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**1. GENERAL**

The Company was incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The principal activity of the Company is investment holding. The principal activities of its subsidiaries are the manufacture and sale of Hoe Hin Brand of products, treasury and property investment, and distribution of healthcare and household products.

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**2. CHANGES IN ACCOUNTING POLICIES****Deferred tax**

In prior years, deferred tax liabilities were provided using the liability method in respect of the taxation effect arising from all material timing differences between the accounting and tax treatment of income and expenditure, which were expected with reasonable probability to crystallise in the foreseeable future. Deferred tax assets were not recognised unless their realisation was assured beyond reasonable doubt. With effect from 1 January 2003, in order to comply with Statement of Standard Accounting Practice (“SSAP”) 12 (revised) “Income taxes” issued by the Hong Kong Society of Accountants, the Group adopted a new accounting policy for deferred tax as set out in note 3. This change in accounting policy has not been applied retrospectively. As the amounts of resulting adjustments relating to the periods presented were considered by the directors to be insignificant, no prior period adjustment is required. Comparative information regarding deferred taxation has been disclosed to conform to current year’s presentation.

**Provision for post-employment benefits**

Pursuant to the SSAP 34 (revised) “Employee Benefits”, the Group has accounted for its obligations for long service payments under the Employment Ordinance as “post-employment benefits: defined benefit plans”. Since the adoption of this revised SSAP had no material impact on the Group’s financial statements in prior years, comparative figures have not been restated.

### **3. SIGNIFICANT ACCOUNTING POLICIES**

The financial statements have been prepared in accordance with SSAPs and Interpretations issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the principal accounting policies adopted by the Group is set out below.

#### **Basis of preparation**

The measurement basis used in the preparation of the financial statements is historical cost as modified by the revaluation of investment properties and land and buildings, and the marking to market of certain investments in securities as explained in the accounting policies set out below.

#### **Basis of consolidation**

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December each year. All inter-company transactions and balances have been eliminated on consolidation.

The results of subsidiaries 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.

#### **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 at the date of acquisition over the cost of acquisition.

Negative goodwill carried in the balance sheet arose on an acquisition prior to 1 January 2001 will continue to be held in reserves and will be credited to income at the time of disposal of the relevant subsidiary.

#### **Investment properties**

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are intended to be held on a long-term basis for their investment potential.

Investment properties are stated at their open market values on the basis of annual professional valuations. Changes in values of investment properties are dealt with as movements in the investment properties revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on a portfolio basis, the excess of the deficit is charged to the income statement.

**3. SIGNIFICANT ACCOUNTING POLICIES (Continued)****Investment properties (Continued)**

Upon the disposal of an investment property, the relevant portion of the investment properties revaluation reserve realised in respect of previous valuations will be credited to the income statement.

No depreciation is provided on investment properties unless the unexpired lease term is 20 years or less.

**Property, plant and equipment**

Property, plant and equipment, other than land and buildings, are stated at cost less accumulated depreciation and accumulated impairment losses.

The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Major costs incurred in restoring assets to their normal working conditions are charged to the income statement. Improvements are capitalised and depreciated over their expected useful lives.

The gain or loss arising from the retirement or disposal of property, plant and equipment is determined as the difference between the estimated net sales proceeds and the carrying amount of the assets and is recognised as an income or expense in the income statement.

Depreciation is provided to write off the cost less accumulated impairment losses of property, plant and equipment, over their estimated useful lives as set out below, from the date on which they become fully operational and after taking into account their estimated residual values, using the straight-line method:

Leasehold properties held under

long and medium-term leases

– Land	Over the unexpired term of leases
– Buildings	50 years or over the relevant lease terms whichever is the shorter

Plant and machinery 10 – 15 years

Furniture, fixtures and equipment 5 – 15 years

Motor vehicles 5 years

Land and buildings are stated in the balance sheet at their revalued amounts, being the fair value at the date of revaluation less any accumulated depreciation and accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

## ***Notes to the Financial Statements***

For the year ended 31 December 2003

### **3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **Property, plant and equipment (Continued)**

Any revaluation surplus arising on the revaluation of land and buildings is credited to other properties revaluation reserve, except to the extent that it reverses a revaluation deficit of the same asset previously recognised as an expense, when it is recognised as income. A decrease in net carrying amount arising on revaluation of an asset is recognised as an expense to the extent that it exceeds the balance, if any, on the revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus is transferred to accumulated profits.

#### **Subsidiaries**

A subsidiary is an enterprise in which the Company, directly or indirectly, has the power to govern the financial and operating policies so as to obtain benefits from its activities. Investments in subsidiaries are stated at cost less accumulated impairment losses. The carrying amount of the investment is reduced to its recoverable amount on an individual basis.

#### **Investments in securities**

Investments held on a continuing basis with an identified long term purpose are classified as investment securities, which are stated at cost less any provision for impairment losses that is expected to be other than temporary.

The carrying amount of individual investment securities, or holdings of the same securities 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 period in which the decline occurs.

The impairment loss is written back to the income statement 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.

Other investments are stated in the balance sheet at their fair value. Changes in fair values are recognised in the income statement as they arise.

The profit or loss on disposal of investment securities and other investments is accounted for in the period in which the disposal occurs as the difference between the net sales proceeds and the carrying amount of the securities.

**3. SIGNIFICANT ACCOUNTING POLICIES (Continued)****Impairment loss**

At each balance sheet date, the Group reviews internal and external sources of information to determine whether the carrying amounts of its tangible assets have suffered an impairment loss or impairment loss previously recognised no longer exists or may be reduced. If any such indication exists, the recoverable amount of the asset is estimated, based on the higher of its net selling price and value in use. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the smallest group of assets that generates cash flows independently (i.e. a cash-generating unit).

If the recoverable amount of an asset or a cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. Impairment loss is recognised as an expense immediately, except where the relevant asset is carried at valuation, in which case the impairment loss is treated as a revaluation decrease.

A reversal of impairment loss is limited to the carrying amount of the asset or cash-generating unit that would have been determined had no impairment loss been recognised in prior years. Reversal of impairment loss is recognised as income immediately, except where the relevant asset is carried at valuation, in which case the impairment loss is treated as a revaluation increase.

**Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost, which comprises all costs of purchase and, where applicable, cost of conversion and other costs that have been incurred in bringing the inventories to their present location and condition, is calculated using the first-in, first-out method. 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.

