NOTES TO THE CONDENSED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2005

1. GENERAL

(i) Basis of preparation

The condensed consolidated financial statements have been prepared in accordance with the 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 Accounting Standard ("HKAS") 34 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

(ii) Significant accounting policies

The condensed consolidated financial statements have been prepared under the historical cost convention, as modified for the revaluation of certain investment properties and financial instruments, which are measured at fair value or revalued amounts, as appropriate.

The accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 March 2005 except as described below.

In the current period, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the HKICPA that are effective for accounting periods beginning on or after 1 January 2005. 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.

(a) Owner-occupied leasehold interest in land

In previous periods, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured using the cost model. In the current period, the Group has applied HKAS 17 Leases. Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid lease payments under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis. This change in accounting policy has been applied retrospectively (see note iii for the financial impact).

(b) 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 HK(SIC) 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 (see note iii for the financial impact).

(c) 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 adoption of HKAS 32 has had no impact on the presentation of the financial instruments of the Group. HKAS 39, which is effective for annual periods beginning on or after 1 January 2005, generally does not permit the recognition, derecognition or measurement of financial assets and liabilities on a retrospective basis. The principal effects resulting from the implementation of HKAS 32 and 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 March 2005, the Group classified and measured its debt and equity securities in accordance with the benchmark treatment of Statement of Standard Accounting Practice ("SSAP") 24 "Accounting for investments in securities". 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 (if any) 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 April 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 investments", "loans and receivables", or "held-to-maturity investments". The classification depends on the purpose for which the assets are acquired.

"Financial assets at fair value through profit or loss" and "available-for-sale investments" are carried at fair value, with changes in fair values recognised in profit or loss and equity respectively. "Loans and receivables" and "held-to-maturity investments" are measured at amortised cost using the effective interest method.

On 1 April 2005, the Group designated all quoted debt investments, which were previously classified as held-to-maturity investments under SSAP 24, as available-for-sale investments. The carrying value of those investments under SSAP 24 as at 31 March 2005 is HK$60,047,000. As a result, a fair value loss of HK$5,732,000 has been recognised as at 1 April 2005, with a corresponding adjustment being recognised in the Group's accumulated profits (see note iii for the financial impact).

(d) 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 SSAP 13 "Accounting for investment properties" were measured at open market values, with revaluation surplus or deficit 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 April 2005 onwards. The amount held in investment property revaluation reserve at 1 April 2005 has been transferred to the Group's accumulated profits (see note iii for the financial impact).

(e) Business combinations

In the current year, the Group has applied HKFRS 3 "Business combinations" which is effective for business combinations for which the agreement date is on or after 1 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 April 2001 was held in reserves. In accordance with the relevant transitional provisions in HKFRS 3, the Group derecognised all negative goodwill of HK$114,000 on 1 April 2005. A corresponding adjustment to the Group's accumulated profits has been made (see note iii for the financial impact).

(iii) Summary of the effects of the changes in accounting policies

The cumulative effects of changes in accounting policies described in Note ii as at 31 March 2005 and 1 April 2005 are summarised below:

	As at 31 March 2005 (originally stated)	Retrospective adjustments		As at 31 March 2005 (restated)	Adjustments on 1 April 2005			As at 1 April 2005 (restated)
		HKAS 17	HK(SIC) INT 21		HKAS 39	HKAS 40	HKFRS 3	
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
		(Note iia)	*(Note iib)*		*(Note iic)*	*(Note iid)*	*(Note iie)*	
Balance sheet items								
Non-current assets								
Property, plant and equipment	151,414	(11,518)	–	139,896	–	–	–	139,896
Investment in securities	54,079	–	–	54,079	(54,079)	–	–	–
Available-for-sale investments	–	–	–	–	48,360	–	–	48,360
Prepaid lease payments	–	11,256	–	11,256	–	–	–	11,256
Current assets								
Investment in securities	11,700	–	–	11,700	(11,700)	–	–	–
Available-for-sale investments	–	–	–	–	11,687	–	–	11,687
Prepaid lease payments	–	262	–	262	–	–	–	262
Non-current liabilities								
Deferred tax liabilities	(15,750)	–	(368)	(16,118)	–	–	–	(16,118)
Other assets and liabilities	248,950	–	–	248,950	–	–	–	248,950
Total effects on assets and liabilities	450,393	–	(368)	450,025	(5,732)	–	–	444,293
Capital and reserves								
Share capital	33,543	–	–	33,543	–	–	–	33,543
Capital reserve	114	–	–	114	–	–	(114)	–
Investment property revaluation reserve	2,105	–	(368)	1,737	–	(1,737)	–	–
Accumulated profits	283,332	–	–	283,332	(5,732)	1,737	114	279,451
Other reserves	131,299	–	–	131,299	–	–	–	131,299
Total effects on equity	450,393	–	(368)	450,025	(5,732)	–	–	444,293

