Notes to Condensed Interim Accounts

1 BASIS OF PREPARATION AND ACCOUNTING POLICIES

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

These condensed interim accounts should be read in conjunction with the 2000 annual financial statements.

The accounting policies and methods of computation used in the preparation of these condensed interim accounts are consistent with those used in the annual accounts for the year ended 31 December 2000 except that the Group has changed certain of its accounting policies following its adoption of the following SSAPs issued by the Hong Kong Society of Accountants which are effective for accounting periods commencing on or after 1 January 2001:

SSAP 9 (revised):	Events after the balance sheet date
SSAP 14 (revised):	Leases (effective for periods commencing on or after 1 July 2000)
SSAP 28:	Provisions, contingent liabilities and contingent assets
SSAP 29:	Intangible assets
SSAP 30:	Business combinations
SSAP 31:	Impairment of assets
SSAP 32:	Consolidated financial statements and accounting for investments in subsidiaries

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

(a) SSAP 9 (revised) : Events after balance sheet date

In accordance with the revised SSAP 9, the Group no longer recognises dividends proposed or declared after the balance sheet date as a liability at the balance sheet date. This change in accounting policy has been applied retrospectively so that the comparatives presented have been restated to conform to the changed policy.

As detailed in note 11, opening retained earnings at 1 January 2000 have increased by HK$324,650,000 which is the reversal of the provision for the 1999 proposed final dividend previously recorded as a liability as at 31 December 1999 although not declared until after balance sheet date. Opening retained earnings at 1 January 2001 have increased by HK$515,942,000 which is the reversal of the provision for 2000 proposed final dividend previously recorded as a liability as at 31 December 2000 although not declared until after the balance sheet date. A corresponding decrease in current liabilities by HK$515,942,000 has been reflected in the comparative 31 December 2000 balance sheet.

Changes to headings used in the previously reported 31 December 2000 balance sheet relating to dividends have also been made to reflect the changes resulting from SSAP 9 (revised).

(b) SSAP 28: Provisions, contingent liabilities and contingent assets

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.

(c) SSAP 29: Intangibles

Intangible assets are not revalued. Development costs of system for internal use is capitalised and amortised using the straight-line method over their useful lives, but not exceeding 20 years. Development costs and related accumulated amortisation of HK$84,338,000 and HK$4,713,000 respectively at 31 December 2000 have been reclassified from fixed assets to intangible assets to conform with the current year's presentation.

(d) SSAP 30 : Business Combinations

Goodwill/Negative goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary/associated company at the date of acquisition. Goodwill on acquisitions occurring on or after 1 January 2001 is included in intangible assets and is amortised using the straight-line method over its estimated useful life. Goodwill on acquisitions that occurred prior to 1 January 2001 was written off against reserves. The Group has adopted the transitional provisions in SSAP 30 and such goodwill has not been retroactively capitalised and amortised. However any impairment arising on such goodwill is accounted for in accordance with SSAP 31 "Impairment of Assets" which requires any impairment loss be recognised as an expense in income statement immediately and allocated to reduce the carrying amount of the acquired subsidiary/associated company.

Goodwill is generally amortised over 20 years.

Negative goodwill represents the excess of the fair value of the Group's share of the net assets acquired over the cost of acquisition. For acquisitions after 1 January 2001, negative goodwill is presented in the same balance sheet classification as goodwill.

To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the Group's plan for the acquisition and can be measured reliably, but which do not represent identifiable liabilities, that portion of negative goodwill is recognised in the income statement when the future losses and expenses are recognised. Any remaining negative goodwill, not exceeding the fair values of the non-monetary assets acquired, is recognised in the income statement over the remaining weighted average useful life of those assets; negative goodwill in excess of the fair values of those assets is recognised in the income statement immediately. For acquisitions prior to 1 January 2001, negative goodwill was taken directly to reserves on acquisition. The Group has adopted the transitional provisions in SSAP 30 and such negative goodwill will not be restated.

The gain or loss on disposal of an entity includes the unamortised balance of goodwill relating to the entity disposed of or, for pre 1 January 2001 acquisitions, the related goodwill written off against reserves to the extent it has not previously been realised in the profit and loss account.

2 SEGMENT INFORMATION

Over 90% of the Group's turnover and contribution to operating profit are attributable to the export trading of consumer products. An analysis of the Group's segment turnover and operating profit for the period by principal markets is as follows:

	Turnover Six months ended 30 June		Operating profit Six months ended 30 June	
	2001	2000	**2001**	2000
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Principal markets:				
North America	**10,053,402**	7,183,567	**267,346**	208,040
Europe	**2,817,676**	2,778,218	**59,598**	72,863
Southern Hemisphere	**515,864**	238,706	**6,721**	2,758
East Asia	**173,087**	67,115	**3,119**	(420)
	13,560,029	10,267,606	**336,784**	283,241
StudioDirect — USA	**39,656**	—	**(55,501)**	—
Provision for investment	**—**	—	**(10,759)**	(5,790)
	13,599,685	10,267,606	**270,524**	277,451

3 OPERATING PROFIT

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

	Six months ended 30 June	
	2001	2000
	HK$'000	*HK$'000*
Amortisation of goodwill	**1,123**	—
Amortisation of development costs	**1,464**	1,373
Depreciation of fixed assets	**54,618**	45,031
Loss/(profit) on disposal of fixed assets	**2,202**	(370)

4 TAXATION

	Six months ended 30 June	
	2001	2000
	HK$'000	*HK$'000*
The taxation charges comprise:		
Hong Kong profits tax	18,870	23,008
Overseas taxation	7,801	4,404
	26,671	27,412
Share of taxation attributable to associated companies		
— Hong Kong	561	458
— Overseas	186	1,735
	747	2,193
	27,418	29,605

Hong Kong profits tax has been provided at the rate of 16% (2000: 16%) on the estimated assessable profit for the period. Taxation on overseas profits has been calculated on the estimated assessable profit for the period at the rates of taxation prevailing in the countries in which the Group operates.

5 INTERIM DIVIDEND

	Six months ended 30 June	
	2001	2000
	HK$'000	*HK$'000*
HK$0.08 per share (2000: HK$0.07 per share, after adjusting the effect for a share subdivision in September 2000)	229,775	192,318

6 EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit after taxation and minority interests of HK$338,138,000 (2000: HK$293,808,000) and on the weighted average number of 2,867,002,000 (2000: 2,651,336,000) shares in issue during the period. The weighted average number of shares in issue for the six months ended 30 June 2000 was restated to adjust for a share subdivision in September 2000.

In the event that share options outstanding at 30 June 2001 and 2000 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 INTANGIBLE ASSETS

	Goodwill	Development costs	Total
	HK$'000	*HK$'000*	*HK$'000*
Cost			
At 1 January 2001	—	84,338	84,338
Acquisition of subsidiaries	44,908	—	44,908
Development costs recognised as asset	—	24,537	24,537
At 30 June 2001	44,908	108,875	153,783
Accumulated amortisation			
At 1 January 2001	—	4,713	4,713
Amortisation charge	1,123	1,464	2,587
At 30 June 2001	1,123	6,177	7,300
Net book amount			
At 30 June 2001	43,785	102,698	146,483
At 31 December 2000	—	79,625	79,625

8 TRADE AND BILLS RECEIVABLE

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

	Current to 90 days	91 to 180 days	181 to 360 days	Over 360 Days	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Balance at 30 June 2001	**2,038,288**	**41,281**	**22,029**	**419**	**2,102,017**
Balance at 31 December 2000	2,371,166	46,861	10,553	1,079	2,429,659

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