

# USI HOLDINGS LIMITED

ANNUAL REPORT 2003

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## USI HOLDINGS LIMITED

invests in and operates a balanced range of businesses that provides a combination of steady cash-flow and growth and encompasses three operating areas:

- **Apparel**
- **Property and**
- **Strategic Investments**

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

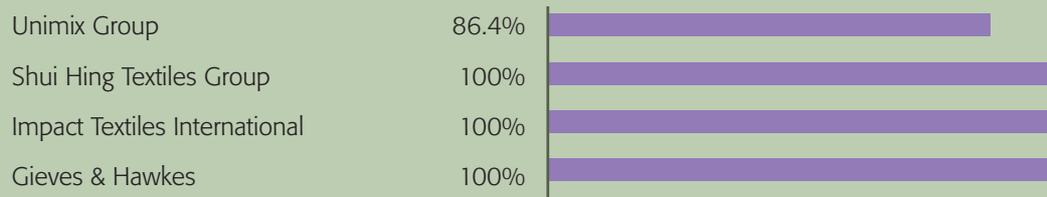
The Group also develops high quality residential property projects in addition to holding investment properties. The Waterfront, atop the Airport Railway's Kowloon Station, The Hillgrove, at Siu Lam, and The Bloomsville, at Kowloon Tong, have been successfully marketed under the WingTai Asia brand in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

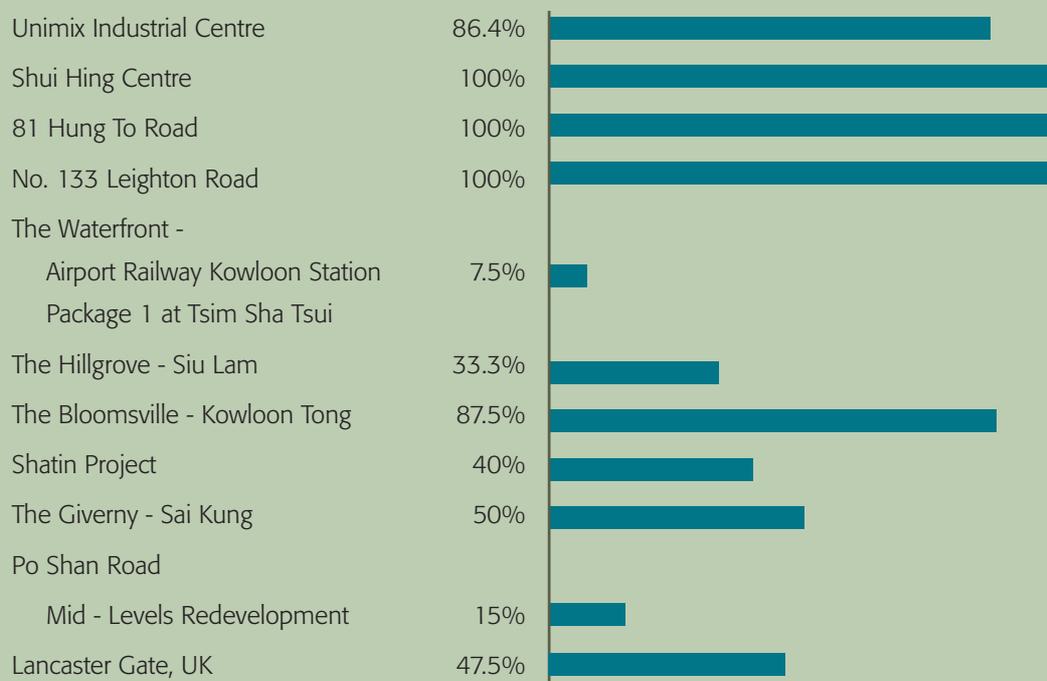
# GROUP CHART

## ■ Apparel

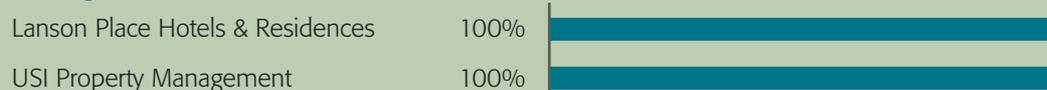


## ■ Property

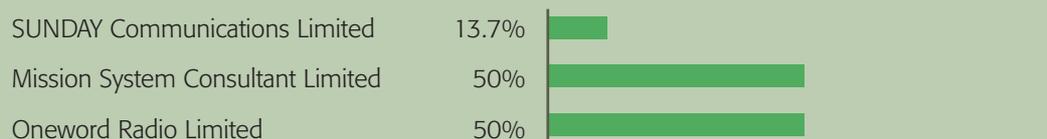
### Assets



### Management Services



## ■ Strategic Investments



# FINANCIAL HIGHLIGHTS

For the year ended 31 December (HK\$'M)	The Group	
	2003	2002 (As restated)
Turnover	<b>1,470.6</b>	1,465.9
Gross profit	<b>310.3</b>	328.3
Profit before taxation	<b>29.1</b>	33.1
Taxation	<b>(6.3)</b>	(9.1)
Profit before minority interests	<b>22.8</b>	24.0
Minority interests	<b>(4.3)</b>	(3.5)
Net profit	<b>18.5</b>	20.5
Proposed final dividend of HK1.0 cent per share (2002: HK1.0 cent per share)	<b>5.2</b>	5.2
Earnings per share		
Basic	<b>3.6 cents</b>	4.0 cents
Diluted	<b>3.6 cents</b>	4.0 cents

# CHAIRMAN'S STATEMENT

## OVERVIEW

The Group's net profit for the year ended 31 December 2003 was HK\$18.5 million compared with HK\$20.5 million (restated) in 2002. Turnover for the year increased to HK\$1,470.6 million from HK\$1,465.9 million in 2002 and profit from operations decreased from HK\$66.2 million in 2002 to HK\$49.3 million in 2003.

The first half of 2003 was certainly one of the most difficult times for Hong Kong's economy because of global issues such as the war in Iraq and, closer to home, the SARS epidemic in China. Towards the end of 2003, however, business sentiment and consumer confidence strengthened and the property market, in particular, rebounded significantly in the last quarter. Thus, our Property Division's operating results improved significantly for the year which helped offset some of the negative impact of SARS on our garment manufacturing operations and the continued pressure on the leasing operations of our investment properties.

## OPERATIONS REVIEW

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

Our core garment manufacturing operations performed relatively well in a difficult year with turnover of HK\$989.7 million about 2% over the HK\$974.5 million for 2002. Nonetheless, operating profits, excluding restructuring and other costs, dropped by about 32% to HK\$50.0 million from HK\$73.1 million in 2002 due to severe price pressure.

The Group continued to upgrade its garment manufacturing processes, improve productivity and increase cost effectiveness while expanding our Mainland China and Cambodian production facilities. We increased the capacity of our production facility in Cambodia by about 15% to some 300,000 dozen garments per annum in 2002 and further increased it by another 5% in 2003. Since 2001, the Group has been expanding its production base in RuYuan in the Northern part of Guangdong province bordering on Hunan province. To date, we have a 100,000 square foot factory in operation and another factory of like size is under construction.

Despite a lacklustre European economy, Gieves & Hawkes ("G&H") was able to maintain steady growth in its sales turnover in 2003. As part of the continuing effort to build brand awareness and growth in volume, G&H opened a new concession store in the new House of Fraser city store in central London in September 2003. Another concession store was opened in early 2004 in Harvey Nichols at Knightsbridge, London. We believe in the long-term potential of the G&H brand and are continuously looking for attractive new store locations.

The residential property market in Hong Kong recovered significantly in the last quarter of the year. The Group sold 105 units at The Waterfront, 18 units at The Hillgrove and 33 units at The Bloomsville, generating total sales revenue of approximately HK\$1,014 million. The Group reported a net profit from property development projects of HK\$38.1 million in 2003 as compared to a loss of HK\$6.3 million in 2002.

On the development side, the low-density luxurious housing development in Hebe Haven, Sai Kung was formally named The Giverny and work is beginning on the superstructure. The foundations were completed for the low-density luxurious apartment complex development in the mid-level of Shatin. The Group made three acquisitions during the year. In February, three office units were purchased totalling approximately 9,700 square feet on the 31st floor of 9 Queen's Road Central and the Central office of the Group moved into these premises in October. In October, the Group, together with Wing Tai Land Pte. Ltd., Winsor Properties Holdings Ltd. and two Singaporean investors, successfully tendered for a development project in Singapore from the Urban Redevelopment Authority of Singapore. The Group has a 12% interest in the project. In December 2003, the Group successfully tendered for a building at 133 Leighton Road in Causeway Bay, which will become the second Lanson Place operation in Hong Kong and is scheduled to open in 2005.

SUNDAY Communications Limited ("SUNDAY") continues to improve its profitability through improved efficiency and service quality while developing a wide range of new data services.

In December 2003, SUNDAY entered into a Heads of Agreement of Supply Contract and Heads of Agreement of Facility Agreements with Huawei Technologies Co., Ltd., a leading telecom equipment manufacturer based in Mainland China, for the provision of a turnkey solution for the rollout of 3G network and services and the required financing.

A pilot network is planned in the Causeway Bay area for the launching of 3G services planned towards the end of 2004.

### STRATEGIC DIRECTION

Despite improvement in economic conditions, uncertainties remain as the pace of globalisation quickens and business cycles shorten. The Group will continue to strengthen its balance sheet while prudently seeking growth in its core business.

The Group entered the residential property market in Hong Kong in 1996. Over the past seven years, Hong Kong experienced a complete cycle in its residential property market, which peaked in August 1997 and reached its nadir in June 2003. During this period, the Group completed three projects totalling over 2 millions square feet. This established a strong base for our property development division and enabled us to create the WingTai Asia brand in the Hong Kong residential property market. With the completion of The Giverny and the Shatin projects in the next two years, we will further strengthen our brand and market position. The Group will continue to look for quality residential project opportunities that would allow us to capitalise on the current buoyant market and our WingTai Asia brand.

## Chairman's Statement (cont'd)

The acquisition of 133 Leighton Road in Causeway Bay will allow Lanson Place to further strengthen its operations in Hong Kong after its successful debut at The Waterfront. The Group will continue to look for opportunities in Greater China where Lanson Place will be able to create value through its serviced residence concept.

On the Apparel side, as the present quota system expires, China will become the dominant garment exporting nation. Presently, there is still no clear indication as to how the so-called "anti-surge mechanism" is going to work. However, given the quantity of quota the US. has granted Vietnam, the prognosis is that the apparel manufacturing industry will continue to suffer from excess capacity and low margins. The Group will continue to maintain strict cost controls and remain prudent in its investment decisions regarding production expansion.

### PROSPECTS

With a difficult year behind us and having demonstrated the Group's staying power under trying circumstances, we are confident in the long-term outlook. Given the various economic measures undertaken by the Chinese government to help revitalise the Hong Kong economy and the continued buoyancy of the Chinese economy itself, we believe our business strategies will enable for us to capitalise on the Group's strengths going forward.

In line with the GATT agreement reached a decade ago, textile quotas will be eliminated from January 1, 2005 onwards. There is, of course, the complication of the "anti-surge" protection agreed between China and the US., the details of which have not yet been spelled out by the countries concerned. It is likely that competition will intensify in the garment manufacturing industry and while margins will be squeezed further, there will be opportunities to expand volume. The resilience of our garment manufacturing division has been clearly demonstrated during difficult operating environment of 2003 and, in preparation for 2005, we will continue to work on our cost efficiency and productivity.

Given the current positive sentiment in the Hong Kong residential property market, the Group is confident in the success of the sales launch of The Giverny and the Shatin projects towards the end of 2004. The decision made two years ago to hold Tower 5 of The Waterfront in reserve will enable the consortium to capitalise on the current upswing in the market. With the improvement in business sentiment in Hong Kong, the demand for serviced apartments should increase. Lanson Place's operations will add significant value to the property at 133 Leighton Road when it opens in 2005.

The outlook for Company in 2004 appears promising. And while the direction of the global economy remains uncertain, our current position will enable us to take full advantage of any economic upturn as we continue to create value for our shareholders.

### BOARD OF DIRECTORS

On behalf of the Board of Directors, I would like to welcome Mr. Au Hing Lun, Dennis to the Board as an executive director with effect from 5 February 2004. Dennis has served as the Group's Chief Financial Officer and Company Secretary for almost 10 years. In recent years, he has been actively involved in key investment decisions and has assumed greater responsibilities in our property development business.

