

# NOTES TO THE FINANCIAL STATEMENTS

## 1. PRINCIPAL ACCOUNTING POLICIES

The unaudited condensed interim financial statements are prepared in accordance with Hong Kong Statement of Standard Accounting Practice No. 25, “Interim Financial Reporting”, issued by the Hong Kong Society of Accountants, and Appendix 16 of the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The accounting policies used in the preparation of the condensed interim financial statements are consistent with those used in the annual financial statements for the year ended 31st December 2003.

## 2. SEGMENT INFORMATION

The Group is principally engaged in the trading and distribution of construction materials, mainly water pipes and fittings. The results of operations by principal activities are summarised as follows:

	For the six months ended	
	30th June	
	2004	2003
	HK\$'000	HK\$'000
Turnover		
Sales of water pipes and fittings	209,454	209,952
Letting and sub-letting business	805	722
	<u>210,259</u>	<u>210,674</u>
Other revenue		
Interest income	68	224
Dividend income	35	122
	<u>103</u>	<u>346</u>
Total revenue	<u>210,362</u>	<u>211,020</u>

Business segment information is not required as the revenue, results and assets of the wholesale business represent more than 90% of the total revenue, results and assets of the Group respectively.

Geographical segment information is not shown as over 90% of the Group's turnover and operating profit are derived from Hong Kong.

## 3. OPERATING PROFIT

Operating profit is stated after crediting gain on disposal of property held for sale of HK\$4,110,000 (2003: nil) and interim insurance compensation received amounted to HK\$5,667,000 (2003: nil), and charging depreciation of HK\$804,000 (2003: HK\$1,330,000).

#### 4. TAXATION

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 17.5%) on the estimated assessable profit for the period.

No provision for deferred taxation has been made in the interim financial statements as there were no significant timing differences arising from the period or at the balance sheet date.

#### 5. DIVIDENDS

	For the six months ended	
	30th June	
	2004	2003
	HK\$'000	HK\$'000
Interim dividend proposed of HK\$0.02 per share (2003: HK\$0.015 per share)	<u><u>4,837</u></u>	<u><u>3,628</u></u>

#### 6. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the Group's profit attributable to shareholders of HK\$31,681,000 (2003: HK\$15,865,000) and the number of 241,854,000 shares (2003: 241,854,000 shares) in issue during the period.

No diluted earnings per share amount is presented for the current period as there were no dilutive potential ordinary shares in existence during the period.

#### 7. FIXED ASSETS

During the six months ended 30th June 2004, the Group has acquired investment properties at a cost of approximately HK\$13,989,000 (31st December 2003: nil).

The Directors consider that the carrying amount of the investment properties has no significant difference as at the balance sheet date.

## 8. TRADE RECEIVABLES

Details of the ageing analysis are as follows:

	<b>30th June 2004 HK\$'000</b>	31st December 2003 HK\$'000
Current to 30 days	29,293	28,186
31 days to 60 days	27,913	28,757
61 days to 90 days	20,295	21,803
91 days to 120 days	11,530	8,614
Over 120 days	15,176	15,823
	<hr/>	<hr/>
	104,207	103,183
Less: Provision	(3,908)	(3,999)
	<hr/>	<hr/>
	<b>100,299</b>	<b>99,184</b>
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Customers are generally granted with credit terms of 30 days to 120 days.

## 9. TRADING SECURITIES

	<b>30th June 2004 HK\$'000</b>	31st December 2003 HK\$'000
Listed equity securities in Hong Kong, at market value	1,735	556
Listed equity securities outside Hong Kong, at market value	522	1,322
	<hr/>	<hr/>
	2,257	1,878
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## 10. TRADE PAYABLES

Details of the ageing analysis are as follows:

	<b>30th June 2004 HK\$'000</b>	31st December 2003 HK\$'000
Current to 30 days	2,827	2,644
31 days to 60 days	1,038	1,567
61 days to 90 days	-	28
Over 90 days	4	4
	<hr/>	<hr/>
	3,869	4,243
	<hr/> <hr/>	<hr/> <hr/>

## 11. SHARE CAPITAL

30th June 2004

	<i>No. of shares</i>	<i>HK\$'000</i>
Authorised:		
Ordinary shares of HK\$0.10 each	<u>500,000,000</u>	<u>50,000</u>
Issued and fully paid:		
Ordinary shares of HK\$0.10 each	<u>241,854,000</u>	<u>24,185</u>

The Company once adopted a share option scheme on 27 November 2000 (“the Old Scheme”). There is no share option outstanding under the Old Scheme.

The Company by ordinary resolutions passed at its annual general meeting held on 24 June 2004 has adopted a new share option scheme (“the new Scheme”) and terminated the Old Scheme in comply with the new requirements under the then revised Chapter 17 of the Listing Rules. No option shares have been granted under the New Scheme to any person since its adoption.

## 12. RESERVES

	<b>Share premium</b>	<b>Capital reserve</b>	<b>Merger reserve</b>	<b>Retained profits</b>	<b>Total</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1st January 2004	29,345	34,115	3,700	129,731	196,891
Profit attributable to shareholders	–	–	–	31,681	31,681
2003 final dividend declared	–	–	–	(7,256)	(7,256)
2004 interim dividend proposed	–	–	–	(4,837)	(4,837)
	<u>29,345</u>	<u>34,115</u>	<u>3,700</u>	<u>149,319</u>	<u>216,479</u>
At 30th June 2004	<u>29,345</u>	<u>34,115</u>	<u>3,700</u>	<u>149,319</u>	<u>216,479</u>

### 13. RELATED PARTIES TRANSACTIONS

During the period, the Group had the following significant transactions with related parties:

	For the six months ended	
	30th June	
	2004	2003
	HK\$'000	HK\$'000
Rental expenses paid to:		
Bun Kee (H.K.) Limited	1,496	1,496
Bun Kee (China) Limited	642	642
Powerful Agents Limited	<u>1,802</u>	<u>1,802</u>

*Note:* These companies are beneficially owned and controlled by certain directors of the Company. Rentals were paid to these companies for leasing office premises, retail outlets and warehouses of the Group.

### 14. CONTINGENT LIABILITIES

As at 30th June 2004, the Group had contingent liabilities in respect of indemnities in respect of shipping guarantees given by banks totalling approximately HK\$1,945,000 (31st December 2003: HK\$3,271,000).

### 15. CONTINGENT ASSETS AND POST-BALANCE SHEET EVENTS

In November 2002, a fire broke out in one of the Group's warehouses. The Group has made an insurance claim of HK\$16 million for loss of stock of goods covered under its insurance policy. In January 2004, the Group had received an interim insurance compensation amounted to HK\$5,667,000. In July 2004, the Group had received the final insurance compensation amounted to HK\$10,308,000.