1 Basis of preparation and accounting policies

The unaudited condensed interim financial report (the "interim financial report") has been reviewed by the Company's audit committee and the Company's auditors, PricewaterhouseCoopers, in accordance with Statement of Auditing Standard 700 "Engagements to Review Interim Financial Reports" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

This interim financial report has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the HKICPA, which became effective on 1 January 2005.

This interim financial report should be read in conjunction with the 2004 annual accounts.

The accounting policies and methods of computation used in the preparation of this interim financial report are consistent with those used in the 2004 annual accounts, except that the Group has changed certain of its accounting policies following its adoption of new/revised Hong Kong Financial Reporting Standards ("HKFRS") and HKAS (collectively referred to as the "New HKFRSs"), which have become effective for accounting periods beginning on or after 1 January 2005 and have not been early adopted by the Group for the preparation of the 2004 annual accounts. The applicable New HKFRSs adopted in this interim financial report are set out below and the comparatives have been restated in accordance with the relevant requirements.

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings Per Share
HKAS 39	Financial Instruments: Recognition and Measurement
HKFRS 2	Share-based Payments

1 Basis of preparation and accounting policies *(continued)*

The adoption of HKAS 1,2,7,8,10,16,23,24,27,28 and 33 did not result in substantial changes to the Group's accounting policies. In summary:

– HKAS 1 has affected the presentation of minority interests, share of net after-tax results of associated companies and other disclosures.

– HKAS 2,7,8,10,16,23,27,28 and 33 had no material effect on the Group's policies.

– HKAS 24 has affected the identification of related parties and some other related-party disclosures.

The adoption of revised HKAS 17 has resulted in a change in the accounting policy relating to the reclassification of leasehold land and land use rights from fixed assets to operating leases. The up-front prepayments made for the leasehold land and land use rights are expensed in the consolidated profit and loss account on a straight-line basis over the period of the lease or where there is impairment, the impairment is expensed in the consolidated profit and loss account. In prior years, the leasehold land was accounted for at fair value or cost less accumulated depreciation and accumulated impairment.

The functional currency of each of the consolidated entities has been re-evaluated based on the guidance to the revised HKAS 21. Goodwill arising on acquisitions of foreign operations after 1 January 2005 have been treated as assets of the foreign operations and expressed in their respective functional currencies. At the balance sheet date, the goodwill was translated at closing exchange rate and difference of HK$12,600,000 so arising was charged to the exchange reserve.

The adoption of HKAS 32 and HKAS 39 has resulted in the change in accounting policy for recognition, measurement, derecognition and disclosure of financial instruments. Until 31 December 2004, listed and unlisted investments of the Group were classified as non-current investments and stated in the consolidated balance sheet at cost less any provision for impairment losses. In accordance with HKAS 39, these investments were re-classified as available-for-sale financial assets and stated in the consolidated balance sheet at fair value, with subsequent changes in value reflected as reserve movements. Balance of these investments at 1 January 2005 were re-measured at fair value with balance adjusted to the then retained earnings pursuant to the transitional provisions of HKAS 39.

In addition, the Group's discounted bills with recourse, which were previously treated as contingent liabilities, have been accounted for as collateralized bank advances prospectively on or after 1 January 2005, as the financial asset derecognition conditions as stipulated in HKAS 39 have not been fulfilled.

The adoption of HKFRS 2 has resulted in a change in the accounting policy for share-based payments. Until 31 December 2004, the provision of share options to employees did not result in an expense in the consolidated profit and loss account. Following the adoption of HKFRS 2, the cost of share options is charged to the consolidated profit and loss account. As a transitional provision, HKFRS 2 has been applied retrospectively for all share options granted after 7 November 2002 and had not yet vested upon 1 January 2005.