### 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*

# APPAREL

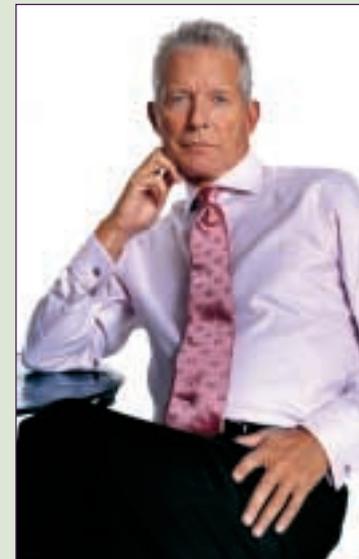
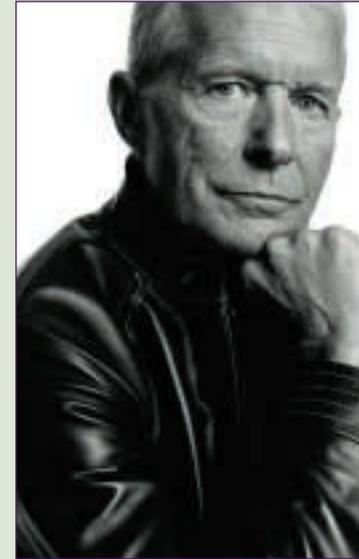
SARS and the Iraq war had a major negative impact on our apparel division. While the turnover of our manufacturing division was HK\$989.7 million (2002: HK\$974.5 million), there was a deterioration in the contribution margin. The Group's garment manufacturing operations, through Shui Hing Textiles International Limited and Unimix Holdings Limited, contributed an operating profit, excluding restructuring and other costs, of HK\$50.0 million as compared to HK\$73.1 million for the year 2002.





As the global economy strengthens, 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. We increased the capacity of the 88,000 square foot production facility in Cambodia from 260,000 dozen garments per annum in 2001 to 300,000 dozens per annum in 2002 and 320,000 dozens in 2003 by continually improving the efficiency of the factory.

With the removal of quantitative restrictions on textiles products commencing in 2005, production in China will become more competitive than the rest of the region. To take advantage of this cost competitiveness, we will focus on increasing our capacity in China in the next few years. Expansion of our sweater factory at RuYuan, in the northern part of Guangdong Province, was completed with production capacity increased to about 100,000 dozen sweaters per annum. Construction of the 100,000 square feet fine knit factory adjacent to the RuYuan sweater facility is on schedule and will begin production by mid 2004 with a planned annual capacity of 140,000 dozens. We also began construction of a 150,000 square feet woven factory in the same compound with completion scheduled by the end of 2004.

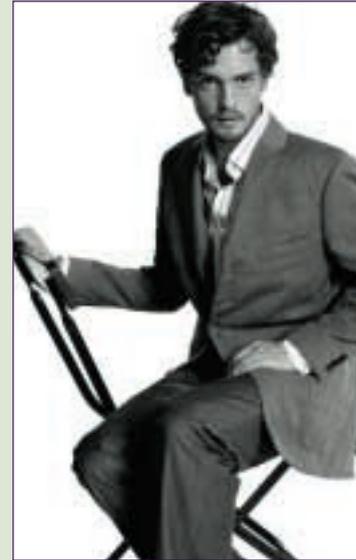


Gieves & Hawkes plc

As of January 2004, as a result of the United States exercising protectionist measures, a China export visa will be required on a few previously quota free textile products manufactured in China. While this export visa does not affect the Group's apparel business, we are reviewing the potential implications regarding our textile products that we currently manufacture that are scheduled to become quota free in 2005.

### **GIEVES & HAWKES PLC**

Gieves & Hawkes plc ("G&H"), the Group's menswear retail and licensing operations in the UK, recorded a 3.6% increase in sales volume in 2003 (2003: HK\$170.8 million, 2002: HK\$164.9 million). The wholesale of GIEVES products commenced in the second half of 2003 and was in line with plan. Wholesale is expected to provide material impact on turnover beginning in 2004. The drop in license fees due to the lost of a Japan licensee, together with the drop in profit margins resulted in an increase in loss from operations of HK\$11.4 million in 2003 (2002: loss of HK\$5.5 million). This was in line with the Group's medium term strategy to increase sales and profitability and to bolster the GIEVES & HAWKES and now also the GIEVES brands.



Gieves & Hawkes plc

# PROPERTY

## PROPERTY DEVELOPMENT

Our three completed development projects, namely, The Waterfront, The Hillgrove, and The Bloomsville, during 2003 generated an aggregate turnover of HK\$1,014 million. Most of these sales were recorded in the second half of the year when the residential property market made a significant recovery from the depressed market in the first half. The recovery of the residential property in the second half of the year was due to improved confidence and positive measures implemented by the Central Government. The net profit from property development projects was HK\$38.1 million, compared to a loss of HK\$6.3 million in 2002.





The construction of the two development projects, The Giverny in Sai Kung and a yet-to-be named project in Shatin, are progressing according to schedule. The Group has a 50% and a 40% interest in these two projects, which are scheduled for completion in early 2005 and early 2006, respectively.

Development of the project in Lancaster Gate in London is on schedule. The Group has a 47.5% interest in the project that consists of 14 residential units ranging from studios to 3-bedroom suites that will be available for sale in the last quarter of 2004.

In February 2003, the Group purchased three office units totalling approximately 9,700 square feet on the 31st floor of 9 Queen's Road Central and the central office of the Group moved into these premises in October 2003.

In October 2003, the Group, together with Wing Tai Land Pte. Ltd., Winsor Properties Holdings Ltd. and two Singaporean investors, successfully tendered for a development project in Singapore from the Urban Redevelopment Authority of Singapore. The project, in which the Group has a 12% interest, is a residential complex of approximately 930,000 square feet that will go on pre-sale at the end of 2004.

In December 2003, the Group successfully tendered for a property located at 133 Leighton Road for HK\$290.0 million. The property will be refurbished for a serviced apartment operation.

*Left: The Waterfront showflat, "Pilot Suite"*

*Right: The Bloomsville Duplex, "House of Monalisa"*



## INVESTMENT PROPERTY

The performance of the Group's three Hong Kong high-grade industrial properties at Shui Hing Centre, Unimix Industrial Centre and 81 Hung To Road, declined in the first half of 2003, but rental yield stabilised towards year end. Net profit decreased from HK\$22.4 million in 2002 to HK\$17.0 million in 2003.

Occupancy rates began to improve in early 2004 as the economy in Hong Kong recovered in late 2003. Should this trend continue and interest rates remain low, we would expect rental yield to start to improve.

## PROPERTY MANAGEMENT SERVICES

In Kuala Lumpur, the occupancy of Lanson Place Ambassador Row serviced apartment was at 75%. Kondo 8 Ampang Hilir was able to maintain its position as one of the leading condominiums in the Ampang area and achieved 95% occupancy in 2003.

Following the deterioration of the business climate during the first half of 2003, there are signs of a slow recovery although competitive pricing continues to be a challenge in the Kuala Lumpur market. However, the serviced apartment industry was able to achieve on average a higher occupancy rate than the hotel industry. There will be fewer new serviced apartments opening in the market which should help lower the vacancy rates.

Occupancy at Lanson Place Winsland in Singapore was at 83%. Rental rates remain under pressure as corporations continue to deal with tight housing allowance budgets.

In Hong Kong, Lanson Place The Waterfront Residences was able to record 96% occupancy in December 2003, based on an inventory of 134 apartments. For the entire year, this project recorded a 67% average occupancy. The last group of 27 apartments was furnished increasing the total inventory to 161 apartments.

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



*The Hillgrove clubhouse and landscaped garden*

# STRATEGIC INVESTMENTS

## SUNDAY COMMUNICATIONS LIMITED

SUNDAY Communications Limited (“SUNDAY”) continues to focus on improving its profitability through improved efficiency and service quality while developing a wide range of new data services and implementing a market segmentation strategy that leverages its competitive strengths in branding and marketing to attract and retain specific customer segments.



# **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



In December 2003, the main operating subsidiary of SUNDAY, Mandarin Communications Limited, entered into a Heads of Agreement of Supply Contract and a Heads of Agreement of Facility Agreements with Huawei Technologies Co., Ltd., a leading telecom equipment manufacturer based in Mainland China, for the provision of a turnkey solution for the rollout of 3G network and services and the required financing. The Heads of Agreement of Facility Agreements also provided for a loan of HK\$500 million to repay the group's existing vendor and bank loans.

A pilot network is planned in the Causeway Bay area and if the results are favourable, SUNDAY will launch 3G services towards the end of 2004.

SUNDAY's shares are listed on The Stock Exchange of Hong Kong Limited and the NASDAQ National Market in the United States. The Group owns 13.7% (2002: 11.5%) of SUNDAY.

### **MISSION SYSTEM CONSULTANT LIMITED**

The Group owns 50% of Mission System Consultant Limited ("MSC"), a software provider offering Enterprise Resources Planning solutions to garment manufactures and traders. In 2003, MSC continued to effectively penetrate the market by attracting major fashion brands in the US and UK and, at the same time, tapping into the plastics industry.

The first release of MSC's application software for the plastics industry in the region was completed in the first quarter of 2004. The product was well received by the industry in a regional exhibition and is expected to reward MSC handsomely in 2005.

The Group absorbed a net loss of about HK\$0.5 million from its investment in MSC in 2003, as compared to the HK\$ 2.0 million net loss absorbed in 2002.

### **ONEWORD RADIO LIMITED**

The Group has a 50% interest in Oneword Radio Limited ("Oneword") that broadcasts the Sony Radio Academy Award-winning national digital commercial radio station, Oneword Radio. The radio station is the only national UK commercial digital radio station dedicated to the spoken word and is available on DAB digital radio, satellite and digital TV in the UK. The group's share in losses incurred by Oneword amounted to HK\$7.3 million in 2003 (2002: HK\$3.5 million).

In March 2004, the Group entered into an agreement with our partner, UBC Media Group Plc ("UBC"), to exchange our shares in Oneword for shares in UBC. UBC is a leading independent programme producer and radio broadcasting company listed in the A.I.M. market in London. The Group deemed that it would benefit the shareholders of Oneword for UBC to take full control of Oneword and integrate it within UBC and to steer it towards profitability. The share-for-share exchange will be completed at the end of June 2004.

## SEGMENT INFORMATION

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

	Turnover		Profit from operations	
	2003	2002	2003	2002
For the year ended 31 December	HK\$ million	HK\$ million	HK\$ million	HK\$ million
Business segment				
Garment manufacturing and trading	<b>1,061.2</b>	1,043.3	<b>40.5</b>	55.3
Branded products distribution	<b>170.8</b>	164.9	<b>(10.8)</b>	(6.7)
Property development	<b>167.9</b>	183.6	<b>25.0</b>	3.4
Property rental and management	<b>59.2</b>	63.5	<b>11.7</b>	21.4
Investing activities	<b>11.5</b>	10.6	<b>14.5</b>	(30.9)
Unallocated corporate expenses	-	-	<b>(31.6)</b>	-
Gain on disposal of properties	-	-	-	23.7
	<b>1,470.6</b>	1,465.9	<b>49.3</b>	66.2
Geographical segment				
North America	<b>781.8</b>	795.1	<b>27.7</b>	44.0
Hong Kong	<b>257.8</b>	252.1	<b>21.7</b>	(3.8)
United Kingdom	<b>253.5</b>	222.9	<b>(8.7)</b>	20.6
Other European countries	<b>114.0</b>	146.5	<b>4.2</b>	7.8
Other areas	<b>63.5</b>	49.3	<b>4.4</b>	(2.4)
	<b>1,470.6</b>	1,465.9	<b>49.3</b>	66.2

## **LIQUIDITY AND FINANCIAL RESOURCES**

The Group's shareholders' funds totalled HK\$1,258.5 million as at 31 December 2003 which is basically the same as the HK\$1,258.6 million, restated for adopting the SSAP 12 (Revised), as at the end of 2002. Profit for the year 2003 was offset by the distribution of the 2002 final dividend in the first half of 2003 and a downward adjustment on reserve on revaluation of investment properties at the end of the year.

