

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30th June, 2005

1. BASIS OF PREPARATION

The condensed financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing Securities on The Stock Exchange of Hong Kong Limited and with Hong Kong Accounting Standard 34 *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA")

2. PRINCIPAL ACCOUNTING POLICIES

The condensed financial statements have been prepared in consistent with those followed in the Annual Report 2004 except the adoption of new Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as "new HKFRSs") which are effective for accounting periods commencing on or after January 1, 2005. The adoption of the new HKFRSs has no material effect on the results for the current or prior accounting periods. Accordingly, no prior period adjustment is required. The adoption of the new HKFRSs has resulted in certain changes in the presentation of the condensed financial statements as set out below. Certain comparative figures have been reclassified to conform with the current period's presentation.

Presentation of Financial Statements

The application of the HKAS 1 "Presentation of Financial Statements" has resulted in a change in the presentation of the income statement, balance sheet and the statement of changes in equity. In particular, the presentation of minority interests and share of tax of associates have been changed. The changes in presentation have been applied retrospectively.

Share-based Payments

In the current period, the Group has applied HKFRS 2 *Share-based Payment* which requires an expense to be recognized where the Group buys goods or obtains services in exchange for shares or 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 principle 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 Company has no options granted to employee for the period 1 January, 2004 to 30 June, 2005.

INTERIM RESULTS

Owner-occupied Leasehold Interest in Land

In previous periods, leasehold land and buildings held for own use were stated at cost less accumulated depreciation and any impairment losses.

Upon the adoption of HKAS 17, the Group's leasehold interests in land and buildings are separated into leasehold land and leasehold buildings. The Group's interest in leasehold land is classified as an operating lease, because the title of the land is not expected to pass to the Group by the end of the lease term, and is reclassified from fixed assets to prepaid lease payments, while leasehold buildings continue to be classified as part of fixed assets. Lease premiums for land paid under operating leases are initially stated at cost and subsequently amortized on the straight-line basis over the remaining lease term starting from August, 2002 in accordance with the pattern of benefits provided.

This change in accounting policy has no effect on the condensed consolidated income statement and retained earnings. The comparatives on the condensed consolidated balance sheet for the year ended 31 December, 2004 have been revised to reflect the reclassification of leasehold land.

Financial Instruments

In the current period, the Group has applied HKAS 32 *Financial Instruments: Disclosure and Presentation* and HKAS 39 *Financial Instruments: Recognition and Measurement*. HKAS 32 requires retrospective application. HKAS 39, which is effective for annual periods beginning on or after 1 January, 2005, generally does not permit to recognize, derecognize or measure financial assets and liabilities on a retrospective basis. The principal effects resulting from the implementation of HKAS 32 and HKAS 39 are summarized below:

INTERIM RESULTS

Classification and measurement of financial assets and financial liabilities

From 1 January, 2005 onwards, the Group classifies and measures its financial assets and financial liabilities in accordance with the requirements of HKAS 39. Financial assets under HKAS 39 are classified as “financial assets at fair value through profit or loss”, “available-for-sale financial assets”, “loans and receivables” or “held-to-maturity financial assets”. Financial liabilities under HKAS 39 are classified as “financial liabilities at fair value through profit or loss” or “financial liabilities other than financial liabilities at fair value through profit or loss (“other financial liabilities”)”. Other financial liabilities are carried at amortized cost using the effective interest method. As a result of the adoption of HKAS 39, the Group has redesignated “investments in securities” and “other assets” recorded on the consolidated balance sheet at 31 December, 2004 amounting to HK\$11,052,000 and HK\$11,325,000 as “available-for-sale investments”.

Derivatives

From 1 January, 2005 onwards, all derivatives that are within the scope of HKAS 39 are required to be carried at fair value at each balance sheet date regardless of whether they are deemed as held for trading or designated as effective hedging instruments. Under HKAS 39, derivatives (including embedded derivatives separately accounted for from the host contracts) are deemed as held-for-trading financial assets or financial liabilities, unless they qualify and are designated as effective hedging instruments. The corresponding adjustments on changes in fair values would depend on whether the derivatives are designated as effective hedging instruments, and if so, the nature of the item being hedged. For derivatives that are deemed as held for trading, changes in fair values of such derivatives are recognized in profit or loss for the period in which they arise.

