

# Notes to the Accounts

As at 31 December 2004

## 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 in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). They have been prepared under the historical cost convention as modified by the revaluation of certain leasehold land and buildings as disclosed in the accounting policies below.

The HKICPA has issued a number of new or revised Hong Kong Financial Reporting Standards (“HKFRS”) and Hong Kong Accounting Standards (“HKAS”) (collectively referred to as “new HKFRSs”) which are effective for accounting periods beginning on or after 1 January 2005.

#### Early adoption of new HKFRSs

In the year, the Group has adopted the following new HKFRSs in advance of their effective date:

HKAS 36 Impairment of Assets  
HKAS 38 Intangible Assets  
HKFRS 3 Business Combinations

The early adoption of the above new HKFRSs has resulted in a prospective change in the accounting policy for goodwill. Prior to this, goodwill was:

- amortised on a straight-line basis over a period of not exceeding 15 years; and
- assessed for impairment at each balance sheet date.

In accordance with the provisions of HKFRS 3:

- the Group ceased amortisation of goodwill from 1 January 2004;
- accumulated amortisation as at 31 December 2003 has been eliminated with a corresponding decrease in the cost of goodwill;
- for the year ended 31 December 2004 and onwards, goodwill is tested annually for impairment, as well as when there are indications of impairment (*note 1(f)*).

The effect of adopting this new policy is set out in *note 11* below.

The Group has not early adopted other new HKFRSs except for those mentioned above in the accounts for the year ended 31 December 2004.

The Group has already commenced an assessment of the impact of other new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

## 1 Principal accounting policies (continued)

### (b) Group accounting

#### (i) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31 December. Subsidiaries are those entities in which the Company, directly or indirectly, controls more than half of the voting power; has the power to govern the financial and operating policies; to appoint or remove the majority of the members of the board of directors; or to cast majority of votes at the meetings of the board of directors.

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 purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the profit and loss account.

The gain or loss on disposal of a subsidiary is calculated by reference to the net assets at the date of disposal including the attributable amount of goodwill but does not include any attributable goodwill previously eliminated against reserves.

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 for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

#### (ii) 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 and also goodwill (net of accumulated impairment loss) on acquisition.

Equity accounting is discontinued when the carrying amount of the investment in an associated company reaches zero, unless the Group has incurred obligations or guaranteed obligations in respect of the associated company.

## 1 Principal accounting policies (continued)

### (b) Group accounting (continued)

#### (ii) Associated companies (continued)

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred.

#### (iii) 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 balance sheet of subsidiaries and associated companies expressed in foreign currencies are translated at rates of exchange ruling at the balance sheet date whilst the profit and loss is translated at an average rate. Exchange differences are dealt with as a movement in reserves.

### (c) Fixed assets

#### (i) Land and buildings

Freehold land is stated at cost.

Leasehold land and buildings are stated at cost or valuation less accumulated depreciation and accumulated impairment losses. 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 80 of Statement of Standard Accounting Practice ("SSAP") 17 which provides exemption from the need to make regular revaluation for such assets.

#### (ii) Other fixed assets

Other fixed assets, comprising leasehold improvements, furniture, fixtures, computer and other equipment, plant and machinery, motor vehicles and company boats are stated at cost less accumulated depreciation and accumulated impairment losses.

#### (iii) Depreciation

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

Buildings and leasehold improvements	2% – 20%
Furniture, fixtures, computer and other equipment	10% – 33 <sup>1</sup> / <sub>3</sub> %
Plant and machinery	10% – 15%
Motor vehicles and company boats	15% – 20%

## 1 Principal accounting policies (continued)

### (c) Fixed assets (continued)

#### (iii) Depreciation (continued)

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.

#### (iv) Gain or loss on sale

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.

### (d) 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.

### (e) Intangibles

#### (i) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identified assets of the acquired subsidiaries and associated companies at the date of acquisition.

Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associated companies is included in investments in associated companies.

Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing.

#### (ii) Research and development costs

Research costs are expensed as incurred. Costs incurred on system development projects relating to the design and testing of new or improved systems for internal use are recognised as an intangible asset where the technical feasibility and intention of completing the system under development has been demonstrated and the resources are available to do so, costs are identifiable and there is an ability to use the asset that will generate probable future economic benefits. Such development costs are recognised as an asset and amortised on a straight-line basis over their estimated useful lives of 3 – 5 years from the date on which the system commences operations to reflect the pattern in which the related economic benefits are recognised. Development costs that do not meet the above criteria are expensed as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

## 1 Principal accounting policies (continued)

### (f) Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation and are tested for impairment annually or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised immediately for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the assets' carrying amount does not exceed the carrying amount that would have been determined if no impairment loss had been recognised.

### (g) Investments

Investments are stated at cost less any provision for impairment losses.

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 impairment loss is recognised as an expense in the profit and loss account. This impairment loss is written back to profit and loss account when the circumstances and events that led to the write-downs or write-offs cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

### (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 and direct expenses. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

### (i) Accounts receivable

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

## 1 Principal accounting policies (continued)

### (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) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits at banks, net of short-term bank loans and bank overdrafts which are repayable on demand.

### (l) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

### (m) Employee benefits

#### (i) Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity are not recognised until the time of leave.

#### (ii) Discretionary bonus

The expected cost of discretionary bonus payments are recognised as a liability when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

Liabilities for discretionary bonus are expected to be settled within 12 months and are measured at the amounts expected to be paid when they are settled.

#### (iii) Post employment benefit obligations

The Group participates in a number of defined contribution plans and defined benefit plans throughout the world, the assets of which are generally held in separate trustee – administrated funds. The pension plans are generally funded by payments from employees and by the relevant Group companies, taking account of the recommendations of independent qualified actuaries.

## 1 Principal accounting policies (continued)

### (m) Employee benefits (continued)

#### (iii) Post employment benefit obligations (continued)

The Group's contributions to the defined contribution retirement scheme are charged to the consolidated profit and loss account in the year to which the contributions relate.

For defined benefit plans, pension costs are assessed using the projected unit credit method. Under this method, the cost of providing pensions is charged to the consolidated profit and loss account so as to spread the regular cost over the service lives of employees in accordance with the advice of the actuaries who carry out a full valuation of the plans on an annual basis. The pension obligation is measured as the present value of the estimated future cash outflows, discounted by reference to market yields on high quality corporate bonds which have terms to maturity approximating the terms of the related liabilities. Actuarial gains and losses are recognised over the average remaining service lives of employees. Past service costs are recognised as an expense on a straight-line basis over the average period until the benefits become vested.

