

USI HOLDINGS LIMITED ANNUAL REPORT 2002

*Building quality of life*

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## CORPORATE PROFILE

**USI HOLDINGS LIMITED** invests in and operates a balanced range of businesses that provide a combination of steady cash-flow and growth and cover three areas of operation:

**APPAREL, PROPERTY and STRATEGIC INVESTMENTS.**

Apparel operations comprise well-established garment manufacturing in Hong Kong, China and Southeast Asia, trading and branded products distribution which includes internationally recognised label, Gieves & Hawkes.

The Group develops high quality residential property projects in addition to investment property holdings. The Waterfront atop the Airport Railway's Kowloon Station, The Hillgrove at Siu Lam and The Bloomsville at Kowloon Tong have been successfully marketed under the WingTai Asia brand in recent years. The Group also provides hospitality management services through Lanson Place serviced residences in Southeast Asia.

In strategic investments, the Group co-founded SUNDAY Communications Limited, a company listed on the NASDAQ and The Stock Exchange of Hong Kong. SUNDAY is an innovative developer and provider of wireless communications and Internet related services in Hong Kong. The Group also has investments in other information technology and software companies.

USI was listed on The Stock Exchange of Hong Kong in 1991. The Group employs more than 6,000 people worldwide.

## GROUP CHART

### APPAREL

Unimix Group	86.4%	
Shui Hing Textiles Group	100%	
Impact Textiles International	100%	
Gieves & Hawkes	100%	

### PROPERTY

#### Assets

Unimix Industrial Centre	86.4%	
Shui Hing Centre	100%	
81 Hung To Road	100%	
The Waterfront – Airport Railway Kowloon Station Package 1 at Tsim Sha Tsui	7.5%	
The Hillgrove – Siu Lam	33.3%	
The Bloomsville – Kowloon Tong	87.5%	
Shatin Project	40%	
Sai Kung Project	50%	
Po Shan Road Mid-Levels Redevelopment	15%	

#### Management Services

Lanson Place Hotels & Residences	100%	
USI Property Management	100%	

### STRATEGIC INVESTMENTS

SUNDAY Communications Limited	11.5%	
Mission System Consultant Limited	50%	
Oneword Radio Limited	50%	

# FINANCIAL HIGHLIGHTS

For the year ended 31 December (HK\$'M)	The Group	
	2002	2001
Turnover	<u>1,465.9</u>	<u>1,441.8</u>
Gross profit	<u>328.3</u>	<u>381.3</u>
Profit before taxation	<u>33.1</u>	72.0
Taxation	<u>(8.8)</u>	<u>(14.0)</u>
Profit before minority interests	<u>24.3</u>	58.0
Minority interests	<u>(3.5)</u>	<u>(5.7)</u>
Profit attributable to shareholders	<u>20.8</u>	<u>52.3</u>
Proposed final dividend of HK1.0 cent per share (2001: HK2.5 cents per share)	<u>5.2</u>	<u>12.9</u>
Earnings per share		
Basic	<u>HK4.0 cents</u>	<u>HK10.1 cents</u>
Diluted	<u>HK4.0 cents</u>	<u>HK10.1 cents</u>

## CHAIRMAN'S STATEMENT

### OVERVIEW

The Group's profit attributable to shareholders for the year ended 31 December 2002 was HK\$20.8 million compared with HK\$52.3 million in 2001. Turnover for the year increased to HK\$1,465.9 million from HK\$1,441.8 million in 2001, while profit from operations increased from HK\$46.7 million in 2001 to HK\$66.2 million in 2002.

The drop in profit attributable to shareholders from HK\$52.3 million in 2001 to HK\$20.8 million in 2002 was due mainly to a substantial gain which the Group realised in 2001 on the divestiture of a subsidiary and an associate. This impact was partially offset by a smaller loss in our property development projects.

The Group is organised into three divisions: Apparel, which includes garment manufacturing and branded products distribution; Property, which comprises investments in quality residential and industrial developments in Hong Kong and property management; and Strategic Investments.

While it may be a cliché to say that the year under review was a challenging one, this was the reality. We are, nonetheless, heartened by the fact that we have a sound financial position and a steady earnings base in our Apparel Division that acts as a buffer against the uncertain future of the economy, both global and local.

### OPERATIONS REVIEW

Despite the prolonged weakness in the global economy, our core garment manufacturing operations performed well during the year 2002. Operating profit from existing facilities was only down by approximately 10% in a very difficult environment.

The Group continued to upgrade its manufacturing processes, improve productivity and increase cost effectiveness while expanding our Mainland China and Cambodia production facilities. These efforts will enhance our competitiveness and increase our market share – ultimately bolstering earnings.

We increased the capacity of our production facility in Cambodia by about 15% to some 300,000 dozens per annum in 2002. Since 2001, the Group has been building up a production base in RuYuan in the northern part of Guangdong province bordering on Hunan province. To-date we have in operation a 100,000 square foot factory and another factory of like size is under construction. More facilities are planned.

Despite a slowdown in tourism post September 11 and a lacklustre local economy, Gieves & Hawkes ("G&H") was able to maintain its sales level. As part of the continuing effort of building brand awareness and growth in volume, G&H opened a new Birmingham store in September 2002 and a wholesale line was launched in January 2003. We believe in the long-term potential of the G&H brand, and we are realistic regarding the time and effort that is needed to unlock this value. In view of the time needed to execute our strategic plan; G&H was privatised in July 2002.

The residential property market in Hong Kong showed signs of stabilisation with increased activities during the first half of the year. The Group launched sales of three key projects, namely, The Waterfront, The Hillgrove, and The Bloomsville during this period and achieved satisfactory results in generating total sales revenue of approximately HK\$1.9 billion. This would have allowed the Group to report profitability on its property development projects if the market had continued to stabilise. However, the market began to slowdown during the second half of the year. At the beginning of the last quarter of the year, the market was at a virtual standstill pending the announcement of the Government's measures to stabilise the property market. After the Government's announcement, market activities did not pick up significantly because of the looming Gulf War and the resulting uncertainty in the global market. Market sentiment further deteriorated in the first quarter of 2003 with the commencement of the Gulf War and the spread of the Severe Acute Respiratory Syndrome (SARS) in Hong Kong. Against these deteriorating market conditions, a provision for impairment in value of our property development projects of about HK\$19 million was made. As a result, for the year 2002, the Group reported a small loss in respect to its property development projects.

SUNDAY Communications Limited ("SUNDAY") implemented various initiatives during 2002 resulting in significantly improved business performance. EBITDA increased by 135% in 2002 to HK\$240 million before restructuring costs. Loss before restructuring costs for the year decreased by 57% to HK\$91 million as compared to 2001 and a positive cash flow of HK\$129 million from operating activities was recorded as compared with a cash outflow of HK\$89 million in 2001. The benefits and cost savings realised from a streamlined operating structure, a segmented approach to the market, the establishment of an operation centre in Shenzhen and a restructuring of its operations will be fully reflected in the 2003 results.

Two former office and warehouse buildings in the United Kingdom and the Netherlands were sold in the second half of 2002 in an effort to divest the Group of non-core assets. We were able to realise a total gain in excess of HK\$20 million from the disposal.

## CHAIRMAN'S STATEMENT

### STRATEGIC DIRECTION

During these times of economic uncertainty, the Group will continue to strengthen its balance sheet and grow our core businesses while prudently seeking new opportunities.

In an environment of global excess capacity, garment manufacturing will continue to experience margin pressures. The best approach, in our judgement, is to pay close attention to cost control and ways to increase productivity, while maintaining quality, expedited delivery and product innovation. In addition, we will continue to explore opportunities in countries with preferential trading arrangements with the United States and European markets.

The Group will continue to invest in projects to expand and upgrade our manufacturing facilities and improve the productivity and cost effectiveness of our operations to give us a winning edge in a highly competitive market. We will also evaluate and take advantage of technological advances that will increase productivity.

We believe that once the present quota system is abolished, China will become the dominant garment-exporting nation. China's labour force is efficient, production costs are reasonable and operations are unhindered by excessive red tape or counter-productive constraints. The Group will continue to leverage its manufacturing expertise in China, and build up its capacity there in terms of our own facilities or that of our contractual partners. As uncertainties surrounding the quota system remain unresolved, the Group will proceed with all due diligence.

An important focus for the Group will continue to be prime residential property development. During the next two years, the Group will focus on completing the luxurious low-density housing development and the high-end residential apartment project in Sai Kung and Shatin, respectively. In the meantime, we will concentrate on leasing Tower V at The Waterfront and selling the remaining units in The Waterfront, The Bloomsville in Kowloon Tong and The Hillgrove in Siu Lam.

Given the state of the economy, the Group will exercise prudence in continuing to seek quality residential project opportunities that would allow us to capitalise on the market positioning and the WingTai Asia brand we have built in the last five years.

### PROSPECTS

The year 2003 is shaping up to be even more difficult than 2002. In addition to a weak economy, Hong Kong was afflicted with SARS and the Gulf War was in its early phase as of this writing. Nevertheless, in the long term, the Group should be able to capitalise on its strengths as and when the world economy as well as the local economy rebound.



The resiliency of our garment manufacturing business during trying times is a healthy indication of its underlying strength. Size, efficiency and flexibility will determine who will be the winner in the garment manufacturing business, especially in the post quota-restrained world. In this regard, the Group is positioned to take advantage of future opportunities.

The development of top quality, innovatively designed property projects will continue to be a focus of the Group. This commitment led to the establishment of WingTai Asia as a well-recognised brand, as demonstrated by the success of The Waterfront and The Hillgrove projects.

We remain cautious as to Hong Kong's property market. We are uncertain as to the benefits of the Government's policy of temporarily suspending the supply of land or how the Gulf War might affect the world economy as a whole; and in particular, how SARS will affect the local economy.

In summary, it is difficult to ascertain when the economy will rebound and we can only surmise that 2003 will be as challenging as the year 2002. The firm foundation we have built, however, will see us through these difficult times and enable us to continue to create value for our shareholders.