**Revenue recognition**

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue and costs, if applicable, can be measured reliably and on the following bases:

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

## ***Notes to the Financial Statements***

For the year ended 31 December 2003

### **3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **Revenue recognition (Continued)**

Rental income under operating leases is recognised in the period in which the properties are let out and on the straight-line basis over the lease terms.

Interest income is accrued on a time proportion basis on the principal outstanding and at the interest rate applicable.

Dividend income from investments is recognised when the Group's rights to receive payment have been established.

Gain or loss on disposal of investments in securities are recognised on the transaction date when the relevant sale and purchase contract is entered into.

#### **Foreign currencies**

The Group maintains its accounting records in Hong Kong dollars and transactions involving foreign currencies are translated at the rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated at the rates of exchange ruling at that date. Translation differences are included in the income statement.

On consolidation, the balance sheets of overseas subsidiaries denominated in foreign currencies are translated at the rates of exchange ruling at the balance sheet date while the income statements are translated at the average rates. Exchange differences arising on such translation are dealt with as a movement in exchange reserve.

#### **Taxation**

The charge for current income tax is based on the results for the year as adjusted for items that are non-assessable or disallowed. It is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

**3. SIGNIFICANT ACCOUNTING POLICIES (Continued)****Taxation (Continued)**

Deferred tax is provided using the liability method, on all temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements. The deferred tax liabilities or assets are measured at the tax rates that are expected to apply to the period when the asset is recovered or liability is settled, based on the tax rates and the tax laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, tax losses and credits can be utilised.

**Cash equivalents**

For the purpose of cash flow statement, cash equivalents represent short-term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of change in value, net of bank overdrafts. For balance sheet classification, cash equivalents represent assets similar in nature to cash, which are not restricted to use.

**Operating leases**

Leases where substantially all the rewards and risks of ownership of the assets remain with the leasing company are accounted for as operating leases. Rental payable and receivable under operating leases are recognised as expense and revenue on the straight-line basis over the lease terms.

**Related parties**

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

### **3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **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 embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of obligation can be made. Expenditures for which a provision has been recognised are charged against the related provision in the year in which the expenditures are incurred. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount provided is the present value of the expenditure expected to be required to settle the obligation. 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.

#### **Employee benefits**

##### *Defined contribution plans*

With effective from 1 December 2000, the Group joined a Mandatory Provident Fund (“MPF”) scheme for all employees in Hong Kong. The MPF scheme is registered with the Mandatory Provident Fund Scheme Authority under the Hong Kong’s Mandatory Provident Fund Schemes Ordinance. The assets of the MPF scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the rule of the MPF scheme, the employer and its employees are each required to make contributions to the scheme at rate specified in the rules. The obligations for contributions to defined contribution retirement scheme are recognised as an expense in the income statement.

##### *Post-employment benefit obligations*

The net obligation in respect of long service payment under the Employment Ordinance and directors’ retirement scheme benefits are the amounts of future benefit that employees and directors have earned in return for their services in the current and prior periods. The obligations are calculated using the projected unit credit method and are discounted to its present value and the fair value of any related assets, including retirement scheme benefit, is deducted.



## 4. SEGMENT INFORMATION

The Group is currently organised into three operating divisions – manufacturing and sales of Hoe Hin Brand of products, property investment and treasury investment.

The Group's operations are located in The Hong Kong Special Administrative Region ("Hong Kong") of the People's Republic of China (the "PRC"), other regions in the PRC, Southeast Asia, Northern America, United Kingdom and Europe (excluding United Kingdom). The Group's manufacturing division is located in Hong Kong. Property investment and treasury investment divisions are carried out in various locations.

### Geographical segments

These geographical locations of customers are the basis on which the Group reports its primary segment information.

	Year ended 31 December 2003							Consolidated HK\$
	Hong Kong	Other regions in the PRC	Southeast Asia	Northern America	United Kingdom	Europe (excluding United Kingdom)	Others	
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	
Segment revenue	38,952,574	20,126,156	11,252,532	4,378,625	8,063,093	56,387	943,603	83,772,970
Segment results	18,085,354	3,790,835	9,181,438	2,253,639	9,049,659	2,212,922	1,013,822	45,587,669
Unallocated corporate expenses								(6,379,298)
Profit from operations								39,208,371
Finance costs								(2,573,692)
Profit before taxation								36,634,679
Taxation								(3,407,822)
Net profit for the year								33,226,857

## Notes to the Financial Statements

For the year ended 31 December 2003

### 4. SEGMENT INFORMATION (Continued)

#### Geographical segments (Continued)

##### Balance sheet

At 31 December 2003

	At 31 December 2003						Others	Consolidated
	Hong Kong	Other regions in the PRC	Southeast Asia	Northern America	United Kingdom	Europe (excluding United Kingdom)		
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
<b>Assets</b>								
Segment assets	96,547,589	8,211,498	110,394,235	1,988,876	119,017,278	-	18,588,503	354,747,979
Unallocated corporate assets								10,637,819
Consolidated total assets								<u>365,385,798</u>
<b>Liabilities</b>								
Segment liabilities	64,932,956	15,600	15,418	-	1,389,573	-	-	66,353,547
Unallocated corporate liabilities								5,007,556
Consolidated total liabilities								<u>71,361,103</u>
<b>Other information</b>								
Capital additions	235,603	-	-	-	-	-	-	235,603
Depreciation	2,502,711	-	-	-	-	-	-	2,502,711

**4. SEGMENT INFORMATION (Continued)**

**Geographical segments (Continued)**

	Year ended 31 December 2002							Consolidated HK\$
	Hong Kong HK\$	Other regions in the PRC HK\$	Southeast Asia HK\$	Northern America HK\$	United Kingdom HK\$	Europe (excluding United Kingdom) HK\$	Others HK\$	
<b>Segment revenue</b>	38,840,072	29,572,218	6,123,316	4,728,593	6,538,426	141,826	1,020,628	86,965,079
<b>Segment results</b>	9,952,986	5,791,613	5,379,240	2,739,667	6,366,456	(1,039,841)	2,513,167	31,703,288
Unallocated corporate expenses								(7,465,418)
<b>Profit from operations</b>								24,237,870
Finance costs								(2,494,214)
<b>Profit before taxation</b>								21,743,656
Taxation								(4,461,785)
<b>Net profit for the year</b>								17,281,871