1 Basis of preparation and accounting policies *(continued)*

All changes in the accounting policies have been made in accordance with the transitional provisions in the respective standards. All standards adopted by the Group require retrospective application other than:

- HKAS 16 – the initial measurement of an item of fixed assets acquired in an exchange of assets transaction is accounted at fair value prospectively only to future transactions;
- HKAS 21 – prospective accounting for goodwill and fair value adjustments as part of foreign operations;
- HKAS 39 – does not permit to recognize, derecognize and measure financial assets and liabilities in accordance with this standard on a retrospective basis. The Group applied the previous Hong Kong Statement of Standard Accounting Practice ("SSAP") 24 "Accounting for investments in securities" to investments in securities and also to hedge relationships for the 2004 comparative information. The adjustments required for the accounting differences between SSAP 24 and HKAS 39 are determined and recognized at 1 January 2005; and
- HKFRS 2 – only retrospective application for all equity instruments granted after 7 November 2002 and not vested at 1 January 2005.

While adoption of HKAS 17 and 21 have no impact on the Group's consolidated profit and loss account, effect of adopting HKFRS 2, HKAS 32 and 39 are as follows:

	Year ended 31 December 2004		**Six months ended 30 June 2005**		Six months ended 30 June 2004	
	HKAS 32 & 39 HK$'000	HKFRS 2 HK$'000	**HKAS 32 & 39 HK$'000**	**HKFRS 2 HK$'000**	HKAS 32 & 39 HK$'000	HKFRS 2 HK$'000
Increase in merchandising expenses	–	(41,425)	**–**	**(23,044)**	–	(20,713)
Decrease in cost of sales	–	–	**5,796**	**–**	–	–
Total increase/(decrease) in profit	–	(41,425)	**5,796**	**(23,044)**	–	(20,713)
Increase/(decrease) in basic earnings per share	–	(1.4 HK cents)	**0.2 HK cents**	**(0.8 HK cents)**	–	(0.7 HK cents)

1 Basis of preparation and accounting policies *(continued)*

The adoption of HKFRS 2 resulted in a decrease in opening retained earnings as at 1 January 2004 and 1 January 2005 by HK$36,386,000 and HK$77,811,000 respectively. Whereas, the adoption of HKAS 39 resulted in decreases in opening hedging reserve and retained earnings at 1 January 2005 by HK$897,000 and HK$26,871,000 respectively. Effect of adopting HKAS 17, 32, 39 and HKFRS 2 on the consolidated balance sheet at 30 June 2005 and 31 December 2004 are as follows:

	30 June 2005				31 December 2004			
	HKAS 17 HK$'000	**HKAS 21 HK$'000**	**HKAS 32 & HKAS 39 HK$'000**	**HKFRS 2 HK$'000**	HKAS 17 HK$'000	HKAS 21 HK$'000	HKAS 32 & HKAS 39 HK$'000	HKFRS 2 HK$'000
Decrease in fixed assets	**(818,501)**	**-**	**-**	**-**	(892,576)	–	–	–
Increase in prepaid premium for land leases	**799,037**	**-**	**-**	**-**	871,732	–	–	–
Increase in other receivables, prepayments and deposits	**19,464**	**-**	**-**	**-**	20,844	–	–	–
Decrease in investments	**-**	**-**	**(110,289)**	**-**	–	–	–	–
Decrease in intangible assets	**-**	**(12,600)**	**-**	**-**	–	–	–	–
Increase in available-for-sale financial assets	**-**	**-**	**88,000**	**-**	–	–	–	–
Increase in trade and bills receivable	**-**	**-**	**820,749**	**-**	–	–	–	–
Increase in derivative financial instruments – assets	**-**	**-**	**2,027**	**-**	–	–	–	–
Increase in bank advances for discounted bills	**-**	**-**	**822,024**	**-**	–	–	–	–
Increase in employee share-based compensation reserve	**-**	**-**	**-**	**100,855**	–	–	–	77,811
Decrease in exchange reserve	**-**	**(12,600)**	**-**	**-**	–	–	–	–
Increase in hedging reserve	**-**	**-**	**790**	**-**	–	–	–	–
Decrease in revaluation reserve	**-**	**-**	**(1,252)**	**-**	–	–	–	–
Decrease in retained earnings	**-**	**-**	**(21,075)**	**(100,855)**	–	–	–	(77,811)

HKAS 36 "Impairment of Assets", HKAS 38 "Intangible Assets" and HKFRS 3 "Business Combinations" have been early adopted by the Group in 2004. Accordingly, the Group ceased to amortize goodwill from 1 January 2004 and amortization of goodwill of HK$20,892,000 made in 2004 interim financial report has been reversed. Goodwill is tested for impairment annually or when there is indication for impairment, and impairment provision is charged to the consolidated profit and loss account.

