors' fees disclosed above include HK\$520,000 (2002: 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 Old Scheme.

Emolument bands	Number of directors	
	2003	2002
Nil – HK\$1,000,000	7*	7*
HK\$4,000,001 – HK\$4,500,000	–	1
HK\$5,000,001 – HK\$5,500,000	–	1
HK\$6,000,001 – HK\$6,500,000	2	–
HK\$7,000,001 – HK\$7,500,000	1	–
HK\$7,500,001 – HK\$8,000,000	1	1
HK\$9,000,001 – HK\$9,500,000	–	1
HK\$10,000,001 – HK\$10,500,000	–	1
HK\$11,000,001 – HK\$11,500,000	1	–

\* Represents non-executive directors

No directors waived their emoluments in respect of the year ended 31 December 2003 (2002: Nil).

**(b) Five highest paid individuals**

The five individuals whose emoluments were the highest in the Group for the year include four (2002: three) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining one individual (2002: two) during the year are as follows:

	2003 HK\$'000	2002 HK\$'000
Basic salaries, housing allowances, other allowances and benefits in kind	3,523	3,791
Discretionary bonuses	2,673	8,746
Contributions to pension scheme	12	82
	<b>6,208</b>	<b>12,619</b>

  

Emolument bands	Number of individuals	
	2003	2002
HK\$6,000,001 – HK\$6,500,000	1	2

**11 Intangible assets**

	Goodwill HK\$'000	The Group System development costs HK\$'000	Total HK\$'000
Cost			
At 1 January 2003	314,407	40,459	354,866
Additions	315,589	2,156	317,745
<b>At 31 December 2003</b>	<b>629,996</b>	<b>42,615</b>	<b>672,611</b>
Accumulated amortisation			
At 1 January 2003	15,490	12,680	28,170
Amortisation charge	26,210	5,382	31,592
<b>At 31 December 2003</b>	<b>41,700</b>	<b>18,062</b>	<b>59,762</b>
Net book value			
<b>At 31 December 2003</b>	<b>588,296</b>	<b>24,553</b>	<b>612,849</b>
At 31 December 2002	298,917	27,779	326,696

## 12 Fixed assets

	Land and buildings HK\$'000	Leasehold improve- ments 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 2003	1,209,967	149,034	336,482	9,914	32,567	1,737,964
Acquisition of subsidiaries	–	–	1,000	76	–	1,076
Additions	237,371	59,093	63,672	6,177	4,855	371,168
Disposals	–	(11,560)	(18,367)	(88)	(3,336)	(33,351)
Exchange adjustment	2,907	348	2,778	1,231	487	7,751
At cost	1,104,833	196,915	385,565	17,310	34,573	1,739,196
At directors' 1994 valuation	345,412	–	–	–	–	345,412
<b>At 31 December 2003</b>	<b>1,450,245</b>	<b>196,915</b>	<b>385,565</b>	<b>17,310</b>	<b>34,573</b>	<b>2,084,608</b>
Accumulated depreciation						
At 1 January 2003	135,732	83,333	229,784	5,408	19,869	474,126
Acquisition of subsidiaries	–	–	489	–	–	489
Charge for the year	37,614	24,871	49,034	3,063	5,263	119,845
Disposals	–	(7,738)	(15,181)	(69)	(2,586)	(25,574)
Exchange adjustment	181	253	2,301	675	415	3,825
<b>At 31 December 2003</b>	<b>173,527</b>	<b>100,719</b>	<b>266,427</b>	<b>9,077</b>	<b>22,961</b>	<b>572,711</b>
Net book value						
<b>At 31 December 2003</b>	<b>1,276,718</b>	<b>96,196</b>	<b>119,138</b>	<b>8,233</b>	<b>11,612</b>	<b>1,511,897</b>
At 31 December 2002	1,074,235	65,701	106,698	4,506	12,698	1,263,838

**12 Fixed assets (continued)**

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

	2003 HK\$'000	The Group 2002 HK\$'000
In Hong Kong, held on:		
Leases over 50 years	<b>101,943</b>	104,065
Leases of between 10 to 50 years	<b>1,124,275</b>	921,330
Outside Hong Kong, held on:		
Freehold	<b>39,859</b>	37,402
Leases over 50 years	<b>9,271</b>	10,034
Leases of between 10 to 50 years	<b>1,370</b>	1,404
	<b>1,276,718</b>	1,074,235

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

	2003 HK\$'000	The Group 2002 HK\$'000
Original cost	<b>1,269,486</b>	1,032,314
Accumulated depreciation based on cost	<b>(144,859)</b>	(111,955)
	<b>1,124,627</b>	920,359

At 31 December 2003, the net book value of fixed assets pledged as security for the Group's long-term loans amounted to HK\$35,521,000 (2002: HK\$30,477,000).