## **BOARD OF DIRECTORS**

Mr. Kwok Ping Sheung, Walter and Mr. Kwok Ping Kwong, Thomas resigned as non-executive directors of the Company and Mr. Wong Yick Kam, Michael ceased to be an alternate director to Messrs. Walter Kwok and Thomas Kwok from 26 September 2002. With effect from the same date, the Board appointed Mr. Wong Yick Kam, Michael and Mr. Hong Pak Cheung, William as non-executive directors. The Board wishes to express its appreciation to Messrs. Walter Kwok and Thomas Kwok for their valuable contribution to the Company during their directorships.

## **VOTE OF THANKS**

On behalf of the Board of Directors, I would like to thank our management, staff and consultants for their spirit and efforts that have contributed to the building of a strong foundation for future growth.

**CHENG Wai Chee, Christopher**

*Chairman*



## MANAGEMENT DISCUSSION AND ANALYSIS

# APPAREL

The year 2002 was more challenging than anticipated for the Apparel business because of the very slow economic recovery in our global export markets. Also, adverse economic conditions in the United States with high unemployment rates and declining corporate profits, further exasperated by accounting scandals, dampened consumer confidence and demand in the market. Despite the adverse market conditions, the Group's garment manufacturing operations, through Shui Hing Textiles International Limited and Unimix Holdings Limited, contributed an operating profit, excluding restructuring and other costs, of HK\$73.1 million as compared to HK\$83.5 million for the year 2001.

## MANAGEMENT DISCUSSION AND ANALYSIS – APPAREL



In a global excess capacity environment, garment manufacturing will continue to experience margin pressure. However, we are confident that our strategy of expanding our production bases in Mainland China and Cambodia, and further improving efficiencies in our operations will enhance our competitiveness and increase our market share – ultimately bolstering earnings.

We increased the capacity of the 88,000 square foot production facility in Cambodia from 260,000 dozens per annum in 2001 to 300,000 dozens per annum in 2002 by improving the efficiency of the operation. We are devoting this added capacity to the European market, which offers Generalised System of Preferences (GSP) treatment on Asean fabrics.



Expansion of our sweater factory at RuYuan, in the northern part of Guangdong Province, and construction of the 100,000 square foot fine knit factory adjacent to the RuYuan sweater facility is on schedule. This fine knit factory will be completed by the end of 2003 and commence production by early 2004 with a planned annual capacity of 140,000 dozens.

Gieves & Hawkes plc

In an effort to divest the Group of non-core assets to better manage its resources, two former office and warehouse buildings used by our trading companies in the United Kingdom and the Netherlands were sold in the second half of 2002 generating a gain of HK\$23.7 million.

## GIEVES & HAWKES PLC

The 25% decline in the stock market and the slow economy in the United Kingdom during the year had an overall adverse impact on the nation's retail market. Nevertheless, Gieves & Hawkes plc ("G&H") maintained a sales volume similar to that of 2001 (2002: £14.1 million, 2001: £13.6 million). Loss from operations before the privatisation cost that was incurred when G&H was de-listed from the London Stock Exchange in July 2002 was HK\$5.5 million (2001: loss of HK\$4.0 million).

A new retail store was opened in Birmingham in September 2002 and a wholesale product line under the brand name GIEVES was introduced in early 2003.



Gieves & Hawkes plc



## MANAGEMENT DISCUSSION AND ANALYSIS

# PROPERTY

## PROPERTY DEVELOPMENT

For the year 2002, we sold 134 units at The Waterfront; 182 units at The Hillgrove and 32 units at The Bloomsville, generating approximately HK\$936 million, HK\$753 million and HK\$184 million in revenue, respectively. During the first half of the year, the Hong Kong residential property market showed signs of stabilisation with an increase in activities. However, the market slowed significantly in the second half of the year, particularly during the last quarter. Market conditions further deteriorated in the first quarter of 2003 with the commencement of the Gulf War and the spread of the Severe Acute Respiratory Syndrome (“SARS”). In view of the uncertain market situation, we made a prudent provision on the value of the remaining units that we were still holding as at the end of the year, of around HK\$19 million. The attributable loss from property development projects after this provision for diminution in value of units on hand, was about HK\$6.3 million, which is some HK\$34.7 million lower than the loss in 2001.

## MANAGEMENT DISCUSSION AND ANALYSIS – PROPERTY



The Waterfront clubhouse  
Airport Railway Kowloon Station

Our firm commitment to develop quality residential property projects remains intact. The Sai Kung project acquired in 2001 to develop luxurious low-density residential units is on schedule for completion at the end of 2004. In April 2002, the Group, through an associate in which the Group owns 40%, acquired a site in Shatin to develop high-end residential apartments that are targeted for completion in May 2005.

The Group has a 15% interest in the Po Shan Road project, which has a gross floor area of 132,122 square feet. Since its launching in December 2002, around 40% of the project had been sold as at the end of 2002 at an average price of HK\$8,300 per square foot.

In January 2003, the Group entered into a 50/50 joint venture to acquire an existing hotel situated at No. 19 - 21 Lancaster Gate in London. We plan to convert this property into 14 residential apartment units for sale within the next 12 to 18 months.

### INVESTMENT PROPERTY

The continuous deflation in Hong Kong has exerted a great deal of pressure on the rental yield of commercial and industrial properties. The performance of the Group's three Hong Kong high-grade industrial properties at Unimix Industrial Centre, Shui Hing Centre and 81 Hung To Road, was adversely affected. The profit attributable to shareholders decreased from HK\$25.8 million in 2001 to HK\$22.4 million in 2002.

Shui Hing Centre in the Kowloon Bay area was the hardest hit among the three properties with a drop in both rental yield and occupancy rate as compared with 2001. Part of this



was due to the relocation of the airport to Chek Lap Kok, Lantau Island, together with the significant drop in rental rates for commercial buildings in the adjacent areas. This has adversely affected the attractiveness of properties in the Kowloon Bay area. The two other investment properties fared much better with only a slight drop in rental yield.

Despite the prevailing low interest rates, we anticipate that the 2003 rental property market will remain weak.

### PROPERTY MANAGEMENT SERVICES

In Kuala Lumpur, the occupancy of Lanson Place Ambassador Row and Lanson Place No. 8 Ampang Hilir improved to 77% and 93%, respectively. The average rental rates also improved by about 2% as compared with 2001. The properties, especially Lanson Place No. 8 Ampang Hilir, have established a well-earned reputation for their well-maintained facilities and therefore enjoyed a high occupancy rate in an otherwise depressed rental market.

Occupancy at Lanson Place Winsland in Singapore declined from 84% to 72% in 2002 and rental rates also decreased by about 15% as corporate cutbacks and lower housing budgets caused many pre-terminations with few in-coming expatriates replacing the outflow.

In Hong Kong, Lanson Place The Waterfront Residences had a soft opening in June 2002 and achieved a 63% occupancy by the end of the year based on available inventory of 63 apartments. More apartments will be made available to meet market demand.

The Group will continue to look for management opportunities in China.

Left: The Hillgrove entrance lobby  
Castle Peak Road 18 Milestone  
Right: The Bloomsville private garden  
Kowloon Tong



# **SUNDAY'S VISION**

**is to be one of the most innovative wireless communications companies in the region.**

# **SUNDAY'S MISSION**


**is to always surpass and exceed stakeholders' expectations, enriching and making a difference to their lives.**



MANAGEMENT  
DISCUSSION AND ANALYSIS

# STRATEGIC INVESTMENTS

SUNDAY  
COMMUNICATIONS  
LIMITED



**S**UNDAY Communications Limited (“SUNDAY”) achieved a significantly improved business performance in 2002 with a high subscriber base, service revenues, average revenue per user and operating efficiencies. The number of subscribers rose to 603,000 in 2002, a 9% increase as compared with 2001, and the EBITDA grew by 135% to HK\$240 million, excluding one-off restructuring costs of HK\$26 million. Net loss for the year decreased by 57% to HK\$91 million before restructuring costs. SUNDAY recorded a positive cash flow of HK\$129 million from operating activities as compared with a cash outflow of HK\$89 million in 2001.

## MANAGEMENT DISCUSSION AND ANALYSIS – STRATEGIC INVESTMENTS

To raise productivity, SUNDAY established an operation centre in Shenzhen to leverage its high quality but lower cost resources, and implemented major organisational changes in December 2002. The company is well positioned for future growth given its lean operating structure.

SUNDAY also completed comprehensive planning of network, IT and service delivery systems required for the launch of 3G services, and is in discussion with a number of vendors and financial institutions to ensure that the 3G services can be rolled out on a sound commercial basis when the time is right.

SUNDAY's shares are listed on The Stock Exchange of Hong Kong Limited and the NASDAQ National Market in the United States.



SUNDAY Communications Limited

### **MISSION SYSTEM CONSULTANT LIMITED**

Mission System Consultant Limited (“MSC”) is a software provider offering Enterprise Resources Planning (ERP) solution to garment manufacturers and traders. The Group acquired a 37.5% stake in MSC in September 2000 and subsequently increased its interest to 50% in January 2003. MSC’s strategy is to focus on Hong Kong apparel manufacturers and to build partnerships with large industry players offering ERP products for supply chain management and system consultancy. The Group absorbed an attributable loss from MSC of HK\$2.0 million in 2002 as compared to an attributable loss of HK\$2.1 million in 2001.

### **ONEWORD RADIO LIMITED**

In July 2001, the Group acquired a 33% interest in Oneword Radio Limited (“Oneword”) to facilitate the sale of the Group’s interest in Chivers Communications plc to BBC Worldwide Limited. The Group’s interest in Oneword was increased to 50% in December 2002. Oneword’s business is in the development of a digital radio station in the United Kingdom, providing the world’s first national commercial plays, books and comedy service. Oneword won the Sony Radio Award – Station of the Year both in 2001 and 2002 and was nominated for the award for the year 2003. Its attributable loss for the Group in 2002 was HK\$3.5 million (2001 attributable loss since acquisition: HK\$1.7 million).