1 Basis of preparation and accounting policies *(continued)*

The accounting policies used for this interim financial report are the same as those set out in note 1 to the 2004 annual accounts except for the following:

1.1 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in HK dollars, which is the Company's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at closing exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated profit and loss account, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

Translation differences on non-monetary items, such as equity instruments held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation difference on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the revaluation reserve in equity.

(c) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each profit and loss account are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) all resulting exchange differences are recognized as a separate component of equity.

1 Basis of preparation and accounting policies *(continued)*

1.1 Foreign currency translation *(continued)*

(c) Group companies (continued)

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognized in the consolidated profit and loss account as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

1.2 Fixed assets

Cost may include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of fixed assets.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

1.3 Core operating profit

Core operating profit is the recurring profit generated from the Group's trading business which comprises profit before share of results of associated companies, interest income, finance costs and tax, and excludes material gain or loss which are of capital nature or non-recurring nature (such as gain or loss on disposal or impairment provision of fixed assets, investments, goodwill or other assets).

1.4 Total margin

Total margin includes commission income, trading gross profit and other recurring revenues relating to the trading business.

1.5 Investments

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are included in trade and other receivables in the consolidated balance sheet.

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories (i.e. loans and receivables, financial assets at fair value through profit or loss and held-to-maturity investments). They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

1 Basis of preparation and accounting policies *(continued)*

1.5 Investments *(continued)*

Purchases and sales of investments are recognized on trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Investments are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortized cost using the effective interest method. Realized and unrealized gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the consolidated profit and loss account in the period in which they arise. Unrealized gains and losses arising from changes in the fair value of non-monetary securities classified as available-for-sale are recognized in equity. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the consolidated profit and loss account as gains or losses from investment securities.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer's specific circumstances.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the consolidated profit and loss account – is removed from equity and recognized in the consolidated profit and loss account. Impairment losses recognized in the consolidated profit and loss account on equity instruments are not reversed through the consolidated profit and loss account.

1.6 Inventories

Costs of inventories include the transfer from equity of any gains/losses on qualifying cash flow hedges relating to purchases of raw materials.

1 Basis of preparation and accounting policies *(continued)*

1.7 Trade and other receivables

Trade and other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognized in the consolidated profit and loss account.

1.8 Share-based compensation

The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognized as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the Group revises its estimates of the number of options that are expected to become exercisable. It recognizes the impact of the revision of original estimates, if any, in the consolidated profit and loss account, and a corresponding adjustment to equity over the remaining vesting period.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

1.9 Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognized in hedging reserve. The gain or loss relating to the ineffective portion is recognized immediately in the consolidated profit and loss account.

Amounts accumulated in hedging reserve are recycled in the consolidated profit and loss account in the periods when the hedged item will affect profit or loss (for instance when the forecast sale that is hedged takes place). However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory) or a liability, the gains and losses previously deferred in hedging reserve are transferred from hedging reserve and included in the initial measurement of the cost of the asset or liability.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in hedging reserve at that time remains in hedging reserve and is recognized when the forecast transaction is ultimately recognized in the consolidated profit and loss account. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in hedging reserve is immediately transferred to the consolidated profit and loss account.

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognized immediately in the consolidated profit and loss account.

1 Basis of preparation and accounting policies *(continued)*

1.10 Comparatives

As further explained above, due to the adoption of the New HKFRSs during the current period, the accounting treatment and presentation of certain items in the interim financial report have been revised to comply with the new requirements. Accordingly, certain comparatives have been restated to conform with the current period presentation.