The Group's contributions to defined benefit plans are charged to the consolidated profit and loss account in the year to which the contributions relate.

The Group's net obligation in respect of long service payments on cessation of employment in certain circumstances under the Hong Kong Employment Ordinance is the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine the present value and reduced by entitlements accrued under the Group's retirement plans that are attributable to contributions made by the Group. The obligation is calculated using the projected unit credit method by a qualified actuary. The discount rate is determined by reference to market yields on high quality corporate bonds which have terms to maturity approximating the terms of the related liability.

Pursuant to the requirements of SSAP 34, the Group has transitional pension and long service payment liabilities on initial adoption of the SSAP of approximately HK\$16,048,000 and HK\$6,000,000 respectively. The Group chooses to recognise the transitional pension and long service payment liabilities on a straight-line basis over five years. For the year ended 31 December 2004, the transitional pension and long service payment liabilities of approximately HK\$3,208,000 and HK\$1,200,000 respectively were charged to the consolidated profit and loss account (note 24(a) (ii) and 24(b)). As at 31 December 2004, transitional pension and long service payment liabilities of approximately HK\$6,424,000 and HK\$3,600,000 respectively remained unrecognised.

#### (iv) Equity compensation benefits

Share options are granted to any employee including any executive or non-executive director of the Company and its subsidiaries at an exercise price which is at least the higher of (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of grant; (ii) the average closing prices of the Shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of a share. No compensation cost is recognised in the consolidated profit and loss account. When the options are exercised, the proceeds received net of any transaction costs are credited to share capital (nominal value) and share premium.

## 1 Principal accounting policies (continued)

### (n) Deferred taxation

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, 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.

### (o) Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to the accounts when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

### (p) Revenue recognition

Revenue from the sale of goods 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 value added services income are recognised when the services are rendered.

### (q) 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.

## 1 Principal accounting policies (continued)

### (r) Segment reporting

In accordance with the Group's internal financial reporting the Group has determined that geographical segments be presented as the primary reporting format and business as the secondary reporting format.

Segment assets consist primarily of intangible assets, fixed assets, inventories, receivables and operating cash, and mainly exclude investments. Segment liabilities comprise operating liabilities and exclude items such as taxation and certain corporate borrowings. Capital expenditure comprises additions to system development costs (note 11) and fixed assets (note 12), including additions resulting from acquisitions through purchases of subsidiaries.

In respect of geographical segment reporting, sales, total assets and capital expenditure are based on the destination country to which goods are shipped.

### (s) Comparatives

Where necessary, certain comparative figures have been reclassified to conform with changes in presentation in the current year. In addition, the principal markets under geographical segments in (note 2) have been re-categorised for a better understanding on the Group's operations in different locations.

## 2 Turnover, revenues and segment information

- (a) The Group is principally engaged in the export trading of consumer products. Turnover comprises sales at invoiced value to customers outside the Group less discounts and returns, and gross rental revenue derived from properties in and outside Hong Kong. Revenues recognised during the year are as follows:

	2004 HK\$'000	2003 HK\$'000
Turnover		
Sales at invoiced value	47,163,107	42,623,074
Rental income	7,494	7,436
	<b>47,170,601</b>	42,630,510
Other revenues		
Value added services income	215,894	137,535
Commission income	1,596	923
Others	5,954	28,037
	<b>223,444</b>	166,495
Interest income	<b>43,163</b>	38,373
Total revenues	<b>47,437,208</b>	42,835,378

**2 Turnover, revenues and segment information** (continued)

(b) Primary reporting format – geographical segments

	United States of America 2004 HK\$'000	Europe 2004 HK\$'000	Canada 2004 HK\$'000	Australasia 2004 HK\$'000	Central and Latin America 2004 HK\$'000	Rest of The World 2004 HK\$'000	Group 2004 HK\$'000
Turnover	32,102,262	9,253,030	2,089,679	1,715,444	658,044	1,352,142	47,170,601
Segment results	1,068,431	365,269	53,733	53,921	22,098	31,589	1,595,041
Amortisation of goodwill							-
Net investment loss							-
Interest income							43,163
Interest expenses							(11,466)
Share of profits less losses of associated companies							35,528
Profit before taxation							1,662,266
Taxation							(132,977)
Profit after taxation							1,529,289
Minority interests							939
Profit attributable to shareholders							1,530,228
Segment assets	5,699,102	1,958,320	308,858	257,026	128,635	154,337	8,506,278
Unallocated assets							2,866,878
Total assets							11,373,156
Segment liabilities	4,103,536	1,282,034	240,010	197,002	97,869	108,520	6,028,971
Unallocated liabilities							493,119
Total liabilities							6,522,090
Capital expenditure	139,169	45,152	8,341	6,861	3,196	5,046	207,765
Depreciation	91,215	31,279	5,725	5,344	2,497	3,820	139,880
Amortisation of goodwill	-	-	-	-	-	-	-

**2 Turnover, revenues and segment information (continued)**

## (b) Primary reporting format – geographical segments (continued)

	United States of America 2003 HK\$'000	Europe 2003 HK\$'000	Canada 2003 HK\$'000	Australasia 2003 HK\$'000	Central and Latin America 2003 HK\$'000	Rest of The World 2003 HK\$'000	Group 2003 HK\$'000
Turnover	29,643,722	8,200,869	1,768,349	1,108,798	590,213	1,318,559	42,630,510
Segment results	904,630	318,907	35,493	31,621	16,683	12,882	1,320,216
Amortisation of goodwill							(26,210)
Net investment loss							(8,054)
Interest income							38,373
Interest expenses							(9,813)
Share of profits less losses of associated companies							2,015
Profit before taxation							1,316,527
Taxation							(105,513)
Profit after taxation							1,211,014
Minority interests							12,104
Profit attributable to shareholders							1,223,118
Segment assets	4,978,583	1,407,406	200,038	170,574	92,391	209,530	7,058,522
Unallocated assets							2,186,049
Total assets							9,244,571
Segment liabilities	3,247,002	854,008	119,891	116,804	62,871	108,620	4,509,196
Unallocated liabilities							505,548
Total liabilities							5,014,744
Capital expenditure	257,892	74,571	14,690	9,365	5,144	11,662	373,324
Depreciation	79,296	26,427	4,672	3,526	1,867	4,057	119,845
Amortisation of goodwill	14,637	9,360	654	491	164	904	26,210