As at 31 December 2003, the Group's net bank borrowings (total bank borrowings net of cash and bank balances) was HK\$580.1 million (2002: HK\$582.7 million), representing 46.1% of the Group's net assets, which is comparable to the 46.3% as at the end of 2002. Interest for the Group's bank borrowings was mainly on a floating rate basis. A majority (around 87%) 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 2003.

## **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 2003, the Group's contingent liabilities were guarantees given to banks in respect of utilised credit facilities extended to associates of HK\$193.8 million, and export bills discounted with recourse amounting to HK\$7.3 million.

## PLEDGE OF ASSETS

As at the balance sheet date, certain of the Group's investment properties with carrying value of HK\$532.9 million and properties for own use with carrying value of HK\$174.1 million were pledged to secure credit facilities for the Group.

The Group's advances to associates, which are engaged in property development, as at 31 December 2003 of HK\$422.1 million are subordinated to the loans facilities of associates. Certain of 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 2003, 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 56, is the Chairman of the Group and Winsor Properties Holdings Limited. Mr. Cheng is a director of several listed companies in Hong Kong, including NWS Holdings Limited, New World China Land Limited and PICC Property and Casualty Company Limited. He is also a director of DBS Bank (Hong Kong) Limited. Mr. Cheng 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 service. He is the Chairman of the Standing Committee on Judicial Salaries and Conditions of Service and a member of the Exchange Fund Advisory Committee of the Government of HKSAR, a member of the Council of University of Hong Kong, a steward of The Hong Kong Jockey Club, a non-executive director of the Securities and Futures Commission and the former Chairman of the Hong Kong General Chamber of Commerce.

**Mr. CHENG Wai Sun, Edward**, aged 49, 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 was qualified as a solicitor in the United Kingdom and Hong Kong.

Mr. Cheng is a member of the Hong Kong SAR Government's Steering Committee on Innovation & Technology, the Advisory Committee on Corruption of the Independent Commission Against Corruption, the Council of City University of Hong Kong, the Executive Committee of the Hong Kong Housing Society, the Securities and Futures Commission's Takeovers and Mergers Panel and the Takeovers Appeal Committee.

**Mr. CHENG Man Piu, Francis**, aged 51, 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 and a member of Trade and Industrial Advisory Board.

**Mr. NG Tak Wai, Frederick**, aged 46, 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.

**Mr. AU Hing Lun, Dennis**, aged 44, was appointed an executive director of the Company in February 2004. He is also 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.

### NON-EXECUTIVE DIRECTORS

**Mr. CHENG Wai Keung**, aged 53, 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 51, is 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 Business School, an Honorary degree of Doctor of Laws from The Chinese University of Hong Kong 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 Development Council and Vice-Chairman of the Council of The Chinese University of Hong Kong. He is also Chairman of the Management Committees of the Police Children's Education Trust and the Police Education and Welfare Trust.

**Mr. Simon MURRAY**, *CBE*, aged 64, was appointed an independent non-executive director of the Company in 1994, 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 65, was appointed an independent non-executive director of the Company in 1997, 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 52, was appointed a non-executive director of the Company in 2002. 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 Limited. He is Deputy Chairman of Roadshow Holdings Limited and a non-executive director of SmarTone Telecommunications Holdings Limited. Mr. Wong is also an alternate director to Mr. Kwok Ping Luen, Raymond.

## Directors and Senior Management Profile (cont'd)

**Mr. HONG Pak Cheung, William**, aged 49, was appointed a non-executive director of the Company in 2002, 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. HUNG Kar Wah, Spencer**, aged 69, 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 42, 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 49, is the General Counsel of the Group. 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, a Bachelor's Degree in Business Administration and a Postgraduate Certificate in Foundation of Chinese Law. 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 2003.

## 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 2003 are set out in notes 39 and 40 to the financial statements respectively.

## RESULTS

The results of the Group for the year ended 31 December 2003 are set out in the consolidated income statement on page 38.

The directors recommended a final dividend of HK1.0 cent per share for the year ended 31 December 2003 (2002: HK1.0 cent per share) to be payable in cash to shareholders whose names appear on the Register of Members of the Company on 15 June 2004 and the retention of the remaining profit for the year of HK\$13.3 million. Subject to the passing of the relevant resolution at the forthcoming annual general meeting, such dividend will be payable to shareholders on 25 June 2004.

## SHARE CAPITAL

Details of the Company's authorised and issued share capital as at 31 December 2003 are set out in note 27 to the financial statements. There were no changes in the year.

## RESERVES

Movements in the reserves of the Group and of the Company are set out in note 29 to the financial statements.

## INVESTMENT PROPERTIES

The Group revalued its investment properties as at 31 December 2003 on an open market value basis. Movements during the year are set out in note 14 to the financial statements.

A summary of the properties held by the Group for investment purposes at 31 December 2003 is set out on page 96.

### OTHER PROPERTIES, PLANT AND EQUIPMENT

During the year, the Group acquired other properties, plant and equipment for an aggregate cost of HK\$72.7 million in its normal course of business. These and other significant movements during the year are set out in note 15 to the financial statements.

### DONATIONS

During the year, the Group made charitable and other donations totalling HK\$0.3 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

AU Hing Lun, Dennis (appointed on 5 February 2004)

#### **Non-executive directors:**

CHENG Wai Keung

KWOK Ping Luen, Raymond

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

HONG Pak Cheung, William

#### **Independent non-executive directors:**

Simon MURRAY *CBE*

FANG Hung, Kenneth *JP*

In accordance with bye-law 100 of the Company's bye-laws, Messrs. CHENG Wai Sun, Edward, NG Tak Wai, Frederick and Simon MURRAY 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, Mr. AU Hing Lun, Dennis shall hold office until the forthcoming annual general meeting and, being eligible, offer himself 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.

## CORPORATE GOVERNANCE

In the opinion of the directors, the Company has complied throughout the financial year ended 31 December 2003 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 "Stock Exchange") (the "Listing Rules").

## AUDIT COMMITTEE

The Company's Audit Committee comprises the Chairman of the Committee, Mr. Simon MURRAY and other members including Mr. FANG Hung, Kenneth, Mr. WONG Yick Kam, Michael and his alternate Mr. HONG Pak Cheung, William. Messrs. Simon MURRAY and FANG Hung, Kenneth are independent non-executive directors of the Company. Mr. WONG Yick Kam, Michael and Mr. HONG Pak Cheung, William are non-executive directors of the Company.

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 2003.

## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

As at 31 December 2003, the interests and short positions of the directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register maintained by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code") were as follows:

Name of director	Number of shares held				Total	Percentage of the Company's issued share capital
	Personal interests	Family interests	Corporate interests	Other interests		
CHENG Wai Chee, Christopher	75,999	–	150,409,086	110,595,862	261,080,947	50.44%
			Note (a)	Notes (b) & (c)		
CHENG Wai Sun, Edward	–	–	–	110,595,862	110,595,862	21.37%
				Notes (b) & (d)		
CHENG Man Piu, Francis	–	–	–	110,595,862	110,595,862	21.37%
				Note (b)		
NG Tak Wai, Frederick	26,000	762,000	–	Note (e)	788,000	0.15%
CHENG Wai Keung	–	–	–	110,595,862	110,595,862	21.37%
				Note (b)		
AU Hing Lun, Dennis	–	–	–	Note (f)	–	–

## Directors' Report (cont'd)

### Notes:

- (a) Mr. CHENG Wai Chee, Christopher was deemed to be interested in 150,409,086 shares of the Company beneficially owned by Bestime Resources Limited, Pofung Investments Limited and Broxbourne Assets Limited by virtue of his corporate interests in these companies. 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 include 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 under the share option schemes of the Company as set out below under "Directors' and Chief Executive's rights to acquire Shares or Debentures".
- (d) Mr. CHENG Wai Sun, Edward had outstanding options to subscribe for 2,000,000 shares of the Company under the share option schemes of the Company as set out below under "Directors' and Chief Executive's rights to acquire Shares or Debentures".
- (e) Mr. NG Tak Wai, Frederick had outstanding options to subscribe for 860,000 shares of the Company under the share option schemes of the Company as set out below under "Directors' and Chief Executive's rights to acquire Shares or Debentures".
- (f) Mr. AU Hing Lun, Dennis had outstanding options to subscribe for 600,000 shares of the Company under the share option schemes of the Company as set out below under "Directors' and Chief Executive's rights to acquire Shares or Debentures". Such options were granted to Mr. Au prior to his appointment as a director of the Company.

All the interests in shares and underlying shares in respect of share options disclosed under this section are long position.

Save as disclosed above, as at 31 December 2003, none of the directors nor the chief executive of the Company had or was deemed to have any interest or short position in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of the SFO) which has been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of the SFO and have been recorded in the register maintained by the Company pursuant to section 352 of the SFO; or which has been notified to the Company and the Stock Exchange pursuant to the Model Code.

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

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

<b>Name of director</b>	<b>Date of grant</b>	<b>Exercise price per share (HK\$)</b>	<b>Number of share options outstanding at 1.1.2003 and 31.12.2003</b>
CHENG Wai Chee, Christopher	15.11.1999	0.8	2,000,000
CHENG Wai Sun, Edward	15.11.1999	0.8	2,000,000
NG Tak Wai, Frederick	15.11.1999	0.8	860,000
AU Hing Lun, Dennis*	15.11.1999	0.8	600,000

\* Appointed on 5 February 2004

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 (cont'd)

### SUBSTANTIAL SHAREHOLDERS

As at 31 December 2003, the following persons (other than the directors and the chief executive of the Company) had interests or short positions in the shares and underlying shares of the Company as recorded in the register kept by the Company pursuant to section 336 of the SFO:

<b>Name of shareholder</b>	<b>Number of shares beneficially held</b>	<b>% of shareholding</b>
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)
Lo Yuk Sui	51,676,000	9.98 (Note 5a)
Century City International Holdings Limited	51,676,000	9.98 (Note 5a)
Century City BVI Holdings Limited	51,676,000	9.98 (Note 5b)
Paliburg Holdings Limited	51,676,000	9.98 (Note 5b)
Paliburg Development BVI Holdings Limited	51,676,000	9.98 (Note 5b)
Paliburg International Holdings Limited	51,676,000	9.98 (Note 5b)
Paliburg BVI Holdings Limited	51,676,000	9.98 (Note 5b)
Regal Hotels International Holdings Limited	51,676,000	9.98 (Note 5b)
Regal International (BVI) Holdings Limited	51,676,000	9.98 (Note 5b)
Real Chance Profits Limited	51,676,000	9.98 (Note 5b)
HK 168 Limited	51,676,000	9.98 (Note 5b)

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% of the 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 the issued share capital of Bestime Resources Limited and Pofung Investments Limited and therefore, it was deemed 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 ("SHKP") beneficially owned 100% of the issued share capital of Soundworld Limited, Techglory Limited and Wesmore Limited. SHKP was deemed to be interested in the shares of the Company owned by Soundworld Limited, Techglory Limited and Wesmore Limited by virtue of its corporate interests in these companies. 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.
- (5) (a) These shares were held through the companies controlled by Century City International Holdings Limited ("CCIHL"), of which Mr. Lo Yuk Sui is the Chairman and controlling shareholder. 51,676,000 shares of the Company were beneficially owned by HK 168 Limited ("HK 168"), in which shares Regal Chance Profits Limited, Regal International (BVI) Holdings Limited, Regal Hotels International Holdings Limited, Paliburg BVI Holdings Limited, Paliburg International Holdings Limited, Paliburg Development BVI Holdings Limited, Paliburg Holdings Limited, Century City BVI Holdings Limited and CCIHL were deemed to have an interest through their direct or indirect shareholding interests in HK 168. These interests in 51,676,000 shares are duplicated amongst Mr. Lo Yuk Sui and all these companies.  
  
(b) These companies are controlled by CCIHL.

All the interests in shares disclosed under this section represent long position in the shares of the Company.

Save as disclosed above, as at 31 December 2003, the Company is not aware of any other person (other than the directors and the chief executive of the Company) who has an interest or a short position in the shares or underlying shares of the Company which was required to be notified to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO and have been recorded in the register kept by the Company pursuant to section 336 of the SFO.

### SHARE OPTION SCHEME

Details of the share option scheme of the Company are set out in note 28 to the financial statements.