## MANAGEMENT DISCUSSION AND ANALYSIS

### SEGMENT INFORMATION

The analysis of the Group's turnover and profit from operations by business segment and geographical segment are as follows:

For the year ended 31 December	Turnover		Profit from operations	
	2002 HK\$ million	2001 HK\$ million	2002 HK\$ million	2001 HK\$ million
<b>Business segment</b>				
Garment manufacturing and trading	1,043.3	1,113.7	55.3	66.9
Branded products distribution	164.9	226.2	(6.7)	(1.1)
Property rental and management	63.5	73.3	21.4	26.5
Property development	183.6	–	3.4	–
Investing activities	10.6	28.6	(30.9)	(45.6)
Gain on disposal of properties	–	–	23.7	–
	<u>1,465.9</u>	<u>1,441.8</u>	<u>66.2</u>	<u>46.7</u>
<b>Geographical segment</b>				
North America	795.1	801.1	44.0	47.9
Hong Kong	252.1	109.9	(3.8)	(16.5)
United Kingdom	222.9	263.4	20.6	3.9
Other European countries	146.5	203.6	7.8	7.2
Other areas	49.3	63.8	(2.4)	4.2
	<u>1,465.9</u>	<u>1,441.8</u>	<u>66.2</u>	<u>46.7</u>

Despite the difficult environment in 2002 due to the slow world economy, the Group's garment manufacturing and trading, and property rental and management operations continued to generate steady profitability. However, in view of the property market's continued downward spiral, the Group absorbed a total provision of around HK\$19 million for property development projects. The disposal of a former office building and a warehouse building in the United Kingdom and the Netherlands, respectively, generated an overall gain in the amount of HK\$23.7 million for the year 2002.

Our sales focus continued to be North America and Europe, which represented about 54% and 25% of the total turnover, respectively.

### LIQUIDITY AND FINANCIAL RESOURCES

The Group's shareholders' funds were HK\$1,272.4 million as at 31 December 2002 as compared to HK\$1,260.9 million at the end of 2001. The increase was mainly due to the profit for the year 2002, which was partly offset by the distribution of the 2001 final dividend in the first half of 2002.

As at 31 December 2002, the Group's net bank borrowings (total bank borrowings net of bank balances and cash) was HK\$582.7 million (2001: HK\$528.6 million), representing 45.8% of the Group's net assets, which is comparable to the 41.9% as at the end of 2001. Interest for the Group's bank borrowings was mainly on a floating rate basis. A majority (around 91%) of the Group's bank borrowings was repayable in periods beyond one year, and the Group had unutilised banking facilities in excess of HK\$300 million as at the end of 2002.

## FOREIGN CURRENCIES

The Group continues to conduct its business mainly in United States dollars and Hong Kong dollars. For transactions in other foreign currencies, we have a policy to hedge most such dealings. In addition, the majority of our assets are situated in Hong Kong. Thus, our exposure to exchange rate fluctuations is minimal.

## CONTINGENT LIABILITIES

As at 31 December 2002, the Group's contingent liabilities were guarantees given to banks in respect of utilised credit facilities extended to associates of HK\$172.1 million, and export bills discounted with recourse amounting to HK\$28.4 million.

## PLEDGE OF ASSETS

As at the balance sheet date, certain of the Group's investment properties with carrying value of HK\$552.7 million and properties for own use with carrying value of HK\$133.0 million, and shares in certain subsidiaries engaged in property development, were pledged to secure credit facilities for the Group. In addition, shares in an investee company engaged in property development were pledged to secure credit facilities for that investee company at the end of 2002.

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

## EMPLOYEES

As at 31 December 2002, the Group had in excess of 6,000 staff and workers. The Group offers comprehensive remuneration and benefit packages to its employees, which are structured according to the prevailing salary levels in the market, individual merit and performance. The Group has a mandatory provident fund scheme to provide retirement benefits for all of its employees in Hong Kong. In addition, there is a defined contribution top-up scheme for qualifying employees of certain Hong Kong subsidiaries of the Group. The Group also operates a funded defined benefit pension scheme for certain overseas employees engaged prior to May 2001.

Employees, including executive directors, are eligible under the Company's share option scheme in which the share options are generally exercisable in stages within a period of one to five years from the date of grant.

## DIRECTORS AND SENIOR MANAGEMENT PROFILE

### EXECUTIVE DIRECTORS

**Mr. CHENG Wai Chee, Christopher, JP**, aged 55, is the Chairman of the Group and Winsor Properties Holdings Limited. Mr. Cheng is a director of NWS Holdings Limited, New World China Land Limited, both are public companies in Hong Kong. He is also a director of Dao Heng Bank Group Limited. He graduated from the University of Notre Dame with a BBA degree, and also graduated from Columbia University with a MBA degree.

Mr. Cheng plays an active role in public services. He is the Chairman of the Hong Kong General Chamber of Commerce and a steward of The Hong Kong Jockey Club. He is a member of The Public Service Commission, Council of University of Hong Kong and Court of University of Science and Technology and also a member of the Exchange Fund Advisory Committee.

**Mr. CHENG Wai Sun, Edward**, aged 48, is the Chief Executive of the Group. Mr. Cheng is also the Co-Chairman of SUNDAY Communications Limited. SUNDAY, a cellular communication services provider in Hong Kong, is listed on the NASDAQ and the Hong Kong Stock Exchange. Mr. Cheng has a master degree from Oxford University. He is a qualified solicitor in the United Kingdom and Hong Kong.

Mr. Cheng is a member of the Hong Kong SAR Government's Council of Advisors on Innovation & Technology, The Council of City University of Hong Kong, Mandatory Provident Fund Schemes Appeal Board, the Securities and Futures Commission's Takeovers and Mergers Panel and the Takeovers Appeal Committee, the Operations Review Committee of the Independent Commission Against Corruption, the Provisional Construction Industry Co-ordination Board and the Executive Committee of the Hong Kong Housing Society.

**Mr. CHENG Man Piu, Francis**, aged 50, is the Assistant Managing Director of Wing Tai Corporation Limited. He graduated from the University of Wisconsin with a Bachelor of Science degree in Industrial Engineering and a MBA degree. Mr. Cheng is the Chairman of Group 24 in the Federation of Hong Kong Industries, the Vice-Chairman of the Federation of Hong Kong Garment Manufacturers. He is also a director of the Chinese Manufacturers' Association of Hong Kong and the Textile Council of Hong Kong Limited.

**Mr. NG Tak Wai, Frederick**, aged 45, graduated from Georgetown University with a BSBA degree, and also graduated from Columbia University with a MBA degree. He has held senior management positions in various garment manufacturing and distribution companies affiliated with the Wing Tai Group. His background is in manufacturing operations and management information systems. Mr. Ng is a director of The Federation of Hong Kong Garment Manufacturers.

### NON-EXECUTIVE DIRECTORS

**Mr. CHENG Wai Keung**, aged 52, is the Chairman and Managing Director of Wing Tai Holdings Limited as well as non-executive Chairman of both Neptune Orient Lines Ltd. and Raffles Holdings Limited, all of which are listed on the Singapore Exchange Limited. He graduated from Indiana University with a Bachelor of Science degree and holds a MBA degree from University of Chicago.

**Mr. KWOK Ping Luen, Raymond**, aged 50, is the Vice Chairman and Managing Director of Sun Hung Kai Properties Limited. He holds a Master of Arts degree in Law from Cambridge University, a Master's degree in Business Administration from Harvard University and an Honorary Doctorate degree in Business Administration from The Open University of Hong Kong. He is Chairman and Chief Executive Officer of SUNeVision Holdings Ltd., Chairman of SmarTone Telecommunications Holdings Limited and a Director of The Kowloon Motor Bus Holdings Limited, Route 3 (CPS) Company Limited and Airport Freight Forwarding Centre Company Limited.



In civic activities, Mr. Kwok is a non-executive Director of the Securities and Futures Commission, a Director of The Real Estate Developers Association of Hong Kong, a Member of the General Committee of The Hong Kong General Chamber of Commerce, a Member of the Hong Kong Port and Maritime Board and Vice-Chairman of the Council of The Chinese University of Hong Kong. He is also a Member of the Advisory Council of One Country Two Systems Research Institute Limited and Chairman of the Management Committees of the Police Children's Education Trust and the Police Education and Welfare Trust. Mr. Kwok is also a Member of the Ninth Chinese People's Political Consultative Conference Beijing Committee, a Member of the President's Council on International Activities in Yale University and a Member of the Asia Advisory Board of Harvard Business School.

**Mr. Simon MURRAY**, *CBE*, aged 63, is the Chairman of General Enterprise Management Services Limited, a private equity fund management company sponsored by Simon Murray & Associates. Before this, Mr. Murray has been the Executive Chairman Asia/Pacific of the Deutsche Bank Group. He is a director of a number of public companies including Cheung Kong Holdings, Hutchison Whampoa Limited, Pacific Century Group and Orient Overseas (International) Limited.

**Mr. FANG Hung, Kenneth**, *JP*, aged 64, is the Chairman of Fang Brothers Knitting Limited. Mr. Fang graduated from Massachusetts Institute of Technology, U.S.A. in 1961 with a Master's degree in Chemical Engineering. He is an Honorary Chairman of Hong Kong Textile Council, an Honorary President of Hong Kong Woollen and Synthetic Knitting Manufacturer's Association, a member of Textile Advisory Board and a non-executive director of The Hongkong and Shanghai Banking Corporation Limited.

**Mr. WONG Yick Kam, Michael**, aged 51, he obtained his Bachelor's and Master's degrees in Business Administration from the Chinese University of Hong Kong. Mr. Wong is an executive director of Sun Hung Kai Properties Limited and SUNeVision Holdings Ltd. He is also a non-executive director of SmarTone Telecommunications Holdings Limited and Roadshow Holdings Limited. Mr. Wong is also an alternate director to Mr. Kwok Ping Luen, Raymond.

**Mr. HONG Pak Cheung, William**, aged 48, received a Bachelor of Science degree in Mathematics from the University of Saskatchewan in Canada and completed the Advanced Management Program at Harvard University Graduate School of Business. Mr. Hong currently holds the position of Manager at Sun Hung Kai Properties Limited.

## SENIOR MANAGEMENT STAFF

**Mr. AU Hing Lun, Dennis**, aged 43, is the Chief Financial Officer and the Company Secretary of the Group. Mr. Au holds a Master of Business Administration and a Bachelor of Science degrees. He is also a fellow member of The Association of Chartered Certified Accountants.

