

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2005

### 1. Basis of Preparation and Accounting Policies

The unaudited condensed consolidated interim financial statements have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financing Reporting” and the applicable disclosure requirements of Appendix 16 to Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

The accounting policies and basis of preparation adopted in the preparation of the interim financial statements are the same as those used in the annual financial statements for the year ended 31 December 2004, except for the adoption of the new and revised Hong Kong Financial Reporting Standards (“HKFRSs”, which term collectively includes HKFRSs, HKASs and Interpretations) that are effective on or after 1 January 2005.

The adoption of the HKFRSs that has a material impact on the accounting policies of the Group and the methods of computation in the Group’s unaudited condensed consolidated interim financial statements is summarised as follows:

(a) *HKAS 17 “Leases”*

The adoption of revised HKAS 17 has resulted in a change in the accounting policy relating to the reclassification of land use rights from property, plant and equipment to operating leases. The upfront prepayments made for land use rights are expensed in the profit and loss account on a straight-line basis over the period of the lease or where there is an impairment, the impairment is expensed in the profit and loss account. In prior years, the land use rights were accounted for at cost less accumulated depreciation and accumulated impairment. The change in accounting policy has been applied retrospectively.

In the opinion of the Directors, the land use rights of the Group’s leasehold property situated overseas does not have any commercial value. Accordingly, no reclassification of land use rights from property, plant and equipment to operating leases has been made. There was no impact on opening retained profits from the adoption of HKAS 17.

**1. Basis of Preparation and Accounting Policies (continued)***(b) HKAS 40 "Investment Property"*

The Group's investment property is stated at its open market value on the basis of annual valuation. In prior years, any surplus or deficit on revaluation was taken to the investment property revaluation reserve unless the total of this reserve was insufficient to cover a deficit, in which case the amount by which the deficit exceeded the amount in the reserve was charged to the profit and loss account. Following the adoption of HKAS 40, changes in fair value of the investment property are included in the profit and loss account. The change in accounting policy has been applied retrospectively. There was no impact on opening retained profits from the adoption of HKAS 40.

*(c) HKFRS 2 "Share-based Payment"*

The adoption of HKFRS 2 has resulted in a change in the accounting policy for share-based payments. Until 31 December 2004, the provision of share options to employees (including Directors) did not result in an expense in the profit and loss account. Effective on 1 January 2005, the Group recognises the fair value of the share options as an expense in the profit and loss account. A corresponding increase is recognised in a capital reserve within equity. Where the employees are required to meet vesting conditions before they become entitled to the options, the Group recognises the fair value of the options granted over the vesting period. Otherwise, the Group recognises the fair value in the period in which the options are granted.

The Group has taken advantage of the transitional provisions of HKFRS 2 under which the new recognition and measurement policies have not been applied to options granted after 7 November 2002 and vested before 31 December 2004.

The Directors have preliminarily assessed that the compensation expense resulting from the options granted during the six months ended 30 June 2005 were immaterial to the unaudited condensed consolidated interim financial statements and accordingly, no amounts have been included in the financial statements. The options are exercisable starting from the date of grant and the options have a contractual option term of five years. The Company has no legal or constructive obligation to repurchase or settle the options in cash.

## 1. Basis of Preparation and Accounting Policies (continued)

- (d) HKFRS 3 "Business Combinations", HKAS 36 "Impairment of Assets" and HKAS 38 "Intangible Assets"

The adoption of HKFRS 3, HKAS 36 and HKAS 38 has resulted in a change in the accounting policy for goodwill. Until 31 December 2004, goodwill was:

- Amortised on a straight-line basis over the economic useful life; and
- Assessed for an indication of impairment at each balance sheet date.

In accordance with the provisions of HKFRS 3:

- the Group ceased amortisation of goodwill from 1 January 2005;
- Accumulated amortisation as at 31 December 2004 has been eliminated with a corresponding decrease in the cost of goodwill; and
- From the year ending 31 December 2005 onwards, goodwill is tested annually for impairment, as well as when there is indication for impairment.

HKFRS 3 has been adopted prospectively after the adoption date.

The Group has not early applied the following new HKASs or Interpretations that have been issued but are not yet effective. The Directors of the Company anticipate that the application of these HKASs and Interpretations will have no material impact on the financial statements of the Group:

HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 (Amendment)	The Fair Value Option
HKFRS 6	Exploration for the Evaluation of Mineral Resources
HKFRS-Int 4	Determining whether an Arrangement Contains a Lease
HKFRS-Int 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds

## 2. Turnover, Revenue and Segmented Information

An analysis of the Group's turnover/revenue and results for the period by business segments and geographical area is as follows:

	Turnover/Revenue		Contribution to operating (loss)/profit	
	2005	2004	2005	2004
	(unaudited) HK\$'000	(unaudited) HK\$'000	(unaudited) HK\$'000	(unaudited) HK\$'000
<b>By activity</b>				
Home furniture	<b>97,858</b>	–	<b>13,464</b>	–
Electronic components and products	<b>69,280</b>	59,935	<b>2,999</b>	906
Smart card technology	<b>1,069</b>	3,969	<b>(2,588)</b>	806
Property investments	<b>789</b>	789	<b>565</b>	554
Building materials and sundry products	<b>1,653</b>	–	<b>(16)</b>	–
	<b>170,649</b>	64,693	<b>14,424</b>	2,266
Interest and other income			<b>1,492</b>	13,869
Unallocated corporate expenses			<b>(26,042)</b>	(10,350)
Share of results of associates			<b>51</b>	1,626
Finance costs			<b>(2,861)</b>	(1,327)
			<b>(12,936)</b>	6,084
<b>By geographical area</b>				
Asia	<b>162,420</b>	61,322	<b>13,351</b>	1,799
North America	<b>5,085</b>	41	<b>640</b>	1
Europe	<b>3,144</b>	3,330	<b>433</b>	466
	<b>170,649</b>	64,693	<b>14,424</b>	2,266

### 3. (Loss) / Profit from Operating Activities

This is stated at after crediting:

	<b>Six months ended 30 June</b>	
	<b>2005</b>	2004
	<b>(unaudited)</b>	(unaudited)
	<b>HK\$'000</b>	HK\$'000
Gross rental income	<b>789</b>	789
Less: outgoings	<b>(224)</b>	(235)
Net rental income	<b>565</b>	554
Interest income	<b>504</b>	964
Gain on listed investments	<b>-</b>	5,989
and after charging:		
Amortisation on goodwill	<b>-</b>	1,007
Impairment loss on interest of an associate	<b>10,304</b>	-
Deficit on listed investments	<b>9,864</b>	-
Depreciation of properties, plant and equipment	<b>1,853</b>	1,549
Bad and doubtful debts	<b>-</b>	940

### 4. Finance Costs

	<b>Six months ended 30 June</b>	
	<b>2005</b>	2004
	<b>(unaudited)</b>	(unaudited)
	<b>HK\$'000</b>	HK\$'000
Interest and similar charges on:		
Bank loans and overdrafts wholly repayable within five years	<b>2,861</b>	1,327

## 5. Taxation

Provision for Hong Kong profits tax has been made at the current rate of taxation of 17.5% on the estimated assessable profit for the period (2004: Nil). Taxes on income earned outside Hong Kong have been calculated at the rates of taxation prevailing in the countries in which the Group operates, based on existing law, practice and interpretation thereof.

	<b>Six months ended 30 June</b>	
	<b>2005</b>	2004
	<b>(unaudited)</b>	(unaudited)
	<b>HK\$'000</b>	HK\$'000
Current period provision:		
Outside Hong Kong	<b>300</b>	23
Taxation	<b>300</b>	23

## 6. (Loss)/Earnings Per Share

The calculation of basic loss per share is based on the net loss attributable to shareholders of HK\$18,577,000 (2004: profit of HK\$5,042,000) and the weighted average of 130,782,023 shares (2004: 92,713,630 shares – adjusted for Open Offer) in issue during the Current Period.

The diluted earnings per share for the period ended 30 June 2004 was based on the net profit attributable to shareholders of HK\$5,042,000 and the weighted average of 92,936,225 shares (adjusted for Open Offer) which is adjusted for the effect of share options outstanding during the period. No diluted loss per share is presented for the six months ended 30 June 2005 as the exercise of share options outstanding would be anti-dilutive.

## 7. Long Term Investments

	<b>30 June</b>	31 December
	<b>2005</b>	2004
	<b>(unaudited)</b>	(audited)
	<b>HK\$'000</b>	HK\$'000
Unlisted equity investments, at cost	<b>23,700</b>	23,700

## 8. Interests in Associates

Information relating to the Group's associates included mainly PVP Limited and its subsidiaries, as required by HKAS 28 "Accounting for investments in associates" is as follows:

	<b>Six months ended 30 June</b>	
	<b>2005</b>	2004
	<b>(unaudited)</b>	(unaudited)
	<b>HK\$'000</b>	HK\$'000
Turnover	<b>2,214</b>	6,021
(Loss) / profit for the period	<b>(10)</b>	3,859
	<b>30 June</b>	31 December
	<b>2005</b>	2004
	<b>(unaudited)</b>	(audited)
	<b>HK\$'000</b>	HK\$'000
Non-current assets	<b>115,617</b>	117,798
Current assets	<b>16,540</b>	16,244
Current liabilities	<b>(4,981)</b>	(5,196)
Non-current liabilities	<b>(7,250)</b>	(8,910)

