

NOTES TO THE INTERIM FINANCIAL STATEMENTS

1 General Information

The principal activities of the Group are trading in, and the supply and installation of, building products and engineering equipment.

The Company is a limited liability company incorporated in Bermuda. The address of its registered office is Clarendon House, Church Street, Hamilton HM 11, Bermuda.

The Company has its primary listing on the main board of the Stock Exchange of Hong Kong Limited.

This unaudited condensed consolidated financial statements was approved for issue on 15 September 2006.

2 Basis of preparation

This unaudited condensed consolidated financial statements for the six months ended 30 June 2006 has been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

This unaudited condensed consolidated financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2005.

3 Accounting policies

The accounting policies and methods of computation used in the preparation of this unaudited consolidated financial statements are consistent with those used in the annual financial statements for the year ended 31 December 2005.

The following new standards, amendments to standards and interpretations are mandatory for financial year ending 31 December 2006.

- Amendment to HKAS 19, ‘Actuarial gains and losses, group plans and disclosures’, effective for annual periods beginning on or after 1 January 2006. This amendment is not relevant for the Group;
- Amendment to HKAS 39, Amendment to ‘The fair value option’, effective for annual periods beginning on or after 1 January 2006. This amendment does not have any impact on the classification and valuation of the Group’s financial instruments classified as at fair value through profit or loss prior to 1 January 2006 as the Group is able to comply with the amended criteria for the designation of financial instruments at fair value through profit and loss;
- Amendment to HKAS 21, Amendment ‘Net investment in a foreign operation’, effective for annual periods beginning on or after 1 January 2006. This amendment is not relevant for the Group;
- Amendment to HKAS 39, Amendment ‘Cash flow hedge accounting of forecast intragroup transactions’, effective for annual periods beginning on or after 1 January 2006. This amendment is not relevant for the Group;
- Amendment to HKAS 39 and HKFRS 4, Amendment ‘Financial guarantee contracts’, effective for annual periods beginning on or after 1 January 2006. This amendment is not relevant for the Group;
- HKFRS 6, ‘Exploration for and evaluation of mineral resources’, effective for annual periods beginning on or after 1 January 2006. This standard is not relevant for the Group;
- HK(IFRIC)-Int 4, ‘Determining whether an arrangement contains a lease’, effective for annual periods beginning on or after 1 January 2006. The Group has reviewed its contracts. Some of them are required to be accounted for as leases in accordance with HKAS 17, ‘Leases’. However, these leases are operating leases, and their reclassification has had no impact on the expense recognised in respect of them;
- HK(IFRIC)-Int 5, ‘Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds’, effective for annual periods beginning on or after 1 January 2006. This interpretation is not relevant for the Group; and
- HK(IFRIC)-Int 6, ‘Liabilities arising from participating in a specific market – waste electrical and electronic equipment’, effective for annual periods beginning on or after 1 December 2005. This interpretation is not relevant for the Group.

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3 Accounting policies (continued)

The following new standards, amendments to standards and interpretations have been issued but are not effective for 2006 and have not been early adopted:

- HK(IFRIC)-Int 7, 'Applying the Restatement Approach under HKFRS 29', effective for annual periods beginning on or after 1 March 2006.
- HK(IFRIC)-Int 8, 'Scope of HKFRS 2', effective for annual periods beginning on or after 1 May 2006.
- HK(IFRIC)-Int 9, 'Reassessment of Embedded Derivatives', effective for annual periods beginning on or after 1 June 2006; and
- HKFRS 7, 'Financial instruments: Disclosures', effective for annual periods beginning on or after 1 January 2007. HKAS 1, 'Amendments to capital disclosures', effective for annual periods beginning on or after 1 January 2007.

The Group is in the process of making an assessment of what the impact of new standards, amendments to standards and interpretations would be in the period of initial application, but is not yet in a position to state whether these new standards, amendments to standards and interpretations should have a significant impact on the Group's results of operations and financial position.

