

# **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 applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and with Hong Kong Accountant Standard (HKAS 34) “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

## **2. PRINCIPAL ACCOUNTING POLICIES**

The condensed financial statements have been prepared under the historical cost basis except for certain properties and financial instruments, which are measured at fair values or revalued amounts, as appropriate.

The accounting policies used in condensed financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31<sup>st</sup> December, 2004 except as described below.

In the current period, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standard (HKFRSs), Hong Kong Accounting Standards (HKASs) and Interpretations (Int.) (hereinafter collectively referred to as "new HKFRSs") issued by the HKICPA that are effective for accounting periods beginning on or after 1<sup>st</sup> January, 2005. The application of the new HKFRSs 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. The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current or prior accounting periods are prepared and presented :

### **BUSINESS COMBINATION**

In the current period, the Group has applied HKFRS 3 "Business Combinations", which is effective for business combinations for which the agreement date is on or after 1<sup>st</sup> January, 2005. The principal effects of the application of HKFRS 3 to the Group are summarised below:

Excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost (previously known as "negative goodwill")

In accordance with HKFRS 3, any excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition ("discount on acquisition") is recognised immediately in profit or loss in the period in which the acquisition takes place. In previous periods, negative goodwill arising on acquisitions prior to 1<sup>st</sup> January, 2001 was held in reserves, and negative goodwill arising on acquisitions after 1<sup>st</sup> January, 2001 was presented as a deduction from assets and released to income based on an analysis of the circumstances from which the balance resulted. In accordance with the relevant transitional provisions in HKFRS 3, the Group has derecognised all negative goodwill, which amounted to HK\$22,988,000 at 1<sup>st</sup> January, 2005 and was previously recorded in reserves, with a corresponding increase to retained profits.

### **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. The application of HKAS 32 has had no material effect on the presentation of financial instruments in the financial statements of the Group. HKAS 39, which is effective for annual periods beginning on or after 1<sup>st</sup> January, 2005, generally does not permit to recognise, derecognise or measure financial assets and liabilities on a retrospective basis. The principal effects resulting from the implementation of HKAS 39 are summarised below:

#### Classification and measurement of financial assets and financial liabilities

The Group has applied the relevant transitional provisions in HKAS 39 with respect to classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

By 31<sup>st</sup> December, 2004, the Group classified and measured its debt and equity securities in accordance with the benchmark treatment of Statement of Standard Accounting Practice 24 “Accounting for Investment in Securities” (SSAP 24). Under SSAP 24, investments in debt or equity securities are classified as “investment securities”, “other investments” or “held-to-maturity investments” as appropriate. “Investment securities” are carried at cost less impairment losses while “other investments” are measured at fair value, with unrealised gains or losses included in the profit or loss. Held-to-maturity investments are carried at amortised cost less impairment losses (if any). From 1<sup>st</sup> January, 2005 onwards, the Group classifies and measures its debt and equity securities in accordance with HKAS 39. Under HKAS 39, financial assets 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”. The classification depends on the purpose for which the assets are acquired. “Financial assets at fair value through profit or loss” are carried at fair value, with changes in fair values recognised in profit or loss and equity respectively. “Available-for-sale financial assets” are carried at cost less impairment, as fair value cannot be reliably measured. “Loans and receivables” and “held-to-maturity financial assets” are measured at amortised costs using the effective interest method.

On 1<sup>st</sup> January, 2005, the Group classified and measured its debt and equity securities in accordance with the requirements of HKAS 39. An adjustment of HK\$4,305,000 to the previous carrying amounts of assets and liabilities at 1<sup>st</sup> January, 2005 has been made to the Group’s retained earnings.

#### Financial assets and financial liabilities other than debt and equity securities

From 1<sup>st</sup> January, 2005 onwards, the Group classifies and measures its financial assets and financial liabilities other than debt and equity securities (which were previously outside the scope of SSAP 24) in accordance with the requirements of HKAS 39. As mentioned above, 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 are generally

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 amortised cost using the effective interest method.

#### **INVESTMENT PROPERTIES**

In the current period, the Group has, for the first time, applied HKAS 40 “Investment Property”. The Group has elected to use the fair value model to account for its investment properties which requires gains or losses arising from changes in the fair value of investment properties to be recognised directly in the profit or loss for the period in which they arise. In previous periods, investment properties under the predecessor accounting standard were measured at open market values, with revaluation surplus or deficits credited or charged to investment property revaluation reserve unless the balance on this reserve was insufficient to cover a revaluation decrease, in which case the excess of the revaluation decrease over the balance on the investment property revaluation reserve was charged to the income statement. Where a decrease had previously been charged to the income statement and revaluation subsequently arose, that increase was credited to the income statement to the extent of the decrease previously charged. The Group has applied the relevant transitional provisions in HKAS 40 and elected to apply HKAS 40 from 1<sup>st</sup> January, 2005 onwards. The amount held in investment property revaluation reserve at 1<sup>st</sup> January, 2005 of HK\$7,089,000 has been transferred to the Group’s retained profits.