**13 Investments in subsidiaries**

	2003 HK\$'000	The Company 2002 HK\$'000
Unlisted shares, at cost	<b>111,210</b>	111,210
Loan to a subsidiary	<b>1,952,493</b>	1,952,493
	<b>2,063,703</b>	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 95 to 102.

**14 Associated companies**

	2003 HK\$'000	The Group 2002 HK\$'000
Share of net (liabilities)/assets	<b>(4,467)</b>	11,097
Loans to associated companies	<b>8,690</b>	11,158
	<b>4,223</b>	22,255

The loans to associated companies are interest free and unsecured, except for amounts of HK\$4,848,000 (2002: HK\$7,247,000) which are secured and interest bearing.

Details of principal associated companies are set out on page 103.

**15 Investments**

	2003 HK\$'000	The Group 2002 HK\$'000
Shares listed overseas, at cost	<b>41,910</b>	37,861
Unlisted shares, at cost	<b>112,595</b>	125,483
Less: provision for impairment losses	<b>(45,922)</b>	(30,012)
	<b>108,583</b>	133,332
Club debentures, at cost	<b>6,600</b>	6,600
	<b>115,183</b>	139,932
Market value of listed shares	<b>21,289</b>	19,327

**16 Inventories**

	2003 HK\$'000	The Group 2002 HK\$'000
Finished goods	<b>177,817</b>	89,346
Raw materials	<b>40,458</b>	28,736
	<b>218,275</b>	118,082

At 31 December 2003, inventories that are carried at net realisable value amounted to HK\$2,753,000 (2002: HK\$543,000).

At 31 December 2003, inventories pledged as securities for bank facilities amounted to HK\$79,940,000 (2002: HK\$36,684,000).

**17 Due from related companies**

	The Group		The Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Due from:				
Subsidiaries	–	–	<b>6,723,311</b>	5,713,162
Associated companies	<b>28,505</b>	22,155	–	–
	<b>28,505</b>	22,155	<b>6,723,311</b>	5,713,162

The amounts are unsecured, interest free and repayable on demand, except for amounts due from associated companies amounting to HK\$2,407,000 (2002: HK\$2,418,000) 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:

	2003 HK\$'000	The Group 2002 HK\$'000
Current to 90 days	<b>3,399,385</b>	3,039,277
91 to 180 days	<b>80,286</b>	87,477
181 to 360 days	<b>22,685</b>	19,835
Over 360 days	<b>956</b>	6,247
	<b>3,503,312</b>	3,152,836

**19 Due to related companies**

	The Group		The Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Due to:				
A subsidiary	–	–	<b>3,698,396</b>	2,773,306
Associated companies	<b>97</b>	97	–	–
	<b>97</b>	97	<b>3,698,396</b>	2,773,306

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:

	2003 HK\$'000	The Group 2002 HK\$'000
Current to 90 days	3,503,955	3,218,305
91 to 180 days	111,207	108,140
181 to 360 days	20,369	31,718
Over 360 days	13,828	11,538
	<b>3,649,359</b>	<b>3,369,701</b>

**21 Share capital and options**

	2003		2002	
	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	2,890,012	72,250	2,878,978	71,974
Exercise of share options (note a)	8,229	206	11,034	276
Issue of shares for the acquisition of ISG (note b)	3,797	95	–	–
At 31 December, ordinary of HK\$0.025 each	2,902,038	72,551	2,890,012	72,250

**21 Share capital and options (continued)**

- (a) Details of share options granted by the Company pursuant to the Old and New Schemes and the share options outstanding at 31 December 2003, are as follows:

Date of grant	Subscription price per Share	Exercisable period	At 1 January 2003	Shares options granted during the year	Share options exercised during the year	Share options lapsed during the year	Share options cancelled during the year	At 31 December 2003
7 July 2000	HK\$15.26	7 July 2001- 6 July 2003	9,072,000	-	-	(9,072,000)	-	-
18 July 2001	HK\$10.50	18 July 2002- 17 July 2004	10,520,000	-	(3,362,000)	(288,000)	-	6,870,000
28 August 2001	HK\$7.98	28 August 2003- 27 August 2005	11,604,000	-	(4,867,000)	(136,000)	-	6,601,000
23 May 2003	HK\$9.20	23 May 2004- 22 May 2007	-	16,790,000	-	(45,000)	(673,000)	16,072,000
23 May 2003	HK\$9.20	23 May 2005- 22 May 2008	-	17,760,000	-	(250,000)	-	17,510,000
23 May 2003	HK\$9.20	23 May 2006- 22 May 2009	-	17,760,000	-	(250,000)	-	17,510,000

Subsequent to 31 December 2003, 3,625,000 Shares have been allotted and issued under the Old Scheme for a total consideration of HK\$35,200,000 and no Shares have been allotted and issued under the New Scheme.

- (b) Pursuant to the sale and purchase agreements dated 18 August 2003, the Company acquired the additional one-third of the equity interests in International Sourcing Group, LLC ("ISG"), from the former minority shareholder at a consideration of approximately HK\$40,695,000 through an issue of 3,797,191 Shares at an issue price of HK\$10.715 each. ISG becomes a wholly owned subsidiary of the Group since then.
- (c) On 2 December 2003, the Company entered into an agreement to acquire certain assets and business of Firstworld Garments Limited, a Hong Kong corporation, and International Porcelain, Inc., an US corporation, at a consideration of HK\$210,600,000. The purchase consideration is satisfied by cash of HK\$180,960,000 (the "Cash consideration") and an issue of 2,246,660 Shares (the "Consideration shares") at an issue price of HK\$13.13 each amounting to HK\$29,640,000.

As at 31 December 2003, HK\$40,560,000 of the Cash consideration was paid. The remaining balance of the Cash consideration amounting to HK\$140,400,000 will be paid and the Consideration shares will be issued in 2004.



**22 Reserves**

<b>The Group</b>	<b>Share premium</b> HK\$'000	<b>Capital reserve</b> HK\$'000	<b>Exchange reserve</b> HK\$'000	<b>Retained earnings</b> HK\$'000	<b>Total</b> HK\$'000
At 1 January 2003	2,879,330	5,811	(57,507)	898,136	3,725,770
2002 final dividend paid	–	–	–	(635,803)	(635,803)
Share premium on issue of new shares	114,535	–	–	–	114,535
Exchange adjustment on translation of the accounts of overseas subsidiaries and associated companies	–	–	10,939	–	10,939
Transfer to capital reserve	–	51	–	(51)	–
Profit for the year	–	–	–	1,223,118	1,223,118
Exchange reserve realised upon disposal of subsidiaries	–	–	135	–	135
2003 interim dividend paid	–	–	–	(289,343)	(289,343)
Reserves	2,993,865	5,862	(46,433)	469,080	3,422,374
Proposed dividend	–	–	–	726,977	726,977
<b>At 31 December 2003</b>	<b>2,993,865</b>	<b>5,862</b>	<b>(46,433)</b>	<b>1,196,057</b>	<b>4,149,351</b>
Company and subsidiaries	2,993,865	5,862	(45,027)	1,209,051	4,163,751
Associated companies	–	–	(1,406)	(12,994)	(14,400)
<b>At 31 December 2003</b>	<b>2,993,865</b>	<b>5,862</b>	<b>(46,433)</b>	<b>1,196,057</b>	<b>4,149,351</b>

**22 Reserves (continued)**

<b>The Group</b>	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)**

<b>The Company</b>	<b>Share premium HK\$'000</b>	<b>Contributed surplus account HK\$'000</b>	<b>Retained earnings HK\$'000</b>	<b>Total HK\$'000</b>
At 1 January 2003	2,879,330	2,060,673	890,040	5,830,043
Share premium on issue of new shares	114,535	–	–	114,535
Profit for the year	–	–	1,035,100	1,035,100
2002 final dividend paid	–	–	(635,803)	(635,803)
2003 interim dividend paid	–	–	(289,343)	(289,343)
Reserves	2,993,865	2,060,673	273,017	5,327,555
Proposed dividend	–	–	726,977	726,977
<b>At 31 December 2003</b>	<b>2,993,865</b>	<b>2,060,673</b>	<b>999,994</b>	<b>6,054,532</b>
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