2 Segment information

The principal activity of the Group is 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 Six months ended 30 June		**Operating profit Six months ended 30 June**	
	2005 HK$'000	2004 HK$'000 (As restated)	**2005 HK$'000**	2004 HK$'000 (As restated)
Principal markets:				
United States of America	**16,098,138**	13,183,551	**382,799**	363,198
Europe	**4,412,449**	3,813,212	**147,896**	102,731
Canada	**1,244,160**	991,001	**31,375**	18,194
Australasia	**926,526**	767,467	**32,827**	16,559
Central and Latin America	**382,581**	266,372	**12,994**	7,402
Rest of the world	**402,594**	655,938	**11,239**	3,687
	23,466,448	19,677,541	**619,130**	511,771
Gain on disposal of properties			**27,332**	–
			646,462	511,771

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 Six months ended 30 June		Operating profit Six months ended 30 June	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000 (As restated)
Softgoods	**16,616,230**	13,560,351	**522,641**	414,498
Hardgoods	**6,850,218**	6,117,190	**96,489**	97,273
	23,466,448	19,677,541	**619,130**	511,771
Gain on disposal of properties			**27,332**	–
			646,462	511,771

3 Operating profit

Operating profit is stated after charging/(crediting) the following:

	Six months ended 30 June	
	2005	2004
	HK$'000	HK$'000 (As restated)
Amortization of system development costs	**3,773**	3,233
Employee share option expenses	**23,044**	20,713
Depreciation of fixed assets	**62,796**	53,793
Gain on disposal of properties	**(27,332)**	–
Loss on disposal of other fixed assets	**591**	1,980

4 Taxation

Hong Kong profits tax has been provided for at the rate of 17.5% (2004: 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.

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

	Six months ended 30 June **2005** **HK$'000**	2004 HK$'000 (As restated)
Current taxation		
– Hong Kong profits tax	**52,277**	35,556
– Overseas taxation	**13,329**	11,047
Deferred taxation	**1,603**	(5,040)
	67,209	41,563

At the date of approval of this interim financial report, certain subsidiaries of the Group have disputes with the Hong Kong Inland Revenue involving additional assessments of tax of approximately HK$634 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.

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 Board of Review has scheduled the appeal to be heard in January 2006.

The Group has also filed objections to the Hong Kong Inland Revenue against the remaining additional tax assessments of HK$301 million issued to the subsidiaries.

The directors consider that no material tax liabilities will finally crystallize and sufficient tax provision has been made in the interim financial report in this regard.

5 Interim dividend

	Six months ended 30 June	
	2005	2004
	HK$'000	HK$'000
Proposed, of HK$0.145 (2004: HK$0.12) per ordinary share	**425,095**	349,817

6 Earnings per share

The calculation of basic earnings per share is based on the Group's profit attributable to shareholders of HK$618,468,000 (2004 (as restated): HK$502,112,000) and on the weighted average number of 2,921,137,000 (2004: 2,908,084,000) shares in issue during the period.

In the event that share options outstanding at 30 June 2005 and 2004 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.

7 Capital expenditure

	Intangible assets			
	Goodwill*	**System development costs**	**Total**	**Fixed assets**
	HK$'000	HK$'000	HK$'000	HK$'000
Six months ended 30 June 2005				
Net book amount as at 1 January 2005	1,283,219	21,114	1,304,333	690,447
System development costs recognized as an asset	–	486	486	–
Fixed assets additions	–	–	–	164,066
Acquisition of subsidiaries *(Note 13)*	192,127	–	192,127	26,055
Disposals	–	–	–	(27,330)
Amortization/depreciation charge *(Note 3)*	–	(3,773)	(3,773)	(62,796)
Exchange adjustment *(Note 1)*	(12,600)	–	(12,600)	(9,611)
Net book amount as at 30 June 2005	**1,462,746**	**17,827**	**1,480,573**	**780,831**

* Goodwill arising from business combinations is tested for impairment annually and when there is indication of impairment. Up to the date of this interim financial report, no events or changes in circumstance have indicated that the goodwill might be impaired.

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 2005	**5,840,973**	**253,540**	**91,380**	**29,959**	**6,215,852**
Balance at 31 December 2004	4,400,587	189,017	52,001	616	4,642,221

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 and credit insurance.