## Notes to the Financial Statements

For the year ended 31 December 2003

### 4. SEGMENT INFORMATION (Continued)

#### Geographical segments (Continued)

##### Balance sheet

At 31 December 2002

	Hong Kong	Other regions in the PRC	Southeast Asia	Northern America	United Kingdom	Europe (excluding United Kingdom)	Others	Consolidated
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
<b>Assets</b>								
Segment assets	106,702,076	11,793,104	69,389,914	3,643,738	98,501,141	-	18,792,358	308,822,331
Unallocated corporate assets								12,369,686
Consolidated total assets								321,192,017
<b>Liabilities</b>								
Segment liabilities	58,655,756	15,600	408,191	-	121,864	-	-	59,201,411
Unallocated corporate liabilities								3,787,114
Consolidated total liabilities								62,988,525
<b>Other information</b>								
Capital additions	281,430	-	-	-	-	-	-	281,430
Depreciation	2,598,843	-	-	-	-	-	-	2,598,843

**4. SEGMENT INFORMATION (Continued)**

**Geographical segments (Continued)**

The following is an analysis of the carrying amount of segment assets, and additions to investment properties and property, plant and equipment analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets		Additions to investments properties, property, plant and equipment	
	At	At	Year ended	Year ended
	31.12.2003	31.12.2002	31.12.2003	31.12.2002
	HK\$	HK\$	HK\$	HK\$
Hong Kong	<b>96,547,589</b>	117,626,452	<b>235,603</b>	281,430
Other regions in the PRC	<b>8,211,498</b>	11,793,104	–	–
Southeast Asia	<b>110,394,235</b>	69,389,914	–	–
Northern America	<b>1,988,876</b>	3,643,738	–	–
United Kingdom	<b>119,017,278</b>	98,501,141	–	–
Others	<b>29,226,322</b>	20,237,668	–	–
	<b>365,385,798</b>	321,192,017	<b>235,603</b>	281,430

## Notes to the Financial Statements

For the year ended 31 December 2003

### 4. SEGMENT INFORMATION (Continued)

#### Business segments

The following table provides an analysis of the Group's revenue from operations by business segment:

	Sales revenue by business segments	
	Year ended	Year ended
	31.12.2003	31.12.2002
	HK\$	HK\$
Manufacturing and sales of Hoe Hin Brand of products	71,765,050	77,646,449
Property investment	7,814,040	6,392,325
Treasury investment	4,179,658	2,907,269
Others	14,222	19,036
	<b>83,772,970</b>	<b>86,965,079</b>

The following is an analysis of the carrying amount of segment assets, and additions to investment properties and property, plant and equipment analysed by the business segments:

	Carrying amount of segment assets		Additions to investments properties, property, plant and equipment	
	At 31.12.2003	At 31.12.2002	Year ended	Year ended
	HK\$	HK\$	31.12.2003	31.12.2002
	HK\$	HK\$	HK\$	HK\$
Manufacturing and sales of				
Hoe Hin Brand of products	93,158,510	100,385,435	235,603	281,430
Property investment	138,991,900	117,475,599	–	–
Treasury investment	131,817,051	101,790,298	–	–
Others	40,890	95,375	–	–
	<b>364,008,351</b>	<b>319,746,707</b>	<b>235,603</b>	<b>281,430</b>
Unallocated corporate assets	1,377,447	1,445,310		
	<b>365,385,798</b>	<b>321,192,017</b>		

**5. OTHER REVENUE**

	<b>2003</b>	2002
	<i>HK\$</i>	<i>HK\$</i>
Commission income	<b>85,264</b>	102,930
Dividends from listed investments	<b>289,222</b>	253,467
Gain on disposal of other investments, listed	<b>704,904</b>	81,067
	<b>1,079,390</b>	437,464

**6. PROFIT BEFORE TAXATION**

This is stated after charging (crediting):

(a) **Finance costs**

	<b>2003</b>	2002
	<i>HK\$</i>	<i>HK\$</i>
Interest on bank loans, overdrafts and other borrowings wholly repayable within five years	<b>2,573,692</b>	2,494,214

(b) **Other items**

	<b>2003</b>	2002
	<i>HK\$</i>	<i>HK\$</i>
Auditors' remuneration	<b>524,718</b>	508,600
Cost of inventories	<b>23,662,604</b>	28,291,170
Contribution to defined contribution scheme	<b>383,311</b>	525,232
Operating lease charges on land and buildings and advertising spaces	<b>466,528</b>	2,628,487
Provision for long service payments	<b>170,907</b>	423,488
Gross rental income from investment properties less outgoings of HK\$271,057 (2002: HK\$646,606)	<b>(7,542,983)</b>	(5,745,719)
Royalty charges	<b>180,629</b>	181,337

## Notes to the Financial Statements

For the year ended 31 December 2003

### 7. DIRECTORS' EMOLUMENTS

Directors' emoluments are as follows:

	2003	2002
	<i>HK\$</i>	<i>HK\$</i>
Directors' fees	<b>150,000</b>	150,000
Management remuneration	<b>3,389,229</b>	2,926,438
Management bonus	<b>830,669</b>	436,612
Provision for retirement scheme benefits	<b>1,082,286</b>	17,028
MPF contributions	<b>24,000</b>	24,000
Housing allowances	<b>1,378,720</b>	1,237,320
Holiday allowances	<b>231,656</b>	40,000
Subsistence allowances	<b>180,629</b>	206,565
	<b>7,267,189</b>	5,037,963

Management bonus is calculated as guaranteed 2.5 percent of the consolidated net profit after taxation with a minimum guaranteed amount of HK\$100,000, according to the terms specified in the directors' service agreements.

The number of directors whose emoluments fall within each of the following bands is:

	2003	2002
Band		
Nil – HK\$1,000,000	<b>2</b>	2
HK\$1,000,001 – HK\$1,500,000	<b>1</b>	2
HK\$2,000,001 – HK\$2,500,000	<b>–</b>	1
Over HK\$2,500,000	<b>2</b>	–
	<b>5</b>	5

During the year, directors' fees paid to the independent non-executive directors amounted to HK\$60,000 (2002: HK\$60,000).