4 Turnover, other revenues and segment information

The principal activities of the Group are trading in, and the supply and installation of, building products and engineering equipment. Revenues recognised during the Period are as follows:

	(Unaudited)	
	Six months ended	
	30 June	
	2006	2005
	HK\$'000	HK\$'000
Turnover		
Sales of inventories	140,571	115,285
Commission income	–	91
	140,571	115,376
Other revenues		
Interest income from bank deposits	859	460
Administration fee received from the associates (Note 23a)	486	210
Gross rental income from investment properties	334	351
Sundry income	2,106	622
	3,785	1,643
Total revenues	144,356	117,019

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4 Turnover, other revenues and segment information *(continued)*

An analysis of the Group's turnover and contribution to the Group's results by business segments (primary reporting segment) is set out below:

	(Unaudited) Six months ended		30 June 2005	
	30 June 2006	Operating results	Turnover	Operating results
	Turnover <i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Principal activities:				
Building products	119,585	26,729	99,111	21,667
Engineering equipment	20,986	3,783	16,265	2,684
	<u>140,571</u>	<u>30,512</u>	<u>115,376</u>	<u>24,351</u>
Administrative and other expenses		<u>(28,879)</u>		<u>(25,191)</u>
Operating profit/(loss)		1,633		(840)
Finance costs		(58)		(11)
Share of loss of associates		(688)		(277)
Profit/(loss) before income tax		887		(1,128)
Income tax expense		(139)		(322)
Profit/(loss) attributable to shareholders		<u>748</u>		<u>(1,450)</u>

5 Cost of sales

	(Unaudited) Six months ended	
	30 June 2006	2005
	HK\$'000	HK\$'000
Cost of inventories sold	111,751	88,811
Cost of construction contracts	–	(1,949)
Cost of consumable stocks	755	712
Fair value (gain)/loss on derivative financial instruments	<u>(2,447)</u>	<u>3,451</u>
	<u>110,059</u>	<u>91,025</u>

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6 Operating expenses

	(Unaudited) Six months ended 30 June	
	2006	2005
	HK\$'000	HK\$'000
Administrative expenses:		
Employee benefits expenses	19,827	18,881
Employee share option benefits	361	305
Amortisation of lease prepayment	507	515
Depreciation of property, plant and equipment	1,387	958
Operating lease rentals on properties paid to third parties	2,454	1,958
Travelling expenses	777	656
Entertainment expenses	300	392
Stamps, postage and telephone	543	493
Management fee	720	640
Advertising expenses	353	298
Legal and professional fees	423	627
Auditors' remuneration	702	615
	<u>28,354</u>	<u>26,338</u>
Other operating expenses:		
Write back provision for impairment of receivables	(60)	(2,701)
Provision for impairment of receivables	286	536
Provision for stock obsolescence	33	22
Provision for employee leave entitlements	2	181
Provision for long service payments	(24)	10
Loss on disposal of property, plant and equipment	–	39
Loss on disposal of a subsidiary (note 20)	503	–
Impairment loss on property held for sale (note 13)	1,210	–
Sundry expenses	2,360	2,409
	<u>4,310</u>	<u>496</u>
	<u>32,664</u>	<u>26,834</u>

7 Finance costs

	(Unaudited) Six months ended 30 June	
	2006	2005
	HK\$'000	HK\$'000
Interest expenses		
Short-term bank loans and overdrafts	<u>58</u>	<u>11</u>

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8 Income tax expense

Hong Kong profits tax has been provided at the rate of 17.5% on estimated assessable profit for the Period (2005: Nil). Taxation on overseas profits has been calculated on the estimated assessable profit for the Period at the rates of taxation prevailing in the countries in which the Group operates.

Taxation charged in the condensed consolidated profit and loss account represents:

	(Unaudited)	
	Six months ended	
	30 June	
	2006	2005
	HK\$'000	HK\$'000
Current income tax		
Hong Kong profits tax	52	–
Overseas taxation	87	322
	139	322

9 Earnings/(loss) per share

The calculation of basic earnings/(loss) per share is based on the Group's profit attributable to ordinary shareholders of HK\$748,000 (2005: Group's loss attributable to ordinary shareholders of HK\$1,450,000) and the weighted average of 224,496,000 (2005: 224,496,000) ordinary shares in issue during the Period.

The calculation of diluted earnings per share is based on the Group's profit attributable to ordinary shareholders of HK\$748,000 and the weighted average of 225,147,200 ordinary shares after adjusting for the effects of all dilutive potential ordinary shares. The diluted loss per share for the period ended 30 June 2005 is the same as the basic loss per share.

	(Unaudited)	
	Six months ended	
	30 June	
	2006	2005
	Number of shares	Number of shares
Reconciliation		
Weighted average number of ordinary shares used in calculating basic earnings/(loss) per share	224,496,000	224,496,000
Deemed issue of ordinary share for no consideration	651,200	–
Weighted average number of ordinary shares used in calculating diluted earnings/(loss) per share	225,147,200	224,496,000

10 Retirement benefit costs

The Group's contributions to the ORSO scheme are reduced by contributions forfeited by those employees who leave the ORSO scheme prior to vesting fully in the contributions. Forfeited contributions totaling HK\$112,000 (2005: HK\$301,000) were fully utilised during the Period.

