

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 2003 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 2003.

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 segment is as follows:

	Turnover		Operating profit	
	Six months ended 30 June 2004	2003	Six months ended 30 June 2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Principal markets:				
North America	14,374,265	13,513,544	399,960	335,480
Europe	3,829,717	3,469,691	107,519	88,813
Southern Hemisphere	893,485	556,001	23,206	10,529
East Asia	580,074	566,766	1,799	1,472
	19,677,541	18,106,002	532,484	436,294
Amortisation of goodwill	-	-	(20,892)	(10,608)
Provision for investments	-	-	-	(13,402)
	19,677,541	18,106,002	511,592	412,284

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 segment is as follows:

	Turnover		Operating profit	
	Six months ended 30 June		Six months ended 30 June	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Softgoods	13,560,351	12,520,118	428,713	352,066
Hardgoods	6,117,190	5,585,884	103,771	84,228
	19,677,541	18,106,002	532,484	436,294
Amortisation of goodwill	-	-	(20,892)	(10,608)
Provision for investments	-	-	-	(13,402)
	19,677,541	18,106,002	511,592	412,284

3 Operating profit

Operating profit is stated after charging the following:

	Six months ended 30 June	
	2004	2003
	HK\$'000	HK\$'000
Amortisation of goodwill	20,892	10,608
Amortisation of development costs	3,233	2,115
Depreciation of fixed assets	63,879	59,090
Loss on disposal of fixed assets	1,980	1,184

4 Taxation

Hong Kong profits tax has been provided for at the rate of 17.5% (2003: 17.5%) 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.

4 Taxation (continued)

The amount of taxation charged to the consolidated profit and loss account represents:

	Six months ended 30 June	
	2004 HK\$'000	2003 HK\$'000
Hong Kong profits tax	35,556	24,962
Overseas taxation	11,047	10,465
Deferred taxation relating to the origination and reversal of temporary differences	(5,040)	(3,962)
Deferred taxation resulting from an increase in tax rate	-	675
	41,563	32,140
Share of taxation attributable to associated companies		
– Hong Kong	1,129	730
– Overseas	68	130
	1,197	860
Total taxation charge	42,760	33,000

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\$521 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 2002/2003.

The Commissioner of the Hong Kong Inland Revenue issued a determination dated 14 June 2004 with disagreement to the Group's objection against the additional tax assessments of HK\$333 million. Under further legal advice from the Group's counsel, the directors believe that the Group has meritorious defence to the additional tax assessments and the Group has proceeded to appeal to Board of Review against the Commissioner's determination and has served a notice of appeal to the Board of Review on 13 July 2004.

The Group has also filed objections to the Hong Kong Inland Revenue against the remaining additional tax assessments of HK\$188 million issued to the subsidiaries.

The directors consider that no material tax liabilities will finally crystallise and sufficient tax provision has been made in the accounts in this regard.

5 Interim dividend

	Six months ended 30 June	
	2004 HK\$'000	2003 HK\$'000
Proposed, of HK\$0.12 per ordinary share (2003: HK\$0.1 per share)	349,817	289,001

6 Earnings per share

The calculation of basic earnings per share is based on the Group's profit attributable to shareholders of HK\$ 501,933,000 (2003: HK\$414,358,000) and on the weighted average number of 2,908,084,000 (2003: 2,890,012,000) shares in issue during the period.

In the event that share options outstanding at 30 June 2004 and 2003 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 2004				
Net book amount as at 1 January 2004	588,296	24,553	612,849	1,511,897
Development costs recognised as an asset	–	3,086	3,086	–
Additions	–	–	–	126,954
Disposals	–	–	–	(3,305)
Amortisation/depreciation charge (note 3)	(20,892)	(3,233)	(24,125)	(63,879)
Exchange adjustment	–	–	–	(147)
Net book amount as at 30 June 2004	567,404	24,406	591,810	1,571,520

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 2004	3,554,254	171,232	38,605	4,814	3,768,905
Balance at 31 December 2003	3,399,385	80,286	22,685	956	3,503,312

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, bank guarantees or credit insurance.