**8. FIVE HIGHEST PAID INDIVIDUALS**

Of the five individuals with the highest emoluments in the Group, three (2002: three) are directors whose emoluments are included in the amounts disclosed in note 7 above. The aggregate of the emoluments of the other two (2002: two) individuals are as follows:

	<b>2003</b>	2002
	<i>HK\$</i>	<i>HK\$</i>
Salaries	<b>1,081,600</b>	1,097,900
MPF contributions	<b>24,000</b>	24,000
	<b>1,105,600</b>	1,121,900

The two individuals with the highest emoluments are within the HK\$1,000,000 band for the years ended 31 December 2002 and 2003.

During the years ended 31 December 2002 and 2003, no emoluments were paid by the Group to the five highest paid individuals, including directors, as an inducement to join or upon joining the Group or as compensation for loss of office. In addition, during the years ended 31 December 2002 and 2003, no directors waived any of their emoluments.

## Notes to the Financial Statements

For the year ended 31 December 2003

### 9. TAXATION

Hong Kong Profits Tax has been provided at the rate of 17.5% (2002: 16%) of the estimated assessable profit for the year. Overseas taxation has been provided on the estimated assessable profits for the year at the rates of taxation prevailing in the relevant jurisdictions.

	2003	2002
	<i>HK\$</i>	<i>HK\$</i>
The charge comprises:		
<b>Current tax</b>		
Hong Kong Profits Tax		
Current year	3,324,323	3,098,344
Over provision in prior years	(224,619)	(158,393)
	<hr/>	<hr/>
	3,099,704	2,939,951
	<hr/>	<hr/>
Overseas tax		
Current year	700,188	361,732
(Over) Under provision in prior years	(30,303)	162,146
	<hr/>	<hr/>
	669,885	523,878
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<b>Deferred taxation (Note 24)</b>		
Origination and reversal of		
temporary differences	(455,325)	997,956
Change in tax rate	93,558	–
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	(361,767)	997,956
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	3,407,822	4,461,785
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**9. TAXATION (Continued)**

**Reconciliation of effective tax rate**

	2003	2002
	%	%
Applicable tax rate in Hong Kong	17.5	16.0
Effect of overseas tax rates differences	0.5	0.7
Non-deductible expenses and losses	0.4	4.1
Non-taxable revenue and gains	(6.6)	(5.6)
Unrecognised tax losses	0.1	0.3
Unrecognised temporary differences	0.4	0.8
Utilisation of previously unrecognised tax losses	(0.4)	(1.0)
Recognition of previously unrecognised temporary differences	1.5	5.5
Effect of change in tax rates	0.3	–
Over provision in prior year	(0.4)	–
Others	(4.0)	(0.3)
	<hr/>	<hr/>
Effective tax rate for the year	<b>9.3</b>	<b>20.5</b>

**10. NET PROFIT FOR THE YEAR**

The consolidated net profit for the year includes a profit of HK\$18,606,638 (2002: HK\$11,689,396) which has been dealt with in the financial statements of the Company.

**11. DIVIDENDS**

	2003	2002
	HK\$	HK\$
Interim dividend of HK3.8 cents (2002: HK3.8 cents) per share	4,940,000	4,940,000
Special interim dividend of HK1.2 cents (2002: Nil) per share	1,560,000	–
Final dividend of HK6 cents (2002: HK6 cents) per share	7,800,000	7,800,000
Special final dividend of HK4 cents (2002: Nil) per share	5,200,000	–
	<hr/>	<hr/>
	<b>19,500,000</b>	<b>12,740,000</b>

## Notes to the Financial Statements

For the year ended 31 December 2003

### 12. EARNINGS PER SHARE

The calculation of earnings per share is based on the net profit for the year of HK\$33,226,857 (2002: HK\$17,281,871) and the 130,000,000 (2002: 130,000,000) ordinary shares in issue during the year.

### 13. INVESTMENT PROPERTIES

	Investment properties in Hong Kong under long leases HK\$	Investment properties in other regions in the PRC under long leases HK\$	Freehold investment properties in United Kingdom and Singapore HK\$	Total HK\$
<b>Valuation</b>				
At beginning of year	8,750,000	1,350,000	103,617,900	113,717,900
Exchange realignment	–	–	10,136,100	10,136,100
Revaluation (deficit) surplus	1,400,000	(100,000)	10,664,950	11,964,950
<b>At balance sheet date</b>	<b>10,150,000</b>	<b>1,250,000</b>	<b>124,418,950</b>	<b>135,818,950</b>

Investment properties located in Hong Kong and other regions in the PRC and Singapore were valued respectively on an open market value basis on 31 December 2003 by Memfus Wong Surveyors Limited and Dovebid (S) Pte Ltd., independent professional valuers. Investment properties located in United Kingdom were valued by Cushman & Wakefield Healey & Baker, independent professional valuers, on an open market basis. The net surplus arising on revaluation has been credited to the investment properties revaluation reserve (*Note 26*).

At the balance sheet date, the carrying amount of the investment properties of the Group rented out under operating leases was HK\$134,568,950 (2002: HK\$112,617,900).

**14. PROPERTY, PLANT AND EQUIPMENT**

	Properties in Hong Kong under long leases HK\$	Properties in Hong Kong under medium-term leases HK\$	Plant and machinery HK\$	Furniture, fixtures and equipment HK\$	Motor vehicles HK\$	Total HK\$
<b>The Group</b>						
<b>Cost or valuation</b>						
At beginning of year	11,300,000	21,050,000	11,950,496	13,381,198	1,708,880	59,390,574
Additions	-	-	106,962	128,641	-	235,603
Revaluation surplus	1,900,000	300,000	-	-	-	2,200,000
Write-off	-	-	-	(4,255)	-	(4,255)
Disposals	-	-	-	(25,700)	-	(25,700)
<b>At balance sheet date</b>	<b>13,200,000</b>	<b>21,350,000</b>	<b>12,057,458</b>	<b>13,479,884</b>	<b>1,708,880</b>	<b>61,796,222</b>
<b>Comprising:</b>						
At cost	-	-	12,057,458	13,479,884	1,708,880	27,246,222
At professional valuation in 2003	13,200,000	21,350,000	-	-	-	34,550,000
	13,200,000	21,350,000	12,057,458	13,479,884	1,708,880	61,796,222
<b>Depreciation</b>						
At beginning of year	-	-	6,717,420	8,711,043	683,554	16,112,017
Charge for the year	120,516	478,409	738,726	823,283	341,777	2,502,711
Eliminated on revaluation	(120,516)	(478,409)	-	-	-	(598,925)
Write-off	-	-	-	(4,255)	-	(4,255)
Eliminated on disposals	-	-	-	(25,700)	-	(25,700)
<b>At balance sheet date</b>	<b>-</b>	<b>-</b>	<b>7,456,146</b>	<b>9,504,371</b>	<b>1,025,331</b>	<b>17,985,848</b>
<b>Net book values</b>						
<b>At 31 December 2003</b>	<b>13,200,000</b>	<b>21,350,000</b>	<b>4,601,312</b>	<b>3,975,513</b>	<b>683,549</b>	<b>43,810,374</b>
At 31 December 2002	11,300,000	21,050,000	5,233,076	4,670,155	1,025,326	43,278,557

## Notes to the Financial Statements

For the year ended 31 December 2003

### 14. PROPERTY, PLANT AND EQUIPMENT (Continued)

The properties were independently valued on an open market value basis on 31 December 2003 by Memfus Wong Surveyors Limited, independent professional valuers.