Details of directors' and chief executive's personal interests in the Company's share options are set out in the section of "Directors' and Chief Executive's rights to acquire Shares or Debentures" above.

### 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 business 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 Pui, 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, Cambodia and Madagascar 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 might 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 business independently of, and at arm's length from the aforesaid garment businesses.

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

The Group'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 thereby or 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 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 Luen, Raymond and WONG Yick Kam, Michael are directors of SUNeVision Holdings Limited ("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.

Mr. KWOK Ping Luen, Raymond is a director of The Kowloon Motor Bus Holdings Limited ("KMB"). Businesses of KMB consist of property development and investment. Only in this respect he is regarded to be interested in the relevant competing business with the Group.

The aforesaid competing businesses, in which Messrs. KWOK Ping Luen, Raymond and WONG Yick Kam, Michael are regarded to be interested, are managed by separate publicly listed companies with independent management and administration. In this respect, coupled with the diligence of its independent non-executive directors and the Audit Committee, 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.

## Directors' Report (cont'd)

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"). Amounts drawn thereunder carry interest at a rate based on the Hong Kong inter-bank offered rate. On 19 February 2004, the outstanding balance of the Loan Facilities amounted to HK\$418,000,000.

On 19 February 2004, Union Charm entered into a supplemental loan agreement with the Lender (the "Supplemental Loan Agreement") pursuant to which the Lender has agreed to Union Charm re-borrowing a principal amount of HK\$983,000,000 under the Loan Facilities for the purpose of re-financing part of the Shareholders' Loans and to extend the maturity date of the Loan Facilities to 19 February 2009.

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 Share Mortgage (mortgaging the Group's shareholding in Union Charm to the Lender) (collectively the "Security Documents"). Confirmation letters in respect of the Security Documents were signed for the purpose of acknowledging and confirming the Supplemental Loan Agreement.

The directors (including the independent non-executive directors) of the Company considered that the Supplemental Loan Agreement is on normal commercial terms.

- (2) In November 2003, the Company through a wholly-owned subsidiary, Kosheen Investments Limited, formed a joint venture company, namely Winwill Investment Pte Ltd ("Winwill"), together with a wholly-owned subsidiary of Wing Tai Holdings Limited ("WTH") and a wholly-owned subsidiary of Winsor Properties Holdings Limited ("Winsor") on a 20:60:20 basis.

Winwill is an investment vehicle. It holds a 60% interests in another joint venture company, namely Winhome Investment Pte Ltd ("Winhome"). Other shareholders of Winhome are independent third parties to each of the directors, chief executive and substantial shareholders of the Company or any of its subsidiaries or their respective associates.

Winhome undertakes the development and sale of a residential land parcel at Flower Road/Kovan Road in Singapore. Financial assistance in the form of shareholders' loan provided to Winhome in proportion to the Group's equity interests in Winhome and on normal commercial terms amounted to approximately HK\$49 million in 2003.

WTH is a substantial shareholder of the Company. Accordingly, WTH is a connected person (as defined under the Listing Rules) of the Company. Winsor is a substantial shareholder of a subsidiary of the Company and therefore also a connected person to the Company for the purpose of the Listing Rules.

### MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2003, 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 2003, the aggregate amount of financial assistance provided to and guarantees given for affiliated companies by the Group amounted to HK\$751.3 million, representing approximately 59.7% 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 2003 are presented below:

	<b>Pro-forma combined balance sheet HK\$'M</b>	<b>Group's attributable interest HK\$'M</b>
Non-current assets	2,972.0	590.3
Current assets	1,237.2	205.0
Current liabilities	(1,389.7)	(198.6)
Non-current liabilities	(3,506.1)	(671.6)
	<hr/>	<hr/>
Net liabilities	(686.6)	(74.9)

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

## Directors' Report (cont'd)

### AUDITORS

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

On behalf of the Board

**CHENG Wai Chee, Christopher**

*Chairman*

Hong Kong, 16 April 2004

# 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 38 to 94 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 financial statements and to report our opinion solely to you, as a body, in accordance with Section 90 of The Companies Act of Bermuda, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

### **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 of 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 2003 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, 16 April 2004

# CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2003

	NOTES	2003 HK\$'M	2002 HK\$'M (As restated)
Turnover	4	<b>1,470.6</b>	1,465.9
Cost of sales		<b>(1,160.3)</b>	(1,137.6)
Gross profit		<b>310.3</b>	328.3
Other operating income		<b>38.7</b>	67.9
Distribution costs		<b>(89.9)</b>	(85.9)
Administrative expenses		<b>(221.4)</b>	(231.0)
Reversal of impairment losses (impairment losses recognised) in respect of investments the underlying business of which is property development		<b>11.6</b>	(2.5)
Gain on disposal of properties	6	–	23.7
Impairment loss recognised in respect of properties held for sale		–	(16.6)
Other operating expenses	7	–	(17.7)
Profit from operations	8	<b>49.3</b>	66.2
Other interest income		<b>0.5</b>	0.8
Finance costs	10	<b>(21.8)</b>	(24.2)
Share of results of associates		<b>1.1</b>	(9.7)
Profit before taxation		<b>29.1</b>	33.1
Taxation	11	<b>(6.3)</b>	(9.1)
Profit before minority interests		<b>22.8</b>	24.0
Minority interests		<b>(4.3)</b>	(3.5)
Net profit for the year		<b>18.5</b>	20.5
Dividend	12	<b>5.2</b>	5.2
Earnings per share	13		
– Basic		<b>HK3.6 cents</b>	HK4.0 cents
– Diluted		<b>HK3.6 cents</b>	HK4.0 cents

# CONSOLIDATED BALANCE SHEET

At 31 December 2003

	NOTES	2003 HK\$'M	2002 HK\$'M (As restated)
<b>Non-current assets</b>			
Investment properties	14	863.1	579.5
Other properties, plant and equipment	15	258.4	200.0
Interest in associates	18	478.2	438.8
Investments in securities	19	418.8	490.8
Other non-current assets	20	2.8	4.0
		<b>2,021.3</b>	1,713.1
<b>Current assets</b>			
Inventories	21	131.1	132.1
Properties held for sale	22	41.2	173.0
Trade and other receivables and prepayments	23	184.2	168.4
Bills receivable		109.4	69.8
Investments in securities	19	4.6	–
Amounts due from associates		6.7	30.4
Taxation recoverable		5.4	3.3
Bank balances and cash		207.6	90.4
		<b>690.2</b>	667.4
<b>Current liabilities</b>			
Trade and other payables	24	233.8	272.6
Bills payable		12.0	20.1
Amount due to an associate		0.1	0.1
Taxation payable		1.1	3.7
Short-term bank borrowings	25	46.9	7.5
Bank loans – amount due within one year	26	52.3	53.6
		<b>346.2</b>	357.6
<b>Net current assets</b>		<b>344.0</b>	309.8
		<b>2,365.3</b>	2,022.9

## Consolidated Balance Sheet (cont'd)

At 31 December 2003

	NOTES	2003 HK\$'M	2002 HK\$'M (As restated)
<b>Capital and reserves</b>			
Share capital	27	258.8	258.8
Reserves	29	999.7	999.8
<b>Shareholders' funds</b>		<b>1,258.5</b>	1,258.6
<b>Minority interests</b>		<b>57.1</b>	56.2
<b>Non-current liabilities</b>			
Bank loans – amount due after one year	26	688.5	612.0
Consideration payable for the acquisition of properties	30	288.9	–
Other long-term loans	31	53.6	79.8
Deferred taxation	32	18.7	16.3
		<b>1,049.7</b>	708.1
		<b>2,365.3</b>	2,022.9

The financial statements on pages 38 to 94 were approved and authorised for issue by the Board of Directors on 16 April 2004 and are signed on its behalf by:

**CHENG WAI SUN, EDWARD**  
DIRECTOR

**NG TAK WAI, FREDERICK**  
DIRECTOR

# BALANCE SHEET

At 31 December 2003

	NOTES	2003 HK\$'M	2002 HK\$'M
<b>Non-current assets</b>			
Interest in subsidiaries	17	1,199.3	1,208.1
<b>Current assets</b>			
Prepayments		0.3	0.3
Bank balances and cash		3.6	0.5
		3.9	0.8
<b>Current liabilities</b>			
Other payables		1.1	2.2
<b>Net current assets (liabilities)</b>			
		2.8	(1.4)
<b>Net assets</b>			
		1,202.1	1,206.7
<b>Capital and reserves</b>			
Share capital	27	258.8	258.8
Reserves	29	943.3	947.9
<b>Shareholders' funds</b>			
		1,202.1	1,206.7

**CHENG WAI SUN, EDWARD**  
DIRECTOR

**NG TAK WAI, FREDERICK**  
DIRECTOR

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2003

	<b>Total equity HK\$'M</b>
At 1 January 2002	
– as originally stated	1,260.9
– prior period adjustment (note 2)	<u>(13.5)</u>
– as restated	<u>1,247.4</u>
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	<u>(0.9)</u>
Net losses not recognised in the consolidated income statement	<u>(0.2)</u>
	1,247.2
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)
Net profit for the year	<u>20.5</u>
At 31 December 2002 and 1 January 2003	<u>1,258.6</u>
Deficit arising on revaluation of investment properties	(19.1)
Exchange differences arising on translation of financial statements of operations outside Hong Kong	4.9
Share of reserves of associates	<u>1.1</u>
Net losses not recognised in the consolidated income statement	<u>(13.1)</u>
	1,245.5
Deferred tax liabilities arising on change in tax rate in respect of other property revaluation reserve	(0.3)
2002 dividend paid	(5.2)
Net profit for the year	<u>18.5</u>
At 31 December 2003	<u><u>1,258.5</u></u>

# CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2003

	2003 HK\$'M	2002 HK\$'M
<b>Cash flows from operating activities</b>		
Profit from operations	49.3	66.2
Adjustments for:		
(Reversal of impairment losses) impairment losses recognised in respect of investments the underlying business of which is property development	(11.6)	2.5
Interest and investment income	(11.5)	(10.6)
Amortisation of goodwill	-	1.9
Amortisation of permanent textile quota entitlements	1.1	1.6
Amortisation of trademark	0.1	0.1
Depreciation and amortisation of other properties, plant and equipment	20.9	21.4
Loss (gain) on disposal of other properties, plant and equipment	0.3	(0.1)
Impairment loss recognised in respect of properties held for sale	-	16.6
Allowance for amount due from an associate	-	2.3
Translation reserve realised on cessation of operations outside Hong Kong	-	3.5
Gain on disposal of properties	-	(23.7)
Operating cash flows before movements in working capital	48.6	81.7
Decrease in inventories	5.3	1.4
Decrease in properties held for sale	131.8	145.0
Increase in trade and other receivables and prepayments	(23.0)	(25.6)
(Increase) decrease in bills receivable	(39.6)	15.2
Decrease (increase) in amounts due from associates	23.7	(12.0)
Decrease in trade and other payables	(44.0)	(17.7)
(Decrease) increase in bills payable	(8.1)	2.9
Decrease in amount due to an associate	-	(0.1)
Net cash generated from operations	94.7	190.8
Interest and dividend income received	3.6	4.3
Interest paid on bank and other borrowings	(21.1)	(27.5)
Hong Kong Profits Tax paid	(8.9)	(11.1)
Tax paid in other jurisdictions	-	(3.4)
<b>Net cash from operating activities</b>	<b>68.3</b>	<b>153.1</b>

## Consolidated Cash Flow Statement (cont'd)

For the year ended 31 December 2003

	2003 HK\$'M	2002 HK\$'M
<b>Cash flows from investing activities</b>		
Purchase of other properties, plant and equipment	(72.7)	(26.1)
Advances to associates	(27.4)	(135.5)
Purchase of properties	(15.0)	–
Increase in investment securities	(13.2)	–
Investments in associates	(3.8)	–
Decrease (increase) in investments the underlying business of which is property development	92.5	(11.6)
Proceeds from disposal of properties	10.4	37.3
Other interest received	0.5	0.8
Proceeds from disposal of other property, plant and equipment	0.2	0.6
Development costs on properties under development incurred	–	(64.4)
Consideration paid for acquisition of additional interest in a subsidiary	–	(25.5)
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)
<b>Net cash used in investing activities</b>	<b>(28.5)</b>	<b>(228.8)</b>
<b>Cash flows from financing activities</b>		
Bank and other loans raised	266.3	270.1
Increase (decrease) in trust receipts and import loans	8.4	(0.6)
Repayment of bank and other loans	(184.6)	(161.0)
Dividend paid by the Company	(5.2)	(12.9)
Dividend paid to minority shareholders of subsidiaries	(2.2)	–
Capital contributed by a minority shareholder of a subsidiary	–	0.1
<b>Net cash from financing activities</b>	<b>82.7</b>	<b>95.7</b>
Increase in cash and cash equivalents	122.5	20.0
Cash and cash equivalents at beginning of the year	83.2	62.2
Effect of foreign exchange rate changes	1.7	1.0
Cash and cash equivalents at end of the year	<b>207.4</b>	<b>83.2</b>
Analysis of the balances of cash and cash equivalents:		
Bank balances and cash	207.6	90.4
Bank overdrafts	(0.2)	(7.2)
	<b>207.4</b>	<b>83.2</b>

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

## 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 "Stock Exchange").

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

## 2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARD

In the current year, the Group has adopted, for the first time, Hong Kong Financial Reporting Standard ("HKFRS") – Statement of Standard Accounting Practice ("SSAP") 12 (Revised) "Income taxes" issued by the Hong Kong Society of Accountants ("HKSA"). The term of HKFRS is inclusive of SSAPs and interpretations approved by the HKSA.