#### **DEFERRED TAXES RELATED TO INVESTMENT PROPERTIES**

In previous periods, deferred tax consequences in respect of revalued investment properties were assessed on the basis of the tax consequence that would follow from recovery of the carrying amount of the properties through sale in accordance with the predecessor interpretation. In the current period, the Group has applied HKAS Interpretation 21 “Income Taxes – Recovery of Revalued Non-Depreciable Assets” which removes the presumption that the carrying amount of investment properties are to be recovered through sale. Therefore, the deferred tax consequences of the investment properties are now assessed on the basis that reflect the tax consequences that would follow from the manner in which the Group expects to recover the property at each balance sheet date. In the absence of any specific transitional provisions in HKAS Interpretation 21, this change in accounting policy has been applied retrospectively. Comparative figures have been restated.

The Group has not early applied the following new Standards or Interpretations that have been issued but are not yet effective.

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 and Evaluation of Mineral Resources

HKFRS-Int 4  
HKFRS-Int 5

Determining whether an Arrangement Contains a Lease  
Rights to Interests Arising from Decommissioning,  
Restoration and Environmental Rehabilitation Funds

The Group has commenced considering the potential impact of these new HKFRSs but is not yet in a position to determine whether these new HKFRSs would have a significant impact on how its results of operations and financial position are prepared and presented. These new HKFRSs may result in changes in future as to how the results and financial position are prepared and presented.

### 3. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES

The effects of the adoption of new HKFRSs on the results for the six months ended 30<sup>th</sup> June, 2005 and 2004 (unaudited) are as follows:

	2005 HK\$'000	2004 HK\$'000
Gain arising from changes in fair value of investments held for trading	4,297	-
Loss arising from changes in fair value of other financial assets	(1,506)	-
Increase in share of loss of associates	(127)	(33)
Decrease in income tax expense	127	33
Decrease in deferred tax on revaluation of investment properties (including in income tax expense)	(322)	-
Gain arising from changes in fair value of investment properties	9,955	-
Increase in profit for the period	12,424	-
	=====	=====

The cumulative effects of the application of the new HKFRSs as at 31<sup>st</sup> December, 2004 and 1<sup>st</sup> January, 2005 are summarised below:

	<u>Retrospective Adjustments</u>			As at 31 <sup>st</sup> December, 2004 (restated) HK\$'000	<u>Adjustment</u>			As at 1 <sup>st</sup> January, 2005 (restated) HK\$'000
	As at 31 <sup>st</sup> December, 2004 (originally stated) HK\$'000	HKAS 1 & HKAS 27 HK\$'000	HKAS Int.21 HKD'000		HKFRS 3 HK\$'000	HKAS 39 HK\$'000	HKAS 40 HK\$'000	
Investments in securities (Non-current)	23,419	-	-	23,419	-	4,305	-	27,724
Deferred tax liabilities	<u>(7,473)</u>	<u>-</u>	<u>852</u>	<u>(6,621)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(6,621)</u>
Total effects on assets and liabilities		<u>-</u>	<u>852</u>		<u>-</u>	<u>4,305</u>	<u>-</u>	
Retained profits	383,536	-	907	384,443	22,988	4,305	7,089	418,825

Capital								
reserve	22,988	-	-	22,988	(22,988)	-	-	-
Investment								
properties								
revaluation								
reserve	7,144	-	(55)	7,089	-	-	(7,089)	-
Minority								
interests	<u>-</u>	<u>19,774</u>	<u>-</u>	<u>19,774</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>19,774</u>
Total								
effects on								
equity		<u>19,774</u>	<u>852</u>		<u>-</u>	<u>4,305</u>	<u>-</u>	
Minority								
interests	<u>19,774</u>	<u>(19,774)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

The effect on the adoption of new HKFRS to the Group's equity at 1<sup>st</sup> January, 2005 was to increase the retained profits by HK\$970,000 due to the applicable of HKAS Int 21 as mentioned on page 4.