If the properties had not been revalued, they would have been included in the financial statements at their historical costs less accumulated depreciation and accumulated impairment losses of approximately HK\$31,358,177 (2002: HK\$29,358,000).

### 15. INVESTMENTS IN SECURITIES

	Investment securities		Other investments		Total	
	2003	2002	2003	2002	2003	2002
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
<b>The Group</b>						
Equity securities:						
Listed	–	–	16,789,215	12,889,953	16,789,215	12,889,953
Unlisted	1,344,700	1,344,700	–	–	1,344,700	1,344,700
	<b>1,344,700</b>	<b>1,344,700</b>	<b>16,789,215</b>	<b>12,889,953</b>	<b>18,133,915</b>	<b>14,234,653</b>
Debt securities, listed	–	–	8,437,343	13,956,914	8,437,343	13,956,914
	<b>1,344,700</b>	<b>1,344,700</b>	<b>25,226,558</b>	<b>26,846,867</b>	<b>26,571,258</b>	<b>28,191,567</b>
Comprising:						
Listed						
Hong Kong	–	–	2,732,990	2,376,156	2,732,990	2,376,156
Overseas	–	–	22,493,568	24,470,711	22,493,568	24,470,711
Unlisted	1,344,700	1,344,700	–	–	1,344,700	1,344,700
	<b>1,344,700</b>	<b>1,344,700</b>	<b>25,226,558</b>	<b>26,846,867</b>	<b>26,571,258</b>	<b>28,191,567</b>
Carrying amount included in:						
Current assets	–	–	25,226,558	26,846,867	25,226,558	26,846,867
Non-current assets	1,344,700	1,344,700	–	–	1,344,700	1,344,700
	<b>1,344,700</b>	<b>1,344,700</b>	<b>25,226,558</b>	<b>26,846,867</b>	<b>26,571,258</b>	<b>28,191,567</b>
<b>The Company</b>						
Listed overseas:						
Equity securities	–	–	–	2,080,576	–	2,080,576
Debt securities	–	–	–	3,684,120	–	3,684,120
Carrying amount included in						
current assets	–	–	–	5,764,696	–	5,764,696

## 16. INVESTMENTS IN SUBSIDIARIES

	<b>The Company</b>	
	<b>2003</b>	2002
	<i>HK\$</i>	<i>HK\$</i>
Unlisted shares, at cost	<b>84,339,832</b>	84,339,832

Particulars of the Company's subsidiaries, all of which are private limited liability companies, are as follows:

Name of subsidiary	Place of incorporation/ operation	Issued and fully paid share capital	Percentage of nominal value of issued		Principal activities
			ordinary share capital		
			held by the Company		
			<i>Directly</i>	<i>Indirectly</i>	
Biotech Marketing Limited	British Virgin Islands/ Hong Kong	1 ordinary share of US\$1	–	100	Distribution of healthcare and household products
Digi Star Advertising Company Limited	Hong Kong	4,000,000 ordinary shares of HK\$1 each	–	100	Advertising agency
Hoe Hin Pak Fah Yeow (B. V. I.) Limited	British Virgin Islands/ Hong Kong	20,000 ordinary shares of US\$1 each	100	–	Investment holding
Hoe Hin Pak Fah Yeow Manufactory, Limited	Hong Kong	22,000 non-voting deferred shares** of HK\$1,000 each, and 2 ordinary shares of HK\$1,000 each	–	100	Manufacturing and sales of Hoe Hin Brand of products

## Notes to the Financial Statements

For the year ended 31 December 2003

### 16. INVESTMENTS IN SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation/ operation	Issued and fully paid share capital	Percentage of nominal value of issued ordinary share capital held by the Company		Principal activities
			Directly	Indirectly	
Pak Fah Yeow Advertising Company Limited	Hong Kong	2 ordinary shares of HK\$1 each	–	100	Inactive
Pak Fah Yeow Investment (Hong Kong) Company, Limited	Hong Kong	21,200,000 non-voting deferred shares** of HK\$1 each, and 2 ordinary shares of HK\$1 each	–	100	Property and treasury investment
Princely Profits Limited *	British Virgin Islands/ United Kingdom	1 ordinary share of US\$1	–	100	Inactive
Princesland International Limited *	British Virgin Islands/ United Kingdom	1 ordinary share of US\$1	–	100	Property investment

\* Subsidiaries not audited by Moores Rowland Mazars.

\*\* The non-voting deferred shares carry no right to receive notice of or to attend or vote at any general meeting of these subsidiaries. They also carry very limited rights in respect of dividends and share of surplus assets upon winding up.



**17. INVENTORIES**

	<b>2003</b>	2002
	<i>HK\$</i>	<i>HK\$</i>
Finished goods	<b>1,039,833</b>	2,450,945
Raw materials	<b>6,186,235</b>	4,346,980
Bottles, caps and packing materials	<b>3,706,455</b>	4,420,039
	<b>10,932,523</b>	11,217,964

The amount of inventories carried at net realisable value is HK\$38,290 (2002: HK\$92,575).

