

Notes to Condensed Accounts

1 Basis of preparation and accounting policies

The unaudited interim financial report has been reviewed by the Company's audit committee, and reviewed by the Company's auditors, PricewaterhouseCoopers, in accordance with Statement of Auditing Standard 700 "Engagements to review interim financial reports" issued by the Hong Kong Society of Accountants.

These unaudited consolidated condensed interim accounts are prepared in accordance with Hong Kong Statement of Standard Accounting Practice ("SSAP") No.25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants.

These condensed interim accounts should be read in conjunction with the 2001 annual financial statements.

The accounting policies and methods of computation used in the preparation of these condensed interim accounts are consistent with those used in the annual accounts for the year ended 31 December 2001 except that the Group has changed certain of its accounting policies following its adoption of the following Statements of Standard Accounting Practice (SSAPs) issued by the Hong Kong Society of Accountants which are effective for accounting periods commencing on or after 1 January 2002:

SSAP 1 (revised)	:	Presentation of financial statements
SSAP 15 (revised)	:	Cash flow statements
SSAP 25 (revised)	:	Interim financial reporting
SSAP 34	:	Employee benefits

The changes to the Group's accounting policies and the effect of adopting these new policies are set out below:

(a) SSAP 15 (revised) : Cash flow statements

The presentation and classification of items in the cash flow statement have been changed due to the adoption of SSAP 15 (revised). As a result, cash flow during the period has been reclassified by operating, investing and financing activities. For the six months ended 30 June 2001, net cash outflow from taxation paid of HK\$13,338,000 have been reclassified as operating cash flow. Dividend and interest received of HK\$70,426,000 have been reclassified as investing cash flow. Dividend and interest paid of HK\$526,624,000 has been reclassified as financing cash flow.

1 Basis of preparation and accounting policies (Continued)

(b) SSAP 34 : Employee benefits

This new SSAP prescribes the accounting and disclosure for employee benefits. There is no material impact on the financial results and financial position of the Group by the adoption of this new SSAP and accordingly comparative figures have not been restated.

2 Segment information

The principal activity of the Group is the export trading of consumer products.

(a) Geographical segments

An analysis of the Group's segment turnover and contribution to operating profit for the period by geographical segments is as follows:

	Turnover		Operating profit	
	Six months ended 30 June 2002 HK\$'000	2001 HK\$'000	Six months ended 30 June 2002 HK\$'000	2001 HK\$'000
Principal markets:				
North America	10,592,406	10,053,402	258,717	267,346
Europe	2,850,380	2,817,676	67,270	59,598
Southern Hemisphere	444,203	515,864	8,268	6,721
East Asia	440,731	173,087	(1,109)	3,119
	14,327,720	13,560,029	333,146	336,784
Discontinued operations				
— StudioDirect	—	39,656	—	(55,501)
Provision for investments	—	—	—	(10,759)
	14,327,720	13,599,685	333,146	270,524

2 Segment information (Continued)

(b) Business segments

An analysis of the Group's segment turnover and contribution to operating profit for the period by business segments is as follows:

	Turnover		Operating profit	
	Six months ended 30 June 2002 HK\$'000	2001 HK\$'000	Six months ended 30 June 2002 HK\$'000	2001 HK\$'000
Softgoods	10,443,520	10,493,853	278,681	322,493
Hardgoods	3,884,200	3,066,176	54,465	14,291
	14,327,720	13,560,029	333,146	336,784
Discontinued operations				
— StudioDirect	—	39,656	—	(55,501)
Provision for investments	—	—	—	(10,759)
	14,327,720	13,599,685	333,146	270,524

3 Operating profit

Operating profit is stated after charging the following:

	Six months ended 30 June	
	2002 HK\$'000	2001 HK\$'000
Amortisation of goodwill	2,089	1,123
Amortisation of development costs	2,564	1,464
Depreciation of fixed assets	52,568	54,618
Loss on disposal of fixed assets	448	2,202

4 Taxation

	Six months ended 30 June	
	2002 HK\$'000	2001 HK\$'000
The taxation charges comprise:		
Hong Kong profits tax	20,496	18,870
Overseas taxation	3,963	7,801
	24,459	26,671
Share of taxation attributable to associated companies		
- Hong Kong	665	561
- Overseas	—	186
	665	747
	25,124	27,418

Hong Kong profits tax has been provided at the rate of 16% (2001: 16%) on the estimated assessable profit for the period. Taxation on overseas profits has been calculated on the estimated assessable profit for the period at the rates of taxation prevailing in the countries in which the Group operates.