- (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**

	2003 HK\$'000	The Group 2002 HK\$'000
Long-term bank loans, secured (note 29)	<b>39,008</b>	45,274
Other loans, unsecured	<b>30,400</b>	36,622
	<b>69,408</b>	81,896
Current portion of long-term liabilities	<b>(44,668)</b>	(51,496)
	<b>24,740</b>	30,400

At 31 December 2003, the Group's long-term bank loans and other borrowings are repayable as follows:

	Long-term bank loans		Other loans	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Within one year	<b>39,008</b>	45,274	<b>5,660</b>	6,222
In the second year	-	-	<b>5,349</b>	6,175
In the third to fifth year	-	-	<b>19,391</b>	24,225
	<b>39,008</b>	45,274	<b>30,400</b>	36,622

**24 Post-employment benefit obligations**

	2003 HK\$'000	The Group	2002 HK\$'000
Pension obligations (note a)	<b>9,627</b>		4,029
Long service payment liabilities (note b)	<b>1,200</b>		–
	<b>10,827</b>		4,029

(a) 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 defined benefit plans are valued by qualified actuaries annually using the projected unit credit method.

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

	2003 HK\$'000	The Group	2002 HK\$'000
Present value of funded obligations	<b>140,400</b>		111,160
Fair value of plan assets	<b>(98,079)</b>		(79,977)
	<b>42,321</b>		31,183
Unrecognised actuarial losses	<b>(22,374)</b>		(14,314)
Unrecognised liability on initial adoption of SSAP34 paragraph 155 (b)	<b>(9,632)</b>		(12,840)
Exchange difference on unrecognised liability	<b>(688)</b>		–
Pension obligations	<b>9,627</b>		4,029

**24 Post-employment benefit obligations (continued)**

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

	2003 HK\$'000	The Group 2002 HK\$'000
Current service cost	10,931	9,438
Interest cost	5,891	4,962
Expected return on plan assets	(5,270)	(5,137)
Net actuarial gain recognised during the year	320	–
Amortisation of unrecognised liability on initial adoption of SSAP34	3,208	3,208
Exchange difference on amortisation of unrecognised liability	223	–
<b>Total, included in staff costs (note 9)</b>	<b>15,303</b>	<b>12,471</b>

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

	2003 HK\$'000	The Group 2002 HK\$'000
At 1 January	4,029	–
Total expense – as shown above	15,303	12,471
Contributions paid	(9,965)	(8,442)
Exchange difference	260	–
<b>At 31 December</b>	<b>9,627</b>	<b>4,029</b>

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

	2003 %	The Group 2002 %
Discount rate	3.5 – 5.4	4 – 5.5
Expected rate of return on plan assets	1.5 – 7.5	3.25 – 7.5
Expected rate of future salary increases	2 – 4.75	2 – 4.5
Expected rate of future pension increases	2.75	2.5

- (b) Actuarial valuation is performed on the Group's long service payment liabilities. At 31 December 2003, the Group has transitional liability of approximately HK\$6,000,000 relating to long service payment obligation, which the Group chooses to recognise the transitional liability on a straight line basis over five years from the date of adoption of SSAP 34 at 1 January 2003. For the year ended 31 December 2003, the transitional liability of approximately HK\$1,200,000 was charged to the consolidated profit and loss account. As at 31 December 2003, transitional liability of approximately HK\$4,800,000 remained unrecognised.