The financial effects of the application of the new HKFRSs to the Group's equity at 1 April 2004 are summarised below:

	As originally stated *HK$'000*	**HK(SIC) INT 21** *HK$'000* *(Note iib)*	**As restated** *HK$'000*
Capital and reserves			
Share capital	33,543	–	33,543
Investments revaluation reserve	296	–	296
Investment property revaluation reserve	1,965	(344)	1,621
Accumulated profits	274,842	–	274,842
Other reserves	130,917	–	130,917
Total effects on equity	441,563	(344)	441,219

At the date of authorisation of these financial statements, the following new HKFRSs and Interpretations were in issue but not yet effective:

HKAS 1 (Amendment)	Capital disclosures[1]
HKAS 19 (Amendment)	Actuarial gains and losses, group plans and disclosures[2]
HKAS 39 (Amendment)	Cash flow hedge accounting of forecast intragroup transactions[2]
HKAS 39 (Amendment)	The fair value option[2]
HKAS 39 and HKFRS 4 (Amendments)	Financial guarantee contracts[2]
HKFRS 6	Exploration for and evaluation of mineral resources[2]
HKFRS 7	Financial instruments: disclosures[1]
HK(IFRIC) – Int 4	Determining whether an arrangement contains a lease[2]
HK(IFRIC) – Int 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds[2]
HK(IFRIC) – Int 6	Liabilities arising from participating in a specific market, waste electrical and electronic equipment[3]

1 Effective for annual periods beginning on or after 1 January 2007
2 Effective for annual periods beginning on or after 1 January 2006
3 Effective for annual periods beginning on or after 1 December 2005

The Group is not yet in a position to determine whether these standards and interpretations will have a significant impact on how the results of operations and financial position are prepared and presented. These standards and interpretations may result in changes in the future as to how the results and financial position are prepared and presented.

2. SEGMENT INFORMATION

Geographical segments

For management purposes, the Group is currently organised into four major geographical segments based on the destination of shipment of products. These segments are the basis on which the Group reports its primary segment information.

Six months ended 30 September 2005

	Europe (Unaudited) *HK$'000*	America (Unaudited) *HK$'000*	Asia (Unaudited) *HK$'000*	Others (Unaudited) *HK$'000*	Consolidated (Unaudited) *HK$'000*
Turnover	**204,904**	**116,300**	**84,690**	**12,434**	**418,328**
Segment result	**8,623**	**2,318**	**3,211**	**386**	**14,538**
Investment income					**2,134**
Interest on borrowings					**(357)**
Profit before taxation					**16,315**
Taxation					**(2,527)**
Net profit for the period					**13,788**

Six months ended 30 September 2004

	Europe (Unaudited) *HK$'000*	America (Unaudited) *HK$'000*	Asia (Unaudited) *HK$'000*	Others (Unaudited) *HK$'000*	Consolidated (Unaudited) *HK$'000*
Turnover	198,296	135,120	93,464	11,815	438,695
Segment result	12,062	5,018	4,928	665	22,673
Investment income					3,517
Interest on borrowings and finance lease charges					(246)
Profit before taxation					25,944
Taxation					(4,330)
Net profit for the period					21,614

3. PROFIT BEFORE TAXATION

	Six months ended 30 September 2005 (Unaudited) *HK$'000*	2004 (Unaudited and restated) *HK$'000*
Profit before taxation has been arrived at after charging:		
Amortisation of held-to-maturity securities netted off in investment income	**–**	30
Amortisation of prepaid lease payments	**131**	131
Depreciation on property, plant and equipment	**22,713**	20,859
Directors' remunertaion	**5,251**	6,215
and crediting:		
Gain on disposal of property, plant and equipment	**127**	564
Interest income	**1,970**	3,423