Contributions of HK\$244,000 (2005: HK\$243,000) were payable to the Retirement Scheme at the Period-end.

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11 Capital expenditure

	Investment properties <i>HK\$'000</i>	Property, plant and equipment <i>HK\$'000</i>	Total <i>HK\$'000</i>
Net book value at 1 January 2005			
– as previously reported	17,601	75,537	93,138
– effect of adopting HKAS 17		(49,827)	(49,827)
– as restated	17,601	25,710	43,311
Addition	–	1,243	1,243
Write off	–	(299)	(299)
Depreciation	–	(958)	(958)
Net book value at 30 June 2005	17,601	25,696	43,297
Addition	–	13,937	13,937
Depreciation	–	(1,293)	(1,293)
Net book value at 31 December 2005	17,601	38,340	55,941
Addition	–	8,293	8,293
Disposal	(2,050)	(8)	(2,058)
Depreciation	–	(1,387)	(1,387)
Transfer to property held for sale	–	(415)	(415)
Net book value at 30 June 2006	15,551	44,823	60,374

12 Available-for-sale financial assets

	<i>HK\$'000</i>
At 1 January 2005	10,088
Less: Revaluation deficit transfer to reserves	(334)
Less: Provision for impairment loss	(7,800)
At 31 December 2005	1,954
Add: Revaluation surplus transfer to reserves	322
At 30 June 2006	2,276

13 Property held for sale

During the Period, the Group entered into an agreement to dispose a property in Shanghai in August 2006 and impairment loss of HK\$1,210,000 is recognised in the consolidated financial statements to reflect its fair value.

	<i>HK\$'000</i>
Lease prepayment	2,859
Leasehold building	415
Net book value of property held for sale	3,274
Less: Impairment loss on property held for sale	(1,210)
Fair value of property held for sale	2,064

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14 Trade and other receivables

	(Unaudited) At 30 June 2006 HK\$'000	At 31 December 2005 HK\$'000
Trade receivables	55,109	63,252
Retention receivables	8,982	8,232
Receivables from related parties	271	520
Less: provision for impairment of receivables	(3,886)	(3,730)
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Net trade and retention receivables	60,476	68,274
Prepayments and other receivables	3,301	2,914
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	63,777	71,188

Trade and other receivables (which include trade and retention receivables) had the following aging analysis:

	(Unaudited) At 30 June 2006 HK\$'000	At 31 December 2005 HK\$'000
Current	29,873	30,953
One to three months overdue	17,029	22,651
More than three months overdue but less than twelve months overdue	2,626	3,139
Overdue more than twelve months	14,834	15,261
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Total trade and retention receivables	64,362	72,004
Less: provision for impairment of receivables	(3,886)	(3,730)
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Net trade and retention receivables	60,476	68,274
Prepayments and other receivables	3,301	2,914
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	63,777	71,188

Debts from construction contracts are due when architect certificates are issued and other debts are due normally from the date of billing. Debtors with balances that are long overdue are normally requested to settle all outstanding balances before any further credit is granted.

15 Derivative financial instruments

	(Unaudited) At 30 June 2006 HK\$'000	At 31 December 2005 HK\$'000
Forward foreign exchange contracts – not qualified as hedges		
– Assets	1,412	51
– Liabilities	(197)	(1,283)
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The net unrealised fair value gain/(loss) on forward foreign exchange contracts as at 30 June 2006 and 31 December 2005 which are not qualified as hedges has been accounted for in the consolidated profit and loss account.

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16 Cash and cash equivalents

	(Unaudited) At 30 June 2006 HK\$'000	At 31 December 2005 HK\$'000
Bank deposits with original maturity of three months or less	36,810	46,567
Cash at bank and in hand	22,294	23,852
	<u>59,104</u>	<u>70,419</u>

17 Trade and other payables

	(Unaudited) At 30 June 2006 HK\$'000	At 31 December 2005 HK\$'000
Trade and bills payables	29,499	39,473
Accruals and other payables	24,224	26,514
Advances received from customers	3,193	2,839
	<u>56,916</u>	<u>68,826</u>
Less: non-current portion Accrual and other payables	<u>(876)</u>	<u>(438)</u>
	<u>56,040</u>	<u>68,388</u>