The Group transferred certain bills of exchange amounting to HK$822,024,000 to banks with recourse in exchange for cash during the interim period. The transactions have been accounted for as collateralized bank advances.

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 2005	**5,154,930**	**78,384**	**23,498**	**73,042**	**5,329,854**
Balance at 31 December 2004	4,423,133	118,157	54,180	29,729	4,625,199

10 Long-term liabilities

	30 June 2005 HK$'000	31 December 2004 HK$'000
Long-term bank loans, unsecured *(Note)*	**43,914**	40,652
Long-term loans from minority shareholders	**38,867**	38,782
Balance of purchase consideration payable for acquisitions	**573,973**	595,852
	656,754	675,286
Current portion of long-term bank loans, unsecured	**(43,914)**	(40,652)
Current portion of balance of purchase consideration payable for acquisitions	**(69,768)**	(125,147)
	543,072	509,487

Note: At 30 June 2005 and 31 December 2004, the Group's unsecured long-term bank loans are wholly repayable within one year.

11 Share capital and options

	No. of shares (in thousand)	**HK$'000**
Authorized		
At 1 January 2005 and 30 June 2005, ordinary shares of HK$0.025 each	3,200,000	80,000
Issued and fully paid		
At 1 January 2005, ordinary shares of HK$0.025 each	2,917,107	72,928
Exercise of share options *(Note)*	11,032	275
At 30 June 2005, ordinary shares of HK$0.025 each	**2,928,139**	**73,203**

11 Share capital and options *(continued)*

Note: Details of share options granted by the Company pursuant to the Old Scheme and New Scheme and the share options outstanding at 30 June 2005 are as follows:

			Number of Share Options				
Grant Date	**Exercise Price HK$**	**Exercisable period**	**As at 1/1/2005**	**Granted**	**Exercised**	**Lapsed**	**As at 30/6/2005**
28/8/2001	7.98	28/8/2003 – 27/8/2005	3,589,000	–	(2,672,000)	–	917,000
23/5/2003	9.20	23/5/2004 – 22/5/2007	11,713,000	–	(5,650,000)	–	6,063,000
23/5/2003	9.20	23/5/2005 – 22/5/2008	15,745,000	–	(2,710,000)	–	13,035,000
23/5/2003	9.20	23/5/2006 – 22/5/2009	16,270,000	–	–	(560,000)	15,710,000
20/8/2004	9.90	20/8/2005 – 19/8/2008	474,000	–	–	(28,000)	446,000
20/8/2004	9.90	20/8/2006 – 19/8/2009	2,387,000	–	–	(137,000)	2,250,000
20/6/2005	14.80	20/6/2007 – 19/6/2010	–	23,945,000	–	–	23,945,000
20/6/2005	14.80	20/6/2008 – 19/6/2011	–	23,950,000	–	–	23,950,000
20/6/2005	14.80	20/6/2009 – 19/6/2012	–	24,060,000	–	–	24,060,000

Employee share option expenses charged to the consolidated profit and loss accounts are determined with the Black-Scholes valuation model based on the following assumptions:

Date of grant	23 May 2003	20 August 2004	20 June 2005
Option value	HK$2.41 – HK$2.65	HK$2.04 – HK$2.36	HK$2.23 – HK$2.68
Share price at date of grant	HK$9.0	HK$9.9	HK$14.8
Exercisable price	HK$9.2	HK$9.9	HK$14.8
Standard deviation	44%	41%	24%
Annual risk-free interest rate	1.39% – 3.31%	1.36% – 3.41%	2.79% – 3.54%
Life of options	4 – 6 years	4 – 5 years	5 – 7 years
Dividend yield	3.89%	4.24%	3.45%