## 25 Deferred taxation

The movement in deferred tax assets and liabilities during the year is as follows:

Deferred tax assets	Provisions		Decelerated tax depreciation allowance		Tax losses		Others		Total	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
As at 1 January	-	-	-	-	-	-	-	-	-	-
Credited to profit and loss account	6,765	-	1,017	-	9,866	-	1,593	-	19,241	-
Exchange differences	(157)	-	12	-	54	-	-	-	(91)	-
As at 31 December	6,608	-	1,029	-	9,920	-	1,593	-	19,150	-

Deferred tax liabilities	Accelerated tax depreciation allowance		2003 HK\$'000	Others		2003 HK\$'000	Total 2002 HK\$'000
	2003	2002		2003	2002		
	HK\$'000	HK\$'000		HK\$'000	HK\$'000		
At 1st January	5,238	5,609	(227)	(1,641)	5,011	3,968	
Charged/(credited) to profit and loss account	11,735	(371)	1,480	1,722	13,215	1,351	
Acquisition of subsidiaries	-	-	50	(308)	50	(308)	
Exchange differences	-	-	5	-	5	-	
As at 31 December	16,973	5,238	1,308	(227)	18,281	5,011	

	2003 HK\$'000	2002 HK\$'000
The amounts shown in the balance sheet include the following:		
Deferred tax assets to be recovered after more than 12 months	13,359	-
Deferred tax liabilities to be settled after more than 12 months	13,329	4,827

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

	2003 HK\$'000	2002 HK\$'000
Profit before taxation	<b>1,316,527</b>	1,175,592
Interest income	<b>(38,373)</b>	(49,581)
Interest expenses	<b>9,813</b>	8,987
Share of profits less losses of associated companies	<b>(2,015)</b>	(393)
Depreciation	<b>119,845</b>	106,507
Amortisation of goodwill	<b>26,210</b>	12,258
Amortisation of development costs	<b>5,382</b>	4,149
Write off of goodwill	–	428
Net investments loss	<b>8,054</b>	–
Loss on disposal of subsidiaries	<b>325</b>	–
Profit on disposal of associated companies	–	(161)
Loss on disposal of fixed assets	<b>854</b>	1,367
Operating profit before working capital changes	<b>1,446,622</b>	1,259,153
(Increase)/decrease in inventories	<b>(93,855)</b>	12,306
Increase in trade and bills receivable, other receivables, prepayments and deposits including amounts due from associated companies	<b>(489,443)</b>	(871,722)
Increase in trade and bills payable, accrued charges and sundry payables, and post-employment benefit obligations including amounts due to associated companies	<b>468,598</b>	582,102
Net cash inflow generated from operations	<b>1,331,922</b>	981,839



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

	2003 HK\$'000	2002 HK\$'000
Net assets disposed of:		
Trade and other receivables	7,786	–
Cash and bank balances	83	–
Trade and other payables	(7,836)	–
Minority interests	552	–
Exchange reserve	135	–
	720	–
Loss on disposal of subsidiaries	(325)	–
	395	–
Satisfied by:		
Cash consideration	395	–
Analysis of net outflow of cash and cash equivalents in respect of disposal of subsidiaries:		
	2003 HK\$'000	2002 HK\$'000
Cash consideration	395	–
Cash and cash equivalents disposed	(83)	–
Net outflow of cash and cash equivalents in respect of disposal of subsidiaries	312	–

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

	2003 HK\$'000	2002 HK\$'000
Net assets acquired:		
Fixed assets	<b>587</b>	3,824
Investments	–	5
Deferred taxation (note 25)	<b>(50)</b>	308
Trade and other receivables	<b>11,658</b>	12,004
Inventories	<b>6,338</b>	–
Cash and bank balances	<b>6,220</b>	36,973
Trade and other payables	<b>(7,081)</b>	(12,825)
Taxation	<b>(2,740)</b>	(118)
	<b>14,932</b>	40,171
Goodwill on consolidation	<b>62,672</b>	253,806
	<b>77,604</b>	293,977
Satisfied by:		
Cash consideration	<b>62,981</b>	271,653
Expenses incurred in respect of acquisition of subsidiaries	<b>14,623</b>	22,324
	<b>77,604</b>	293,977

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

	2003 HK\$'000	2002 HK\$'000
Purchase consideration	<b>62,981</b>	271,653
Expenses incurred in respect of acquisition of subsidiaries	<b>14,623</b>	22,324
Cash and cash equivalents acquired	<b>(6,220)</b>	(36,973)
Net outflow of cash and cash equivalents in respect of acquisition of subsidiaries	<b>71,384</b>	257,004

