

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 ("HKSA").

These unaudited consolidated condensed interim accounts have been prepared in accordance with Hong Kong Statement of Standard Accounting Practice ("SSAP") 25 "Interim Financial Reporting" issued by the HKSA.

These condensed interim accounts should be read in conjunction with the 2002 annual accounts.

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 2002 except that the Group has adopted the revised SSAP 12 "Income Taxes" issued by the HKSA which is effective for accounting period commencing on or after 1 January 2003.

The change to the Group's accounting policies and the effect of adopting this revised standard is set out below:

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries and associated companies except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

In prior year, deferred taxation was 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 was expected to be payable or recoverable in the foreseeable future. The adoption of the revised SSAP 12 represents a change in accounting policy, which has been applied retrospectively. Since the adoption of this revised SSAP had no material impact on the Group's accounts in prior periods/years, 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 2003	2002	Six months ended 30 June 2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Principal markets:				
North America	13,513,544	10,592,406	335,480	260,249
Europe	3,469,691	2,850,380	88,813	67,684
Southern Hemisphere	556,001	444,203	10,529	8,347
East Asia	566,766	440,731	1,472	(1,045)
	18,106,002	14,327,720	436,294	335,235
Amortisation of goodwill	—	—	(10,608)	(2,089)
Provision for investments	—	—	(13,402)	—
	18,106,002	14,327,720	412,284	333,146

(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 2003	2002	Six months ended 30 June 2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Softgoods	12,520,118	10,443,520	352,066	280,203
Hardgoods	5,585,884	3,884,200	84,228	55,032
	18,106,002	14,327,720	436,294	335,235
Amortisation of goodwill	—	—	(10,608)	(2,089)
Provision for investments	—	—	(13,402)	—
	18,106,002	14,327,720	412,284	333,146

3 Operating profit

Operating profit is stated after charging the following:

	Six months ended 30 June	
	2003 HK\$'000	2002 HK\$'000
Amortisation of goodwill	10,608	2,089
Amortisation of development costs	2,115	2,564
Depreciation of fixed assets	59,090	52,568
Loss on disposal of fixed assets	1,184	448

4 Taxation

Hong Kong profits tax has been provided for at the rate of 17.5% (2002: 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.

The amount of taxation charged/(credited) to the consolidated profit and loss account represents:

	Six months ended 30 June	
	2003 HK\$'000	2002 HK\$'000
Hong Kong profits tax	24,962	20,496
Overseas taxation	10,465	3,963
Deferred taxation relating to the origination and reversal of temporary differences	(3,962)	—
Deferred taxation resulting from an increase in tax rate	675	—
	32,140	24,459
Share of taxation attributable to associated companies		
· Hong Kong	730	665
· Overseas	130	—
	860	665
Total taxation charge	33,000	25,124

4 Taxation (Continued)

At the date of this report, certain subsidiaries of the Group have disputes with the Hong Kong Inland Revenue involving additional assessments of tax of approximately HK\$372 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 2001/2002. Under professional advice, the subsidiaries are pursuing objection against the additional assessments 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	
	2003 HK\$'000	2002 HK\$'000
Proposed, of HK\$0.1 per ordinary share (2002: HK\$0.085 per share)	289,001	245,651

6 Earnings per share

The calculation of basic earnings per share is based on the Group's profit attributable to shareholders of HK\$414,358,000 (2002: HK\$340,153,000) and on the weighted average number of 2,890,012,000 (2002: 2,883,024,000) shares in issue during the period.

In the event that share options outstanding at 30 June 2003 and 2002 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 2003				
Net book amount				
as at 1 January 2003	298,917	27,779	326,696	1,263,838
Development costs recognised				
as an asset	—	710	710	—
Additions	42,315	—	42,315	288,312
Disposals	—	—	—	(2,718)
Amortisation/depreciation				
charge (Note 3)	(10,608)	(2,115)	(12,723)	(59,090)
Exchange adjustment	—	—	—	10
Net book amount				
as at 30 June 2003	330,624	26,374	356,998	1,490,352

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 2003	2,734,222	64,706	18,420	2,723	2,820,071
Balance at					
31 December 2002	3,039,277	87,477	19,835	6,247	3,152,836

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 2003	3,087,405	73,351	23,670	10,132	3,194,558
Balance at					
31 December 2002	3,218,305	108,140	31,718	11,538	3,369,701

10 Long-term liabilities

	30 June 2003 HK\$'000	31 December 2002 HK\$'000
Long-term bank loans, secured	34,960	45,274
Other loans	36,622	36,622
	71,582	81,896
Current portion of long-term liabilities	(41,182)	(51,496)
	30,400	30,400