**2 Turnover, revenues and segment information** (continued)

(c) Secondary reporting format – business segments

	Turnover 2004 HK\$'000	Segment results 2004 HK\$'000	Total assets 2004 HK\$'000	Capital expenditure 2004 HK\$'000
Softgoods	31,461,244	1,189,218	6,609,973	134,679
Hardgoods	15,709,357	405,823	1,896,305	73,086
	<b>47,170,601</b>	<b>1,595,041</b>	<b>8,506,278</b>	<b>207,765</b>
Amortisation of goodwill		–		
Net investment loss		–		
Operating profit		<b>1,595,041</b>		
Unallocated assets			<b>2,866,878</b>	
Total assets			<b>11,373,156</b>	
	Turnover 2003 HK\$'000	Segment results 2003 HK\$'000	Total assets 2003 HK\$'000	Capital expenditure 2003 HK\$'000
Softgoods	28,402,198	938,876	5,004,141	236,532
Hardgoods	14,228,312	381,340	2,054,381	136,792
	<b>42,630,510</b>	<b>1,320,216</b>	<b>7,058,522</b>	<b>373,324</b>
Amortisation of goodwill		(26,210)		
Net investment loss		(8,054)		
Operating profit		<b>1,285,952</b>		
Unallocated assets			<b>2,186,049</b>	
Total assets			<b>9,244,571</b>	

### 3 Operating profit

Operating profit is stated after crediting and charging the following:

	2004 HK\$'000	2003 HK\$'000
Crediting		
Net exchange gains	20,936	16,378
Net rental income from land and buildings	6,194	5,902
Charging		
Amortisation of intangible assets		
Goodwill	–	26,210
System development costs	7,668	5,382
Depreciation of fixed assets	139,880	119,845
Loss on disposal of fixed assets	1,540	854
Operating leases rental in respect of land and buildings	93,717	86,128
Provision for doubtful debts	21,436	16,655
Staff costs including directors' emoluments (note 9)	1,726,169	1,546,296
The remuneration to the auditors for audit and non-audit services is as follows:		
Audit services	6,386	5,572
Non-audit services		
– financial due diligence review on acquisitions	2,045	1,203
– taxation services	3,366	1,990
– others	184	231
Total remuneration to auditors	11,981	8,996
Less: non-audit service fee capitalised	(2,045)	(1,203)
Net remuneration to auditors charged to consolidated profit and loss account	9,936	7,793

Note: Of the above audit and non-audit services fee of HK\$5,553,000 (2003: HK\$5,194,000) and HK\$5,168,000 (2003: HK\$3,252,000) respectively are payable to the Company's auditors.

### 4 Interest expenses

	2004 HK\$'000	2003 HK\$'000
Interest on bank loans and overdrafts	11,466	9,813

## 5 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 year. Taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which subsidiaries of the Group operate.

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

	2004 HK\$'000	2003 HK\$'000
Hong Kong profits tax	<b>147,921</b>	84,011
Overseas taxation	<b>47,779</b>	28,607
Overprovision in prior years	<b>(3,882)</b>	(2,663)
Deferred taxation relating to the origination and reversal of temporary differences	<b>(61,568)</b>	(6,701)
Deferred taxation resulting from an increase in tax rate	-	675
	<b>130,250</b>	103,929
Share of taxation attributable to associated companies		
– Hong Kong	<b>2,703</b>	1,317
– Overseas	<b>24</b>	267
	<b>2,727</b>	1,584
<b>Total taxation charge</b>	<b>132,977</b>	105,513

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the taxation rate of the home country of the Company as follows:

	2004 %	2003 %
Calculated at a taxation rate of	<b>17.5</b>	17.5
Effect of different taxation rates in other countries	<b>0.2</b>	0.4
Income net of expenses not subject to taxation	<b>(11.6)</b>	(11.6)
Utilisation of previously unrecognised tax losses	<b>(0.3)</b>	(0.2)
Unrecognised tax losses	<b>2.2</b>	1.9
<b>Effective tax rate</b>	<b>8.0</b>	8.0

At the date of approval of the accounts, certain subsidiaries of the Group have disputes with the Hong Kong Inland Revenue involving additional assessments of tax of approximately HK\$633 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 2003/2004.

## 5 Taxation (continued)

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\$300 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.

## 6 Profit attributable to shareholders

The profit attributable to shareholders is dealt with in the accounts of the Company to the extent of HK\$1,754,019,000 (2003: HK\$1,035,100,000).

## 7 Dividends

	2004 HK\$'000	2003 HK\$'000
Interim, paid, of HK\$0.12 (2003: HK\$0.10) per ordinary share	<b>349,856</b>	289,343
Final, proposed, of HK\$0.30 (2003: HK\$0.25) per ordinary share	<b>875,594</b>	726,977
Special, proposed, of HK\$0.25 (2003: Nil) per ordinary share	<b>729,661</b>	–
	<b>1,955,111</b>	1,016,320

At a meeting held on 22 March 2005, the Directors proposed final dividend and special dividend of HK\$0.30 and HK\$0.25 per share respectively. The proposed dividends are not reflected as dividend payable in these accounts, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2005 (note 22).

## 8 Earnings per share

- (a) The calculation of basic earnings per share is based on the Group's profit attributable to shareholders of HK\$1,530,228,000 (2003: HK\$1,223,118,000) and on the weighted average number of 2,911,938,000 (2003: 2,893,046,000) shares in issue during the year.
- (b) In the event that share options outstanding at 31 December 2004 and 2003 respectively were exercised in full, the diluted earnings per share would not be significantly different from the basic earnings per share as disclosed in the consolidated profit and loss account.

