

NOTES TO THE INTERIM FINANCIAL STATEMENTS

1. Independent Review

The interim results for the six months ended 30 June 2005 are unaudited, but have been reviewed in accordance with Statement of Auditing Standards 700 "Engagements to review interim financial reports", issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), by CCIF CPA Limited. The interim results have also been reviewed by the audit committee.

2. Basis of presentation and accounting policies

The unaudited condensed consolidated interim financial statements are prepared in accordance with the applicable disclosure requirement of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), the Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" and other relevant HKASs and Interpretations, the Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA.

The accounting policies and basis of preparation adopted in these condensed consolidated interim financial statements are consistent with those adopted in the Company's 2004 Annual Report except for the new adoption of HKFRSs and HKASs as disclosed in note 3 below.

3. Impact of New HKFRSs and HKASs

The HKICPA has issued a number of new and revised HKFRSs, HKASs and Interpretations, which are generally effective for accounting periods beginning on or after 1 January 2005. The Group has adopted all the HKFRSs and HKASs issued up to 30 June 2005. These standards have had no significant impact on these condensed consolidated interim financial statements except for those disclosed below.

- (i) The adoption of revised HKAS 17 "Leases" has resulted in a change in the accounting policy relating to the leasehold land. Leasehold land and buildings were previously classified as "property, plant and equipment" and were carried at valuation less accumulated depreciation and impairment loss. Following the adoption of HKAS 17, a lease of land and building should be split into a lease of land and a lease of building in proportion to the relative fair values of the leasehold interests in the land element and the building element of the lease at the inception of the lease. The land lease prepayment is stated at cost and amortised over the period of the lease whereas the leasehold building is stated at valuation less accumulated depreciation and impairment loss. The land element of the leasehold properties were previously included in "property, plant and equipment" is now disclosed as "Lease premium for land and land use rights".

- (ii) Pursuant to HKAS 8 (which outlines the disclosure requirements when a change in accounting policy has a material effect on the current and prior periods presented), the Group has retrospectively restated the opening balance of reserves as at 1 January 2004 and 2005 to take into account the effects of changes in the above accounting policy. The previously reported reserves for the six months ended 30 June 2004 and for the year ended 31 December 2004 have also been adjusted. These effects are summarized as follows:

Effect of adopting HKAS 17

| | Property revaluation reserve | Retained profits | Total |
|---|---|-----------------------------|-----------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Effects on periods prior to 2004 | | | |
| Decrease in revaluation reserve, net of deferred tax | (2,625) | – | (2,625) |
| Decrease in deferred taxation | – | 200 | 200 |
| (Decrease)/increase in reserves | (2,625) | 200 | (2,425) |

Effects on 2004

| | | | |
|---|----------------|--------------|----------------|
| (a) 6 months ended 30 June 2004 | | | |
| Decrease in depreciation | – | 77 | 77 |
| Increase in amortisation | – | (246) | (246) |
| | – | (169) | (169) |
| (b) 6 months ended 31 December 2004 | | | |
| Decrease in depreciation | – | 75 | 75 |
| Increase in amortisation | – | (245) | (245) |
| Increase in deferred taxation | – | (30) | (30) |
| Decrease in revaluation reserve, net of deferred tax | (673) | – | (673) |
| | (673) | (200) | (873) |
| Decrease in reserves for the year ended 31 December 2004 | (673) | (369) | (1,042) |
| Decrease in reserves as at 31 December 2004 | (3,298) | (169) | (3,467) |

4. Turnover and segment information

The Group is principally engaged in the design, development, manufacture and sale of magnetic commonly used in consumer electronics, telecommunication equipment, data processing appliances and other electronics systems for coupling, isolation, filtering, interfacing and timing control appliances.

The following is an analysis of the Group's turnover by geographical locations where merchandise is delivered:

| | Six months ended 30 June | |
|--------------------------------------|--------------------------|------------------|
| | 2005 HK\$'000 | 2004 HK\$'000 |
| United States of America (the "US") | 75,872 | 73,511 |
| Europe | 18,649 | 20,164 |
| Hong Kong | 2,790 | 2,495 |
| Southeast Asia (excluding Hong Kong) | 1,099 | 1,812 |
| | 98,410 | 97,982 |

No analysis of profit attributable to shareholders by geographical locations is presented as they were generally in line with the distribution of turnover as set out above.

5. Profit before taxation

Profit before taxation is stated after crediting and charging the following:

| | Six months ended 30 June | |
|---|--------------------------|--------------------------------|
| | 2005 HK\$'000 | 2004 HK\$'000 (Restated) |
| Crediting: | | |
| Write-back of provision for obsolete and slow-moving inventories | 10 | 301 |
| Charging: | | |
| Amortisation of goodwill | - | 505 |
| Cost of inventories sold (excluding write-back of provision for obsolete and slow-moving inventories) | 48,864 | 60,665 |
| Depreciation and amortisation | 2,090 | 1,824 |

6. Taxation

| | Six months ended 30 June | |
|-----------------------|---------------------------------|-----------------|
| | 2005 | 2004 |
| | HK\$'000 | <i>HK\$'000</i> |
| Hong Kong profits tax | 2,435 | 2,808 |
| Overseas taxation | 580 | 106 |
| | 3,015 | 2,914 |

Hong Kong profits tax was calculated at the rate of 17.5% (2004: 17.5%) on the estimated assessable profit arising in or derived from Hong Kong during the period. Overseas taxation was calculated at the rates applicable in the respective jurisdictions.