Included in the trade and other payables are trade and bills payables with the following aging analysis:

	(Unaudited) At 30 June 2006 HK\$'000	At 31 December 2005 HK\$'000
Due within one month or on demand	21,029	31,230
Due after one month but within three months	7,529	7,299
Due after three months	941	944
	<u>29,499</u>	<u>39,473</u>
Trade and bills payables	29,499	39,473
Accruals and other payables	24,224	26,514
Advances received from customers	3,193	2,839
	<u>56,916</u>	<u>68,826</u>
Less: non-current portion Accrual and other payables	<u>(876)</u>	<u>(438)</u>
	<u>56,040</u>	<u>68,388</u>

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18 Provisions

	Long service payments <i>HK\$'000</i>	Employee leave entitlement <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2006	674	1,056	1,730
(Write back)/additional provisions	(24)	834	810
Less: Amounts utilised	–	(832)	(832)
(Credit)/charge to profit and loss account	(24)	2	(22)
Less: Amounts settled	–	(56)	(56)
Net effect on provisions	(24)	(54)	(78)
At 30 June 2006	650	1,002	1,652

19 Share capital

	(Unaudited) At 30 June 2006 Authorised		At 31 December 2005 Authorised	
	Number of shares	<i>HK\$'000</i>	Number of shares	<i>HK\$'000</i>
Ordinary shares of HK\$0.10 each	800,000,000	80,000	800,000,000	80,000
	Issued and fully paid		Issued and fully paid	
	Number of shares	<i>HK\$'000</i>	Number of shares	<i>HK\$'000</i>
Ordinary shares of HK\$0.10 each	224,496,000	22,450	224,496,000	22,450

20 Notes to the consolidated cash flow statement

	(Unaudited) At 30 June 2006 <i>HK\$'000</i>
Disposal of a subsidiary	
Investment property Leasehold improvement	2,050 8
Aggregate net assets disposed at date of disposal Loss on disposal	2,058 (503)
Net cash consideration	1,555

Loss on disposal of a subsidiary for the Period represents loss arising from the disposal of a 100% interest in a property holding subsidiary. The investment property is located in Guangzhou.

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21 Contingent liabilities

At 30 June 2006, there were contingent liabilities in respect of the following:

(a)	The Group (Unaudited) At 30 June 2006 HK\$'000	At 31 December 2005 HK\$'000	The Company (Unaudited) At 30 June 2006 HK\$'000	At 31 December 2005 HK\$'000
Guarantees for credit facilities granted by a bank on behalf of subsidiaries	–	–	229,000	229,000
(b) Certain subsidiaries have given undertakings to banks that they will perform certain contractual non-financial obligations to third parties. In return, the banks have provided performance bonds and letters of guarantee to third parties on behalf of the subsidiaries. As at 30 June 2006, the amount of guarantees outstanding was HK\$3,944,000 (At 31 December 2005: HK\$2,400,000).				

22 Commitments

Capital commitments for land and buildings

	(Unaudited) At 30 June 2006 HK\$'000	At 31 December 2005 HK\$'000
Contracted but not provided for	1,268	4,412

23 Related party transactions

Significant related party transactions, which were carried out in the normal course of the Group's business, are as follows:

	(Unaudited) Six months ended 30 June 2006 HK\$'000	2005 HK\$'000
Sales of goods and services		
Administration fee received from an associate (note a)	486	210
Gross rental income received from an associate (note b)	128	132
Sales of goods to related party (note c)	64	89
Purchases of goods and services		
Professional fee paid to related party (note c)	15	128
Key management compensation	2,970	2,831

- (a) A subsidiary of the Group provided management services to the associate for which it charged an administration fee at a fixed monthly amount.
- (b) During the Period, the associate paid rental expenses of HK\$128,000 (2005: HK\$132,000) to the subsidiaries of the Group.
- (c) In addition to transactions with related companies as disclosed above, professional fees of HK\$15,000 (2005: HK\$128,000) were paid to a firm in which a non-executive director of the Company is a partner. Besides, sales of construction materials of HK\$64,000 (2005: HK\$89,000) were made to a listed group of companies in which an independent non-executive director of the Company is also a director of the listed group.

It is the intention of the directors of the Company that the Group will continue its business relationships with related parties under similar bases as adopted in previous years. In the opinion of the directors of the Company, the transactions with the related companies were carried out in the ordinary course of business on normal commercial terms.