**18. TRADE RECEIVABLES**

The Group allows credit period ranging from 90 days to 240 days to its customers. The aged analysis of trade receivables is as follows:

	<b>2003</b>	2002
	<i>HK\$</i>	<i>HK\$</i>
Within 30 days	<b>10,907,654</b>	9,737,311
31 – 60 days	<b>4,830,048</b>	9,720,896
61 – 90 days	<b>3,056,254</b>	4,020,273
More than 90 days	<b>8,559,912</b>	11,158,634
	<b>27,353,868</b>	34,637,114

## Notes to the Financial Statements

For the year ended 31 December 2003

### 19. CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2003	2002	2003	2002
	HK\$	HK\$	HK\$	HK\$
<b>As stated in the balance sheet</b>				
Bank balances and cash	<b>85,234,943</b>	20,640,101	<b>111,857</b>	9,014,700
Pledged deposits ( <i>Note 30</i> )	<b>31,200,000</b>	63,237,979		
Bank overdrafts	–	(402,915)		
<b>As stated in the consolidated cash flow statement</b>				
	<b>116,434,943</b>	83,475,165		

### 20. TRADE PAYABLES

The aged analysis of trade payables is as follows:

	2003	2002
	HK\$	HK\$
Within 30 days	<b>1,410,074</b>	959,259
31 – 60 days	<b>204,419</b>	268,164
More than 60 days	<b>224,177</b>	–
	<b>1,838,670</b>	1,227,423

**21. PROVISION FOR LONG SERVICE PAYMENTS**

	<b>The Group</b>	
	<b>2003</b>	2002
	<i>HK\$</i>	<i>HK\$</i>
At beginning of year	2,214,764	1,947,542
Additional provision	170,907	423,488
Amount used	(512,308)	(156,266)
<b>At balance sheet date</b>	<b>1,873,363</b>	<b>2,214,764</b>

**22. PROVISION FOR DIRECTORS' RETIREMENT SCHEME BENEFITS**

	<b>The Group and the Company</b>	
	<b>2003</b>	2002
	<i>HK\$</i>	<i>HK\$</i>
At beginning of year	1,847,464	1,830,436
Additional provision	1,082,286	17,028
<b>At balance sheet date</b>	<b>2,929,750</b>	<b>1,847,464</b>

**23. BANK LOAN, SECURED**

	<b>2003</b>	2002
	<i>HK\$</i>	<i>HK\$</i>
The maturity of the bank loan is as follows:		
Within one year	–	50,022,000
More than two years but within five years	55,220,000	–
	<b>55,220,000</b>	<b>50,022,000</b>

The Company entered into a new agreement with the bank on 2 June 2003. The loan is repayable in full on 14 July 2006.

The bank loan is secured by the Group's investment properties with an aggregate carrying value of HK\$118,723,000 (2002: HK\$97,542,900) at the balance sheet date, together with the assignment of rental monies derived from the investment properties under charged.

## Notes to the Financial Statements

For the year ended 31 December 2003

### 24. DEFERRED TAXATION

#### The Group

##### Recognised deferred tax liabilities

Deferred tax arising from:

	Accumulated depreciation allowances and impairment losses <i>HK\$</i>	Revaluation of properties <i>HK\$</i>	Fair value adjustment for other investments <i>HK\$</i>	Total <i>HK\$</i>
At 1 January 2002	–	–	–	–
Recognised in consolidated income statement	997,956	–	–	997,956
At 31 December 2002	997,956	–	–	997,956
At 1 January 2003	997,956	–	–	997,956
Recognised in consolidated income statement	(496,794)	–	135,027	(361,767)
Recognised in reserves ( <i>Note 26</i> )	–	385,842	–	385,842
<b>At 31 December 2003</b>	<b>501,162</b>	<b>385,842</b>	<b>135,027</b>	<b>1,022,031</b>

##### Unrecognised deferred tax assets

	2003 <i>HK\$</i>	2002 <i>HK\$</i>
Provisions for post-employment benefits	4,803,114	4,062,225
Tax losses	9,767,960	10,103,375
At balance sheet date	<b>14,571,074</b>	14,165,600

Both the tax losses and the provisions for post-employment benefits have no expiry date under current tax legislation. The related deferred tax assets of HK\$2,549,938 (2002: HK\$2,266,496) have not been recognised due to uncertainty of tax recoverability.

**24. DEFERRED TAXATION (Continued)****The Company***Unrecognised deferred tax assets*

	<b>2003</b>	2002
	<i>HK\$</i>	<i>HK\$</i>
Provisions for post-employment benefits	<b>2,929,749</b>	1,847,463
Tax losses	<b>1,341,103</b>	1,141,631
	<hr/>	<hr/>
At balance sheet date	<b>4,270,852</b>	2,989,094
	<hr/> <hr/>	<hr/> <hr/>

Both the tax losses and the provisions for post-employment benefits have no expiry date under current tax legislation. The related deferred tax assets of HK\$747,399 (2002: HK\$478,255) have not been recognised due to uncertainty of tax recoverability.

**25. ISSUED CAPITAL**

	<b>2003</b>	2002
	<i>HK\$</i>	<i>HK\$</i>
Authorised:		
300,000,000 ordinary shares of HK\$0.1 each	<b>30,000,000</b>	30,000,000
	<hr/> <hr/>	<hr/> <hr/>
Issued and fully paid:		
130,000,000 ordinary shares of HK\$0.1 each	<b>13,000,000</b>	13,000,000
	<hr/> <hr/>	<hr/> <hr/>

There was no movement in the share capital of the Company for the two years ended 31 December 2002 and 2003.