**Mr. HUNG Kar Wah, Spencer**, aged 68, is a director of Shui Hing Textiles International Limited, a subsidiary of the Group. He has over 40 years of experience in the textile industry.

**Ms. LI KAN Fung Ling, Karen**, aged 41, is the Director of Corporate Development, has joined the Group in 1994. She has over 10 years of experience in strategic planning and implementation with Wharf Hotels Investment Limited (H.K.), Hilton Hotels Corporation (Beverly Hills) and MCI Communications Corporation (Washington, D.C.). She holds a BBA degree in Hotels and Tourism Management from University of Hawaii and a MBA degree in Finance and International Business from George Washington University, Washington, D.C.

**Mr. CHUNG Siu Wah, Henry**, aged 48, is the Director of Corporate Services. He joined the Group in 1993. Mr. Chung holds a Master's Degree in Electronic Commerce and Internet Computing, a Bachelor's Degree in Laws and a Bachelor's Degree in Business Administration. He is a Barrister, a Certified Accountant and a Chartered Secretary.

## DIRECTORS' REPORT

The directors present their annual report and the audited financial statements of the Company for the year ended 31 December 2002.

### PRINCIPAL ACTIVITIES

The Company is an investment holding company. Its principal subsidiaries are engaged in garment manufacturing and trading, branded products distribution, property rental and management, property development and investing activities. The Company and its subsidiaries are hereinafter collectively referred to as the Group.

The Group's associates are principally engaged in property development.

Details of the Company's principal subsidiaries and Group's principal associates at 31 December 2002 are set out in notes 42 and 43 to the financial statements respectively.

### RESULTS

The results of the Group for the year ended 31 December 2002 are set out in the consolidated income statement on page 34.

The directors resolved to recommend the payment of a final dividend of HK1.0 cent per share for the year ended 31 December 2002 (2001: HK2.5 cents per share) to be declared payable in cash to shareholders whose names appear on the Register of Members of the Company on 10 June 2003. Subject to the passing of the relevant resolution at the forthcoming annual general meeting, such dividend will be payable on 18 June 2003.

### SHARE CAPITAL

Details of the Company's authorised and issued share capital as at 31 December 2002 are set out in note 30 to the financial statements. There was no change in the year.

### RESERVES

Movements in the reserves of the Group and of the Company are set out in note 32 to the financial statements.

### INVESTMENT PROPERTIES

The Group revalued its investment properties as at 31 December 2002 on an open market value basis. Movements during the year are set out in note 15 to the financial statements.

A summary of the properties held by the Group for investment purposes at 31 December 2002 is set out on page 80.

### PROPERTIES UNDER DEVELOPMENT

Changes in the Group's properties under development during the year are set out in note 16 to the financial statements.

## OTHER PROPERTIES, PLANT AND EQUIPMENT

During the year, the Group acquired other properties, plant and equipment for an aggregate cost of HK\$26.1 million in its normal course of business. These and other significant movements during the year are set out in note 17 to the financial statements.

## DONATIONS

During the year, the Group made charitable and other donations totalling HK\$0.2 million.

## DIRECTORS AND DIRECTORS' SERVICES CONTRACTS

The directors of the Company during the year and up to the date of this report were:

### Executive directors:

CHENG Wai Chee, Christopher *JP, Chairman*

CHENG Wai Sun, Edward *Chief Executive*

CHENG Man Piu, Francis

NG Tak Wai, Frederick

### Non-executive directors:

CHENG Wai Keung

KWOK Ping Luen, Raymond

WONG Yick Kam, Michael (*appointed on 26 September 2002, also an alternate to Raymond KWOK*)

HONG Pak Cheung, William (*appointed on 26 September 2002*)

KWOK Ping Sheung, Walter (*resigned on 26 September 2002*)

KWOK Ping Kwong, Thomas (*resigned on 26 September 2002*)

### Independent non-executive directors:

Simon MURRAY *CBE*

FANG Hung, Kenneth *JP*

In accordance with bye-law 100 of the Company's bye-laws, Messrs. KWOK Ping Luen, Raymond and FANG Hung, Kenneth will retire by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

In accordance with bye-law 103(B) of the Company's bye-laws, Messrs. WONG Yick Kam, Michael and HONG Pak Cheung, William shall hold office until the forthcoming annual general meeting, and being eligible offer themselves for re-election.

All directors, except the Chairman of the Company, are subject to retirement by rotation as required by the Company's bye-laws.

None of the directors being proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

## DIRECTORS' REPORT

### CORPORATE GOVERNANCE

In the opinion of the directors, the Company has complied throughout the financial year ended 31 December 2002 with the Code of Best Practice set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

### AUDIT COMMITTEE

The Audit Committee of the Company comprises the Chairman of the Committee, Mr. Simon MURRAY and other members including Messrs. FANG Hung, Kenneth and WONG Yick Kam, Michael. Both Messrs. Simon MURRAY and FANG Hung, Kenneth are independent non-executive directors of the Company. Mr. WONG Yick Kam, Michael, a non-executive director of the Company, joined the Audit Committee on 22 January 2003 and in the meantime, he appointed Mr. HONG Pak Cheung, William as his alternate in the Audit Committee.

The Audit Committee of the Company met with external auditors three times with 100% attendance recorded during the year ended 31 December 2002. The Audit Committee has reviewed the accounting principles and policies adopted by the Company and discussed with management the internal control, auditing and financial reporting matters in respect of the annual report including a review of the audited consolidated financial statements of the Company for the year ended 31 December 2002.

### DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES OF THE COMPANY

As at 31 December 2002, as notified to the Company pursuant to Hong Kong's Securities (Disclosure of Interests) Ordinance (the SDI "Ordinance"), the interests of the directors and the chief executive in the shares of the Company were as follows:

Name of director	Number of shares held			
	Personal interests	Family interests	Corporate interests	Other interests
CHENG Wai Chee, Christopher	75,999	–	150,409,086	110,595,862
			<i>Note (a)</i>	<i>Notes (b) and (c)</i>
CHENG Wai Sun, Edward	–	–	–	110,595,862
				<i>Notes (b) and (d)</i>
CHENG Man Piu, Francis	–	–	–	110,595,862
				<i>Note (b)</i>
NG Tak Wai, Frederick	26,000	762,000	–	<i>Note (e)</i>
CHENG Wai Keung	–	–	–	110,595,862
				<i>Note (b)</i>
KWOK Ping Luen, Raymond	–	–	–	–
Simon MURRAY	–	–	–	–
FANG Hung, Kenneth	–	–	–	–
WONG Yick Kam, Michael	–	–	–	–
HONG Pak Cheung, William	–	–	–	–

*Notes:*

- (a) By virtue of the SDI Ordinance, Mr. CHENG Wai Chee, Christopher was interested in 150,409,086 shares of the Company beneficially owned by Bestime Resources Limited, Pofung Investments Limited and Broxbourne Assets Limited. Bestime Resources Limited, Pofung Investments Limited and Broxbourne Assets Limited were the beneficial owners of 68,747,996, 66,698,122 and 14,962,968 shares of the Company respectively.

- (b) Messrs. CHENG Wai Chee, Christopher, CHENG Wai Sun, Edward, CHENG Man Piu, Francis and CHENG Wai Keung were beneficiaries of a trust which assets included indirect interests in 110,595,862 shares of the Company beneficially owned by Brave Dragon Limited and Wing Tai Garment Manufactory (Singapore) Pte Limited as set out under "Substantial Shareholders" below.
- (c) Mr. CHENG Wai Chee, Christopher had outstanding options to subscribe for 2,000,000 shares of the Company as set out below under "Directors' and Chief Executive's Rights to acquire Shares or Debentures" pursuant to the share option scheme of the Company.
- (d) Mr. CHENG Wai Sun, Edward had outstanding options to subscribe for 2,000,000 shares of the Company as set out below under "Directors' and Chief Executive's Rights to acquire Shares or Debentures" pursuant to the share option scheme of the Company.
- (e) Mr. NG Tak Wai, Frederick had outstanding options to subscribe for 860,000 shares of the Company as set out below under "Directors' and Chief Executive's Rights to acquire Shares or Debentures" pursuant to the share option scheme of the Company.

Other than disclosed above, as at 31 December 2002, none of the directors or the chief executive has (i) any interest in, or any deemed interest in, pursuant to Section 28 of the SDI Ordinance or under Section 31 or Part I of the Schedule to the SDI Ordinance, the shares of the Company or any associated corporation (within the meaning of the SDI Ordinance); or (ii) any interest which is required to be entered in the register kept by the Company pursuant to Section 29 of the SDI Ordinance; or (iii) any interest which is required to be disclosed, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies as set out in Appendix 10 to the Listing Rules, to the Company and The Stock Exchange of Hong Kong Limited.

## SHARE OPTION SCHEME

Details of the share option scheme of the Company are set out in note 31 to the financial statements.

In order to comply with the latest requirements of the Listing Rules, the directors proposed that a new share option scheme which complies with the terms of the new Chapter 17 of the Listing Rules be adopted, and subject to the adoption of the new share option scheme, the existing share option scheme of the Company be terminated at the special general meeting to be convened immediately after the forthcoming annual general meeting. Details of the proposed new share option scheme are set out in the circular sent to shareholders with this Annual Report.

## DIRECTORS' AND CHIEF EXECUTIVE'S RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Under the Company's share option scheme, certain directors of the Company have personal interests in share options which have been granted to them to subscribe for shares in the Company as follows:—

Name of director	Date of grant	Exercise price per share HK\$	Number of share options		
			Outstanding at 1.1.2002	Lapsed during the year	Outstanding at 31.12.2002
CHENG Wai Chee, Christopher	15.11.1999	0.800	2,000,000	—	2,000,000
CHENG Wai Sun, Edward	30.8.1997	2.330	1,000,000	(1,000,000)	—
	15.11.1999	0.800	2,000,000	—	2,000,000
NG Tak Wai, Frederick	30.8.1997	2.330	430,000	(430,000)	—
	15.11.1999	0.800	860,000	—	860,000

No options were granted to, or exercised by, the Company's directors during the year.