In previous years, partial provision was made for deferred tax using the income statement liability method, i.e. a liability was recognised in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively. Comparative amounts for 2002 have been restated accordingly. As a result of this change in policy, the opening balance on the Group's other distributable reserves and other property revaluation reserve at 1 January 2003 has been decreased by HK\$10.3 million and HK\$3.5 million (1 January 2002: HK\$10.0 million and HK\$3.5 million) respectively after adjusting for the minority interests' share. In addition, the change has resulted in a decrease in the profit for the year ended 31 December 2003 of HK\$2.7 million (2002: HK\$0.3 million).

## Notes to the Financial Statements (cont'd)

For the year ended 31 December 2003

### 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 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 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. Negative goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet as a deduction from assets.

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

#### **Investments in subsidiaries**

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

#### **Interest 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 (cont'd)

For the year ended 31 December 2003

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

#### **Revenue recognition (cont'd)**

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.

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

#### **Investment properties (cont'd)**

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.

#### **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 the 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.

## Notes to the Financial Statements (cont'd)

For the year ended 31 December 2003

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

#### **Other properties, plant and equipment (cont'd)**

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:

Leasehold land	Over the unexpired term of the relevant leases
Leasehold 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.

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.

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

#### **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**

Taxation represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income and expense that are taxable or deductible in other years, and it further excludes income statement items that are never taxable and deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable the taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

## Notes to the Financial Statements (cont'd)

For the year ended 31 December 2003

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

#### **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 per cent 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 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 plan assets.

## Notes to the Financial Statements (cont'd)

For the year ended 31 December 2003

### 4. TURNOVER

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

	<b>2003</b>	2002
	<b>HK\$'M</b>	HK\$'M
Sales of goods	<b>1,232.0</b>	1,208.2
Property development	<b>167.9</b>	183.6
Rental and property management income	<b>59.2</b>	63.5
Income from investing activities (Note)	<b>11.5</b>	10.6
	<b>1,470.6</b>	1,465.9

Note:

Income from investing activities comprises:

	<b>2003</b>	2002
	<b>HK\$'M</b>	HK\$'M
Interest income from associates	<b>6.0</b>	5.9
Income from investments in securities	<b>5.5</b>	4.7
	<b>11.5</b>	10.6

## Notes to the Financial Statements (cont'd)

For the year ended 31 December 2003

### 5. BUSINESS AND GEOGRAPHICAL SEGMENTS

#### **Business segment**

For management purposes, the Group is 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 |

## Notes to the Financial Statements (cont'd)

For the year ended 31 December 2003

### 5. BUSINESS AND GEOGRAPHICAL SEGMENTS (CONT'D)

#### Business segment (cont'd)

	Garment manufacturing and trading HK\$'M	Branded products distribution HK\$'M	Property rental and management HK\$'M	Property development HK\$'M	Investing activities HK\$'M	Elimination HK\$'M	Consolidated HK\$'M
<b>For the year ended 31 December 2003</b>							
<b>TURNOVER</b>							
External sales	1,061.2	170.8	59.2	167.9	11.5	-	1,470.6
Inter-segment sales	-	-	7.6	-	-	(7.6)	-
Total	1,061.2	170.8	66.8	167.9	11.5	(7.6)	1,470.6
<b>RESULT</b>							
Segment result	40.5	(10.8)	11.7	25.0	14.5	-	80.9
Unallocated corporate expenses							(31.6)
Profit from operations							49.3
Other interest income							0.5
Finance costs							(21.8)
Share of results of associates							1.1
Profit before taxation							29.1
Taxation							(6.3)
Profit before minority interests							22.8
Minority interests							(4.3)
Net profit for the year							18.5

Inter-segment sales are charged at prevailing market rates.

## Notes to the Financial Statements (cont'd)

For the year ended 31 December 2003

### 5. BUSINESS AND GEOGRAPHICAL SEGMENTS (CONT'D)

#### Business segment (cont'd)

	Garment manufacturing and trading HK\$'M	Branded products distribution HK\$'M	Property rental and management HK\$'M	Property development HK\$'M	Investing activities HK\$'M	Elimination HK\$'M	Consolidated HK\$'M (As restated)
For the year ended 31 December 2002							
<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	1,043.3	164.9	71.1	183.6	10.6	(7.6)	1,465.9
<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							66.2
Other interest income							0.8
Finance costs							(24.2)
Share of results of associates							(9.7)
Profit before taxation							33.1
Taxation							(9.1)
Profit before minority interests							24.0
Minority interests							(3.5)
Net profit for the year							20.5

Inter-segment sales are charged at prevailing market rates.

## Notes to the Financial Statements (cont'd)

For the year ended 31 December 2003

### 5. BUSINESS AND GEOGRAPHICAL SEGMENTS (CONT'D)

#### Business segment (cont'd)

	Garment manufacturing and trading HK\$'M	Branded products distribution HK\$'M	Property rental and management HK\$'M	Property development HK\$'M	Investing activities HK\$'M	Consolidated HK\$'M
<b>At 31 December 2003</b>						
<b>ASSETS</b>						
Segment assets	356.8	143.9	952.7	93.4	428.8	1,975.6
Interest in associates						478.2
Unallocated corporate assets						257.7
						2,711.5
Consolidated total assets						2,711.5
<b>LIABILITIES</b>						
Segment liabilities	144.6	53.9	306.2	23.0	7.1	534.8
Unallocated corporate liabilities						861.1
						1,395.9
Consolidated total liabilities						1,395.9
<b>OTHER INFORMATION</b>						
Capital additions						
– Business segment	23.7	5.0	308.8	–	1.0	338.5
– Unallocated corporate items						38.1
Depreciation and amortisation						
– Business segment	11.5	6.4	2.9	–	0.9	21.7
– Unallocated corporate items						0.4
Reversal of impairment losses recognised in respect of investments	–	–	–	–	11.6	11.6
Gain (loss) on disposal of other properties, plant and equipment	0.1	(0.4)	–	–	–	(0.3)

## Notes to the Financial Statements (cont'd)

For the year ended 31 December 2003

### 5. BUSINESS AND GEOGRAPHICAL SEGMENTS (CONT'D)

#### Business segment (cont'd)

	Garment manufacturing and trading HK\$'M	Branded products distribution HK\$'M	Property rental and management HK\$'M	Property development HK\$'M	Investing activities HK\$'M	Consolidated HK\$'M (As restated)
At 31 December 2002						
<b>ASSETS</b>						
Segment assets	292.1	136.6	678.5	213.9	496.5	1,817.6
Interest 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						773.0
Consolidated total liabilities						<u>1,065.7</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 losses recognised in respect of investments	–	–	–	–	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

## Notes to the Financial Statements (cont'd)

For the year ended 31 December 2003

### 5. BUSINESS AND GEOGRAPHICAL SEGMENTS (CONT'D)

#### 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	Turnover by geographical market	
	2003 HK\$'M	2002 HK\$'M
North America	781.8	795.1
Hong Kong	257.8	252.1
United Kingdom	253.5	222.9
Other European countries	114.0	146.5
Other areas	63.5	49.3
	<b>1,470.6</b>	1,465.9

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 the Netherlands.

## Notes to the Financial Statements (cont'd)

For the year ended 31 December 2003

### 5. BUSINESS AND GEOGRAPHICAL SEGMENTS (CONT'D)

#### Geographical segment (cont'd)

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.

	Carrying amount of consolidated total assets		Additions to property, plant, equipment and intangible assets	
	At 31 December		For the year ended 31 December	
	2003	2002	2003	2002
	HK\$'M	HK\$'M	HK\$'M	HK\$'M
Hong Kong	<b>2,361.7</b>	1,998.2	<b>363.6</b>	72.9
PRC	<b>69.7</b>	123.3	<b>6.3</b>	6.8
United Kingdom	<b>198.4</b>	159.6	<b>5.0</b>	14.9
The Netherlands	<b>16.0</b>	13.3	<b>1.4</b>	0.1
Others	<b>60.3</b>	82.8	<b>0.3</b>	0.9
	<b>2,706.1</b>	2,377.2	<b>376.6</b>	95.6
Unallocated assets	<b>5.4</b>	3.3	<b>–</b>	–
	<b>2,711.5</b>	2,380.5	<b>376.6</b>	95.6

## Notes to the Financial Statements (cont'd)

For the year ended 31 December 2003

### 6. GAIN ON DISPOSAL OF PROPERTIES

	<b>2003</b>	2002
	<b>HK\$'M</b>	HK\$'M
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
	<b>–</b>	<b>23.7</b>

### 7. OTHER OPERATING EXPENSES

	<b>2003</b>	2002
	<b>HK\$'M</b>	HK\$'M
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
	<b>–</b>	<b>17.7</b>

## Notes to the Financial Statements (cont'd)

For the year ended 31 December 2003

### 8. PROFIT FROM OPERATIONS

	<b>2003</b>	2002
	<b>HK\$'M</b>	HK\$'M
Profit from operations has been arrived at after charging:		
Staff costs including directors' remuneration	<b>191.6</b>	203.8
Retirement benefits costs, net of negligible forfeited contributions	<b>4.6</b>	4.5
Total staff costs	<b>196.2</b>	208.3
Auditors' remuneration	<b>2.1</b>	1.8
Amortisation of goodwill (included in administrative expenses)	<b>–</b>	1.9
Amortisation of		
– permanent textile quota entitlements (included in cost of sales)	<b>1.1</b>	1.6
– trademark (included in administrative expenses)	<b>0.1</b>	0.1
Cost of temporary textile quota entitlements written off on purchase	<b>19.2</b>	21.2
Depreciation and amortisation of other properties, plant and equipment	<b>20.9</b>	21.4
and after crediting:		
Quota income	<b>14.9</b>	22.4
Dividend income from investment securities – listed	<b>4.9</b>	2.8
Dividend income from other investments – unlisted	<b>0.1</b>	0.8
Write-back of allowance for doubtful debts	<b>–</b>	1.0

## Notes to the Financial Statements (cont'd)

For the year ended 31 December 2003

### 9. DIRECTORS' AND EMPLOYEES' REMUNERATION

#### Directors' remuneration

	<b>2003</b>	2002
	<b>HK\$'M</b>	HK\$'M
Directors' fee	<b>0.5</b>	0.5
Other directors' emoluments		
– Salaries and other benefits	<b>5.5</b>	5.6
– Bonus	<b>1.7</b>	1.7
– Retirement benefits costs	<b>0.4</b>	0.4
	<b>8.1</b>	8.2

The emoluments of the directors were within the following bands:

	<b>2003</b>	2002
	<b>Number of</b>	Number of
	<b>directors</b>	directors
Up to HK\$1,000,000	<b>8</b>	10
HK\$3,000,001 to HK\$3,500,000	<b>1</b>	1
HK\$4,000,001 to HK\$4,500,000	<b>1</b>	1

Total directors' fees paid to the Company's independent non-executive directors amounted to approximately HK\$0.3 million (2002: 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.