## 9 Staff costs including directors' emoluments

	2004 HK\$'000	2003 HK\$'000
Salaries and bonuses	1,542,236	1,397,275
Other staff-related expenses	107,079	81,665
Pension costs of defined contribution plans	60,772	50,853
Pension costs of defined benefits plans (note 24(a)(ii))	14,466	15,303
Long service payments	1,616	1,200
	<b>1,726,169</b>	1,546,296

## 10 Directors' and senior management's emoluments

### (a) Directors' remuneration

The aggregate amounts of the emoluments payable to directors of the Company during the year are as follows:

	2004 HK\$'000	2003 HK\$'000
Executive:		
Fees	421	418
Basic salaries, housing allowances, other allowances and benefits-in-kind	12,004	11,977
Discretionary bonuses	29,158	26,148
Contributions to pension scheme	60	60
	<b>41,643</b>	38,603
Non-executive:		
Fees	882	882
	<b>42,525</b>	39,485

Pursuant to an agreement made between King Lun Holdings Limited ("King Lun") and Hurricane Millennium Holdings Limited ("HMHL"), Mr Bruce Philip ROCKOWITZ has a deemed interest in 49,950,800 underlying shares in the Company in respect of options granted by King Lun to HMHL. Details are stated in the Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures section.

As at 31 December 2004, certain directors held options to acquire 480,000 (2003: 960,000), 1,600,000 (2003: 2,400,000), 2,400,000 (2003: 2,400,000) and 2,400,000 (2003: 2,400,000) Shares of the Company at an exercise price of HK\$7.98, HK\$9.2, HK\$9.2 and HK\$9.2 per Share respectively. The closing market price of the Shares as at 31 December 2004 was HK\$13.1.

During the year, a total of 720,000 (2003: 480,000), 480,000 (2003: 480,000) and 800,000 (2003: Nil) Shares were issued to certain directors of the Company at an exercise price of HK\$10.5, HK\$7.98 and HK\$9.2 respectively under the Old Scheme and New Scheme. The weighted average closing market price per Share immediately before the dates on which the share options were exercised was HK\$12.61.

**10 Directors' and senior management's emoluments (continued)****(a) Directors' remuneration (continued)**

Directors' fees disclosed above include HK\$520,000 (2003: HK\$520,000) paid to independent non-executive directors.

The emoluments of the directors fell within the following bands. The emoluments represent the amount paid to or receivable by the directors of the Company for the year and exclude the benefits derived or to be derived from the share options granted under the Old Scheme and New Scheme.

Emolument bands	Number of directors	
	2004	2003
Nil – HK\$1,000,000	7*	7*
HK\$5,500,001 – HK\$6,000,000	1	–
HK\$6,000,001 – HK\$6,500,000	–	2
HK\$7,000,001 – HK\$7,500,000	–	1
HK\$7,500,001 – HK\$8,000,000	2	1
HK\$8,000,001 – HK\$8,500,000	1	–
HK\$11,000,001 – HK\$11,500,000	–	1
HK\$12,000,001 – HK\$12,500,000	1	–

\* Represents non-executive directors.

No directors waived their emoluments in respect of the year ended 31 December 2004 (2003: Nil).

**(b) Five highest paid individuals**

The five individuals whose emoluments were the highest in the Group for the year include four (2003: four) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining one individual (2003: one) during the year are as follows:

	2004 HK\$'000	2003 HK\$'000
Basic salaries, housing allowances, other allowances and benefits-in-kind	3,557	3,523
Discretionary bonuses	3,134	2,673
Contributions to pension scheme	12	12
	<b>6,703</b>	<b>6,208</b>

Emolument bands	Number of individuals	
	2004	2003
HK\$6,000,001 – HK\$6,500,000	–	1
HK\$6,500,001 – HK\$7,000,000	1	–

**11 Intangible assets**

	Goodwill HK\$'000	The Group System development costs HK\$'000	Total HK\$'000
Cost			
At 1 January 2004	629,996	42,615	672,611
Acquisition of a subsidiary/businesses (note 27)	694,923	–	694,923
Additions	–	4,229	4,229
Transfer to cost from accumulated amortisation upon adoption of HKFRS3 (note)	(41,700)	–	(41,700)
<b>At 31 December 2004</b>	<b>1,283,219</b>	<b>46,844</b>	<b>1,330,063</b>
Accumulated amortisation			
At 1 January 2004	41,700	18,062	59,762
Amortisation charge	–	7,668	7,668
Transfer to cost upon adoption of HKFRS3 (note)	(41,700)	–	(41,700)
<b>At 31 December 2004</b>	<b>–</b>	<b>25,730</b>	<b>25,730</b>
Net book value			
<b>At 31 December 2004</b>	<b>1,283,219</b>	<b>21,114</b>	<b>1,304,333</b>
At 31 December 2003	588,296	24,553	612,849

Note: Upon adoption of HKFRS3, cost and accumulated amortisation of goodwill are offset by the same amount of approximately HK\$41,700,000 and the net amount of approximately HK\$588,296,000 was stated as the cost of goodwill as at 1 January 2004.

## 12 Fixed assets

	Land and buildings HK\$'000	Leasehold improve- ments HK\$'000	The Group Furniture, fixtures, computer and other equipment HK\$'000	Plant and machinery HK\$'000	Motor vehicles and company boats HK\$'000	Total HK\$'000
Cost or valuation						
At 1 January 2004	1,450,245	196,915	385,565	17,310	34,573	2,084,608
Acquisition of a subsidiary/ businesses (note 27)	4,243	–	1,128	802	–	6,173
Additions	1,367	106,806	90,598	5,955	3,039	207,765
Disposals	–	(9,926)	(21,201)	–	(5,043)	(36,170)
Exchange adjustment	3,629	3,416	4,031	1,456	347	12,879
At cost	1,114,072	297,211	460,121	25,523	32,916	1,929,843
At directors' 1994 valuation	345,412	–	–	–	–	345,412
<b>At 31 December 2004</b>	<b>1,459,484</b>	<b>297,211</b>	<b>460,121</b>	<b>25,523</b>	<b>32,916</b>	<b>2,275,255</b>
Accumulated depreciation						
At 1 January 2004	173,527	100,719	266,427	9,077	22,961	572,711
Acquisition of a subsidiary/ businesses (note 27)	–	–	681	352	–	1,033
Charge for the year	35,542	39,163	56,635	3,854	4,686	139,880
Disposals	–	(7,184)	(17,406)	–	(3,994)	(28,584)
Exchange adjustment	167	2,334	3,604	820	267	7,192
<b>At 31 December 2004</b>	<b>209,236</b>	<b>135,032</b>	<b>309,941</b>	<b>14,103</b>	<b>23,920</b>	<b>692,232</b>
Net book value						
<b>At 31 December 2004</b>	<b>1,250,248</b>	<b>162,179</b>	<b>150,180</b>	<b>11,420</b>	<b>8,996</b>	<b>1,583,023</b>
At 31 December 2003	1,276,718	96,196	119,138	8,233	11,612	1,511,897