4. TAXATION

	Six months ended 30 September 2005 (Unaudited) *HK$'000*	2004 (Unaudited) *HK$'000*
The charge comprises:		
Current tax		
– Hong Kong Profits Tax calculated at 17.5% on the estimated assessable profit	**3,393**	4,933
– Income tax in other regions of the People's Republic of China calculated at prevailing rates	**1,744**	461
	5,137	5,394
Deferred tax		
– Current period	**(2,610)**	(1,064)
	2,527	4,330

5. DIVIDENDS

On 16 September 2005, a dividend of HK6 cents per share amounting to HK$20,126,000 in aggregate (2004 final dividend: HK6 cents per share amounting to HK$20,126,000 in aggregate) was paid to the shareholders for the year ended 31 March 2005.

The board of directors have determined that an interim dividend of HK2 cents per share amounting to HK$6,907,000 in aggregate (2004: HK2 cents per share amounting to HK$6,907,000 in aggregate) shall be paid on or before 23 January 2006 to the shareholders of the Company whose names appear on the Register of Members on 31 December 2005.

6. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the following data:

	Six months ended 30 September	
	2005	2004
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Earnings for the purpose of basic earnings per share	**13,788**	21,614

	Six months ended 30 September	
	2005	2004
	(Unaudited)	(Unaudited)
	Number of shares	Number of shares
Number of ordinary shares for the purpose of basic earnings per share	**335,432,520**	335,432,520

7. INVESTMENT PROPERTY

The directors considered that the carrying amount of the Group's investment properties at 30 September 2005 did not differ significantly from the revalued amount at 31 March 2005. Consequently, no gain or loss arising from changes in fair value of investment property was recognised in the current period.

8. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group spent approximately HK$18,943,000 in upgrading its manufacturing capabilities.

9. AVAILABLE-FOR-SALE INVESTMENTS

During the period, the Group acquired available-for-sale investments of approximately HK$7,011,000. In addition, the Group disposed of available-for-sale investments with a carrying value of approximately HK$20,631,000, resulting in a gain of HK$70,000 on such disposals. Upon disposal of these investments, the corresponding cumulative fair value loss of HK$365,000, which was recognised in the Group's accumulated profits on the initial application of HKAS 39 on 1 April 2005, had been transferred to the income statement for the current period.

10. TRADE RECEIVABLES AND BILLS RECEIVABLE

The trade receivables and bills receivable at the reporting date are all within 90 days, which is also the Group's defined credit policy period.

11. TRADE CREDITORS AND BILLS PAYABLE

The trade creditors and bills payable at the reporting date are all within 90 days.

12. SHARE CAPITAL

	Number of shares	**Amount**
		HK$'000
Ordinary shares of HK$0.10 each		
Authorized:		
At 1 April 2005 and at 30 September 2005	600,000,000	60,000
Issued and fully paid:		
At 1 April 2005 and at 30 September 2005	335,432,520	33,543

13. CAPITAL COMMITMENTS

	2005	2004
	HK$'000	*HK$'000*
Capital expenditure in respect of acquisition of property, plant and equipment contracted but not provided for in the financial statements	**193**	271
Capital expenditure in respect of acquisition of property, plant and equipment authorised but not contracted for	**383**	17,027
	576	17,298

14. RELATED PARTY TRANSACTIONS

During the period, rental expenses paid and payable to Allan Investment Company Limited amounted to HK$450,000 (30.9.2004: HK$450,000) and to Income Village Limited amounted to HK$102,000 (30.9.2004: HK$102,000) and to Fair Pacific Limited amounted to HK$170,000 (30.9.2004: HK$170,000).

Mr. Cheung Lun, Mr. Cheung Pui, Mr. Cheung Shu Wan, Ms. Cheung Lai Chun, Maggie and Ms. Cheung Lai See, Sophie, directors of the Company, were interested in these transactions as they are also directors and/or substantial shareholders of the above mentioned companies.

In addition, the Group also paid rentals of HK$45,000 (30.9.20004: Nil) to Mr. Cheung Pui.

The translations were carried out at terms agreed by both parties.