## Notes to the Financial Statements (cont'd)

For the year ended 31 December 2003

### 9. DIRECTORS' AND EMPLOYEES' REMUNERATION (CONT'D)

#### Employees' emoluments

The aggregate emoluments of the five highest paid individuals of the Group in 2002 and 2003 included two executive directors of the Company whose emoluments are included in directors' remuneration above. The aggregate emoluments of the remaining three highest paid individuals are as follows:

	<b>2003</b>	2002
	<b>HK\$'M</b>	HK\$'M
Salaries and other benefits	<b>3.8</b>	3.8
Bonus	<b>1.1</b>	1.1
Retirement benefits costs	<b>0.1</b>	0.1
	<b>5.0</b>	5.0

Their emoluments were within the following bands:

	<b>2003</b>	2002
	<b>Number of</b>	Number of
	<b>employees</b>	employees
HK\$1,000,001 to HK\$1,500,000	<b>2</b>	2
HK\$2,000,001 to HK\$2,500,000	<b>1</b>	1

### 10. FINANCE COSTS

	<b>2003</b>	2002
	<b>HK\$'M</b>	HK\$'M
Interest on:		
– bank and other borrowings wholly repayable within five years	<b>18.3</b>	23.7
– bank and other borrowings not wholly repayable within five years	<b>3.5</b>	4.6
Total borrowing costs	<b>21.8</b>	28.3
Less: Interest capitalised in properties under development	<b>–</b>	(4.1)
	<b>21.8</b>	24.2

## Notes to the Financial Statements (cont'd)

For the year ended 31 December 2003

### 11. TAXATION

	<b>2003</b>	2002
	<b>HK\$'M</b>	HK\$'M
		(As restated)
The charge comprises:		
Taxation of the Company and its subsidiaries		
– Hong Kong Profits Tax	<b>4.6</b>	6.7
– Taxation in other jurisdictions	<b>0.6</b>	2.1
	<b>5.2</b>	8.8
Overprovision in prior years		
– Taxation in other jurisdictions	<b>(1.0)</b>	–
	<b>4.2</b>	8.8
Deferred taxation	<b>2.1</b>	0.3
	<b>6.3</b>	9.1

Hong Kong Profits Tax is calculated at 17.5% (2002: 16%) of the estimated assessable profits for the year. Taxation arising on other jurisdictions is calculated at the rate prevailing in the relevant jurisdictions.

## Notes to the Financial Statements (cont'd)

For the year ended 31 December 2003

### 11. TAXATION (CONT'D)

A statement of reconciliation of taxation is as follows:

	<b>2003</b>	2002
	<b>HK\$'M</b>	HK\$'M
Profit before taxation	<b>29.1</b>	33.1
Tax at Hong Kong Profits Tax rate of 17.5% (2002: 16%)	<b>5.1</b>	5.3
Increase in opening deferred tax liability resulting from an increase in Hong Kong Profits Tax rate	<b>1.2</b>	–
Tax effect of expenses not deductible in determining taxable profit	<b>3.4</b>	6.0
Tax effect of income not taxable in determining taxable profit	<b>(4.3)</b>	(8.0)
Tax effect of tax losses not recognised	<b>15.9</b>	11.7
Tax effect of utilisation of tax losses not previously recognised	<b>(2.9)</b>	(2.5)
Tax effect of unrecognised deductible temporary differences	<b>(8.3)</b>	(0.9)
Effect of different tax rates of subsidiaries operating on other jurisdictions	<b>(2.9)</b>	(1.7)
Overprovision in prior years	<b>(1.0)</b>	–
Tax effect of share of results of associates	<b>(0.2)</b>	1.5
Others	<b>0.3</b>	(2.3)
Taxation for the year	<b>6.3</b>	9.1

Details of deferred taxation are set out in note 32.

### 12. DIVIDEND

	<b>2003</b>	2002
	<b>HK\$'M</b>	HK\$'M
Final proposed of HK1.0 cent (2002: HK1.0 cent) per share	<b>5.2</b>	5.2

The final dividend of HK1.0 cent (2002: HK1.0 cent) per share has been proposed by the directors and is subject to approval by the shareholders in the forthcoming annual general meeting of the Company.

## Notes to the Financial Statements (cont'd)

For the year ended 31 December 2003

### 13. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the net profit for the year of HK\$18.5 million (2002: HK\$20.5 million (restated)) and the 517,625,339 shares in issue throughout both years.

The computation of diluted earnings per share for the year ended 31 December 2003 is as follows:

	<b>2003</b>	2002
	<b>HK\$'M</b>	HK\$'M
		(As restated)
Earnings for the purpose of calculating diluted earnings per share	<b>18.5</b>	20.5
	<b>2003</b>	2002
<b>Number of shares</b>		
Weighted average number of shares for the purpose of calculating basic earnings per share	<b>517,625,339</b>	517,625,339
Effect of dilutive potential shares issuable under the Company's share option scheme	<b>239,899</b>	166,500
Weighted average number of shares for the purpose of calculating diluted earnings per share	<b>517,865,238</b>	517,791,839

There is no material effect on the basic and diluted earnings per share for the year ended 31 December 2002 as a result of adjustments arising from the adoption of SSAP 12 (Revised).

## Notes to the Financial Statements (cont'd)

For the year ended 31 December 2003

### 14. INVESTMENT PROPERTIES

	THE GROUP	
	2003	2002
	HK\$'M	HK\$'M
<b>VALUATION</b>		
At 1 January	<b>579.5</b>	599.2
Currency realignment	–	2.1
Additions	<b>303.9</b>	–
Deficit arising on revaluation	<b>(20.3)</b>	(4.8)
Disposals	–	(13.2)
Transferred to properties for own use	–	(3.8)
At 31 December	<b>863.1</b>	579.5
Investment properties comprise:		
Properties held under medium-term leases		
– in Hong Kong	<b>839.2</b>	555.2
– outside Hong Kong	<b>23.9</b>	24.3
	<b>863.1</b>	579.5

The additions of investment properties during the year were acquired through a public tender accepted by the vendor on 19 December 2003. The purchase price and other related costs of acquisition amounted to HK\$303.9 million. In the opinion of the directors, the carrying amount of HK\$303.9 million does not differ significantly from that which would be determined using an open market value at the balance sheet date by professional valuations.

The Group's remaining investment properties were valued on an open market value basis as at 31 December 2003 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.

## Notes to the Financial Statements (cont'd)

For the year ended 31 December 2003

### 15. OTHER PROPERTIES, PLANT AND EQUIPMENT

	Properties for own use HK\$'M	Construction in progress HK\$'M	Furniture, fixtures and equipment HK\$'M	Motor vehicles HK\$'M	Plant and machinery HK\$'M	Total HK\$'M
<b>THE GROUP</b>						
<b>COST OR VALUATION</b>						
At 1 January 2003	187.3	2.6	131.0	8.9	69.0	398.8
Currency realignment	7.1	–	7.1	–	(0.1)	14.1
Additions	41.3	5.9	20.0	0.8	4.7	72.7
Disposals	(3.6)	–	(6.5)	(1.5)	–	(11.6)
Transferred from construction in progress	0.8	(0.8)	–	–	–	–
At 31 December 2003	232.9	7.7	151.6	8.2	73.6	474.0
Comprising:						
At cost	147.5	7.7	151.6	8.2	73.6	388.6
At valuation – 1994 (note)	85.4	–	–	–	–	85.4
	232.9	7.7	151.6	8.2	73.6	474.0
<b>DEPRECIATION AND AMORTISATION</b>						
At 1 January 2003	29.2	–	107.2	6.3	56.1	198.8
Currency realignment	1.2	–	5.9	–	(0.1)	7.0
Provided for the year	5.0	–	9.0	1.3	5.6	20.9
Eliminated on disposals	(3.4)	–	(6.2)	(1.5)	–	(11.1)
At 31 December 2003	32.0	–	115.9	6.1	61.6	215.6
<b>NET BOOK VALUES</b>						
At 31 December 2003	200.9	7.7	35.7	2.1	12.0	258.4
At 31 December 2002	158.1	2.6	23.8	2.6	12.9	200.0

## Notes to the Financial Statements (cont'd)

For the year ended 31 December 2003

### 15. OTHER PROPERTIES, PLANT AND EQUIPMENT (CONT'D)

	THE GROUP	
	2003	2002
	HK\$'M	HK\$'M
The net book value of the Group's properties for own use comprises:		
Freehold properties outside Hong Kong	61.3	56.2
Properties held under long leases in Hong Kong	37.9	–
Properties held under medium-term leases		
– in Hong Kong	74.9	76.8
– outside Hong Kong	22.5	19.5
Properties held under short-term leases outside Hong Kong	4.3	5.6
	<b>200.9</b>	158.1

Note: Had these property interests not been revalued, their net book values on the historical cost basis at 31 December 2003 would have been approximately HK\$21.3 million (2002: HK\$21.8 million).

### 16. GOODWILL

#### THE GROUP

The goodwill arising in 2002 from the acquisition of additional interest in a subsidiary amounted to HK\$1.9 million (2003: nil) and was charged to the consolidated income statement as the amount involved is not significant.

### 17. INTEREST IN SUBSIDIARIES

	THE COMPANY	
	2003	2002
	HK\$'M	HK\$'M
Unlisted shares, at cost	590.8	590.8
Amounts due from subsidiaries	608.5	617.3
	<b>1,199.3</b>	1,208.1

Details of the Company's principal subsidiaries at 31 December 2003 are set out in note 39.

## Notes to the Financial Statements (cont'd)

For the year ended 31 December 2003

### 18. INTEREST IN ASSOCIATES

	<b>THE GROUP</b>	
	<b>2003</b>	2002
	<b>HK\$'M</b>	HK\$'M
Share of net liabilities	<b>(68.7)</b>	(72.2)
Advances to associates (note b)	<b>548.7</b>	515.3
Impairment losses recognised in respect of associates engaged in property development	<b>(1.8)</b>	(4.3)
	<b>478.2</b>	438.8

Details of the Group's principal associates at 31 December 2003 are set out in note 40.

Notes:

- (a) The share of post acquisition deficits of associates in 2003 included an amount of HK\$2.5 million (2002: HK\$10.7 million) which was provided for in 2000 as impairment losses recognised in respect of associates engaged in property development.
- (b) The advances are unsecured. Other than an aggregate amount of HK\$311.3 million (2002: HK\$282.9 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 in 2002 amounted to HK\$1.8 million (2003: nil) and was 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.

## Notes to the Financial Statements (cont'd)

For the year ended 31 December 2003

### 19. INVESTMENTS IN SECURITIES

	<b>THE GROUP</b>	
	<b>2003</b>	2002
	<b>HK\$'M</b>	HK\$'M
Investment securities		
– listed shares, at cost (note a)	<b>354.8</b>	341.6
Listed debt securities (note b)	<b>6.3</b>	6.0
Other investments (note c)	<b>62.3</b>	143.2
	<b>423.4</b>	490.8
Analysed as:		
Current	<b>4.6</b>	–
Non-current	<b>418.8</b>	490.8
	<b>423.4</b>	490.8

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. 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.

The market value of the listed shares as at 31 December 2003 amounted to HK\$225.3 million (2002: HK\$128.9 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 and the NASDAQ National Market in the United States of America, particularly in respect of its improving operating results and cash flows. 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 bonds at 31 December 2003 include an amount of HK\$4.6 million (2002: nil) which is due to mature in 2004 and is therefore classified as current assets in the balance sheet. The market value of the listed bonds at 31 December 2003 amounted to HK\$6.6 million (2002: HK\$6.4 million).
- (c) Other investments comprise principally the Group's minority stakes in various property development projects. During the year, the directors conducted a review of the carrying amounts of investments the underlying business of which is property development and determined that a reversal of impairment losses of HK\$11.6 million was made in the financial statements by reference to the recoverable amounts from these property development projects.

## Notes to the Financial Statements (cont'd)

For the year ended 31 December 2003

### 19. INVESTMENTS IN SECURITIES (CONT'D)

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.