Offsetting of financial assets and financial liabilities

In accordance with HKAS 32, in accounting for a transfer of a financial asset that does not qualify for derecognition under HKAS 39, the Group cannot offset the transferred assets and the associated liabilities. As a result of the adoption of HKAS 32 and HKAS 39, the Group’s trade receivable of HK\$115,326,000, export bills discounted of HK\$3,747,000 and the associated bank borrowings of the same amounts which were previously offset have been restated on 31 December, 2004.

INTERIM RESULTS

3. SEGMENTAL INFORMATION

The analysis of the turnover of the Group and the contribution to profit before taxation by principal activity was as follow:

	Turnover		Contribution to profit before taxation	
	Six months ended 30th June		Six months ended 30th June	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
By Principal Activity:				
Continuing operations:				
Trading and distribution				
– Industrial products	847,933	915,655	72,776	92,935
Manufacturing				
– Industrial products	1,194,393	926,478	13,942	(7,589)
Others	21,868	21,435	3,266	(1,821)
	2,064,194	1,863,568	89,984	83,525
Gain on disposal of partial interest in a subsidiary			21,539	–
Loss on disposal of an associate			(227)	–
Share of result of an associate			–	(33)
Profit before taxation			111,296	83,492

4. TAXATION

	Six months ended 30th June	
	2005 HK\$'000	2004 HK\$'000
The charge comprises:		
The Company and its subsidiaries		
Hong Kong	7,079	9,395
Other jurisdictions	10,162	7,333
	17,241	16,728

Hong Kong Profits Tax is calculated at the rate of 17.5% (2004: 17.5%) on the estimated assessable profit for the period of each member of the Group in Hong Kong. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

INTERIM RESULTS

5. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the earnings of HK\$85,451,000 (2004: HK\$61,788,000) and the weighted average number of ordinary shares of 692,791,964 shares (2004: 692,791,964 shares).

No diluted earnings per share has been presented for both periods ended 30 June, 2005 & 2004 as there is no dilutive potential ordinary shares in issue during the periods.

6. TRADE AND OTHER RECEIVABLES

Included in trade and other receivables are trade receivables of HK\$1,181,610,000 (At 31st December, 2004: HK\$1,015,574,000). The Group has a policy of allowing an average credit period of 60 days to its trade customers. The following is an aged analysis of trade receivables at the reporting date:

	30th June 2005 HK\$'000	31st December 2004 HK\$'000
0 to 30 days	371,137	320,454
31 to 60 days	203,995	202,145
61 to 90 days	164,163	133,801
Over 90 days	442,315	359,174
	<hr/> 1,181,610	<hr/> 1,015,574

7. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payable of HK\$496,769,000 (At 31st December, 2004: HK\$553,357,000). The following is an aged analysis of trade payables at the reporting date:

	30th June 2005 HK\$'000	31st December 2004 HK\$'000
0 to 30 days	201,081	204,147
31 to 60 days	103,989	133,090
61 to 90 days	33,769	22,055
Over 90 days	157,930	194,065
	<hr/> 496,769	<hr/> 553,357

INTERIM RESULTS

8. SHARE CAPITAL

	Number of ordinary shares of HK\$0.10 each	Amount HK\$'000
Issued and fully paid:		
At 31st December, 2004 &		
At 30th June, 2005	692,791,964	69,279

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the period.

9. RELATED PARTY TRANSACTIONS

During the period, the Group has entered into the following transactions with related parties:

	Trade sales		Trade purchases		Rental expense		Loan interest expense	
	Six months ended 30 June		Six months ended 30 June		Six months ended 30 June		Six months ended 30 June	
	2005	2004	2005	2004	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Related parties*	1,010	3,643	12	9,563	145	145	475	377

* *Related parties are companies of which Directors are close family members of Mr. Senta Wong and a company which is a supervisor of a subsidiary of the Group in Taiwan.*

The prices of the above transactions were determined by the Directors by reference to market prices for similar transactions.

10. COMMITMENTS AND CONTINGENT LIABILITIES

	30th June 2005 HK\$'000	31st December 2004 HK\$'000
Capital commitments contracted for in respect of acquisition of fixed assets	–	157