12 Reserves

	Attributable to shareholders of the Company									
	Share premium HK$'000	**Capital reserve** HK$'000	**Employee share-based compensation reserve** HK$'000	**Revaluation reserve** HK$'000	**Hedging reserve** HK$'000	**Exchange reserve** HK$'000	**Retained earnings** HK$'000	**Sub-total** HK$'000	**Minority Interests** HK$'000	**Total** HK$'000
Balance at 1 January 2004, as previously reported as equity	2,993,865	5,862	–	–	–	(46,433)	1,196,057	4,149,351	–	4,149,351
Balance at 1 January 2004, as previously separately reported as minority interests *(Note 1)*	–	–	–	–	–	–	–	–	(31,428)	(31,428)
Employee share option scheme: – value of employee services *(Note 1)*	–	–	36,386	–	–	–	(36,386)	–	–	–
Balance at 1 January 2004, as restated	2,993,865	5,862	36,386	–	–	(46,433)	1,159,671	4,149,351	(31,428)	4,117,923
2003 final dividend paid	–	–	–	–	–	–	(727,784)	(727,784)	–	(727,784)
Currency translation differences	–	–	–	–	–	19,404	–	19,404	(22)	19,382
Transfer to capital reserve	–	1,472	–	–	–	–	(1,472)	–	–	–
Profit/(loss) for the year	–	–	–	–	–	–	1,488,803	1,488,803	(939)	1,487,864
Employee share option scheme: – value of employee services *(Note 1)*	–	–	41,425	–	–	–	–	41,425	–	41,425
– proceeds from shares issued	151,173	–	–	–	–	–	–	151,173	–	151,173
Exchange reserve realized upon closure/disposal of subsidiaries	–	–	–	–	–	(771)	–	(771)	–	(771)
2004 interim dividend paid	–	–	–	–	–	–	(349,856)	(349,856)	–	(349,856)
Reserves	3,145,038	7,334	77,811	–	–	(27,800)	(35,893)	3,166,490	(32,389)	3,134,101
Proposed dividend	–	–	–	–	–	–	1,605,255	1,605,255	–	1,605,255
At 31 December 2004	3,145,038	7,334	77,811	–	–	(27,800)	1,569,362	4,771,745	(32,389)	4,739,356

12 Reserves *(continued)*

	Attributable to shareholders of the Company									
	Share premium HK$'000	Capital reserve HK$'000	Employee share-based compensation reserve HK$'000	Revaluation reserve HK$'000	Hedging reserve HK$'000	Exchange reserve HK$'000	Retained earnings HK$'000	Sub-total HK$'000	Minority Interests HK$'000	Total HK$'000
Balance at 1 January 2005, as per above	3,145,038	7,334	77,811	–	–	(27,800)	1,569,362	4,771,745	(32,389)	4,739,356
Opening adjustments for the adoption of HKAS 32 and 39 *(Note 1)*	–	–	–	–	(897)	–	(26,871)	(27,768)	–	(27,768)
Balance at 1 January 2005, as restated	3,145,038	7,334	77,811	–	(897)	(27,800)	1,542,491	4,743,977	(32,389)	4,711,588
2004 final dividend paid	–	–	–	–	–	–	(1,608,530)	(1,608,530)	–	(1,608,530)
Currency translation differences	–	–	–	–	–	(18,188)	–	(18,188)	60	(18,128)
Fair value losses of available-for-sale financial assets *(Note 1)*	–	–	–	(1,252)	–	–	–	(1,252)	–	(1,252)
Fair value gains on cash flow hedges *(Note 1)*	–	–	–	–	1,687	–	–	1,687	–	1,687
Profit/(loss) for the period	–	–	–	–	–	–	618,468	618,468	(548)	617,920
Employee share option scheme:										
– value of employee services *(Note 1)*	–	–	23,044	–	–	–	–	23,044	–	23,044
– proceeds from shares issued	97,959	–	–	–	–	–	–	97,959	–	97,959
Reserves	3,242,997	7,334	100,855	(1,252)	790	(45,988)	127,334	3,432,070	(32,877)	3,399,193
Proposed dividend	–	–	–	–	–	–	425,095	425,095	–	425,095
At 30 June 2005	**3,242,997**	**7,334**	**100,855**	**(1,252)**	**790**	**(45,988)**	**552,429**	**3,857,165**	**(32,877)**	**3,824,288**

13 Business combination

Purchase of subsidiaries and businesses

During the period, the Group acquired the remaining 55% of equity interest of Comet Feuerwerk GmbH ("Comet") and PromOcean The Netherlands BV, together with its various subsidiaries in Europe and its operation and personnel in Hong Kong ("PromOcean"). Comet is principally engaged in fireworks sourcing and distribution in Germany, whereas PromOcean designs, sources and supplies corporate premium and promotional products for a wide range of customers in Europe.