### 20. OTHER NON-CURRENT ASSETS

	<b>Balance at 1.1.2003 HK\$'M</b>	<b>Amortisation for the year HK\$'M</b>	<b>Balance at 31.12.2003 HK\$'M</b>
<b>THE GROUP</b>			
Mortgage loans receivable (note a)	1.9	—	1.9
Textile quota entitlements (note b)	1.5	(1.1)	0.4
Trademark (note c)	0.6	(0.1)	0.5
	<u>4.0</u>	<u>(1.2)</u>	<u>2.8</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) Textile quota entitlements are acquired for the Group's apparel operations and are amortised over three years.
- (c) The trademark is related to the Group's hospitality operations and is amortised over an estimated useful life of ten years.

## Notes to the Financial Statements (cont'd)

For the year ended 31 December 2003

### 21. INVENTORIES

	THE GROUP	
	2003 HK\$'M	2002 HK\$'M
Raw materials	35.5	29.7
Work in progress	52.2	59.3
Finished goods	43.4	43.1
	<b>131.1</b>	132.1
Comprising:		
At cost	130.6	131.5
At net realisable value	0.5	0.6
	<b>131.1</b>	132.1

### 22. 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.

An impairment loss of HK\$16.6 million (2003: nil) was recognised and charged to the consolidated income statement during the year ended 31 December 2002.

## Notes to the Financial Statements (cont'd)

For the year ended 31 December 2003

### 23. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

The Group allows varying credit periods to its trade customers. Credit periods for customers 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:

	<b>2003</b>	2002
	<b>HK\$'M</b>	HK\$'M
0 – 30 days	<b>45.6</b>	82.5
31 – 90 days	<b>65.7</b>	25.6
Over 90 days	<b>33.9</b>	17.3
	<b>145.2</b>	125.4
Other receivables and prepayments (note)	<b>39.0</b>	43.0
Total	<b>184.2</b>	168.4

Note: Included in the balance of other receivables and prepayments at 31 December 2002 above was an amount of HK\$10.4 million (2003: nil), representing consideration receivable from disposal of properties.

### 24. TRADE AND OTHER PAYABLES

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

	<b>THE GROUP</b>	
	<b>2003</b>	2002
	<b>HK\$'M</b>	HK\$'M
0 – 30 days	<b>61.0</b>	66.9
31 – 90 days	<b>22.3</b>	22.8
Over 90 days	<b>9.8</b>	8.3
	<b>93.1</b>	98.0
Other payables	<b>140.7</b>	174.6
Total	<b>233.8</b>	272.6

## Notes to the Financial Statements (cont'd)

For the year ended 31 December 2003

### 25. SHORT-TERM BANK BORROWINGS

	<b>THE GROUP</b>	
	<b>2003</b> HK\$'M	2002 HK\$'M
Short-term bank loans	<b>38.0</b>	–
Trust receipts and import loans	<b>8.7</b>	0.3
Bank overdrafts	<b>0.2</b>	7.2
	<b>46.9</b>	7.5
Analysed as:		
– secured	–	3.5
– unsecured	<b>46.9</b>	4.0
	<b>46.9</b>	7.5

### 26. BANK LOANS

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

	<b>THE GROUP</b>	
	<b>2003</b> HK\$'M	2002 HK\$'M
Within one year	<b>52.3</b>	53.6
Between one to two years	<b>154.9</b>	437.9
Between two to five years	<b>516.2</b>	146.1
After five years	<b>17.4</b>	28.0
	<b>740.8</b>	665.6
Less: Amount due within one year shown under current liabilities	<b>(52.3)</b>	(53.6)
Amount due after one year	<b>688.5</b>	612.0
Analysed as:		
– secured	<b>445.1</b>	371.6
– unsecured	<b>295.7</b>	294.0
	<b>740.8</b>	665.6

To the extent that the Group has obtained an agreement subsequent to the balance sheet date to refinance a loan facility of HK\$189.0 million (2002: nil) which would otherwise be due within the following year, that amount has not been included in "Amount due within one year" set out above.

## Notes to the Financial Statements (cont'd)

For the year ended 31 December 2003

### 27. SHARE CAPITAL

	<b>2003 &amp; 2002</b>	<b>2003 &amp; 2002</b>
	<b>Number of shares</b>	<b>Amount (HK\$'M)</b>
Authorised:		
Ordinary shares of HK\$0.50 each	1,320,000,000	660.0
Issued and fully paid:		
Ordinary shares of HK\$0.50 each	517,625,339	258.8

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

### 28. SHARE OPTION SCHEME

Under the share option scheme of the Company adopted on 26 June 2001 ("2001 Scheme"), the directors of the Company may grant options to executive directors and employees of the Company or any of its subsidiaries to subscribe for shares in the Company up to 10% of the issued share capital of the Company at the date of adoption of the 2001 Scheme.

On 10 June 2003, ordinary resolutions were passed by shareholders of the Company at a special general meeting to terminate the 2001 Scheme and to adopt a new share option scheme of the Company ("2003 Scheme") in order to comply with the new requirements of Chapter 17 of the Listing Rules.

Under the 2003 Scheme, the Company may grant options to directors (including non-executive directors and independent non-executive directors) and employees of the Group, to subscribe for shares in the Company. The options granted under the 2003 Scheme and any other option schemes of the Company shall not entitle the holders thereof to subscribe for, in aggregate, more than 10% of the issued share capital of the Company as at 10 June 2003, the date of passing the resolution to adopt the 2003 Scheme. Options granted to any one individual under the 2003 Scheme in any 12-month period shall not entitle him/her to subscribe for more than 1% of the issued share capital of the Company. The purpose of the 2003 Scheme is to enable the Company to grant options to selected participants as incentives for their contributions to the Group. A consideration of HK\$1 is payable on acceptance of the grant of options. Options granted must be taken up within 28 days from the date of grant. The exercise price for option holders to subscribe for a share of the Company is determined by the directors of the Company, and shall be at least the highest of : i) the closing price of the shares of the Company as stated in the Stock Exchange's daily quotation sheet on the date of grant; ii) the average closing price of the shares of the Company as stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of grant; and iii) the nominal value of a share of the Company.

## Notes to the Financial Statements (cont'd)

For the year ended 31 December 2003

### 28. SHARE OPTION SCHEME (CONT'D)

Prior to the adoption of the 2001 Scheme, the Company operated a share option scheme ("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 2001 Scheme.

The movements of the share options granted under the old share option scheme which remained valid and exercisable during the year were as follows:

Date of grant	Exercise price HK\$	Number of share options					
		At 1.1.2002	Lapsed during the year	Cancelled upon termination of employment during the year	At 31.12.2002 and 1.1.2003	Cancelled upon termination of employment during the year	At 31.12.2003
26 February 1997	2.500	80,000	(80,000)	–	–	–	–
30 August 1997	2.330	3,270,000	(3,120,000)	(150,000)	–	–	–
15 November 1999	0.800	9,875,000	–	(250,000)	9,625,000	(80,000)	9,545,000
Total		13,225,000	(3,200,000)	(400,000)	9,625,000	(80,000)	9,545,000

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 1.1.2002	Lapsed during the year	At 31.12.2002 and 31.12.2003
30 August 1997	2.330	2,100,000	(2,100,000)	–
15 November 1999	0.800	6,660,000	–	6,660,000
Total		8,760,000	(2,100,000)	6,660,000

No options were granted or exercised during the year ended 31 December 2003. The options are generally exercisable in stages within a period of one to five years from the date of grant.

At 31 December 2003, 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\$7.6 million from the issue of 9,545,000 new shares of HK\$0.50 each in the Company.

No charge is recognised in the income statement of the Company in respect of options granted under the above option schemes. Share options granted under the above option schemes are not recognised in the financial statements of the Company until such options are exercised. Upon exercise of options, the shares issued are recorded as the Company's additional share capital at nominal value of such shares and the excess of the exercise price/subscription price over the nominal value of the shares issued is recorded in the Company's share premium account.

# Notes to the Financial Statements (cont'd)

For the year ended 31 December 2003

## 29. RESERVES

	Share premium HK\$'M	Investment property revaluation reserve HK\$'M	Other property revaluation reserve HK\$'M	Translation reserve HK\$'M	Contributed surplus HK\$'M	Other distributable reserve (deficit) HK\$'M	Total HK\$'M
<b>THE GROUP</b>							
At 1 January 2002							
– as originally stated	438.4	34.8	21.9	(42.3)	649.9	(100.6)	1,002.1
– prior period adjustment	–	–	(3.5)	–	–	(10.0)	(13.5)
	438.4	34.8	18.4	(42.3)	649.9	(110.6)	988.6
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)
Net profit for the year	–	–	–	–	–	20.5	20.5
At 31 December 2002 and 1 January 2003							
	438.4	21.0	18.4	(24.9)	637.0	(90.1)	999.8
Deficit arising on revaluation	–	(20.3)	–	–	–	–	(20.3)
Exchange differences arising on translation of financial statements of operations outside Hong Kong	–	–	–	4.9	–	–	4.9
Share of reserves of an associate	–	2.8	–	(1.7)	–	–	1.1
Share of reserves by minority shareholders	–	1.2	–	–	–	–	1.2
Deferred tax liabilities arising on change in tax rate	–	–	(0.3)	–	–	–	(0.3)
2002 final dividend paid	–	–	–	–	(5.2)	–	(5.2)
Net profit for the year	–	–	–	–	–	18.5	18.5
At 31 December 2003	438.4	4.7	18.1	(21.7)	631.8	(71.6)	999.7
Attributable to associates:							
At 31 December 2003	–	2.8	–	(2.6)	–	(72.7)	(72.5)
At 31 December 2002	–	–	–	(0.9)	–	(73.8)	(74.7)

## Notes to the Financial Statements (cont'd)

For the year ended 31 December 2003

### 29. RESERVES (CONT'D)

	<b>Share premium HK\$'M</b>	<b>Contributed surplus HK\$'M</b>	<b>Other distributable reserve (deficit) HK\$'M</b>	<b>Total HK\$'M</b>
<b>THE COMPANY</b>				
At 1 January 2002	438.4	635.0	(114.7)	958.7
2001 final dividend paid	–	(12.9)	–	(12.9)
Net profit for the year	–	–	2.1	2.1
<hr/>				
At 31 December 2002 and 1 January 2003	438.4	622.1	(112.6)	947.9
2002 final dividend paid	–	(5.2)	–	(5.2)
Net profit for the year	–	–	0.6	0.6
<hr/>				
At 31 December 2003	438.4	616.9	(112.0)	943.3

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.

**30. CONSIDERATION PAYABLE FOR THE ACQUISITION OF PROPERTIES****THE GROUP**

The amount represents the portion of the consideration payable for the acquisition of properties which would be financed by long-term bank loan facilities of the Group. In the opinion of the directors of the Company, such amount is non-current in nature.

**31. OTHER LONG-TERM LOANS**

	<b>THE GROUP</b>	
	<b>2003</b>	2002
	<b>HK\$'M</b>	HK\$'M
Interest bearing loan	<b>36.3</b>	34.4
Interest free loans	<b>17.3</b>	45.4
	<b>53.6</b>	79.8

The loans are from minority shareholders of subsidiaries. The interest bearing loan carries interest at market rates. All the loans are unsecured and have no fixed repayment terms. The loans above include amounts of HK\$36.3 million (2002: HK\$62.5 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.

## Notes to the Financial Statements (cont'd)

For the year ended 31 December 2003

### 32. DEFERRED TAXATION

The following are the major deferred tax assets and liabilities recognised by the Group and movements thereon during the year:

	<b>Accelerated tax depreciation HK\$'M</b>	<b>Revaluation of properties HK\$'M</b>	<b>Tax losses HK\$'M</b>	<b>Total HK\$'M</b>
At 1 January 2002				
– as originally stated	0.6	–	–	0.6
– prior period adjustment	15.7	3.5	(3.8)	15.4
– as restated	16.3	3.5	(3.8)	16.0
Charge to income for the year	0.3	–	–	0.3
At 31 December 2002 and 1 January 2003	16.6	3.5	(3.8)	16.3
Charge to income for the year	(0.1)	–	1.0	0.9
Effect of change in tax rate				
– charge to income	1.5	–	(0.3)	1.2
– charge to equity	–	0.3	–	0.3
At 31 December 2003	18.0	3.8	(3.1)	18.7
			<b>2003 HK\$'M</b>	2002 HK\$'M
Deferred tax liabilities			<b>21.8</b>	20.1
Deferred tax assets			<b>(3.1)</b>	(3.8)
			<b>18.7</b>	16.3

At 31 December 2003, the Company has unused tax losses of approximately HK\$312.0 million (2002: HK\$262.2 million) available for offset against future profits. A deferred tax asset has been recognised in respect of HK\$17.7 million (2002: HK\$23.8 million) of such losses. No deferred tax asset has been recognised in respect of the remaining HK\$294.3 million (2002: HK\$238.4 million) due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of HK\$10.7 million that will expire until 2008. Other losses may be carried forward indefinitely.