At the date of this report, certain subsidiaries of the Group have disputes with the Hong Kong Inland Revenue involving tax of approximately HK\$289 million on the non-taxable claim of certain non-Hong Kong sourced income and the deduction claim of marketing expenses for the years of assessment from 1992/1993 to 2000/2001. Under professional advice, the subsidiaries are pursuing objection against the disputes and the directors believe that no material tax liabilities will finally crystallise. Accordingly, the directors consider that sufficient tax provision has been made in this regard.

5 Interim dividend

	Six months ended 30 June	
	2002 HK\$'000	2001 HK\$'000
HK\$0.085 per share (2001: HK\$0.08 per share)	245,651	229,775

6 Earnings per share

The calculation of basic earnings per share and earnings per share from continuing operations are based on the Group's profit attributable to shareholders of HK\$340,153,000 (2001: HK\$338,138,000) and profit from continuing operations of HK\$340,153,000 (2001: HK\$372,882,000) respectively and on the weighted average number of 2,883,024,000 (2001: 2,867,002,000) shares in issue during the period.

In the event that share options outstanding at 30 June 2002 and 2001 respectively were exercised in full, the diluted earnings per share would not be significantly different from the earnings per share as disclosed in the consolidated profit and loss account.

7 Capital expenditure

	Intangible assets			Fixed assets HK\$'000
	Goodwill HK\$'000	Development costs HK\$'000	Total HK\$'000	
Six months ended 30 June 2002				
Opening net book amount	57,797	21,788	79,585	1,224,354
Development costs recognised as an asset	—	7,191	7,191	—
Additions	1,926	—	1,926	26,913
Disposals	—	—	—	(2,501)
Amortisation/depreciation (Note 3)	(2,089)	(2,564)	(4,653)	(52,568)
Other movements	—	—	—	3,608
Closing net book amount	57,634	26,415	84,049	1,199,806

8 Trade and bills receivable

The ageing analysis of trade and bills receivable is as follows:

	Current to 90 days HK\$'000	91 to 180 days HK\$'000	181 to 360 days HK\$'000	Over 360 days HK\$'000	Total HK\$'000
Balance at 30					
June 2002	2,211,743	40,759	55,034	1,546	2,309,082
Balance at 31					
December 2001	2,261,347	127,956	15,166	2,579	2,407,048

Majority of the Group's business are on sight letter of credit, usance letter of credit up to a tenor of 120 days, documents against payment or customers' letter of credit to suppliers. The remaining balances of the business are on open account terms payable against deliveries of shipments which are mostly covered by customers' standby letters of credit or bank guarantees.

9 Trade and bills payable

The ageing analysis of trade and bills payable is as follows:

	Current to 90 days HK\$'000	91 to 180 days HK\$'000	181 to 360 days HK\$'000	Over 360 days HK\$'000	Total HK\$'000
Balance at 30					
June 2002	2,774,491	65,065	27,761	14,731	2,882,048
Balance at 31					
December 2001	2,605,208	95,320	28,648	16,595	2,745,771

10 Long-term liabilities

	30 June 2002 HK\$'000	31 December 2001 HK\$'000
Long-term bank loans, secured	48,941	48,115
Other loans	29,905	29,905
	78,846	78,020
Current portion of long-term liabilities	(50,779)	(50,300)
	28,067	27,720

At 30 June 2002, the Group's long-term bank loans and other loans were repayable as follows:

	Long-term bank loans		Other loans	
	30 June 2002 HK\$'000	31 December 2001 HK\$'000	30 June 2002 HK\$'000	31 December 2001 HK\$'000
Within one year	41,809	41,330	8,970	8,970
In the second year	7,132	6,785	8,970	8,970
In the third to fifth year	—	—	11,965	11,965
	48,941	48,115	29,905	29,905