**12 Fixed assets (continued)**

The Group's interests in land and buildings at their net book value are analysed as follows:

	2004 HK\$'000	The Group 2003 HK\$'000
In Hong Kong, held on:		
Leases over 50 years	8,092	101,943
Leases of between 10 to 50 years	1,188,320	1,124,275
Outside Hong Kong, held on:		
Freehold	43,109	39,859
Leases over 50 years	9,391	9,271
Leases of between 10 to 50 years	1,336	1,370
	<b>1,250,248</b>	1,276,718

The original cost and accumulated depreciation based on cost of leasehold land and buildings in Hong Kong are as follows:

	2004 HK\$'000	The Group 2003 HK\$'000
Original cost	1,274,353	1,269,486
Accumulated depreciation based on cost	(176,157)	(144,859)
	<b>1,098,196</b>	1,124,627

At 31 December 2004, the net book value of fixed assets pledged as security for the Group's bank loans amounted to HK\$11,523,000 (2003: HK\$35,521,000).

**13 Investments in subsidiaries**

	2004 HK\$'000	The Company 2003 HK\$'000
Unlisted shares, at cost	158,087	111,210
Loan to a subsidiary	1,952,493	1,952,493
	<b>2,110,580</b>	2,063,703

The loan to a subsidiary is interest free, unsecured and has no fixed terms of repayment.

Details of principal subsidiaries are set out on pages 99 to 106.

**14 Associated companies**

	2004 HK\$'000	The Group 2003 HK\$'000
Share of net assets/(liabilities)	779	(4,467)
Goodwill on acquisition less accumulated impairment loss	21,983	–
Loans to associated companies	33,205	8,690
	<b>55,967</b>	4,223

The loans to associated companies are interest free and unsecured, except for amounts of HK\$2,209,000 (2003: HK\$4,848,000) which are secured and interest bearing.

Details of principal associated companies are set out on page 107.

**15 Investments**

	2004 HK\$'000	The Group 2003 HK\$'000
Shares listed overseas, at cost	43,554	41,910
Unlisted shares, at cost	80,362	112,595
Less: provision for impairment losses	(20,227)	(45,922)
	<b>103,689</b>	108,583
Club debentures, at cost	6,600	6,600
	<b>110,289</b>	115,183
Market value of listed shares	22,517	21,289

**16 Inventories**

	2004 HK\$'000	The Group 2003 HK\$'000
Finished goods	413,754	177,817
Raw materials	44,699	40,458
	<b>458,453</b>	218,275

At 31 December 2004, inventories that are carried at net realisable value amounted to HK\$19,442,000 (2003: HK\$2,753,000).

At 31 December 2004, inventories pledged as securities for bank facilities amounted to HK\$70,500,000 (2003: HK\$79,940,000).

**17 Due from related companies**

	The Group		The Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Due from:				
Subsidiaries	–	–	<b>7,909,537</b>	6,723,311
Associated companies	<b>29,094</b>	28,505	–	–
	<b>29,094</b>	28,505	<b>7,909,537</b>	6,723,311

The amounts are unsecured, interest free and repayable on demand, except for amounts due from associated companies amounting to HK\$2,411,000 (2003: HK\$2,407,000) which are secured and interest bearing.

**18 Trade and bills receivable**

A significant portion 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 balance of the business are on open account terms payable against deliveries of shipments which are often covered by customers' standby letters of credit, bank guarantees or credit insurance. The ageing analysis of trade and bills receivable is as follows:

	The Group	
	2004 HK\$'000	2003 HK\$'000
Current to 90 days	<b>4,400,587</b>	3,399,385
91 to 180 days	<b>189,017</b>	80,286
181 to 360 days	<b>52,001</b>	22,685
Over 360 days	<b>616</b>	956
	<b>4,642,221</b>	3,503,312

**19 Due to related companies**

	The Group		The Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Due to:				
A subsidiary	–	–	<b>4,823,359</b>	3,698,396
Associated companies	<b>106</b>	97	–	–
	<b>106</b>	97	<b>4,823,359</b>	3,698,396

The amounts are unsecured, interest free and repayable on demand.

## 20 Trade and bills payable

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

	2004 HK\$'000	The Group 2003 HK\$'000
Current to 90 days	4,423,133	3,503,955
91 to 180 days	118,157	111,207
181 to 360 days	54,180	20,369
Over 360 days	29,729	13,828
	<b>4,625,199</b>	3,649,359

## 21 Share capital and options

	2004		2003	
	Number of shares (in thousand)	HK\$'000	Number of shares (in thousand)	HK\$'000
Authorised				
At 1 January and 31 December, ordinary HK\$0.025 each	3,200,000	80,000	3,200,000	80,000
Issued and fully paid				
At 1 January, ordinary HK\$0.025 each	2,902,038	72,551	2,890,012	72,250
Exercise of share options (note a)	12,822	321	8,229	206
Issue of shares for the acquisition of ISG (note b)	-	-	3,797	95
Issue of shares for acquisitions of FGL and IPI (note c)	2,247	56	-	-
At 31 December, ordinary of HK\$0.025 each	<b>2,917,107</b>	<b>72,928</b>	2,902,038	72,551

**21 Share capital and options (continued)**

- (a) Details of share options granted by the Company pursuant to the Old Scheme and New Scheme and the share options outstanding at 31 December 2004, are as follows:

Date of grant	Subscription price per Share	Exercisable period	At 1 January 2004	Share options granted during the year	Share options exercised during the year	Share options lapsed during the year	Share options cancelled during the year	At 31 December 2004
18 July 2001	HK\$10.50	18 July 2002– 17 July 2004	6,870,000	–	(5,897,500)	(972,500)	–	–
28 August 2001	HK\$7.98	28 August 2003– 27 August 2005	6,601,000	–	(2,936,000)	(76,000)	–	3,589,000
23 May 2003	HK\$9.20	23 May 2004– 22 May 2007	16,072,000	–	(3,989,000)	(370,000)	–	11,713,000
23 May 2003	HK\$9.20	23 May 2005– 22 May 2008	17,510,000	–	–	(780,000)	(985,000)	15,745,000
23 May 2003	HK\$9.20	23 May 2006– 22 May 2009	17,510,000	–	–	(1,240,000)	–	16,270,000
20 August 2004	HK\$9.90	20 August 2005– 19 August 2008	–	474,000	–	–	–	474,000
20 August 2004	HK\$9.90	20 August 2006– 19 August 2009	–	2,387,000	–	–	–	2,387,000

Subsequent to 31 December 2004, 1,539,000 Shares have been allotted and issued under the Old Scheme and New Scheme.