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

## Notes to the Financial Statements (cont'd)

For the year ended 31 December 2003

### 33. OPERATING LEASE

#### THE GROUP AS LESSEE

	<b>2003</b>	2002
	<b>HK\$'M</b>	HK\$'M
Minimum lease payments charged to the consolidated income statement during the year:		
– land and buildings	<b>18.6</b>	27.7
– equipment and motor vehicles	<b>0.8</b>	0.4
	<b>19.4</b>	28.1

Under the leases entered into by the Group, the lease payments are fixed and predetermined. At 31 December 2003, future minimum lease payments under non-cancellable operating leases are payable by the Group as follows:

	<b>2003</b>	2002
	<b>HK\$'M</b>	HK\$'M
For land and buildings		
– Within one year	<b>20.3</b>	16.2
– After one year and not later than five years	<b>66.4</b>	61.5
– Over five years	<b>23.5</b>	32.5
	<b>110.2</b>	110.2
For equipment and motor vehicles		
– Within one year	<b>0.7</b>	0.6
– After one year and not later than five years	<b>1.1</b>	0.8
	<b>1.8</b>	1.4
Total	<b>112.0</b>	111.6

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

## Notes to the Financial Statements (cont'd)

For the year ended 31 December 2003

### 33. OPERATING LEASE (CONT'D)

#### THE GROUP AS LESSOR

	<b>2003</b>	2002
	<b>HK\$'M</b>	HK\$'M
Gross rental income credited to the income statement during the year	<b>41.3</b>	49.4
Less: Outgoings	<b>(1.6)</b>	(1.5)
	<b>39.7</b>	47.9

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

	<b>2003</b>	2002
	<b>HK\$'M</b>	HK\$'M
Within one year	<b>21.9</b>	30.0
After one year and not later than five years	<b>7.6</b>	19.0
Over five years	<b>-</b>	0.2
	<b>29.5</b>	49.2

### 34. CAPITAL COMMITMENTS

	<b>THE GROUP</b>	
	<b>2003</b>	2002
	<b>HK\$'M</b>	HK\$'M
Capital expenditure contracted for but not provided in the financial statements in respect of acquisition of other properties, plant and equipment	<b>2.3</b>	-

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

## Notes to the Financial Statements (cont'd)

For the year ended 31 December 2003

### 35. CONTINGENT LIABILITIES

	THE GROUP		THE COMPANY	
	2003 HK\$'M	2002 HK\$'M	2003 HK\$'M	2002 HK\$'M
Export bills discounted with recourse	<b>7.3</b>	28.4	–	–
Guarantees given to banks in respect of utilised credit facilities extended to				
– subsidiaries	–	–	<b>508.4</b>	421.5
– associates	<b>193.8</b>	172.1	<b>193.8</b>	172.1
	<b>193.8</b>	172.1	<b>702.2</b>	593.6

At 31 December 2003, 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\$368.2 million (2002: HK\$389.9 million).

### 36. PLEDGE OF ASSETS

The Group's advances to associates at 31 December 2003 include amounts of HK\$422.1 million (2002: HK\$405.1 million) which are subordinated to the loans facilities of associates. The associates are engaged in property development. These Group's advances to associates include amounts of HK\$401.8 million (2002: HK\$405.1 million) which are assigned, and the shares in these associates beneficially owned by the Group are pledged, to the financial institutions.

At 31 December 2003, certain of the Group's investment properties with carrying value of HK\$532.9 million (2002: HK\$552.7 million) and properties for own use with carrying value of HK\$174.1 million (2002: HK\$133.0 million) were pledged to secure credit facilities for the Group. At 31 December 2002, share in certain subsidiaries and an investee company engaged in property development were pledged to secure credit facilities for the Group and that investee company respectively.

## Notes to the Financial Statements (cont'd)

For the year ended 31 December 2003

### 37. 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 subsidiary 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 10% – 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 plan 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 2003 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.

The main actuarial assumptions used were as follows:

	2003	2002
Discount rate	5.65%	5.75%
Expected return on plan assets	6.75%	7.90%
Expected rate of salary increases	3.75%	3.25%
Future pension increases	2.50%	2.25%

The actuarial valuation updated to 31 December 2003 showed that the market value of scheme assets was approximately HK\$53.5 million (2002: HK\$40.8 million) and that the actuarial value of these assets represented 85% (2002: 82%) of the benefits that had accrued to members. The shortfall of approximately HK\$9.3 million (2002: HK\$8.8 million) is to be cleared over the estimated remaining service period of the current membership of 15 years.

## Notes to the Financial Statements (cont'd)

For the year ended 31 December 2003

### 37. RETIREMENT BENEFITS AND PENSION SCHEMES (CONT'D)

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

	<b>2003</b>	2002
	<b>HK\$'M</b>	HK\$'M
Current service cost	<b>2.1</b>	1.5
Interest cost	<b>2.9</b>	2.7
Expected return on plan assets	<b>(3.3)</b>	(3.3)
Net actuarial loss recognised in the year	<b>0.3</b>	–
	<b>2.0</b>	0.9

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

The actual gain on plan assets was approximately HK\$7.6 million (2002: loss of 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>2003</b>	2002
	<b>HK\$'M</b>	HK\$'M
Fair value of scheme assets	<b>53.5</b>	40.8
Present value of funded obligations	<b>(62.8)</b>	(49.6)
	<b>(9.3)</b>	(8.8)
Unrecognised actuarial losses	<b>10.6</b>	9.9
Unrecognised defined benefit asset	<b>1.3</b>	1.1

## Notes to the Financial Statements (cont'd)

For the year ended 31 December 2003

### 37. RETIREMENT BENEFITS AND PENSION SCHEMES (CONT'D)

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

	<b>2003</b>	2002
	<b>HK\$'M</b>	HK\$'M
At 1 January	<b>1.1</b>	0.1
Exchange differences	<b>0.1</b>	(0.1)
Amounts charged to the consolidated income statement	<b>(2.0)</b>	(0.9)
Contributions	<b>2.1</b>	2.0
Restriction on asset recognised	<b>(1.3)</b>	(1.1)
At 31 December	<b>-</b>	-

### 38. 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\$8.5 million (2002: HK\$11.5 million) and HK\$6.0 million (2002: HK\$5.9 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 18, 35 and 36.

## Notes to the Financial Statements (cont'd)

For the year ended 31 December 2003

### 39. PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries at 31 December 2003 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
Dongguan Xianjie Knitwear Co., Ltd.*	People's Republic of China	HK\$9,000,000	78%	Garment manufacturing
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
Fore Prosper Limited	Hong Kong	HK\$2	100%	Property investment
Gentful Limited	Hong Kong	HK\$2	100%	Investment holding

## Notes to the Financial Statements (cont'd)

For the year ended 31 December 2003

### 39. PRINCIPAL SUBSIDIARIES (CONT'D)

<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>
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%	Retailers
Glory Charm Development Limited	Hong Kong	HK\$2	100%	Property holding
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
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	100%	Garment trading
Impact Textiles Company Limited	Hong Kong	Ordinary shares HK\$4,450,000 Non-voting deferred shares HK\$12,310,000	100%  100%	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
Kosheen Investments Limited	British Virgin Islands	US\$1	100%	Investment holding
Kowloon Station Development Company Limited	Cayman Islands	US\$1	100%	Investment holding

## Notes to the Financial Statements (cont'd)

For the year ended 31 December 2003

### 39. PRINCIPAL SUBSIDIARIES (CONT'D)

<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>
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	Hong Kong	HK\$2	100%	Hospitality and property management
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

## Notes to the Financial Statements (cont'd)

For the year ended 31 December 2003

### 39. PRINCIPAL SUBSIDIARIES (CONT'D)

<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>
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
Technic Enterprises 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
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

## Notes to the Financial Statements (cont'd)

For the year ended 31 December 2003

### 39. PRINCIPAL SUBSIDIARIES (CONT'D)

<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 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 2003 or at any time during the year.

## Notes to the Financial Statements (cont'd)

For the year ended 31 December 2003

### 40. PRINCIPAL ASSOCIATES

Details of the Group's principal associates at 31 December 2003 are as follows:

<b>Name of company</b>	<b>Place of incorporation</b>	<b>Attributable proportion of nominal value of issued capital held by the Company indirectly</b>	<b>Principal activities</b>
Lancaster Partnership Limited	United Kingdom	47.5%	Property development
Landyork Investment Limited	Hong Kong	40%	Property development
Mancas Investment Limited	Hong Kong	50%	Property development
Mission System Consultant Limited	Hong Kong	50%	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
Winhome Investment Pte Ltd. *	Singapore	12%	Property development
Winner Max Enterprises Limited	Hong Kong	33.3%	Property development

\* The Group has the ability to exercise significant influence over these associates. Accordingly, they are regarded as associates 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 2003.

<b>Year ended 31 December</b>	<b>2003</b> <b>HK'M</b>	2002 HK'M	2001 HK'M	2000 HK'M	1999 HK'M
		(As restated)	(As restated)	(Note b)	(Note a & b)
<b>Results</b>					
Turnover	<b>1,470.6</b>	1,465.9	1,441.8	1,668.6	1,719.1
Profit (loss) before taxation	<b>29.1</b>	33.1	72.0	(55.7)	37.8
Taxation	<b>(6.3)</b>	(9.1)	(14.4)	(12.8)	(13.2)
Profit (loss) before minority interests	<b>22.8</b>	24.0	57.6	(68.5)	24.6
Minority interests	<b>(4.3)</b>	(3.5)	(5.7)	(0.4)	(6.5)
Net profit (loss) for the year	<b>18.5</b>	20.5	51.9	(68.9)	18.1

<b>At 31 December</b>	<b>2003</b> <b>HK'M</b>	2002 HK'M	2001 HK'M	2000 HK'M	1999 HK'M
		(As restated)	(As restated)		
<b>Assets and liabilities</b>					
Total assets	<b>2,711.5</b>	2,380.5	2,279.5	2,546.6	2,675.6
Total liabilities	<b>(1,395.9)</b>	(1,065.7)	(967.0)	(1,267.5)	(1,318.5)
Minority interests	<b>(57.1)</b>	(56.2)	(65.0)	(75.6)	(78.6)
Shareholders' funds	<b>1,258.5</b>	1,258.6	1,247.5	1,203.5	1,278.5

Notes:

- (a) 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.
- (b) The figures of 2001 and 2002 have been restated to reflect the adoption of the Statement of Standard Accounting Practice 12 (Revised) "Income taxes" as described in note 2 to the financial statements. The figures prior to 2001 have not been restated to reflect this change.

# PROPERTIES HELD FOR INVESTMENT PURPOSES

At 31 December 2003

<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 2003</b>
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.

## Properties held for Investment Purposes (cont'd)

At 31 December 2003

Address	Gross floor area	Lease term	Effective percentage holding	Particulars of occupancy as at 31 December 2003
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.
No. 133 Leighton Road, Hong Kong (Inland Lot No. 8774)	110,678 sq.ft. (10,282 sq.m.)	Leased for a term from 2 September 1991 to 30 June 2047	100%	Plan to let to outside parties as serviced apartments
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 Peoples' 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.

# CORPORATE INFORMATION

## DIRECTORS

CHENG Wai Chee, Christopher *JP Chairman*

CHENG Wai Sun, Edward *Chief Executive*

CHENG Man Piu, Francis

NG Tak Wai, Frederick

AU Hing Lun, Dennis

CHENG Wai Keung

KWOK Ping Luen, Raymond

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

HONG Pak Cheung, William

Simon MURRAY *CBE*

FANG Hung, Kenneth *JP*

## AUDIT COMMITTEE

Simon MURRAY, *CBE Chairman*

FANG Hung, Kenneth *JP*

WONG Yick Kam, Michael

HONG Pak Cheung, William  
*(alternate to 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

Canon's Court  
22 Victoria Street  
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

369