Other than as disclosed above, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the directors or the chief executive of the Company to acquire benefits by means of acquisition of shares in, or debt securities (including debentures) of, the Company or any other body corporate and none of the directors, the chief executive, their spouses or children under the age of 18, had any right to subscribe for securities of the Company, or had exercised any such right during the year.

## DIRECTORS' REPORT

### SUBSTANTIAL SHAREHOLDERS

As at 31 December 2002, the register kept by the Company under Section 16(1) of the SDI Ordinance showed the following persons, many of whom were related to the directors and the chief executive as stated under "Directors' and Chief Executive's Interests in Shares of the Company", were interested in 10% or more of the nominal value of the issued shares of the Company:

Name of shareholder	Number of shares beneficially held	%
Brave Dragon Limited	106,345,862	20.54
Wing Tai Holdings Limited	110,595,862	21.37 (Note 1)
Deutsche Bank International Trust Co. (Jersey) Limited	110,595,862	21.37 (Note 2)
Deutsche Bank International Trust Co. (Cayman) Limited	110,595,862	21.37 (Note 2)
Wing Tai Asia Holdings Limited	110,595,862	21.37 (Note 2)
Wing Sun Development Pte Limited	110,595,862	21.37 (Note 2)
Terebene Holdings Inc.	110,595,862	21.37 (Note 2)
Winlyn Investment Pte Limited	110,595,862	21.37 (Note 2)
Bestime Resources Limited	68,747,996	13.28 (Note 3)
Pofung Investments Limited	66,698,122	12.89 (Note 3)
Wing Tai Corporation Limited	135,446,118	26.17 (Note 3)
Wesmore Limited	83,316,158	16.10 (Note 4)
Sun Hung Kai Properties Limited	100,762,150	19.47 (Note 4)

*Notes:*

- (1) Wing Tai Holdings Limited beneficially owned 89.4% of the issued shares of Brave Dragon Limited and 100% of the issued shares of Wing Tai Garment Manufactory (Singapore) Pte Limited which owned 4,250,000 shares of the Company.
- (2) Deutsche Bank International Trust Co. (Jersey) Limited was the trustee of a family trust (in which Messrs. CHENG Wai Chee, Christopher, CHENG Wai Sun, Edward, CHENG Man Piu, Francis and CHENG Wai Keung were beneficiaries) which held all units of a unit trust ("Unit Trust"). Deutsche Bank International Trust Co. (Cayman) Limited was the trustee of the Unit Trust which beneficially owned 100% issued shares of Wing Tai Asia Holdings Limited and 61.3% of the issued shares of Terebene Holdings Inc.. Wing Tai Asia Holdings Limited, through its wholly-owned subsidiary, Wing Sun Development Pte Limited, held 28.3% of the issued shares of Wing Tai Holdings Limited. Terebene Holdings Inc. held 59.3% of the issued shares of Winlyn Investment Pte Limited, which in turn held 10.8% of the issued shares of Wing Tai Holdings Limited.
- (3) Wing Tai Corporation Limited beneficially owned 100% of Bestime Resources Limited and Pofung Investments Limited. Accordingly, it was deemed by the SDI Ordinance to be interested in the shares of the Company beneficially owned by Bestime Resources Limited and Pofung Investments Limited.
- (4) Sun Hung Kai Properties Limited beneficially owned 100% of Soundworld Limited, Techglory Limited and Wesmore Limited. Soundworld Limited was the beneficial owner of 16,260,992 shares of the Company and Techglory Limited was the beneficial owner of 1,185,000 shares of the Company.

Other than disclosed above, there was no person recorded in the register kept pursuant to Section 16(1) of the SDI Ordinance having an interest in 10% or more of the nominal value of the issued share capital of the Company as at 31 December 2002.

## DIRECTORS' INTERESTS IN CONTRACTS

There were no contracts of significance to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, which subsisted at the end of the year or at any time during the year.

## DIRECTORS' INTERESTS IN COMPETING BUSINESSES

The interests of directors of the Company in competing businesses ("Competing Businesses") required to be disclosed pursuant to Rule 8.10 of the Listing Rules are as follows:

Messrs. CHENG Wai Chee, Christopher, CHENG Wai Sun, Edward and CHENG Man Piu, Francis are substantial shareholders of Wing Tai (Cheng) Holdings Limited and Pacific Investment Exponents Inc. (the "Group One Companies"). Messrs. CHENG Wai Chee, Christopher and CHENG Man Piu, Francis are directors of Wing Tai (Cheng) Holdings Limited. Messrs. CHENG Wai Chee, Christopher, CHENG Wai Sun, Edward and CHENG Man Piu, Francis are directors of Pacific Investment Exponents Inc.

Messrs. CHENG Wai Chee, Christopher, CHENG Wai Sun, Edward, CHENG Man Piu, Francis and CHENG Wai Keung are beneficiaries of a family trust which is a substantial shareholder of Wing Tai Garment Industrial Holdings Limited (the "Group Two Company"). Messrs. CHENG Wai Chee, Christopher and CHENG Man Piu, Francis are directors of the Group Two Company.

Messrs. CHENG Wai Chee, Christopher, CHENG Wai Sun, Edward, CHENG Man Piu, Francis and CHENG Wai Keung are beneficiaries of a family trust which is a substantial shareholder of Wing Tai Asia Holdings Limited and Terebene Holdings Limited (the "Group Three Companies"). Mr. CHENG Wai Keung is a director of the Group Three Companies.

Certain companies controlled by the Group One Companies and the Group Two Company carry on garment business in China and Cambodia which may be regarded as competitive to the Group's apparel business.

Certain companies affiliated with the Group Three Companies carry on garment business in Malaysia and Sri-Lanka which may be regarded as competitive to the Group's apparel business.

The Group's management team is separated from and independent of those of the Group One Companies, Group Two Company and Group Three Companies. The Group's management team has been instructed that whatever businesses to be transacted with the Group One Companies, Group Two Company, Group Three Companies and/or any companies controlled thereby or affiliated therewith shall be transacted at arm's length. Furthermore, the Company's independent non-executive directors and the members of the Company's Audit Committee will ensure that the Group is capable of carrying on its businesses independently of, and at arm's length from the aforesaid garment business.

Messrs. CHENG Wai Chee, Christopher and CHENG Wai Sun, Edward are non-executive directors of and interested in Winsor Properties Holdings Limited ("Winsor"). The letting and managing of industrial buildings by Winsor may be regarded as competitive to the Group's property rental business.

## DIRECTORS' REPORT

The Company's management team is separated from and independent of the management team of Winsor. The Group's management team has been instructed that whatever businesses to be transacted with Winsor and/or any companies controlled/affiliated therewith shall be transacted at arm's length. The industrial buildings let and managed by the Group and Winsor are targeting at different customer bases and different market segments. Furthermore, the Company's independent non-executive directors and the members of the Company's Audit Committee will ensure that the Group is capable of carrying on its businesses independently of, and at arm's length from the aforesaid industrial property letting and management business of Winsor.

Messrs. KWOK Ping Sheung, Walter, KWOK Ping Kwong, Thomas, KWOK Ping Luen, Raymond and WONG Yick Kam, Michael are directors of Sun Hung Kai Properties Limited ("SHKP"). Businesses of SHKP consist of property development and investment. Only in this respect they are regarded to be interested in the relevant Competing Business with the Group.

Messrs. KWOK Ping Sheung, Walter, KWOK Ping Kwong, Thomas, KWOK Ping Luen, Raymond and WONG Yick Kam, Michael are directors of SUNeVision Holdings Ltd. ("SUNeVision"). Businesses of SUNeVision consist of Internet services. Only in this respect they are regarded to be interested in the relevant Competing Business with the Group.

Messrs. KWOK Ping Sheung, Walter and KWOK Ping Luen, Raymond are directors of The Kowloon Motor Bus Holdings Limited ("KMB"). Businesses of KMB consist of property development and investment. Only in this respect they are regarded to be interested in the relevant Competing Business with the Group.

Messrs. KWOK Ping Luen, Raymond and WONG Yik Kam, Michael are directors of SmarTone Telecommunications Holdings Limited ("SmarTone"). Businesses of SmarTone consist of Internet services. Only in this respect they are regarded to be interested in the relevant Competing Business with the Group.

The aforesaid Competing Businesses, in which Messrs. KWOK Ping Sheung, Walter, KWOK Ping Kwong, Thomas, KWOK Ping Luen, Raymond and WONG Yick Kam, Michael are regarded to be interested, are managed by publicly listed companies with independent management and administration. In this respect, coupled with the diligence of the independent non-executive directors and the Audit Committee of the Company, the Group is capable of carrying on its business independently of, and at arm's length from the said Competing Businesses.

### CONNECTED TRANSACTIONS

1. As previously reported, the Company (through a wholly-owned subsidiary) had granted certain loans (the "Shareholders' Loans") to Union Charm Development Limited ("Union Charm") in proportion to the Company's equity interest in Union Charm.

The Company has a 7.5% attributable indirect shareholding in Union Charm, held through Avondale Properties Limited ("Avondale"), the beneficial owner of the entire issued ordinary share capital of Union Charm, and Everton Properties Limited ("Everton"), which holds 15% of the issued share capital of Avondale and 15% of the issued participating preference shares of Union Charm. Each of World-Wide Investment Company (Bermuda) Limited and a wholly-owned subsidiary of the Company holds 50% of the issued share capital of Everton.



On 12 March 2001, Union Charm entered into a loan agreement with The Hongkong and Shanghai Banking Corporation Limited (the "Lender") pursuant to which the Lender has agreed to provide loan facilities for an aggregate amount of HK\$2,950 million to Union Charm (the "Loan Facilities"). The Loan Facilities are primarily for the purpose of refinancing part of the Shareholders' Loans advanced to Union Charm and the Loan Facilities are for a three-year term and amounts drawn thereunder carry interest at a rate based on the Hong Kong inter-bank offered rate.