- (b) Pursuant to the sale and purchase agreement dated 18 August 2003, the Company acquired the remaining one-third of the equity interests in International Sourcing Group, LLC (“ISG”) from the former minority shareholders at a consideration of approximately HK\$40,695,000 through an issue of 3,797,191 new Shares of HK\$0.025 each at an issue price of HK\$10.715 each.
- (c) On 2 December 2003, the Company entered into an agreement to acquire certain assets and business of Firstworld Garments Limited (“FGL”), a Hong Kong corporation, and International Porcelain, Inc. (“IPI”), an US corporation, at a consideration of HK\$210,600,000. The purchase consideration was satisfied by cash of HK\$180,960,000 (the “Cash consideration”) and an issue of 2,246,660 Shares (the “Consideration shares”) at an issue price of HK\$13.13 each amounting to HK\$29,640,000.

As at 31 December 2003, HK\$40,560,000 of the Cash consideration was paid. The remaining balance of the Cash consideration amounting to HK\$140,400,000 was paid and the Consideration shares were issued in 2004.

**22 Reserves**

<b>The Group</b>	<b>Share premium HK\$'000</b>	<b>Capital reserve HK\$'000</b>	<b>Exchange reserve HK\$'000</b>	<b>Retained earnings HK\$'000</b>	<b>Total HK\$'000</b>
At 1 January 2004	2,993,865	5,862	(46,433)	1,196,057	4,149,351
2003 final dividend paid	-	-	-	(727,784)	(727,784)
Share premium on issue of new shares	151,173	-	-	-	151,173
Exchange adjustments on translation of the accounts of overseas subsidiaries and associated companies	-	-	19,404	-	19,404
Transfer to capital reserve	-	1,472	-	(1,472)	-
Profit for the year	-	-	-	1,530,228	1,530,228
Exchange reserve realised upon closure/disposal of subsidiaries	-	-	(771)	-	(771)
2004 interim dividend paid	-	-	-	(349,856)	(349,856)
Reserves	3,145,038	7,334	(27,800)	41,918	3,166,490
Proposed dividends	-	-	-	1,605,255	1,605,255
<b>At 31 December 2004</b>	<b>3,145,038</b>	<b>7,334</b>	<b>(27,800)</b>	<b>1,647,173</b>	<b>4,771,745</b>
Company and subsidiaries	3,145,038	7,334	(26,473)	1,643,564	4,769,463
Associated companies	-	-	(1,327)	3,609	2,282
<b>At 31 December 2004</b>	<b>3,145,038</b>	<b>7,334</b>	<b>(27,800)</b>	<b>1,647,173</b>	<b>4,771,745</b>

**22 Reserves (continued)**

<b>The Group</b>	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 adjustments 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 closure/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
Company and subsidiaries	2,993,865	5,862	(45,027)	1,209,051	4,163,751
Associated companies	-	-	(1,406)	(12,994)	(14,400)
At 31 December 2003	2,993,865	5,862	(46,433)	1,196,057	4,149,351

**22 Reserves (continued)**

<b>The Company</b>	<b>Share premium HK\$'000</b>	<b>Contributed surplus account HK\$'000</b>	<b>Retained earnings HK\$'000</b>	<b>Total HK\$'000</b>
At 1 January 2004	2,993,865	2,060,673	999,994	6,054,532
Share premium on issue of new shares	151,173	–	–	151,173
Profit for the year	–	–	1,754,019	1,754,019
2003 final dividend paid	–	–	(727,784)	(727,784)
2004 interim dividend paid	–	–	(349,856)	(349,856)
Reserves	3,145,038	2,060,673	71,118	5,276,829
Proposed dividends	–	–	1,605,255	1,605,255
<b>At 31 December 2004</b>	<b>3,145,038</b>	<b>2,060,673</b>	<b>1,676,373</b>	<b>6,882,084</b>
At 1 January 2003	2,879,330	2,060,673	890,040	5,830,043
Share premium on issue of new shares	114,535	–	–	114,535
Profit for the year	–	–	1,035,100	1,035,100
2002 final dividend paid	–	–	(635,803)	(635,803)
2003 interim dividend paid	–	–	(289,343)	(289,343)
Reserves	2,993,865	2,060,673	273,017	5,327,555
Proposed dividend	–	–	726,977	726,977
At 31 December 2003	2,993,865	2,060,673	999,994	6,054,532

- (a) Capital reserve represents amount set aside from the profit of an overseas subsidiary of the Group in accordance with the local statutory requirement.
- (b) The contributed surplus account of the Company represents:–
- (i) the difference between the nominal value of the Company's shares issued in exchange for the issued ordinary shares of Li & Fung (B.V.I.) Limited and the value of net assets of the underlying subsidiaries acquired as at 2 June 1992 amounting to HK\$111,010,000. At Group level, the amount is reclassified into its components of reserves of the underlying subsidiaries.
  - (ii) the difference between the issue price and the nominal value of the Company's shares issued in connection with the acquisition of Colby in 2000 amounting to HK\$1,949,663,000. At Group level, the amount is set off against goodwill arising from the acquisition.

**23 Long-term liabilities**

	2004 HK\$'000	The Group 2003 HK\$'000
Long-term bank loans, secured (note 30)	<b>40,652</b>	39,008
Balance of purchase consideration payable for acquisitions	<b>570,912</b>	175,600
Other loans, unsecured	<b>24,940</b>	30,400
	<b>636,504</b>	245,008
Current portion of long-term liabilities	<b>(46,001)</b>	(44,668)
Current portion of balance of purchase consideration payable for acquisitions	<b>(119,798)</b>	(175,600)
	<b>470,705</b>	24,740

At 31 December 2004, the Group's long-term bank loans and other loans are repayable as follows:

	Long-term bank loans		Other loans	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Within one year	<b>40,652</b>	39,008	<b>5,349</b>	5,660
In the second year	-	-	<b>1,927</b>	5,349
In the third to fifth year	-	-	<b>17,664</b>	19,391
	<b>40,652</b>	39,008	<b>24,940</b>	30,400

**24 Post-employment benefit obligations**

	2004 HK\$'000	The Group 2003 HK\$'000
Pension obligations ( <i>note a</i> )	<b>15,073</b>	9,627
Long service payment liabilities	<b>2,816</b>	1,200
	<b>17,889</b>	10,827

(a) The Group participates in a number of defined benefit plans in certain countries. Most of the pension plans are final salary defined benefit plans. The assets of the funded plans are held independently of the Group's assets in separate trustee-administered funds. The Group's defined benefit plans are valued by qualified actuaries annually using the projected unit credit method.