## Notes to the Financial Statements

For the year ended 31 December 2003

### 26. RESERVES

	Share premium HK\$	Negative goodwill HK\$	Revaluation reserve		Exchange reserve HK\$	Accumulated profits		Total HK\$
			Investment properties HK\$	Other properties HK\$		Proposed dividends HK\$	Undistributed profits HK\$	
<b>The Group</b>								
At 1 January 2002	24,925,458	12,808,008	33,539,942	2,205,600	(166,302)	2,600,000	144,376,888	220,289,594
Exchange realignment	-	-	3,176,472	-	-	-	-	3,176,472
Surplus (deficit) on revaluation of properties (Notes 13 and 14)	-	-	12,082,605	(248,422)	-	-	-	11,834,183
Exchange difference arising on translation of financial statements of overseas subsidiaries	-	-	-	-	161,372	-	-	161,372
Net profit for the year	-	-	-	-	-	-	17,281,871	17,281,871
Interim dividend declared	-	-	-	-	-	-	(4,940,000)	(4,940,000)
Final dividend proposed	-	-	-	-	-	7,800,000	(7,800,000)	-
2001 final dividend transferred to dividend payable	-	-	-	-	-	(2,600,000)	-	(2,600,000)
<b>At 31 December 2002</b>	<b>24,925,458</b>	<b>12,808,008</b>	<b>48,799,019</b>	<b>1,957,178</b>	<b>(4,930)</b>	<b>7,800,000</b>	<b>148,918,759</b>	<b>245,203,492</b>
At 1 January 2003	24,925,458	12,808,008	48,799,019	1,957,178	(4,930)	7,800,000	148,918,759	245,203,492
Exchange realignment	-	-	5,019,440	-	-	-	-	5,019,440
Surplus on revaluation of properties (Notes 13 and 14)	-	-	11,964,950	247,636	-	-	-	12,212,586
Exchange difference arising on translation of financial statements of overseas subsidiaries	-	-	-	-	48,162	-	-	48,162
Net profit for the year	-	-	-	-	-	-	33,226,857	33,226,857
Deferred tax	-	-	-	(385,842)	-	-	-	(385,842)
Interim dividend declared	-	-	-	-	-	-	(6,500,000)	(6,500,000)
Final dividend proposed	-	-	-	-	-	13,000,000	(13,000,000)	-
2002 final dividend transferred to dividend payable	-	-	-	-	-	(7,800,000)	-	(7,800,000)
<b>At 31 December 2003</b>	<b>24,925,458</b>	<b>12,808,008</b>	<b>65,783,409</b>	<b>1,818,972</b>	<b>43,232</b>	<b>13,000,000</b>	<b>162,645,616</b>	<b>281,024,695</b>

## Notes to the Financial Statements

For the year ended 31 December 2003

### 26. RESERVES (Continued)

	Share premium <i>HK\$</i>	Contributed surplus <i>HK\$</i>	Accumulated profits		Total <i>HK\$</i>
			Proposed dividends <i>HK\$</i>	Undistributed profits <i>HK\$</i>	
<b>The Company</b>					
At 1 January 2002	24,925,458	67,707,053	2,600,000	3,267,755	98,500,266
Net profit for the year	–	–	–	11,689,396	11,689,396
Interim dividend declared	–	–	–	(4,940,000)	(4,940,000)
Final dividend proposed	–	–	7,800,000	(7,800,000)	–
2001 final dividend transferred to dividend payable	–	–	(2,600,000)	–	(2,600,000)
<b>At 31 December 2002</b>	<b>24,925,458</b>	<b>67,707,053</b>	<b>7,800,000</b>	<b>2,217,151</b>	<b>102,649,662</b>
At 1 January 2003	24,925,458	67,707,053	7,800,000	2,217,151	102,649,662
Net profit for the year	–	–	–	18,606,638	18,606,638
Interim dividend declared	–	–	–	(6,500,000)	(6,500,000)
Final dividend proposed	–	–	13,000,000	(13,000,000)	–
2002 final dividend transferred to dividend payable	–	–	(7,800,000)	–	(7,800,000)
<b>At 31 December 2003</b>	<b>24,925,458</b>	<b>67,707,053</b>	<b>13,000,000</b>	<b>1,323,789</b>	<b>106,956,300</b>

The share premium represents the excess of the net proceeds from issuing of share capital of the Company over its par value.

The negative goodwill, revaluation reserves and exchange reserve are recognised as a result of accounting treatments as detailed in note 3 to the financial statements.

The balance of contributed surplus of the Company represents the difference between the nominal value of the Company's share allotted on 28 November 1991 and the consolidated net assets of the subsidiaries then acquired.

## ***Notes to the Financial Statements***

For the year ended 31 December 2003

### **26. RESERVES (Continued)**

Under the Companies Act of 1981 of Bermuda (as amended), the contributed surplus of the Company is available for distribution to shareholders. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if there are reasonable grounds for believing that:

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

At the balance sheet date, the Company's reserves available for distribution to shareholders are as follows:

	<b>2003</b>	2002
	<i>HK\$</i>	<i>HK\$</i>
Contributed surplus	<b>67,707,053</b>	67,707,053
Accumulated profits	<b>14,323,789</b>	10,017,151
	<b>82,030,842</b>	77,724,204

### **27. SHARE OPTION SCHEME**

The Company has adopted a share option scheme (the "Scheme") on 27 June 2002. The purpose of the Scheme is to enable the Company to attract, retain and motivate talented participants to strive for future developments and expansion of the Group, to encourage the participants to perform their best in achieving the goals of the Group and to allow the participants to enjoy the results of the Group attained through their efforts and contributions. Participants includes (i) any director and employee of each member of the Group; (ii) any discretionary object of a discretionary trust established by any employee or director of each member of the Group; (iii) any executive or employee of any business consultant, business partner, professional and other advisers to each member of the Group; (iv) any substantial shareholder of each member of the Group; (v) any associates of director or substantial shareholder of the Company; and (vi) any employee of the Company's substantial shareholder or any employee of such substantial shareholder's subsidiaries or associated companies, as absolutely determined by the Board of Directors.



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**27. SHARE OPTION SCHEME (Continued)**

The directors may, at their discretion, invite any participant to take up options. An option is deemed to have been granted and accepted by the grantee upon the duplicate letter comprising acceptance of the option duly signed by the grantee and paying HK\$1 by way of consideration for the grant thereof.

The subscription price for shares in the Company under the Scheme will be the highest of (i) the closing price of the shares of the Company as stated in the Stock Exchange's daily quotations sheet on the date on which an option is granted (which date must be a business day); (ii) a price being the average of the closing prices of the shares of the Company as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date on which an option is granted; and (iii) the nominal value of a share of the Company.

The total number of shares of the Company which may be issued upon exercise of all options to be granted under the Scheme and any other share option schemes of the Company shall not in aggregate exceed 13,000,000 shares of the Company, being 10% of the total number of shares of the Company in issue as at the date of approval of the Scheme. An option may be exercised during a period to be determined by the directors in its absolute discretion and in any event such period shall expire not later than 10 years after the date of grant of the option.

The maximum entitlement for anyone participant is that the total number of shares issued and to be issued upon exercise of the options granted to each participant under the Scheme in any 12-month period shall not exceed 1 percent of the total number of shares in issue of the Company. Any further grant of options in excess of the 1 percent limit shall be subject to shareholders' approval in general meeting with such participant and his associates abstaining from voting. The Scheme will remain in force for a period of 10 years from 27 June 2002.

No option was granted pursuant to the Scheme since its adoption.

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**28. AMOUNTS DUE FROM/TO SUBSIDIARIES**

The amounts due are unsecured, interest-free and have no fixed repayment terms.