11 Share capital

	No. of shares (in thousand)	HK\$'000
Authorised		
At 1 January 2002 and 30 June 2002		
Ordinary shares of HK\$0.025 each	3,200,000	80,000
Issued and fully paid		
At 1 January 2002, ordinary shares of HK\$0.025 each	2,878,978	71,974
Exercise of share options (Note (a))	10,152	254
At 30 June 2002, ordinary shares of HK\$0.025 each	2,889,130	72,228

Note (a) Details of share options granted by the Company pursuant to the share option scheme of the Company and the share options outstanding at 30 June 2002 are as follows:

Date of grant	Subscription price per share	Exercisable period	At 1 January 2002	Share options exercised during the period	Share options lapsed during the period	At 30 June 2002
16 July 1999	HK\$4.1525	16 July 2000 - 15 July 2002	11,034,000	(10,152,000)	—	882,000
7 July 2000	HK\$15.26	7 July 2001 - 6 July 2003	9,256,000	—	(96,000)	9,160,000
18 July 2001	HK\$10.50	18 July 2002 - 17 July 2004	10,668,000	—	(42,000)	10,626,000
28 August 2001	HK\$7.98	28 August 2003 - 27 August 2005	11,844,000	—	(46,000)	11,798,000

12 Reserves

	Share premium HK\$'000	Capital reserve HK\$'000	Exchange reserve HK\$'000	Retained earnings HK\$'000	Total HK\$'000
At 1 January 2001	2,762,442	4,959	(53,390)	556,439	3,270,450
2000 final dividend paid	—	—	—	(516,303)	(516,303)
Share premium on issue of new shares	71,345	—	—	—	71,345
Exchange adjustment on translation of the accounts of overseas subsidiaries and associated companies	—	—	(12,515)	—	(12,515)
Profit for the year	—	—	—	782,311	782,311
Transfer to capital reserve	—	671	—	(671)	—
Goodwill realised upon disposal of a subsidiary	—	—	—	5,637	5,637
2001 interim dividend paid	—	—	—	(229,848)	(229,848)
Reserves	2,833,787	5,630	(65,905)	64,678	2,838,190
Proposed dividend	—	—	—	532,887	532,887
At 31 December 2001	2,833,787	5,630	(65,905)	597,565	3,371,077
At 1 January 2002	2,833,787	5,630	(65,905)	597,565	3,371,077
Share premium on issue of new shares	41,903	—	—	—	41,903
Exchange adjustment on translation of the accounts of overseas subsidiaries and associated companies	—	—	8,887	—	8,887
Profit for the period	—	—	—	340,153	340,153
2001 final dividend paid	—	—	—	(534,065)	(534,065)
At 30 June 2002	2,875,690	5,630	(57,018)	403,653	3,227,955

13 Contingent liabilities

	30 June 2002 HK\$'000	31 December 2001 HK\$'000
Bills of exchange discounted with recourse	917,627	645,008
Guarantees in respect of banking facilities granted to associated companies	99,450	99,418
Other guarantees	9,600	9,600
	1,026,677	754,026

14 Commitments

(a) Operating lease commitments

At 30 June 2002, the Group had total future aggregate minimum lease payments under non-cancellable operating leases as follows:

	30 June 2002 Land and buildings HK\$'000	30 June 2002 Others HK\$'000	31 December 2001 Land and buildings HK\$'000	31 December 2001 Others HK\$'000
Within one year	44,879	1,135	49,671	1,458
In the second to fifth year inclusive	69,166	2,049	47,708	1,811
After the fifth year	5,682	—	10,179	—
	119,727	3,184	107,558	3,269

(b) Capital commitments

	30 June 2002 HK\$'000	31 December 2001 HK\$'000
Contracted but not provided for:		
Property, plant and equipment	67,188	2,226
Capital contribution to an associated company	—	1,677
	67,188	3,903

15 Approval of interim report

The interim report as set out on pages 2 to 30 was approved by the Board of Directors on 15 August 2002.