(i) The amount recognised in the consolidated balance sheet is determined as follows:

	2004 HK\$'000	The Group 2003 HK\$'000
Present value of funded obligations	<b>163,511</b>	140,400
Fair value of plan assets	<b>(118,444)</b>	(98,079)
	<b>45,067</b>	42,321
Unrecognised actuarial losses	<b>(22,430)</b>	(22,374)
Unrecognised liability on initial adoption of SSAP34	<b>(6,424)</b>	(9,632)
Exchange difference on unrecognised liability	<b>(1,140)</b>	(688)
Pension obligations	<b>15,073</b>	9,627

(ii) The amount recognised in the consolidated profit and loss account is as follows:

	2004 HK\$'000	The Group 2003 HK\$'000
Current service cost	<b>9,534</b>	10,931
Interest cost	<b>7,216</b>	5,891
Expected return on plan assets	<b>(6,498)</b>	(5,270)
Net actuarial gain recognised during the year	<b>447</b>	320
Amortisation of unrecognised liability on initial adoption of SSAP34	<b>3,208</b>	3,208
Exchange difference on amortisation of unrecognised liability	<b>559</b>	223
Total, included in staff costs ( <i>note 9</i> )	<b>14,466</b>	15,303

**24 Post-employment benefit obligations** (continued)

(iii) Movement in the pension obligations recognised in the consolidated balance sheet:

	2004 HK\$'000	The Group 2003 HK\$'000
At 1 January	9,627	4,029
Total expense – as shown above	14,466	15,303
Contributions paid	(9,950)	(9,965)
Exchange difference	930	260
At 31 December	15,073	9,627

(iv) The principal actuarial assumptions used are as follows:

	2004 %	The Group 2003 %
Discount rate	3.75 – 5.6	3.5 – 5.4
Expected rate of return on plan assets	1.5 – 7.5	1.5 – 7.5
Expected rate of future salary increases	2.5 – 4.75	2 – 4.75
Expected rate of future pension increases	2.75	2.75

(b) Actuarial valuation is performed on the Group's long service payment liability. As at 31 December 2004, the Group has transitional liability of approximately HK\$3,600,000 (2003: HK\$4,800,000) to be recognised in the next three years.

**25 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	(61,568)	(6,026)
Acquisition of subsidiaries	(2,873)	50
Exchange differences	(430)	96
At 31 December	(65,740)	(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\$205,354,000 (2003: HK\$274,941,000) to carry forward against future taxable income; of which the amounts of tax losses HK\$114,491,000 will expire during 2005-2024. 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.

**25 Deferred taxation (continued)**

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

Deferred tax assets	Provisions		Decelerated tax depreciation allowance		Tax losses		Others		Total	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
As at 1 January	6,608	-	1,029	-	9,920	-	1,593	-	19,150	-
Credited to profit and loss account	2,186	6,765	2,876	1,017	44,982	9,866	538	1,593	50,582	19,241
Acquisition of a subsidiary (note 27)	-	-	-	-	2,873	-	-	-	2,873	-
Exchange differences	140	(157)	38	12	106	54	150	-	434	(91)
As at 31 December	8,934	6,608	3,943	1,029	57,881	9,920	2,281	1,593	73,039	19,150

Deferred tax liabilities	Accelerated tax depreciation allowance		2004 HK\$'000	Others		Total	
	2004 HK\$'000	2003 HK\$'000		2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	
At 1st January	16,973	5,238	1,308	(227)	18,281	5,011	
(Credited)/charged to profit and loss account	(10,979)	11,735	(7)	1,480	(10,986)	13,215	
Acquisition of subsidiaries	-	-	-	50	-	50	
Exchange differences	-	-	4	5	4	5	
As at 31 December	5,994	16,973	1,305	1,308	7,299	18,281	

	2004 HK\$'000	2003 HK\$'000
The amounts shown in the balance sheet include the following:		
Deferred tax assets to be recovered after more than 12 months	25,428	13,359
Deferred tax liabilities to be settled after more than 12 months	7,023	13,329

**26 Notes to the consolidated cash flow statement****(a) Reconciliation of profit before taxation to net cash inflow generated from operations**

	2004 HK\$'000	2003 HK\$'000
Profit before taxation	<b>1,662,266</b>	1,316,527
Interest income	<b>(43,163)</b>	(38,373)
Interest expenses	<b>11,466</b>	9,813
Share of profits less losses of associated companies	<b>(35,528)</b>	(2,015)
Depreciation	<b>139,880</b>	119,845
Amortisation of goodwill	–	26,210
Amortisation of development costs	<b>7,668</b>	5,382
Net investments loss	–	8,054
Loss on disposal of subsidiaries	–	325
Loss on disposal of fixed assets	<b>1,540</b>	854
Operating profit before working capital changes	<b>1,744,129</b>	1,446,622
Increase in inventories	<b>(240,178)</b>	(93,855)
Increase in trade and bills receivable, other receivables, prepayments and deposits including amounts due from associated companies	<b>(1,237,981)</b>	(489,443)
Increase in trade and bills payable, accrued charges and sundry payables, and post-employment benefit obligations including amounts due to associated companies	<b>954,625</b>	468,598
Net cash inflow generated from operations	<b>1,220,595</b>	1,331,922

**26 Notes to the consolidated cash flow statement (continued)****(b) Disposal of subsidiaries**

	2004 HK\$'000	2003 HK\$'000
Net assets disposed of:		
Trade and other receivables	-	7,786
Cash and bank balances	-	83
Trade and other payables	-	(7,836)
Minority interests	-	552
Exchange reserve	-	135
	-	720
Loss on disposal of subsidiaries	-	(325)
	-	395
Satisfied by:		
Cash consideration	-	395
Analysis of the net inflow of cash and cash equivalents in respect of disposal of subsidiaries:		
	2004 HK\$'000	2003 HK\$'000
Cash consideration	-	395
Cash and cash equivalents disposed	-	(83)
Net inflow of cash and cash equivalents in respect of disposal of subsidiaries	-	312