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 2004	3,671,949	75,992	59,883	17,018	3,824,842
Balance at					
31 December 2003	3,503,955	111,207	20,369	13,828	3,649,359

10 Long-term liabilities

	30 June 2004 HK\$'000	31 December 2003 HK\$'000
Long-term bank loans, secured	38,186	39,008
Other borrowings, unsecured	30,400	30,400
	68,586	69,408
Current portion of long-term liabilities	(43,846)	(44,668)
	24,740	24,740

At 30 June 2004, the Group's long-term bank loans and other borrowings are repayable as follows:

	Long-term bank loans		Other borrowings	
	30 June 2004 HK\$'000	31 December 2003 HK\$'000	30 June 2004 HK\$'000	31 December 2003 HK\$'000
Within one year	38,186	39,008	5,660	5,660
In the second year	–	–	5,349	5,349
In the third to fifth year	–	–	19,391	19,391
	38,186	39,008	30,400	30,400

11 Share capital and options

	No. of shares (in thousand)	HK\$'000
Authorised		
At 1 January 2004 and 30 June 2004, ordinary shares of HK\$0.025 each	3,200,000	80,000
Issued and fully paid		
At 1 January 2004, ordinary shares of HK\$0.025 each	2,902,038	72,551
Exercise of share options (note (a))	10,132	253
Issue of shares for acquisition of International Sources (note (b))	2,247	56
At 30 June 2004, ordinary shares of HK\$0.025 each	2,914,417	72,860

(a) Details of share options granted by the Company pursuant to the Old Scheme and New Scheme and the share options outstanding at 30 June 2004 are as follows:

Grant Date	Exercise Price HK\$	Exercisable Period	Number of Share Options				
			As at 1/1/2004	Granted	Exercised	Lapsed	As at 30/6/2004
18/7/2001	10.50	18/7/2002 – 17/7/2004	6,870,000	–	(5,623,500)	–	1,246,500
28/8/2001	7.98	28/8/2003 – 27/8/2005	6,601,000	–	(2,563,000)	(40,000)	3,998,000
23/5/2003	9.20	23/5/2004 – 22/5/2007	16,072,000	–	(1,946,000)	(270,000)	13,856,000
23/5/2003	9.20	23/5/2005 – 22/5/2008	17,510,000	–	–	(730,000)	16,780,000
23/5/2003	9.20	23/5/2006 – 22/5/2009	17,510,000	–	–	(780,000)	16,730,000

(b) On 2 December 2003, the Company entered into an agreement to acquire certain assets and business ("International Sources") of Firstworld Garments Limited, a Hong Kong corporation, and International Porcelain, Inc., an US corporation, at a consideration of HK\$210,600,000. The purchase consideration is satisfied by cash of HK\$180,960,000 and an issue of 2,246,660 Shares at an issue price of HK\$13.13 each amounting to HK\$29,640,000.

12 Reserves

	Share premium HK\$'000	Capital reserve HK\$'000	Exchange reserve HK\$'000	Retained earnings HK\$'000	Total HK\$'000
At 1 January 2003	2,879,330	5,811	(57,507)	898,136	3,725,770
2002 final dividend paid	-	-	-	(635,803)	(635,803)
Share premium on issue of new shares	114,535	-	-	-	114,535
Exchange adjustment on translation of the accounts of overseas subsidiaries and associated companies	-	-	10,939	-	10,939
Transfer to capital reserve	-	51	-	(51)	-
Profit for the year	-	-	-	1,223,118	1,223,118
Exchange reserve realised upon disposal of subsidiaries	-	-	135	-	135
2003 interim dividend paid	-	-	-	(289,343)	(289,343)
Reserves	2,993,865	5,862	(46,433)	469,080	3,422,374
Proposed dividend	-	-	-	726,977	726,977
At 31 December 2003	2,993,865	5,862	(46,433)	1,196,057	4,149,351
At 1 January 2004	2,993,865	5,862	(46,433)	1,196,057	4,149,351
2003 final dividend paid	-	-	-	(727,788)	(727,788)
Share premium on issue of new shares	126,591	-	-	-	126,591
Exchange adjustment on translation of the accounts of overseas subsidiaries and associated companies	-	-	1,818	-	1,818
Profit for the period	-	-	-	501,933	501,933
Reserves	3,120,456	5,862	(44,615)	620,385	3,702,088
Proposed dividend	-	-	-	349,817	349,817
At 30 June 2004	3,120,456	5,862	(44,615)	970,202	4,051,905