The charge for the period can be reconciled to the profit per the condensed consolidated income statement as follows:

| | Six months ended 30 June | |
|--|---------------------------------|-----------------|
| | 2005 | 2004 |
| | HK\$'000 | <i>HK\$'000</i> |
| | | (Restated) |
| Profit before taxation | 31,981 | 20,450 |
| Effect of tax at Hong Kong profits tax rate of 17.5% (2004:17.5%) | 5,597 | 3,578 |
| Income that are not taxable | (3,139) | (784) |
| Expenses that are not deductible | 58 | 30 |
| Unrecognised tax losses | 167 | 189 |
| Others | 332 | (99) |
| | 3,015 | 2,914 |

7. Earnings per share

The calculation of basic earnings per share for the six months ended 30 June 2005 was based on the profit attributable to shareholders of approximately HK\$28,966,000 (six months ended 30 June 2004 (restated): HK\$17,536,000) and on the weighted average number of 320,000,000 (2004: 320,000,000) shares in issue during the period.

Diluted earnings per share is not presented as there was no dilutive potential ordinary shares in existence during the period (2004: Nil).

8. Property, plant and equipment

The total cost of additions to property, plant and equipment of the Group during the six months ended 30 June 2005 was HK\$2,595,000 (2004: HK\$8,155,000). There were no material disposals and write-offs of fixed assets during the six months ended 30 June 2005 and 30 June 2004.

9. Trade receivables

Customers are usually offered a credit period ranging from 30 days to 120 days. The ageing analysis of trade receivables after provision is as follows:

| | 30 June 2005 (Unaudited) HK\$'000 | 31 December 2004 (Audited) HK\$'000 |
|---------------|--|--|
| 0 to 30 days | 18,156 | 11,569 |
| 31 to 60 days | 12,569 | 7,247 |
| 61 to 90 days | 6,309 | 4,299 |
| Over 90 days | 577 | 3,750 |
| | 37,611 | 26,865 |

10. Trade payables

The ageing analysis of trade payables is as follows:

| | 30 June 2005 (Unaudited) HK\$'000 | 31 December 2004 (Audited) HK\$'000 |
|---------------|--|--|
| 0 to 30 days | 4,790 | 4,734 |
| 31 to 60 days | 3,353 | 1,846 |
| 61 to 90 days | 1,108 | 1,108 |
| Over 90 days | 382 | 99 |
| | 9,633 | 7,787 |

11. Share capital

| | Number of shares | Amount HK\$'000 |
|--|-----------------------------|----------------------------|
| Authorised ordinary shares of HK\$0.1 each | | |
| At 1 January 2005 and 30 June 2005 | 1,000,000,000 | 100,000 |
| Issued and fully paid ordinary shares of HK\$0.1 each | | |
| At 1 January 2005 and 30 June 2005 | 320,000,000 | 32,000 |

12. Reserves

The movements of reserves during the half-year ended 30 June 2005 and the year ended 31 December 2004 were as follows:

| | |
|---|------------------------------------|
| | (Unaudited) HK\$'000 |
| Balance as at 1 January 2005, as previously reported | 176,738 |
| Prior period adjustments on effect of changes in accounting policy (<i>note 3(ii)</i>) | (3,467) |
| Balance as at 1 January 2005, as restated | 173,271 |
| Dividends paid | (7,040) |
| Translation adjustments | 1 |
| Net profit for the period | 28,966 |
| Balance as at 30 June 2005 | 195,198 |
| | (Audited and restated) HK\$'000 |
| Balance as at 1 January 2004, as previously reported | 144,911 |
| Prior period adjustments on effect of changes in accounting policy (<i>note 3(ii)</i>) | (2,425) |
| Balance as at 1 January 2004, as restated | 142,486 |
| Revaluation reserve, net of deferred tax, as previously reported | 1,850 |
| Effect of changes in accounting policy (<i>note 3(ii)</i>) | (673) |
| Revaluation reserve, net of deferred tax, as restated | 1,177 |
| Dividends paid | (10,880) |
| Translation adjustments | 35 |
| Net profit for the year, as previously reported | 40,822 |
| Effect of changes in accounting policy (<i>note 3(ii)</i>) | (369) |
| Net profit for the year, as restated | 40,453 |
| Balance as at 31 December 2004 | 173,271 |

13. Related party transactions

During the six months ended 30 June 2005, the Group's sales to Datatronics Romoland, Inc., a company in which Mr. Siu Paul Y., a director, has beneficial interest, amounted to HK\$34,000,000 (2004: HK\$22,940,000). The transactions constituted a continuing connected transaction under Chapter 14A of the Listing Rules and were carried out in the ordinary course of business and on normal commercial terms.