**26 Notes to the consolidated cash flow statement (continued)****(c) Purchase of additional interest in a subsidiary**

	2004 HK\$'000	2003 HK\$'000
Net liabilities acquired	-	(1,520)
Goodwill on consolidation	-	42,767
	-	41,247
Satisfied by:		
Consideration shares (note 21(b))	-	40,695
Expenses incurred in respect of acquisition of additional interest in a subsidiary, representing outflow of cash and cash equivalents	-	552
	-	41,247

**(d) Analysis of changes in financing during the year**

	2004			2003		
	Share capital including share premium HK\$'000	Long-term bank loans HK\$'000	Other loans and minority interests HK\$'000	Share capital including share premium HK\$'000	Long-term bank loans HK\$'000	Other loans and minority interests HK\$'000
At 1 January	3,066,416	39,008	38,325	2,951,580	45,274	63,870
Non cash movement						
Share of losses	-	-	(939)	-	-	(12,104)
Purchase of additional interest in a subsidiary (note 26(c))	-	-	-	40,695	-	1,520
Consideration shares issued (note 21(c))	29,499	-	-	-	-	-
Disposal of subsidiaries	-	-	-	-	-	552
Exchange adjustment	-	1,644	167	-	4,049	(466)
	3,095,915	40,652	37,553	2,992,275	49,323	53,372
Proceeds from issue of shares	122,051	-	-	74,141	-	-
(Repayment to)/loans from minority shareholders	-	-	(760)	-	-	553
Repayment of bank loans	-	-	-	-	(10,315)	-
Dividends paid	-	-	-	-	-	(9,378)
Repayment of other loans	-	-	(5,460)	-	-	(6,222)
At 31 December	3,217,966	40,652	31,333	3,066,416	39,008	38,325

## 27 Business combinations

### Purchase of subsidiaries and businesses

On 24 July 2004, the Group acquired the remaining 80.05% of equity interest of BMB Apparel Limited (“BMB”), which sources and supplies casual wear to a customer which owns a supermarket chain in the United Kingdom. On 1 August 2004, the Group acquired the assets, businesses and personnel of Ralsey Group Ltd (“Ralsey”) and Zee King Trading Company Ltd (“Zee King”). Ralsey sources and supplies garments to mass retailers, specialty stores and department stores. Zee King is a sourcing company of apparel and accessories.

Each of the acquired businesses and the subsidiary, and in aggregate, made no significant contribution to the revenue and profit of the Group from both the date of acquisition and 1 January 2004 to 31 December 2004.

Details of net assets acquired and goodwill are as follows:

	2004 HK\$'000	2003 HK\$'000
Purchase consideration:		
Cash consideration	<b>729,156</b>	243,941
Consideration shares	–	29,640
Interest in investments previously accounted for	<b>11,585</b>	–
Direct expenses relating to the acquisitions	<b>4,621</b>	21,973
Total purchase consideration	<b>745,362</b>	295,554
Less: fair value of net assets acquired	<b>50,439</b>	22,732
Goodwill on consolidation ( <i>note 11</i> )	<b>694,923</b>	272,822

The goodwill is attributable to the profitability and the synergies expected to arise from the acquired subsidiary and businesses.

**27 Business combinations** (continued)**Purchase of subsidiaries and businesses** (continued)

The assets and liabilities arising from the acquisitions are as follows:

	2004 HK\$'000	2003 HK\$'000
Fixed assets	5,140	587
Deferred taxation (note 25)	2,873	(50)
Trade and other receivables	31,789	11,658
Inventories	–	6,338
Cash and bank balances	96,161	14,020
Trade and other payables	(85,400)	(7,081)
Bank loans and overdrafts	(124)	–
Taxation	–	(2,740)
<b>Fair value of net assets acquired</b>	<b>50,439</b>	<b>22,732</b>

At the date of acquisition, the fair value of net assets acquired was close to the carrying amount.

Analysis of the net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries and businesses:

	2004 HK\$'000	2003 HK\$'000
Purchase consideration	729,156	273,581
Direct expenses relating to the acquisitions	4,621	21,973
Purchase consideration payable	(570,912)	(176,051)
Cash and cash equivalents acquired	(96,161)	(14,020)
Bank loans and overdrafts acquired	124	–
<b>Net outflow of cash and cash equivalents in respect of acquisition of subsidiaries and businesses</b>	<b>66,828</b>	<b>105,483</b>

**28 Contingent liabilities**

	The Group		The Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Bills of exchange discounted to banks with recourse	891,510	1,387,181	–	–
Guarantees in respect of banking facilities granted to:				
Subsidiaries	–	–	15,845,200	13,834,892
Associated companies	99,159	98,992	46,663	46,585
Other guarantees	9,600	9,600	–	–
	<b>1,000,269</b>	<b>1,495,773</b>	<b>15,891,863</b>	<b>13,881,477</b>

## 29 Commitments

### (a) Operating lease commitments

At 31 December 2004, the Group had total future aggregate minimum lease payments under non-cancellable operating leases as follows:

	2004 HK\$'000	The Group 2003 HK\$'000
Within one year	55,513	69,867
In the second to fifth year inclusive	97,706	100,357
After the fifth year	69,465	121,846
	<b>222,684</b>	292,070

### (b) Financial commitments

At 31 December 2004, the Group had outstanding forward foreign exchange contracts to sell EUR9,222,000 and GBP2,433,000 (2003: EUR7,480,000 and GBP10,323,000) for the purpose of hedging the Group's trade and bills receivable from its foreign customers.

### (c) Capital commitments

	2004 HK\$'000	The Group 2003 HK\$'000
Contracted but not provided for: Property, plant and equipment	5,620	20,818

## 30 Charge of assets

At 31 December 2004, there were charges on the assets and undertakings of one (2003: two) overseas subsidiary with net book values amounting to HK\$124,329,000 (2003: HK\$233,999,000) in favour of banks to cover banking facilities granted to the subsidiary.

**31 Connected transactions under the Listing Rules and related party transactions**

- (i) Details of connected transactions as defined under Chapter 14 of the Listing Rules are set out in page 46 in the Directors' Report.
  
- (ii) The Group had no material related party transactions during the year.

**32 Approval of accounts**

The accounts were approved by the Board of Directors on 22 March 2005.