## **Notes to the Financial Statements**

For the year ended 31 December 2003

### **29. CASH GENERATED FROM OPERATIONS**

	<b>2003</b>	2002
	<i>HK\$</i>	<i>HK\$</i>
Profit before taxation	<b>36,634,679</b>	21,743,656
Interest income	<b>(4,179,658)</b>	(2,907,269)
Interest expenses	<b>2,573,692</b>	2,494,214
Dividend income from investments in securities	<b>(289,222)</b>	(253,467)
Revaluation (surplus) deficit in respect of properties other than investment properties	<b>(2,551,289)</b>	5,612,603
Gain on disposal of property, plant and equipment	–	(8,740)
Gain on disposal of other investments	<b>(704,904)</b>	(81,067)
Net unrealised holding (gain) loss on investments in securities	<b>(4,725,730)</b>	1,775,096
Exchange differences	<b>(1,221,667)</b>	(334,605)
Depreciation of property, plant and equipment	<b>2,502,711</b>	2,598,843
Changes in working capital:		
Inventories	<b>285,441</b>	1,360,263
Long-term receivable	<b>150,000</b>	360,000
Trade receivables	<b>7,283,246</b>	(11,145,062)
Deposits, prepayments and other debtors	<b>(75,508)</b>	761,215
Bills receivable	<b>1,225,821</b>	5,369,952
Trade payables	<b>629,848</b>	470,701
Accrued charges and other creditors	<b>1,056,392</b>	(117,115)
Provision for long service payments	<b>(341,401)</b>	267,222
Provision for directors' retirement scheme benefits	<b>1,082,286</b>	17,028
<b>Cash generated from operations</b>	<b>39,334,737</b>	27,983,468

### **30. PLEDGE OF ASSETS**

Certain of the Group's investment properties, bank deposits and securities were pledged to secure banking facilities granted to the Group to the extent of HK\$86,420,000 (2002: HK\$83,172,000) of which HK\$55,220,000 (2002: HK\$50,424,915) were utilised at the balance sheet date.

The carrying amounts of the Group's investment properties, bank deposits and investments in securities pledged are as follows:

	<b>The Group</b>		<b>The Company</b>	
	<b>2003</b>	2002	<b>2003</b>	2002
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Investment properties	<b>118,723,000</b>	97,542,900	–	–
Bank deposits	<b>31,200,000</b>	63,237,979	–	7,357,134
Investments in securities	<b>21,594,586</b>	22,617,407	–	4,923,196
	<b>171,517,586</b>	183,398,286	–	12,280,330

Investment properties have been pledged to secure bank loans and the remaining bank deposits and investments in securities have been pledged to secure general banking facilities granted to the Group.

### **31. OPERATING LEASE COMMITMENTS**

#### **The Group as lessee**

At the balance sheet date, the Group had total future minimum lease payments under non-cancellable operating leases of HK\$239,936 (2002: HK\$178,835), which are payable within next year.

The operating lease payments represent rentals payable by the Group in respect of land and buildings and advertising spaces. Leases are negotiated for an average term of one year with fixed rentals.

## Notes to the Financial Statements

For the year ended 31 December 2003

### 31. OPERATING LEASE COMMITMENTS (Continued)

#### The Group as lessor

The Group leases out substantially all of its investment properties under operating leases. Most of the investment properties have committed tenants with remaining lease terms ranging from less than 3 years to 17 years. The future aggregate minimum rental receivables under non-cancellable operating leases are as follows:

	2003	2002
	<i>HK\$</i>	<i>HK\$</i>
Within one year	8,000,350	7,397,478
In the second to fifth years inclusive	22,878,000	22,778,946
Over five years	17,798,326	20,913,156
	<u>48,676,676</u>	<u>51,089,580</u>

### 32. CONTINGENT LIABILITIES

#### The Group

During the year, the Group made a claim against a company in US and others for “White Flower” trade mark infringement, trade dress infringement and trademark dilution. However, a counterclaim was filed against the Group by the same company for suffering the loss of their reputation as result of the defamatory information provided by the Group to a magazine in Hong Kong. The litigation is still outstanding as of the date of these financial statements. Whilst the outcome is uncertain, the US attorney strongly believes the Group’s case has substantial merit and the Group will prevail on all claims. No provision in respect of the claims has been made in the financial statements as at 31 December 2003.

#### The Company

At the balance sheet date, the Company had contingent liabilities not provided for in the financial statements in respect of guarantee of bank loan and general banking facilities granted to its subsidiaries amounting to HK\$55,220,000 (2002: HK\$50,022,000).

**33. RELATED PARTY TRANSACTIONS**

In addition to the transactions/information disclosed elsewhere in the financial statements, during the year, the Group had the following transactions with related parties.

- (a) Sales at a 50 percent discount on retail prices to Hong Kong Pak Fah Yeow Charity Association Limited (the "Charity") amounted to HK\$23,055 (2002: HK\$25,598). Mr. Gan Wee Sean and Mr. Chiu Sin Kuen, are also the shareholders and directors of the Charity.
- (b) Mr. Gan Wee Sean was interested as licensor in an agreement with a subsidiary, Hoe Hin Pak Fah Yeow Manufactory, Limited, whereby the subsidiary was granted a license to use certain trademarks relating to White Flower Embrocation registered in Malaysia and Singapore for a period of one year from 1 January 2003 in consideration of an annual royalty payment equivalent to 10 percent of the invoiced sales in Malaysia and Singapore less returns and discounts. During the year, royalties in the amount of HK\$180,629 (2002: HK\$181,337) were paid by the Group pursuant to the aforesaid agreement. The agreement has been renewed for a further term of one year on similar terms.
- (c) Both Mr. Lee Ka Sze, Carmelo and Mr. Yuen Ka Fai are partners of Woo, Kwan, Lee & Lo, Solicitors and Notaries ("Woo, Kwan, Lee & Lo"). During the year, Woo, Kwan, Lee & Lo provided legal services to the Group and received professional fees amounting to HK\$786,279 (2002: HK\$398,826) for those services.

**34. COMPARATIVE FIGURES**

In addition to the disclosure of comparative information following the adoption of SSAP 12 (revised) as disclosed in note 2 to the financial statements, provision for directors' retirement scheme benefits, which were previously included in provision for long service payments, are separately disclosed on the face of the balance sheet in order to give a better presentation of the Group's financial position. Comparative information has been restated to conform to current year's presentation.