#### 4. SEGMENT INFORMATION

The turnover and segment results of the Group for the six months ended 30<sup>th</sup> June, 2005, analysed by business segments which is the primary segment, are as follows:

##### For the six months ended 30<sup>th</sup> June, 2005

	<b>Sales of chemicals and metals HK\$' 000</b>	<b>Property investment HK\$' 000</b>	<b>Security investment HK\$' 000</b>	<b>Other activities HK\$' 000</b>	<b>Eliminations HK\$' 000</b>	<b>Consolidated HK\$' 000</b>
<b>TURNOVER</b>						
External						
Sales	933,258	7,736	2,733	245	-	943,972
Inter-segment sales	<u>-</u>	<u>600</u>	<u>-</u>	<u>-</u>	<u>(600)</u>	<u>-</u>
Total turnover	<u>933,258</u>	<u>8,336</u>	<u>2,733</u>	<u>245</u>	<u>(600)</u>	<u>943,972</u>
<b>SEGMENT RESULT</b>						
	<u>24,845</u>	<u>17,028</u>	<u>2,773</u>	<u>28</u>	<u>-</u>	44,674
Interest income from bank deposits						1,582
Unallocated other operating income						319
Unallocated corporate expenses						(5,243)
Finance costs						(3,656)
Share of profit of associates						<u>3,346</u>
<b>Profit before taxation</b>						<u>41,022</u>

##### For the six months ended 30<sup>th</sup> June, 2004

	<b>Sales of chemicals and metals HK\$' 000</b>	<b>Property investment HK\$' 000</b>	<b>Security investment HK\$' 000</b>	<b>Other activities HK\$' 000</b>	<b>Eliminations HK\$' 000</b>	<b>Consolidated HK\$' 000 (restated)</b>
<b>TURNOVER</b>						
External						
Sales	860,527	7,030	2,175	588	-	870,320
Inter-segment sales	<u>-</u>	<u>897</u>	<u>-</u>	<u>4,007</u>	<u>(4,904)</u>	<u>-</u>

Total turnover	<u>860,527</u>	<u>7,927</u>	<u>2,175</u>	<u>4,595</u>	<u>(4,904)</u>	<u>870,320</u>
<b>SEGMENT RESULT</b>	<u>24,136</u>	<u>4,192</u>	<u>(980)</u>	<u>(48)</u>	<u>-</u>	27,396
Interest income from bank deposits						1,155
Unallocated other operating income						2,319
Unallocated corporate expenses						(4,852)
Finance costs						(1,749)
Share of loss of associates						<u>(2,074)</u>
<b>Profit before taxation</b>						<u>22,195</u>

Inter-segment transactions are charged at prevailing market rates.

## 5. OTHER OPERATING INCOME

Other operating income comprises:

	<b>Six months ended 30.6.2005 HK\$' 000</b>	<b>Six months ended 30.6.2004 HK\$' 000</b>
Interest income from bank deposits	1,582	1,155
Sundry income	<u>319</u>	<u>2,319</u>
	<u><u>1,901</u></u>	<u><u>3,474</u></u>

## **6. FINANCE COSTS**

The finance costs represent interest on bank borrowings wholly repayable within five years.

## 7. INCOME TAX EXPENSE

	<b>Six months ended 30.6.2005 HK\$' 000</b>	<b>Six months ended 30.6.2004 HK\$' 000</b>
The tax charge comprises:		
Current taxation		
Hong Kong Profits Tax	4,294	3,217
Profit tax outside Hong Kong	<u>958</u>	<u>1,393</u>
	5,252	4,610
Deferred Taxation	<u>1,048</u>	<u>-</u>
	<u><u>6,300</u></u>	<u><u>4,610</u></u>

Hong Kong Profit Tax is calculated at 17.5% of the estimated assessable profit for the period.

Taxation outside Hong Kong is calculated at the rates prevailing in the respective jurisdictions.

## 8. DIVIDEND

	<b>Six months ended 30.6.2005 HK\$' 000</b>	<b>Six months ended 30.6.2004 HK\$' 000</b>
Final dividend paid in respect of the year ended 31 <sup>st</sup> December, 2004 of 10 HK cents (year ended 31 <sup>st</sup> December, 2003: 2.5 HK cents) per ordinary share	<u>44,550</u>	<u>11,138</u>

Interim dividend of 10.0 cents per share, amounting to HK\$ 44,550,000, was approved by the board of directors on 21<sup>st</sup> September, 2005.

## **9. EARNINGS PER SHARE**

The calculation of the earnings per share attributable to the equity holders of the parent is based on the profit attributable to the equity holders of the parent for the period of HK\$33,611,000 (six months ended 30.6.2004: HK\$17,275,000) and on 445,500,000 ordinary shares (six months ended 30.6.2004: 445,500,000 ordinary shares) in issue during the period.

## **10. INVESTMENT PROPERTIES**

The investment properties were revalued at 30<sup>th</sup> June, 2005 by Knight Frank Hong Kong Limited, an independent firm of professional valuers, on a market value in existing state basis. The gain arising from changes in fair value of investment properties of HK\$9,955,000 has been recognised directly in the income statement.

