1 Principal accounting policies

The principal accounting policies adopted in the preparation of these accounts are set out below:

(a) Basis of preparation

The accounts have been prepared under the historical cost convention as modified by the revaluation of certain leasehold land and buildings, in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants ("HKSA").

(b) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31 December. The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The gain or loss on disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any goodwill or capital reserve which was not previously charged or recognised in the consolidated profit and loss account.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision, if necessary, for any permanent diminution in value other than temporary in nature. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(c) Associated companies

An associated company is a company, not being a subsidiary, in which an equity interest is held for the long-term and significant influence is exercised in its management.

The consolidated profit and loss account includes the Group's share of the results of associated companies for the year, and the consolidated balance sheet includes the Group's share of the net assets of the associated companies.

1 Principal accounting policies (Cont'd)

(d) Goodwill

Goodwill represents the excess of purchase consideration over the fair values ascribed to the net assets of subsidiaries and associated companies acquired and is taken to reserves in the year of acquisition.

(e) Property, plant and equipment

Freehold land is stated at cost.

Leasehold land and buildings are stated at cost or valuation less subsequent accumulated depreciation. Effective from 1994, no further revaluation of the Group's leasehold land and buildings in Hong Kong have been carried out. The Group places reliance on paragraph 72 of Statement of Standard Accounting Practice No.2.117 issued by the HKSA which provides exemption from the need to make regular revaluation for such assets.

Other tangible fixed assets are stated at cost less accumulated depreciation.

Freehold land is not amortised. Leasehold land is depreciated over the period of the lease while other tangible fixed assets are depreciated at rates sufficient to write off their cost over their estimated useful lives on a straight-line basis. The principal annual rates are as follows:

Buildings and leasehold improvements	$1\frac{2}{3}\%$ - 20%
Furniture, fixtures, computer and other equipment	10% - $33\frac{1}{3}\%$
Plant and machinery	10%
Motor vehicles and company boats	15% - 20%

Major costs incurred in restoring fixed assets to their normal working condition are charged to the profit and loss account. Improvements are capitalised and depreciated over their expected useful lives to the Group.

The carrying amounts of fixed assets are reviewed regularly to assess whether their recoverable amounts have declined below carrying amounts. Expected future cash flows have not been discounted in determining the recoverable amount.

The gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account. Any revaluation reserve balance remaining attributable to the relevant asset is transferred to retained earnings and is shown as a movement in reserves.

1 Principal accounting policies (Cont'd)

(f) Assets under leases

(i) Finance leases

Leases that substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as finance leases. Finance leases are capitalised at the inception of the leases at the lower of the fair value of the leased assets or the present value of the minimum lease payments. Each lease payment is allocated between the capital and finance charges so as to achieve a constant rate on the capital balances outstanding. The corresponding rental obligations, net of finance charges, are included in long-term liabilities. The finance charges are charged to the profit and loss account over the lease periods.

Assets held under finance leases are depreciated over the shorter of their estimated useful lives or the lease periods.

(ii) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the profit and loss account on a straight-line basis over the lease periods.

(g) Investments

Investments are stated at cost less any provision for diminution in value.

The carrying amounts of individual investments are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amount of such investments will be reduced to its fair value. The amount of the reduction is recognised as an expense in the profit and loss account.

(h) Inventories

Inventories comprise merchandise, raw materials and finished goods and are stated at the lower of cost and net realisable value. Cost, calculated on the first-in first-out basis, comprises purchase prices of inventories including direct expenses. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

1 Principal accounting policies (Cont'd)

(i) Accounts receivable

Provision is made against accounts receivable to the extent which they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision.

(j) Export quota entitlements

Purchased permanent export quota entitlements are charged to the profit and loss account immediately upon acquisition.

Export quota entitlements allocated by the authorities in Hong Kong are not capitalised and are not included as assets in the balance sheet.

Temporary export quota entitlements acquired are charged to the profit and loss account in the year in which such quota entitlements are utilised.

(k) Deferred taxation

Deferred taxation is accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset is expected to be payable or recoverable in the foreseeable future.

(l) Translation of foreign currencies

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

The accounts of subsidiaries and associated companies expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. Exchange differences are dealt with as a movement in reserves.

1 Principal accounting policies (Cont'd)

(m) Revenue recognition

Revenue from the sale of goods at invoiced value is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has been passed.

Operating lease rental income is recognised on a straight-line basis.

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

Dividend income is recognised when the right to receive payment is established.

Commission and handling income are recognised when the services are rendered.

(n) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset.

All other borrowing costs are charged to the profit and loss account in the year in which they are incurred.

(o) Comparatives

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year. In particular, comparatives have been extended in the consolidated profit and loss account to disclose the merchandising and administrative expenses which were disclosed in aggregate in previous year. The directors are in the opinion that the nature of the expenses will be reflected more properly following the extension of comparatives.