Each of the acquired subsidiaries and businesses, and in aggregate, made no significant contribution to the revenue and profit of the Group from both date of acquisition and 1 January 2005 to 30 June 2005.

Details of net assets acquired and goodwill are as follows:

	HK$'000
Purchase consideration:	
Cash consideration	230,836
Interest in associated company previously accounted for	4,258
Direct expenses relating to the acquisitions	20,592
Total purchase consideration	255,686
Less: fair value of net assets acquired	63,559
Goodwill on consolidation *(Note 7)*	192,127

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

14 Contingent liabilities

	30 June 2005 HK$'000	31 December 2004 HK$'000
Bills of exchange discounted to banks with recourse	**–**	891,510
Guarantees in respect of banking facilities granted to associated companies	**99,094**	99,159
Other guarantees	**9,600**	9,600
	108,694	1,000,269

Bills of exchange discounted to banks with recourse are accounted for as collateralized bank advances for discounted bills in the current period pursuant to HKAS 39. Further details are set out in *notes 1* and *8* to the interim financial report.

15 Commitments

(a) Operating lease commitments

At 30 June 2005, the Group had total future aggregate minimum lease payments under non-cancellable operating leases as follows:

	30 June 2005 HK$'000	31 December 2004 HK$'000
Within one year	**94,208**	55,513
In the second to fifth year inclusive	**240,128**	97,706
After the fifth year	**327,641**	69,465
	661,977	222,684

(b) Capital commitments

	30 June 2005 HK$'000	31 December 2004 HK$'000
Contracted but not provided for:		
Property, plant and equipment	**8,032**	5,620

16 Financial risk management

The Group's overall risk management policy focuses on minimizing all potential financial risks of the Group.

(a) Foreign exchange risk

The Group operates globally with almost all of its sales and purchases traded in foreign currencies, mostly in US dollar. HK dollar is pegged to US dollar at a range between 7.75 to 7.85, the foreign exchange exposure between US dollar and HK dollar is therefore limited.

The Group is exposed to foreign exchange risk arising from various currency exposures mainly to the extent of its receivable and payable in currencies other than US dollar, such as Euro and Sterling Pound. To minimize such risks, sales and purchases are generally transacted in same currency.

Foreign exchange risk arising from sales and purchases transacted in different currencies are managed by the Group treasury with the use of foreign exchange forward contracts.

The Group's cash is mainly kept in either HK dollar or US dollar to minimize the foreign exchange risk.

16 Financial risk management *(continued)*

(b) Credit risk

The Group has stringent policies in place to manage its credit risk.

The Group's business is mainly 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.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash on hand and the availability of funding through an adequate amount of committed credit facilities from the Group's bankers.

(d) Cash flow and fair value interest rate risk

As the Group has no significant interest-bearing assets/liabilities, other than its HK dollar and US dollar bank deposits, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

17 Event after balance sheet date

On 11 August 2005, the Group entered into a Stock Purchase Agreement to acquire 100% equity interest of Briefly Stated Holdings, Inc. ("Briefly Stated"), a Delaware corporation principally engaged in selling licensed apparel products, for a total cash consideration of US$124,000,000. The acquisition constitutes a discloseable transaction of the Company under Chapter 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. The Group will be verifying the fair value of assets, liabilities and contingent liabilities of Briefly Stated as at the acquisition date and it is impracticable to disclose their respective amounts together with the goodwill so arising at the current stage. Further details of the transaction are set out in an announcement dated 11 August 2005.

18 Approval of interim financial report

The interim financial report was approved by the Board of Directors on 11 August 2005.