13 Deferred taxation

Deferred taxation is calculated in full on temporary differences under the liability method using a principal taxation rate of 17.5% (2003: 17.5%).

The movement on the deferred tax liabilities/(assets) account is as follows:

	2004 HK\$'000	2003 HK\$'000
At 1 January	(869)	5,011
Credited to profit and loss account	(5,040)	(6,026)
Acquisition of subsidiaries	-	50
Exchange differences	(26)	96
At 30 June 2004/31 December 2003	(5,935)	(869)

Deferred tax assets are recognised for tax losses as carried forward to the extent that realisation of the related tax benefit through future taxable profits is probable. The Company has unrecognised tax losses of HK\$344,177,000 (2003: HK\$307,988,000) to carry forward against future taxable income; of which the amounts of tax losses HK\$215,068,000 will expire during 2004-2024. Deferred tax assets for these tax losses are not recognised as it is not probable that related tax assets will be utilised in the foreseeable future.

The movements in deferred tax assets and liabilities during the period/year are as follows:

Deferred tax assets

	Provisions		Decelerated tax depreciation allowance		Tax losses		Others		Total	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January	(6,608)	-	(1,029)	-	(9,920)	-	(1,593)	-	(19,150)	-
(Credited)/charged to										
profit and loss account	(1,211)	(6,765)	(424)	(1,017)	562	(9,866)	10	(1,593)	(1,063)	(19,241)
Exchange differences	(45)	157	(30)	(12)	17	(54)	-	-	(58)	91
At 30 June 2004/ 31 December 2003	(7,864)	(6,608)	(1,483)	(1,029)	(9,341)	(9,920)	(1,583)	(1,593)	(20,271)	(19,150)

13 Deferred taxation (continued)**Deferred tax liabilities**

	Accelerated tax depreciation allowance		Others		Total	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
At 1 January	16,973	5,238	1,308	(227)	18,281	5,011
(Credited)/charged to profit and loss account	(3,977)	11,735	–	1,480	(3,977)	13,215
Acquisitions of subsidiaries	–	–	–	50	–	50
Exchange differences	31	–	1	5	32	5
At 30 June 2004/ 31 December 2003	13,027	16,973	1,309	1,308	14,336	18,281

The amounts shown in the balance sheet include the following:

	30 June 2004 HK\$'000	31 December 2003 HK\$'000
Deferred tax assets to be recovered after more than 12 months	(14,489)	(13,359)
Deferred tax liabilities to be settled after more than 12 months	9,383	13,329

14 Contingent liabilities

	30 June 2004 HK\$'000	31 December 2003 HK\$'000
Bills of exchange discounted to banks with recourse	915,957	1,387,181
Guarantees in respect of banking facilities granted to associated companies	99,459	98,992
Other guarantees	9,600	9,600
	1,025,016	1,495,773

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

At 30 June 2004, the Group had total future aggregate minimum lease payments under non-cancellable operating leases as follows:

	30 June 2004 HK\$'000	31 December 2003 HK\$'000
Not later than one year	64,546	69,867
Later than one year but not later than five years	96,202	100,357
Later than five years	107,386	121,846
	268,134	292,070

(b) Capital commitments for property, plant and equipment

	30 June 2004 HK\$'000	31 December 2003 HK\$'000
Contracted but not provided for	2,682	20,818

16 Approval of interim report

The interim report as set out on pages 2 to 36 was approved by the Board of Directors on 12 August 2004.