At 30 June 2003, the Group's long-term bank loans and other loans are repayable as follows:

	Long-term bank loans		Other loans	
	30 June 2003 HK\$'000	31 December 2002 HK\$'000	30 June 2003 HK\$'000	31 December 2002 HK\$'000
Within one year	34,960	45,274	6,222	6,222
In the second year	—	—	6,175	6,175
In the third to fifth year	—	—	24,225	24,225
	34,960	45,274	36,622	36,622

11 Share capital

	No. of shares (in thousand)	HK\$'000
Authorised		
At 1 January 2003 and 30 June 2003, ordinary shares of HK\$0.025 each	3,200,000	80,000
Issued and fully paid		
At 1 January 2003 and 30 June 2003, ordinary shares of HK\$0.025 each	2,890,012	72,250

12 Reserves

	Share premium HK\$'000	Capital reserve HK\$'000	Exchange reserve HK\$'000	Retained earnings HK\$'000	Total HK\$'000
At 1 January 2002	2,833,787	5,630	(65,905)	597,565	3,371,077
2001 final dividend paid	—	—	—	(534,065)	(534,065)
Share premium on issue of new shares	45,543	—	—	—	45,543
Exchange adjustment on translation of the accounts of overseas subsidiaries and associated companies	—	—	8,398	—	8,398
Transfer to capital reserve	—	181	—	(181)	—
Profit for the year	—	—	—	1,080,468	1,080,468
2002 interim dividend paid	—	—	—	(245,651)	(245,651)
At 31 December 2002	2,879,330	5,811	(57,507)	898,136	3,725,770
At 1 January 2003	2,879,330	5,811	(57,507)	898,136	3,725,770
Exchange adjustment on translation of the accounts of overseas subsidiaries and associated companies	—	—	861	—	861
Profit for the period	—	—	—	414,358	414,358
2002 final dividend paid	—	—	—	(635,803)	(635,803)
At 30 June 2003	2,879,330	5,811	(56,646)	676,691	3,505,186

13 Deferred taxation

The movement in deferred tax assets and liabilities during the period/year is as follows:

Deferred tax liabilities

	Accelerated tax depreciation		Deferred development costs		Others		Total	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
At 1 January	5,238	5,609	—	—	(227)	(1,641)	5,011	3,968
Charged/(credited) to profit and loss account	15,099	(371)	2,200	—	3,155	1,722	20,454	1,351
Acquisition of subsidiaries	—	—	—	—	—	(308)	—	(308)
Exchange differences	(1)	—	—	—	38	—	37	—
At 30 June 2003/31 December 2002	20,336	5,238	2,200	—	2,966	(227)	25,502	5,011

Deferred tax assets

	Provisions		Decelerated tax allowance		Tax losses		Others		Total	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
At 1 January	—	—	—	—	—	—	—	—	—	—
Credited to profit and loss account	(4,117)	—	(1,200)	—	(16,600)	—	(1,824)	—	(23,741)	—
Exchange differences	(28)	—	(10)	—	—	—	(1)	—	(39)	—
At 30 June 2003/ 31 December 2002	(4,145)	—	(1,210)	—	(16,600)	—	(1,825)	—	(23,780)	—

	30 June 2003 HK\$'000	31 December 2002 HK\$'000
The amounts shown in the balance sheet include the following:		
Deferred tax assets to be recovered after more than 12 months	(12,776)	—
Deferred tax liabilities to be settled after more than 12 months	19,863	4,827

14 Contingent liabilities

	30 June 2003 HK\$'000	31 December 2002 HK\$'000
Bills of exchange discounted with recourse	921,781	1,069,929
Guarantees in respect of banking facilities granted to associated companies	83,827	99,437
Other guarantees	9,600	9,600
	1,015,208	1,178,966

15 Commitments**(a) Operating lease commitments**

At 30 June 2003, the Group had total future aggregate minimum lease rental payments under non-cancellable operating leases as follows:

	30 June 2003 HK\$'000	31 December 2002 HK\$'000
Within one year	45,057	58,349
In the second to fifth year inclusive	99,393	114,289
After the fifth year	113,471	123,023
	257,921	295,661

(b) Capital commitments for fixed assets

	30 June 2003 HK\$'000	31 December 2002 HK\$'000
Contracted but not provided for	19,691	203,688

16 Comparatives

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current period.

17 Approval of interim report

The interim report as set out on pages 2 to 32 was approved by the Board of Directors on 13 August 2003.