As part of the security package for the Loan Facilities, the Company, a wholly-owned subsidiary thereof and Everton respectively entered into a Deed of Consent and Authorisation (consenting to Union Charm executing a Security Deed in favour of the Lender), a Subordination Agreement (subordinating the Shareholders' Loans to the loans made by the Lender under the Loan Facilities) and a Share Mortgage (mortgaging the Group's shareholding in Union Charm to the Lender) in favour of the Lender. The directors (including the independent non-executive directors) of the Company considered that the Loan Facilities had been granted on normal commercial terms.

2. As previously reported, Joy Alliance Limited ("Joy Alliance") and Bostar Limited ("Bostar") entered into a loan agreement with Hang Seng Bank Limited (the "Bank") under which the Bank provided loan facilities to Joy Alliance and Bostar for an amount up to HK\$143,010,000 for a term of three years commencing 31 May 1999 ("Loan Facilities") to finance The Bloomsville project in Kowloon Tong. The Company indirectly owns 87.5% interests in each of Joy Alliance and Bostar, the remaining 12.5% interests are owned by King Begonia Limited, a company which is incorporated in Hong Kong. As a condition of the Loan Facilities, the Company granted a guarantee (the "Guarantee") in favour of the Bank to secure in full the payment obligations of both Joy Alliance and Bostar under the Loan Facilities. The granting of the Guarantee constituted a connected transaction of the Company as King Begonia Limited was a Connected Person by virtue of it being a substantial shareholder in Joy Alliance and Bostar.

On 15 March 2001, Joy Alliance and Bostar further entered into a Supplement to Loan Agreement with the Bank pursuant to which the Bank has agreed to increase the amount of the Loan Facilities from HK\$143,010,000 to HK\$166,010,000. In this connection, the Company as required by the term of the Supplement to Loan Agreement on the same date, entered into a Supplement to Guarantee in favour of the Bank to provide additional guarantee to cover to the extent that the liabilities of Joy Alliance and Bostar under the amended Loan Facilities.

On 20 March 2002, the Bank agreed to extend the final maturity date of the Loan Facilities to 31 May 2003. All bank loan made under the Loan Facilities had been fully repaid on 30 December 2002 and the Guarantee and Supplement to Guarantee were released on 21 February 2003.

The directors of the Company, including the independent non-executive directors, believe that the terms of the above transactions are fair and reasonable, are in the interests of the Group, and were concluded on normal commercial terms in the ordinary and usual course of the Group's business.

## DIRECTORS' REPORT

### MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2002, the aggregate purchases and turnover attributable to the Group's five largest suppliers and customers were less than 30% of the total value of the Group's purchases and turnover respectively.

### PRACTICE NOTE 19 TO THE LISTING RULES

As at 31 December 2002, the aggregate amount of financial assistance provided to and guarantees given for affiliated companies by the Group amounted to HK\$720.1 million, represented approximately 56.6% of the net assets of the Group.

A pro-forma combined balance sheet of these affiliated companies and the Group's attributable interest in these affiliated companies as at 31 December 2002 are presented below:

(HK\$'M)	Pro-forma combined balance sheet	Group's attributable interest
Non-current assets	2,590.0	514.3
Current assets	2,237.8	250.3
Current liabilities	(593.4)	(85.1)
Non-current liabilities	(5,043.1)	(755.9)
Net liabilities	<u>(808.7)</u>	<u>(76.4)</u>

### PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SHARES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares during the year.

### PRE-EMPTIVE RIGHTS

There is no provisions for pre-emptive rights under the Company's bye-laws although there is no restriction against such rights under the laws in Bermuda.

### AUDITORS

A resolution will be submitted to the annual general meeting of the Company to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board

**CHENG Wai Chee, Christopher**

*Chairman*

Hong Kong, 8 April 2003

# AUDITORS' REPORT

## 德勤·關黃陳方會計師行

Certified Public Accountants  
26/F, Wing On Centre  
111 Connaught Road Central  
Hong Kong

香港中環干諾道中111號  
永安中心26樓

**Deloitte  
Touche  
Tohmatsu**

### TO THE SHAREHOLDERS OF USI HOLDINGS LIMITED

(incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 34 to 78 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

### RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

### BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

### OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2002 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**Deloitte Touche Tohmatsu**

Hong Kong, 8 April 2003

## CONSOLIDATED INCOME STATEMENT

For the year ended 31 December (HK\$'M)	Notes	2002	2001
Turnover	4	1,465.9	1,441.8
Cost of sales		(1,137.6)	(1,060.5)
Gross profit		328.3	381.3
Other operating income		67.9	54.6
Distribution costs		(85.9)	(76.4)
Administrative expenses		(231.0)	(274.7)
Gain on disposal of properties	6	23.7	–
Impairment loss recognised in respect of properties held for sale		(16.6)	–
Impairment loss recognised in respect of other investments the underlying business of which is property development		(2.5)	(19.2)
Impairment loss recognised in respect of investment securities		–	(7.2)
Other operating expenses	7	(17.7)	(11.7)
Profit from operations	8	66.2	46.7
Other interest income		0.8	2.0
Other non-operating income	10	–	85.0
Finance costs	11	(24.2)	(31.0)
Share of results of associates		(9.7)	(30.7)
Profit before taxation		33.1	72.0
Taxation	12	(8.8)	(14.0)
Profit before minority interests		24.3	58.0
Minority interests		(3.5)	(5.7)
Profit attributable to shareholders		20.8	52.3
Dividend	13	5.2	12.9
Earnings per share	14		
– Basic		HK4.0 cents	HK10.1 cents
– Diluted		HK4.0 cents	HK10.1 cents

## CONSOLIDATED BALANCE SHEET

At 31 December (HK\$'M)	Notes	2002	2001
<b>Non-current assets</b>			
Investment properties	15	579.5	599.2
Properties under development	16	–	266.1
Other properties, plant and equipment	17	200.0	194.2
Interests in associates	20	438.8	306.5
Investments in securities	21	490.8	481.3
Other non-current assets	22	4.0	2.8
		1,713.1	1,850.1
<b>Current assets</b>			
Inventories	23	132.1	129.0
Properties held for sale	24	173.0	–
Trade and other receivables and prepayments	25	168.4	122.1
Bills receivable		69.8	85.0
Amounts due from associates		30.4	20.7
Taxation recoverable		3.3	1.5
Bank balances and cash		90.4	71.1
		667.4	429.4
<b>Current liabilities</b>			
Trade and other payables	26	261.8	264.5
Provisions	27	10.8	19.1
Bills payable		20.1	17.2
Amount due to an associate		0.1	0.2
Taxation payable		3.7	7.6
Short-term bank borrowings	28	7.5	9.8
Bank loans – amount due within one year	29	53.6	39.3
		357.6	357.7
<b>Net current assets</b>		309.8	71.7
		2,022.9	1,921.8

## CONSOLIDATED BALANCE SHEET

At 31 December (HK\$'M)	Notes	2002	2001
<b>Capital and reserves</b>			
Share capital	30	258.8	258.8
Reserves	32	1,013.6	1,002.1
<b>Shareholders' funds</b>		<u>1,272.4</u>	<u>1,260.9</u>
<b>Minority interests</b>		<u>58.1</u>	<u>66.8</u>
<b>Non-current liabilities</b>			
Bank loans – amount due after one year	29	612.0	550.6
Other long-term loans	33	79.8	42.9
Deferred taxation	34	0.6	0.6
		<u>692.4</u>	<u>594.1</u>
		<u>2,022.9</u>	<u>1,921.8</u>

The financial statements on pages 34 to 78 were approved and authorised for issue by the Board of Directors on 8 April 2003 and are signed on its behalf by:

**CHENG Wai Sun, Edward**  
DIRECTOR

**NG Tak Wai, Frederick**  
DIRECTOR

## BALANCE SHEET

At 31 December (HK\$'M)	Notes	2002	2001
<b>Non-current assets</b>			
Interests in subsidiaries	19	1,208.1	1,220.2
<b>Current assets</b>			
Prepayments		0.3	0.3
Bank balances and cash		0.5	0.5
		0.8	0.8
<b>Current liabilities</b>			
Other payables		2.2	3.5
<b>Net current liabilities</b>			
		(1.4)	(2.7)
<b>Net assets</b>			
		1,206.7	1,217.5
<b>Capital and reserves</b>			
Share capital	30	258.8	258.8
Reserves	32	947.9	958.7
<b>Shareholders' funds</b>			
		1,206.7	1,217.5

**CHENG Wai Sun, Edward**  
DIRECTOR

**NG Tak Wai, Frederick**  
DIRECTOR

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(HK\$'M)	Total equity
At 1 January 2001	1,203.5
Deficit arising on revaluation of investment properties	(5.6)
Exchange differences arising on translation of financial statements of operations outside Hong Kong	(3.4)
Share of reserves of an associate	0.1
Net losses not recognised in the consolidated income statement	(8.9)
	1,194.6
Translation reserve released on disposal of interest in a subsidiary	1.3
Reserves released on disposal of interest in an associate	12.7
Profit attributable to shareholders	52.3
At 31 December 2001 and 1 January 2002	1,260.9
Deficit arising on revaluation of investment properties	(6.8)
Exchange differences arising on translation of financial statements of operations outside Hong Kong	7.5
Share of reserves of an associate	(0.9)
Net losses not recognised in the consolidated income statement	(0.2)
	1,260.7
Reserves realised on disposal of properties	0.8
Translation reserve realised on cessation of operations outside Hong Kong	3.0
2001 dividend paid	(12.9)
Profit attributable to shareholders	20.8
At 31 December 2002	1,272.4



# CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December (HK\$'M)	2002	2001
<b>Cash flows from operating activities</b>		
Profit before taxation	33.1	72.0
Adjustments for:		
Impairment loss recognised in respect of properties held for sale	16.6	–
Impairment loss recognised in respect of investment securities	–	7.2
Impairment loss recognised in respect of other investments the underlying business of which is property development	2.5	19.2
Allowance for amount due from an associate	2.3	–
Interest and investment income	(11.4)	(30.6)
Interest paid on bank and other borrowings	24.2	31.0
Share of results of associates	9.7	30.7
Amortisation of goodwill	1.9	3.1
Amortisation of permanent textile quota entitlements	1.6	6.1
Amortisation of trademark	0.1	0.1
Depreciation and amortisation of other properties, plant and equipment	21.4	24.0
Release of negative goodwill	–	(0.4)
Translation reserve realised on cessation of operations outside Hong Kong	3.5	–
Loss on disposal of investments in securities	–	0.4
Gain on disposal of properties	(23.7)	–
(Gain) loss on disposal of other properties, plant and equipment	(0.1)	1.8
Gain on disposal of interest in a subsidiary	–	(40.5)
Gain on disposal of interest in an associate	–	(44.5)
Operating cash flows before movements in working capital	81.7	79.6
Decrease in inventories	1.4	2.4
Decrease in properties held for sale	145.0	–
(Increase) decrease in trade and other receivables and prepayments	(25.6)	47.6
Decrease (increase) in bills receivable	15.2	(17.0)
Increase in amounts due from associates	(12.0)	(4.4)
Decrease in trade and other payables	(9.4)	(5.8)
(Decrease) increase in provisions	(8.3)	3.1
Increase in bills payable	2.9	4.0
Decrease in amount due to an associate	(0.1)	–
Cash generated from operations	190.8	109.5
Interest and dividend income received	4.3	2.4
Interest paid on bank and other borrowings	(27.5)	(41.5)
Hong Kong Profits Tax paid	(11.1)	(14.5)
Tax (paid) refunded in other jurisdictions	(3.4)	6.6
<b>Net cash from operating activities</b>	153.1	62.5

## CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December (HK\$'M)	Note	2002	2001
<b>Cash flows from investing activities</b>			
(Advances to) repayment from associates		(135.5)	105.3
Development costs on properties under development incurred		(64.4)	(73.1)
Consideration paid for acquisition of additional interest in a subsidiary		(25.5)	(6.1)
Purchase of other properties, plant and equipment		(26.1)	(19.2)
Investments in securities		(11.6)	(13.5)
Increase in mortgage loans receivable		(1.9)	–
Consideration paid for acquisition of additional interest in an associate		(1.5)	–
Purchase of permanent textile quota entitlements		(1.0)	(2.3)
Proceeds from disposal of properties		37.3	–
Other interest received		0.8	2.0
Proceeds from disposal of other property, plant and equipment		0.6	1.2
Proceeds from disposal of an associate and redemption by the issuer of loan notes held by the Group		–	78.2
Proceeds from partial disposal of a former associate		–	70.9
Disposal of a subsidiary (net of cash and cash equivalents disposed of)	35	–	66.4
Proceeds from disposal of investments in securities		–	18.8
<b>Net cash (used in) from investing activities</b>		<b>(228.8)</b>	<b>228.6</b>
<b>Cash flows from financing activities</b>			
Bank and other loans raised		270.1	82.4
Capital contributed by a minority shareholder of a subsidiary		0.1	–
Repayment of bank loans		(161.0)	(311.7)
Dividend paid		(12.9)	–
Decrease in trust receipts and import loans		(0.6)	(57.2)
<b>Net cash from (used in) financing activities</b>		<b>95.7</b>	<b>(286.5)</b>
Increase in cash and cash equivalents		20.0	4.6
Cash and cash equivalents at beginning of the year		62.2	58.0
Effect of foreign exchange rate changes		1.0	(0.4)
<b>Cash and cash equivalents at end of the year</b>		<b>83.2</b>	<b>62.2</b>
Cash and cash equivalents as previously reported			61.3
Effect of reclassification of trust receipts and import loans			0.9
<b>Cash and cash equivalents as restated</b>			<b>62.2</b>
Analysis of the balances of cash and cash equivalents			
Bank balances and cash		90.4	71.1
Bank overdrafts		(7.2)	(8.9)
		<b>83.2</b>	<b>62.2</b>

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2002

## 1. GENERAL

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

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

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

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

### Cash flow statements

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

### Employee benefits

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

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

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2002

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

## 3. SIGNIFICANT ACCOUNTING POLICIES

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

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

### **Basis of consolidation**

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

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

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

### **Goodwill**

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

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

### **Negative goodwill**

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

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

### **Investments in subsidiaries**

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

### **Interests in associates**

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

### **Investments in securities**

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

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

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

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

### **Revenue recognition**

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

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

Service revenue is recognised when the services are rendered.

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

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2002

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

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

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

## **Impairment**

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

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

## **Investment properties**

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

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

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

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

### **Properties under development**

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

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

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

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

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

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

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

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

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

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

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2002

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

## **Borrowing costs**

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

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

## **Textile quota entitlements**

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

## **Trademark**

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

## **Inventories**

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

## **Properties held for sale**

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

## **Taxation**

The charge for taxation is based on the results for the year after adjusting for items which are non-assessable or disallowed. Certain items of income and expenses are recognised for tax purposes in a different accounting period from that in which they are recognised in the financial statements. The tax effect of the resulting timing differences, computed under the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or an asset will crystallise in the foreseeable future.



**Foreign currencies**

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

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

**Operating leases**

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

**Retirement benefits cost**

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

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

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

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2002

## 4. TURNOVER

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

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

Note:

Income from investing activities comprises:

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

## 5. BUSINESS AND GEOGRAPHICAL SEGMENTS

### Business segment

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

Principal activities are as follows:

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

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

Inter-segment sales are charged at prevailing market rates.

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

Inter-segment sales are charged at prevailing market rates.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2002

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

### Geographical segment

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

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

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2002

### 6. GAIN ON DISPOSAL OF PROPERTIES

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

### 7. OTHER OPERATING EXPENSES

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

## 8. PROFIT FROM OPERATIONS

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

## 9. DIRECTORS' AND EMPLOYEES' REMUNERATION

### Directors' remuneration

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

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2002

The emoluments of the directors were within the following bands:

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

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

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

### Employees' emoluments

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

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

Their emoluments were within the following bands:

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



## 10. OTHER NON-OPERATING INCOME

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

## 11. FINANCE COSTS

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

## 12. TAXATION

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

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

Details of deferred taxation are set out in note 34.

## 13. DIVIDEND

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

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

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2002

### 14. EARNINGS PER SHARE

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

The computation of diluted earnings per share is as follows:

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

### 15. INVESTMENT PROPERTIES

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

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

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

## 16. PROPERTIES UNDER DEVELOPMENT

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

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

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

## 17. OTHER PROPERTIES, PLANT AND EQUIPMENT

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

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2002

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

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

## 18. GOODWILL

### THE GROUP

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

## 19. INTERESTS IN SUBSIDIARIES

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

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

## 20. INTERESTS IN ASSOCIATES

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

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

## Notes:

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

## 21. INVESTMENTS IN SECURITIES

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

## Notes:

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

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

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2002

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

### 22. OTHER NON-CURRENT ASSETS

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

Notes:

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

### 23. INVENTORIES

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

## 24. PROPERTIES HELD FOR SALE

### THE GROUP

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

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

## 25. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

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

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

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

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

## 26. TRADE AND OTHER PAYABLES

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

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

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2002

## 27. PROVISIONS

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

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

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

The Company had no provisions at the balance sheet date.

## 28. SHORT-TERM BANK BORROWINGS

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



## 29. BANK LOANS

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

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

## 30. SHARE CAPITAL

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

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

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2002

### 31. SHARE OPTION SCHEME

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

No options were granted under the Scheme during the year.

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

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

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

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

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

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

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2002

## 32. RESERVES

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

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

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

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

### 33. OTHER LONG-TERM LOANS

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

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

### 34. DEFERRED TAXATION

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2002

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

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

### 35. DISPOSAL OF A SUBSIDIARY

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

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

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

### 36. OPERATING LEASE

#### The Group as lessee

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

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

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

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

#### The Group as lessor

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

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2002

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

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

### 37. CAPITAL COMMITMENTS

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

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

### 38. CONTINGENT LIABILITIES

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

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



### 39. PLEDGE OF ASSETS

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

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

### 40. RETIREMENT BENEFITS AND PENSION SCHEMES

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2002

The main actuarial assumptions used were as follows:

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

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

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

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

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

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

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

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

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

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

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

#### 41. RELATED PARTY TRANSACTIONS

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

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

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2002

## 42. PRINCIPAL SUBSIDIARIES

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

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

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

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2002

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

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

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

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2002

### 43. PRINCIPAL ASSOCIATES

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

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

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

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



## FIVE YEAR FINANCIAL SUMMARY

The following is a summary of the results and of the assets and liabilities of the Group for each of the five years ended 31 December 2002.

Year ended 31 December (HK\$'M)	2002	2001	2000 (As restated)	1999 (Note)	1998 (Note)
<b>Results</b>					
Turnover	1,465.9	1,441.8	1,668.6	1,719.1	1,907.6
Profit (loss) before taxation	33.1	72.0	(55.7)	37.8	(51.3)
Taxation	(8.8)	(14.0)	(12.8)	(13.2)	(21.2)
Profit (loss) before minority interests	24.3	58.0	(68.5)	24.6	(72.5)
Minority interests	(3.5)	(5.7)	(0.4)	(6.5)	(9.6)
Profit (loss) attributable to shareholders	20.8	52.3	(68.9)	18.1	(82.1)
<b>At 31 December (HK\$'M)</b>					
<b>Assets and liabilities</b>					
Total assets	2,380.5	2,279.5	2,546.6	2,675.6	2,767.2
Total liabilities	(1,050.0)	(951.8)	(1,267.5)	(1,318.5)	(1,358.2)
Minority interests	(58.1)	(66.8)	(75.6)	(78.6)	(84.6)
Shareholders' funds	1,272.4	1,260.9	1,203.5	1,278.5	1,324.4

Note:

The accounting policies on goodwill and long services payments were changed in 2001 and the figures prior to 2000 have not been restated to reflect this change.

