

NOTES TO THE FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION AND ACCOUNTING POLICIES

The unaudited condensed consolidated interim financial statements have been prepared in accordance with the applicable requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Listing Rules”), the Hong Kong Accounting Standard (“HKAS”) 34: Interim Financial Reporting and other relevant HKASs and Interpretations and the Hong Kong Financial Reporting Standards (“HKFRSs”) issued by The Hong Kong Institute of Certified Public Accountants (“HKICPA”).

The accounting policies and basis of preparation adopted in these 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 below. Due to the new adoption of such HKFRSs and HKASs, certain comparative figures previously reported have been restated to comply with the new requirements.

SHARE-BASED PAYMENTS

In the current period, the Group has applied HKFRS 2 “Share-based payments” which requires an expense to be recognised where the Group buys goods or obtains services in exchange for shares of rights over shares (“equity-settled transactions”), or in exchange for other assets equivalent in value to a given number of shares or rights over shares (“cash-settled transactions”). The principal impact of HKFRS 2 on the Group is in relation to the expensing of the fair value of directors’ and employees’ share options of the Company determined at the date of grant of the share options over the vesting period. Prior to the application of HKFRS 2, the Group did not recognize the financial effect of these share options until they were exercised. The Group has not applied HKFRS 2 to share options that were granted after 7th November 2002 and had vested before 1st January 2005 in accordance with the relevant transitional provisions. Comparative figures have not been restated.

FINANCIAL INSTRUMENTS

The adoption of HKAS 32 and HKAS 39 has resulted in a change of accounting policy for recognition, measurement and disclosure of financial instruments. Until 31st December 2004, investments of the Group were classified as other investments and were stated in the balance sheet at fair value.

In accordance with the provision of HKAS 39, the investments have been classified into available-for-sale financial assets, financial assets at fair value through profit or loss and loans and receivables (which include bank deposits and cash and cash equivalents). The classification depends on the purpose for which the investments were held.

1. BASIS OF PRESENTATION AND ACCOUNTING POLICIES (Continued)

FINANCIAL INSTRUMENTS (Continued)

The transitional provision of HKAS 39 are follows:

- redesignate all investments into available-for-sale financial assets, financial assets through profit or loss and loans and receivables (which include bank deposits and cash and cash equivalents) from 1st January 2005.

- remeasure those financial assets or financial liabilities that should be measured at fair value and those that should be measured at amortised cost from 1st January 2005.

INVESTMENT PROPERTY

The adoption of HKAS 40 has resulted in a change in accounting policy for investment property. Prior to this, changes in the value of investment properties are dealt with as movements in the investment property revaluation reserve. If the total of this reserve is insufficient to cover a deficit, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged. After the adoption of HKAS 40, any changes in value of investment property are dealt with in the profit and loss account and there should be no revaluation reserve available for offsetting against revaluation deficit.

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	
	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover		
Sales of water pipes and fittings	254,116	209,454
Letting and sub-letting business	556	805
	<u>254,672</u>	<u>210,259</u>
Other revenue		
Interest income	256	68
Dividend income	111	35
	<u>367</u>	<u>103</u>
Other income		
Insurance compensation	1,180	5,667
Net exchange gains	859	476
Gain on disposal of property held for Sale	–	4,110
Realised gain on disposal of financial assets at fair value through profit or loss	231	–
Gains on disposal of fixed assets	92	–
Write back of provision for legal compensation	1,500	–
Others	889	1,165
	<u>4,751</u>	<u>11,418</u>
Total revenue	<u>259,790</u>	<u>221,780</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 charging depreciation of HK\$1,020,000 (2004: HK\$804,000).

4. TAXATION

	For the six months ended	
	30th June	
	2005	2004
	HK\$'000	HK\$'000
Current taxation:		
– Hong Kong profits tax	5,307	6,331
– Over provisions in prior years	(17)	(455)
	<u>5,290</u>	<u>5,876</u>
Taxation charges	<u>5,290</u>	<u>5,876</u>

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

5. DIVIDENDS

	For the six months ended	
	30th June	
	2005	2004
	HK\$'000	HK\$'000
Interim dividend proposed of HK\$0.02 per share (2004: HK\$0.02 per share)	<u>4,837</u>	<u>4,837</u>

6. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the Group's profit attributable to shareholders of HK\$26,341,000 (2004: HK\$31,681,000) and the number of 241,854,000 shares (2004: 241,854,000 shares) in issue during the period.

Diluted earnings per share for the period ended 30th June 2005 is not presented as there was no potential dilutive ordinary shares in existence during the period.

7. PROPERTY, PLANT AND EQUIPMENT

As at 31st December 2004, Investment properties of the Group were revalued on the basis of their open market value by Lawson David & Sung Surveyors Limited, an independent qualified property valuers. The revaluation resulted in a surplus HK\$2,811,000 which had been credited directly to the investment properties revaluation reserve.

Following the adoption of HKAS40, the amount previously held in the investment properties revaluation reserve relating to the investment properties has been transferred to the Group's retained profits for the period as no interim valuation at 30th June 2005 of the investment properties has been conducted.

8. TRADE RECEIVABLES

Details of the ageing analysis are as follows:

	30th June 2005 <i>HK\$'000</i>	31st December 2004 <i>HK\$'000</i>
Current to 30 days	38,764	39,489
31 days to 60 days	33,165	35,090
61 days to 90 days	30,053	20,655
91 days to 120 days	16,046	11,279
Over 120 days	10,606	9,888
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	128,634	116,401
Less: Provision	(1,707)	(1,746)
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	126,927	114,655
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Customers are generally granted with credit terms of 30 days to 120 days.

9. FINANCIAL ASSETS AS FAIR VALUE THROUGH PROFIT OR LOSS

	30th June 2005 HK\$'000	31st December 2004 HK\$'000
Listed equity securities in Hong Kong, at market value	<u>3,762</u>	<u>2,253</u>

10. TRADE PAYABLES

Details of the ageing analysis are as follows:

	30th June 2005 HK\$'000	31st December 2004 HK\$'000
Current to 30 days	3,261	4,772
31 days to 60 days	2,019	1,874
Over 60 days	27	9
	<u>5,307</u>	<u>6,655</u>

11. SHARE CAPITAL

	30th June 2005	
	<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>

Effective from 24th June 2004, the Company has adopted a new share option scheme (the "New Scheme") and terminated the old scheme adopted on 27th November 2000. A summary of the terms of the New Scheme was contained in the Company's circular dated 28th April 2004.

No options had been granted or outstanding under the share option scheme operated by the Company up to the date of this report.

12. RESERVES

	Share premium <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i>	Merger reserve <i>HK\$'000</i>	Investment properties revaluation reserve <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1st January 2005 (as previously reported)	29,345	34,115	3,700	2,811	168,068	238,039
Adjustment on adoption of HKAS 40						
Investment property revaluation reserve	—	—	—	(2,811)	2,811	—
As restated	29,345	34,115	3,700	—	170,879	238,039
Profit attributable to shareholders	—	—	—	—	26,341	26,341
2004 final dividend declared	—	—	—	—	(7,256)	(7,256)
2005 interim dividend proposed	—	—	—	—	(4,837)	(4,837)
At 30th June 2005	<u>29,345</u>	<u>34,115</u>	<u>3,700</u>	<u>—</u>	<u>185,127</u>	<u>252,287</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	
	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
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.