## 9. Trade and Other Receivables

	<b>30 June</b>	31 December
	<b>2005</b>	2004
	<b>(unaudited)</b>	(audited)
	<b>HK\$'000</b>	HK\$'000
Current	<b>53,483</b>	58,204
One to three months	<b>27,093</b>	19,362
More than three months	<b>26,722</b>	21,445
	<b>107,298</b>	99,011

**10. Listed Investments**

	<b>30 June 2005 (unaudited) HK\$'000</b>	31 December 2004 (audited) HK\$'000
Listed equity investments, at market value:		
Hong Kong	<b>43</b>	49
Overseas	<b>14,358</b>	24,216
	<b>14,401</b>	24,265

**11. Trade and Other Payables**

	<b>30 June 2005 (unaudited) HK\$'000</b>	31 December 2004 (audited) HK\$'000
Current	<b>17,349</b>	39,521
One to three months	<b>24,453</b>	21,881
More than three months	<b>22,561</b>	13,096
	<b>64,363</b>	74,498



## 12. Interest Bearing Bank Borrowings

	<b>30 June 2005 (unaudited) HK\$'000</b>	31 December 2004 (audited) HK\$'000
Due within one year:		
Bank overdrafts – secured	<b>6,204</b>	6,833
Bank import loans – secured	<b>34,375</b>	31,421
Bank loan – secured	<b>1,887</b>	1,887
Bank loan – unsecured	<b>9,433</b>	9,891
	<b>51,899</b>	50,032
Repayable in the second year		
Bank term loans – secured	<b>2,278</b>	1,000
Repayable in the third to fifth years, inclusive		
Bank term loans – secured	<b>2,334</b>	2,834
	<b>4,612</b>	3,834
	<b>56,511</b>	53,866

The above secured bank borrowings are secured by:

- (a) charges over time deposits and guaranteed funds of approximately HK\$14,706,000 (31 December 2004: HK\$16,288,000)
- (b) charges over the Group's land and buildings situated overseas, with net book value at the balance sheet date of HK\$4,080,000 (31 December 2004: HK\$4,220,000).
- (c) against guarantees issued by certain subsidiaries and a Director of these subsidiaries.

**13. Share Capital**  
**Ordinary shares**

	<b>Number of ordinary shares of HK\$0.01 each</b>	<b>Amount</b> <i>HK\$'000</i>
<b>Authorised:</b>		
1 January 2005 and <b>30 June 2005</b>	15,000,000,000	150,000
<b>Issued and fully paid:</b>		
1 January 2005	91,292,768	913
Issue of new shares	59,146,384	591
<b>30 June 2005</b>	150,439,152	1,504

- i) On 28 February 2005, the Company issued 9,000,000 new shares at the placing price of HK\$0.96 per share pursuant to the placing agreement entered into between the Company and Tai Fook Securities Company Limited dated 4 February 2005.
- ii) On 23 May 2005, the Company issued 50,146,384 new shares at the subscription price of HK\$0.38 per share pursuant to the open offer on the basis of one offer share for every two shares held by the then shareholders of the Company on the specified record date.

## 14. Reserves

	Share Premium	Contributed surplus	Exchange fluctuation reserve	Enterprises Development Fund	Reserve Fund	Retained profits/ (Accumulated losses)	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>31 December 2004 (audited) and 1 January 2005</b>	90,219	83,274	10,269	-	-	8,690	192,452
Currency translation differences	-	-	30	-	-	-	30
Loss for the period	-	-	-	-	-	(18,577)	(18,577)
Transfer	-	-	-	15	15	(38)	(8)
Issue of new shares	27,104	-	-	-	-	-	27,104
Share issue expenses	(1,093)	-	-	-	-	-	(1,093)
<b>30 Jun 2005 (unaudited)</b>	116,230	83,274	10,299	15	15	(9,925)	199,908

## 15. Commitments

	<b>30 June 2005 (unaudited) HK\$'000</b>	31 December 2004 (audited) HK\$'000
Capital commitments		
– contracted for	<b>10,621</b>	30,189
– authorized but not contracted for	<b>–</b>	–
	<b>10,621</b>	30,189
Total minimum commitments under non-cancellable operating leases for land and buildings due:		
As lessee		
Within one year	<b>4,234</b>	8,004
In the second to fifth years, inclusive	<b>12,616</b>	12,426
After five years	<b>27,309</b>	21,223
	<b>44,159</b>	41,653
As lessor		
Within one year	<b>1,577</b>	1,577
In the second to fifth years, inclusive	<b>4,337</b>	5,126
After five years	<b>–</b>	–
	<b>5,914</b>	6,703

## 16. Related Party Transactions

	<b>Six months ended 30 June 2005 (unaudited) HK\$'000</b>	2004 (unaudited) HK\$'000
Rental income charged to associates	<b>195</b>	12
General and administrative expenses charged to an associate	<b>180</b>	–
Interest income from associates	<b>217</b>	217