## PROPERTIES HELD FOR INVESTMENT PURPOSES

### At 31 December 2002

Address	Gross floor area	Lease term	Effective percentage holding	Particulars of occupancy as at 31 December 2002
Shui Hing Centre, 13 Sheung Yuet Road, Kowloon Bay, Kowloon, Hong Kong (New Kowloon Inland Lot No. 5890)	186,827 sq.ft. (17,357 sq.m.)	Leased for a term of 99 years less the last three days from 1 July 1898 and extended for a further 50 years as permitted under the New Territories Land Ordinance.	100%	Let to outside parties as workshops, canteen or godowns.
No. 81 Hung To Road, Kwun Tong, Kowloon, Hong Kong (Kwun Tong Inland Lot No. 76)	110,225 sq.ft. (10,240 sq.m.)	Leased for a term of 99 years less the last three days from 1 July 1898 and extended for a further 50 years as permitted under the New Territories Land Ordinance.	100%	Let to outside parties as workshops or godowns.
Unit B, 21st Floor, Prince Industrial Building, 706 Prince Edward Road East and 106 King Fuk Street, San Po Kong, Kowloon, Hong Kong (21/1170th shares of and in New Kowloon Inland Lot No. 4793)	6,183 sq.ft. (574 sq.m.)	Leased for a term of 99 years less the last three days from 1 July 1898 and extended for a further 50 years as permitted under the New Territories Land Ordinance.	100%	Let to outside parties as workshops.
Unimix Industrial Centre, 2 Ng Fong Street, San Po Kong, Kowloon, Hong Kong (New Kowloon Inland Lot No. 4899)	393,842 sq.ft. (36,589 sq.m.)	Leased for a term of 99 years less the last three days from 1 July 1898 and extended for a further 50 years as permitted under the New Territories Land Ordinance.	86%	About 16% of the property were occupied by members of the Group as workshops and offices. The remaining 84% were let to outside parties as workshops, canteen or godowns.

**At 31 December 2002**

<b>Address</b>	<b>Gross floor area</b>	<b>Lease term</b>	<b>Effective percentage holding</b>	<b>Particulars of occupancy as at 31 December 2002</b>
Unit H, 1st Floor, Wong King Industrial Building, 192-198 Choi Hung Road and 2-4 Tai Yau Street, San Po Kong, Kowloon, Hong Kong (2/501th shares of and in New Kowloon Inland Lot No.4448)	2,424 sq.ft. (225 sq.m.)	Leased for a term of 99 years less the last three days from 1 July 1898 and extended for a further 50 years as permitted under the New Territories Land Ordinance	100%	Let to an outside party as workshop
Industrial Complex in Ji Zhou 3rd Industrial Estate, Shi Jie Town, Dongguan Country, Guangdong Province, The People's Republic of China	303,317 sq.ft. (28,179 sq.m.)	Leased for a term of 50 years from 13 January 1997	86%	Let to outside parties as workshops or godowns.

## NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Annual General Meeting (“AGM”) of the Company will be held at Chater Room II, Basement 1, The Ritz-Carlton Hotel, 3 Connaught Road Central, Hong Kong on Tuesday, 10 June 2003 at 10:00 a.m. for the following purposes:

1. To receive and consider the audited financial statements for the year ended 31 December 2002 and the reports of the directors and auditors thereon.
2. To consider and declare a final dividend in respect of the year ended 31 December 2002.
3. To re-elect the retiring directors and fix the remuneration of the directors.
4. To re-appoint auditors and authorise the directors to fix their remuneration.
5. As special business, to consider and, if thought fit, pass the following resolutions, as Ordinary Resolutions:

### **Ordinary Resolutions**

(A) “THAT

- (a) subject to paragraph (b) of this resolution, the exercise by the directors of the Company during the relevant period (as hereinafter defined) of all the powers of the Company to purchase its fully-paid up shares on The Stock Exchange of Hong Kong Limited (“Stock Exchange”) or on any other stock exchange on which the securities of the Company may be listed and recognised by the Securities and Futures Commission and the Stock Exchange for this purpose, subject to and in accordance with the Rules Governing the Listing of Securities on the Stock Exchange and all applicable laws, be and is hereby generally and unconditionally approved;
- (b) the aggregate nominal amount of share capital in the Company to be purchased by the Company pursuant to paragraph (a) of this resolution shall be no more than 10% of the aggregate nominal amount of the issued share capital of the Company at the date of passing this resolution and the authority pursuant to paragraph (a) of this resolution shall be limited accordingly; and

## NOTICE OF ANNUAL GENERAL MEETING

- (c) for the purpose of this resolution, “relevant period” means the period from the date of passing of this resolution until whichever is the earliest of:
  - (i) the conclusion of the next annual general meeting of the Company;
  - (ii) the expiration of the period within which the next annual general meeting of the Company is required by law or the Company’s bye-laws to be held; and
  - (iii) the revocation or variation of this resolution by an ordinary resolution in a general meeting of the Company.”

(B) “THAT

- (a) subject to paragraph (c) of this resolution, the exercise by the directors of the Company during the relevant period of all the powers of the Company to allot, issue and deal with additional shares in the capital of the Company and to make or grant offers, agreements and options which might require the exercise of such power be and is hereby generally and unconditionally approved;
- (b) the approval in paragraph (a) of this resolution shall authorise the directors of the Company during the relevant period to make or grant offers, agreements and options which might require the exercise of such power after the end of the relevant period;
- (c) the aggregate nominal amount of share capital in the Company to be allotted or agreed conditionally or unconditionally to be allotted, whether pursuant to an option or otherwise, and issued by the directors of the Company pursuant to the approval in paragraph (a) of this resolution, otherwise than pursuant to (i) a rights issue; (ii) any issue of shares in the Company under any option scheme or similar arrangement for the time being adopted for the grant or issue to officers and/or employees of the Company and/or any of its subsidiaries of shares or rights to subscribe for shares in the Company; or (iii) any issue of shares in the Company as scrip dividend or any similar arrangement providing for the allotment of shares in the Company in lieu of the whole or part of a dividend pursuant to the bye-laws of the Company from time to time, shall not exceed 20% of the aggregate nominal amount of issued share capital of the Company at the date of passing this resolution and the said approval shall be limited accordingly; and

## NOTICE OF ANNUAL GENERAL MEETING

- (d) for the purpose of this resolution, “relevant period” means the period from the date of passing of this resolution until whichever is the earliest of:
- (i) the conclusion of the next annual general meeting of the Company;
  - (ii) the expiration of the period within which the next annual general meeting of the Company is required by law or the Company’s bye-laws to be held; and
  - (iii) the revocation or variation of this resolution by an ordinary resolution in a general meeting of the Company.

“rights issue” means an offer of shares of the Company open for a period fixed by the directors of the Company to holders of shares of the Company whose names appear in the register of members of the Company on a fixed record date in proportion to their then holdings of such shares, subject to such exclusions or other arrangements as the directors of the Company may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any territory applicable to the Company.”

- (C) “THAT conditional upon Ordinary Resolutions A and B set out in the notice convening the annual general meeting of the Company to be held on 10 June 2003 (the “Notice”) being duly passed, the general mandate granted to the directors of the Company pursuant to Ordinary Resolution B set out in the Notice be and is hereby extended by the addition thereto of an amount representing the aggregate nominal amount of the share capital of the Company repurchased by the Company under the authority granted pursuant to Ordinary Resolution A set out in the Notice, provided that such amount shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing this resolution.”

By Order of the Board

**Au Hing Lun, Dennis**

*Company Secretary*

Hong Kong, 8 April 2003

# NOTICE OF ANNUAL GENERAL MEETING

## Notes:

- (1) A member entitled to attend and vote at the AGM is entitled to appoint one or more proxies to attend and, on a poll, vote instead of him. A proxy need not be a member. Completion and return of an instrument appointing a proxy will not preclude a member from attending and voting in person at the AGM.
- (2) In order to be valid, the proxy form and any power of attorney (if any) or other authority (if any) under which it is signed, or a copy of such authority certified notarially or in some other way approved by the Board, must be deposited with the Company Secretary at the Company's head office at 25th Floor, Unimix Industrial Centre, 2 Ng Fong Street, San Po Kong, Kowloon, Hong Kong not less than 48 hours before the time fixed for holding the AGM or any adjournment thereof.
- (3) An explanatory statement containing the information necessary to enable the shareholders to make an informed decision on whether to vote for or against Ordinary Resolution A above to approve the repurchase by the Company of its own shares, as required by the Rules Governing the Listing of Securities on the Stock Exchange, will be sent to shareholders of the Company together with the 2002 Annual Report.
- (4) The transfer books and register of members of the Company will be closed from 5 June 2003 to 10 June 2003, both days inclusive. During such period, no shares transfers will be effected. In order to qualify for the proposed final dividend and attending the AGM, all transfer forms accompanied by the relevant share certificates must be lodged for registration with the Company's Branch Registrar in Hong Kong, Standard Registrars Limited at G/F., Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not later than 4:00 p.m. on 3 June 2003.

## CORPORATE INFORMATION

### DIRECTORS

CHENG Wai Chee, Christopher *JP Chairman*

CHENG Wai Sun, Edward *Chief Executive*

CHENG Man Piu, Francis

NG Tak Wai, Frederick

CHENG Wai Keung

KWOK Ping Luen, Raymond

Simon MURRAY *CBE*

FANG Hung, Kenneth *JP*

WONG Yick Kam, Michael  
*(also an alternate to KWOK Ping Luen, Raymond)*

HONG Pak Cheung, William

### AUDIT COMMITTEE

Simon MURRAY, *CBE Chairman*

FANG Hung, Kenneth *JP*

WONG Yick Kam, Michael

### COMPANY SECRETARY

AU Hing Lun, Dennis

### AUDITORS

Deloitte Touche Tohmatsu

### SOLICITORS

Slaughter and May

### PRINCIPAL BANKERS

The Hongkong and Shanghai Banking  
Corporation Limited  
Standard Chartered Bank

### REGISTRARS

*Principal Register*

The Bank of Bermuda Limited  
Bank of Bermuda Building  
Front Street, Hamilton, Bermuda

*Branch Register*

Standard Registrars Limited  
G/F, Bank of East Asia  
Harbour View Centre  
56 Gloucester Road  
Wanchai  
Hong Kong

### REGISTERED OFFICE

Cedar House, 41 Cedar Avenue  
Hamilton HM12, Bermuda

### HEAD OFFICE

25th Floor, Unimix Industrial Centre  
2 Ng Fong Street, San Po Kong  
Kowloon, Hong Kong

### WEBSITE

<http://www.usi.com.hk>

### HONGKONG STOCK EXCHANGE STOCK CODE

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