**26 Notes to the consolidated cash flow statement (continued)****(d) Purchase of business**

	2003 HK\$'000	2002 HK\$'000
Cash and bank balances acquired	7,800	–
Goodwill on consolidation	210,150	–
	<b>217,950</b>	–
Satisfied by:		
Cash consideration (note 21(c))	180,960	–
Consideration share (note 21(c))	29,640	–
Expenses incurred in respect of acquisition of business	7,350	–
	<b>217,950</b>	–

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

	2003 HK\$'000	2002 HK\$'000
Purchase consideration	210,600	–
Expenses incurred in respect of acquisition of business	7,350	–
Purchase consideration payable	(176,051)	–
Cash and cash equivalents acquired	(7,800)	–
Net outflow of cash and cash equivalents in respect of acquisition of business	<b>34,099</b>	–

**(e) Purchase of additional interests in a subsidiary**

	2003 HK\$'000	2002 HK\$'000
Net liabilities acquired	(1,520)	–
Goodwill on consolidation	42,767	–
	<b>41,247</b>	–
Satisfied by:		
Consideration shares (note 21(b))	40,695	–
Expenses incurred in respect of acquisition of additional interests in a subsidiary, representing outflow of cash and cash equivalents	552	–
	<b>41,247</b>	–

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

	2003			2002		
	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	Other loans and minority interests HK\$'000
At 1 January	<b>2,951,580</b>	<b>45,274</b>	<b>63,870</b>	2,905,761	48,115	55,870
Non cash movement						
Share of (losses)/profit	-	-	<b>(12,104)</b>	-	-	228
Purchase of additional interests in a subsidiary (note 26(e))	<b>40,695</b>	-	<b>1,520</b>	-	-	-
Disposal of subsidiaries	-	-	<b>552</b>	-	-	-
Exchange adjustment	-	<b>4,049</b>	<b>(466)</b>	-	4,208	736
	<b>2,992,275</b>	<b>49,323</b>	<b>53,372</b>	2,905,761	52,323	56,834
Proceeds from issue of shares	<b>74,141</b>	-	-	45,819	-	-
Bank and other loans raised	-	-	<b>553</b>	-	-	10,831
Repayment of bank loans	-	<b>(10,315)</b>	-	-	(7,049)	-
Dividends paid	-	-	<b>(9,378)</b>	-	-	(532)
Repayment of other loans	-	-	<b>(6,222)</b>	-	-	(3,549)
Capital contribution from a minority shareholder	-	-	-	-	-	286
At 31 December	<b>3,066,416</b>	<b>39,008</b>	<b>38,325</b>	2,951,580	45,274	63,870

## 27 Contingent liabilities

	The Group		The Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Bills of exchange discounted to banks with recourse	<b>1,387,181</b>	1,069,929	–	–
Guarantees in respect of banking facilities granted to:				
Subsidiaries	–	–	<b>13,834,892</b>	11,303,180
Associated companies	<b>98,992</b>	99,437	<b>46,585</b>	46,794
Other guarantees	<b>9,600</b>	9,600	–	–
	<b>1,495,773</b>	1,178,966	<b>13,881,477</b>	11,349,974

## 28 Commitments

### (a) Operating lease commitments

At 31 December 2003, the Group had total future aggregate minimum lease payments under non-cancellable operating leases as follows:

	The Group	
	2003 HK\$'000	2002 HK\$'000
Within one year	<b>69,867</b>	58,349
In the second to fifth year inclusive	<b>100,357</b>	114,289
After the fifth year	<b>121,846</b>	123,023
	<b>292,070</b>	295,661

### (b) Capital commitments

	The Group	
	2003 HK\$'000	2002 HK\$'000
Contracted but not provided for:		
Property, plant and equipment	<b>20,818</b>	203,688

## 29 Charge of assets

At 31 December 2003, there were charges on the assets and undertakings of two (2002: two) overseas subsidiaries with net book values amounting to HK\$233,999,000 (2002: HK\$114,530,000) in favour of banks to cover banking facilities granted to the subsidiaries.

### **30 Connected transactions under the Listing Rules and related party transaction**

- (i) Details of connected transactions as defined under Chapter 14 of the Listing Rules are set out in page 42 in the Directors' Report.
- (ii) The Group had no material related party transactions during the year.

### **31 Approval of accounts**

The accounts were approved by the Board of Directors on 24 March 2004.