## 11. INTERESTS IN ASSOCIATES

	<b>30.6.2005</b> <b>HK\$' 000</b>	<b>31.12.2004</b> <b>HK\$' 000</b>
Share of net assets	28,358	24,938
Goodwill arising on acquisition, net	20,504	20,504
Impairment loss recognised in respect of goodwill arising on acquisition	<u>(20,504)</u>	<u>(20,504)</u>
	<u>28,358</u>	<u>24,938</u>

## **12. AVAILABLE FOR SALE INVESTMENTS**

As at 30<sup>th</sup> June, 2005, investment in equity instruments that are not measured at fair value amounted to HK\$585,000 as their fair value cannot be measured reliably and accordingly, they continue to be carried at cost less impairment.

### **13. INVENTORIES**

Included in inventories are finished goods of HK\$2,126,000 (31.12.2004: HK\$12,224,000) carried at fair value less cost to sell.

#### 14. DEBTORS, DEPOSITS AND PREPAYMENTS

The Group allows an average credit period ranging from cash on delivery to 120 days to its trade debtors. The aged analysis of trade debtors of HK\$156,894,000 (31.12.2004: HK\$128,800,000) which are included in the Group's debtors, deposits and prepayments is as follows:

	<b>30.6.2005</b>	<b>31.12.2004</b>
	<b>HK\$' 000</b>	<b>HK\$' 000</b>
0 – 30 days	83,494	69,387
31 – 60 days	46,909	32,645
61 – 90 days	16,352	16,102
91 – 120 days	8,746	7,434
121 – 365 days	<u>1,393</u>	<u>3,232</u>
	<u><b>156,894</b></u>	<u><b>128,800</b></u>

## 15. CREDITORS AND ACCRUED CHARGES

The aged analysis of the trade creditors of HK\$25,597,000 (31.12.2004: HK\$12,071,000) which are included in the Group's creditors and accrued charges is as follows:

	<b>30.6.2005</b> <b>HK\$' 000</b>	<b>31.12.2004</b> <b>HK\$' 000</b>
0 – 30 days	24,460	11,816
31 – 60 days	711	203
61 – 90 days	426	6
91 – 120 days	<u>-</u>	<u>46</u>
	<u>25,597</u>	<u>12,701</u>

## 16. BANK BORROWINGS

	<b>30.6.2005</b>	<b>31.12.2004</b>
	<b>HK\$' 000</b>	<b>HK\$' 000</b>
The bank borrowings, which are due within one year, comprise:		
Bank loans		
- secured (note)	6,210	6,669
- unsecured	23,065	23,695
Trust receipt and import loans	<u>242,509</u>	<u>271,766</u>
	<u><u>271,784</u></u>	<u><u>302,130</u></u>

During the period, the Group had a net repayment of bank loans of approximately HK\$30 million.

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## 17. SHARE CAPITAL

	<b>Number of shares</b>	<b>Amount HK\$' 000</b>
Ordinary shares of HK\$0.05 each		
Authorised:		
At 30 <sup>th</sup> June, 2005 and 31 <sup>st</sup> December, 2004	<u>700,000,000</u>	<u>35,000</u>
Issued and fully paid:		
At 30 <sup>th</sup> June, 2005 and 31 <sup>st</sup> December, 2004	<u>445,500,000</u>	<u>22,275</u>

## 18. DEFERRED TAX LIABILITIES

	<b>Revaluation of investment properties HK\$' 000</b>	<b>Revaluation of leasehold land and building HK\$' 000</b>	<b>Accelerated tax depreciation HK\$' 000</b>	<b>Total HK\$' 000</b>
At 1 <sup>st</sup> January, 2004				
- As originally stated	2,526	2,426	1,150	6,102
Effect on change in accounting policy	<u>(970)</u>	<u>-</u>	<u>-</u>	<u>(970)</u>
As at 1 <sup>st</sup> January, 2004 as restated,	1,556	2,426	1,150	5,132
Charge to income for the year	794	-	-	794
Charge to investment property revaluation reserve	<u>695</u>	<u>-</u>	<u>-</u>	<u>695</u>
As at 31 <sup>st</sup> December, 2004, as restated	3,045	2,426	1,150	6,621
Charge to income for the period	<u>1,048</u>	<u>-</u>	<u>-</u>	<u>1,048</u>
At 30 <sup>th</sup> June, 2005	<u><u>4,093</u></u>	<u><u>2,426</u></u>	<u><u>1,150</u></u>	<u><u>7,669</u></u>

## 19. CAPITAL COMMITMENTS

	<b>30.6.2005</b>	<b>31.12.2004</b>
	<b>HK\$' 000</b>	<b>HK\$' 000</b>
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the financial statements	<u>-</u>	<u>101</u>