先科國際集團有限公司*

Semtech International Holdings Limited

Interim Report 2005

* For identification purpose only

CONTENTS

INTERIM RESULTS HIGHLIGHTS

The Board of Directors of Semtech International Holdings Limited (the "Company") is pleased to present the unaudited consolidated results of the Company and its subsidiaries (collectively the "Group") for the six months ended 30 June 2005.

FINANCIAL PERFORMANCE HIGHLIGHTS

Turnover	HK$241 million
Profit attributable to shareholders	HK$21 million
Basic earnings per share	HK 7.15 cents
Interim dividend per share	HK 1 cent

INTERIM DIVIDEND

The directors have resolved to declare an interim dividend of HK 1 cent (2004: HK 1 cent) per share for the six months ended 30 June 2005 to be paid on or around 13 October 2005 to shareholders of the Company whose names appear in the Register of Members of the Company on 21 September 2005.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 16 September 2005 to 21 September 2005, both days inclusive, during which period no transfer of shares will be effected. In order to be qualified for the declared dividend, all completed transfers accompanied by the relevant share certificates must be lodged with the Company's Branch Registrars, Tengis Limited, at G/F., Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong no later than 4:00 p.m. on 15 September 2005.

BUSINESS REVIEW AND FUTURE OUTLOOK

BUSINESS REVIEW

During the six months ended 30 June 2005 (the "Reporting Period"), the Group's turnover increased by 36.3% to approximately HK$241.2 million compared with the six months ended 30 June 2004 (the "Corresponding Period"). A net profit of approximately HK$20.9 million attributable to shareholders is being reported as compared to approximately HK$18.8 million for the Corresponding Period.

Electronic and Electrical Components Business

Turnover for the electronic and electrical components segment amounted to approximately HK$169.4 million with the segment result of approximately HK$25.7 million during the Reporting Period. According to a recent report from the Semiconductor Industry Association, worldwide sales of the semiconductors have been stronger than expected in the first half of 2005 due to a better than expected demand in a number of end user markets, including the personal computers and wireless handsets. Since our products are widely used in most of these consumer electronic products, this worldwide improved economic situation will have a positive impact on the demand of our components and will provide a strong support for the Group's turnover. In addition to the above, the SMD SOD-series products has been launched during the Reporting Period with a higher than average gross margin. However, these favourable factors have, to a certain extent, been offset by the rise in raw material and manufacturing cost due to the weakening of the US Dollar, the management will continue to take appropriate steps to control and tighten the operating expenses in order to relieve part of the above cost pressure from the increased material cost.

Lighters and Lighter Related Accessories Business

The impact of rising material cost affected the lighter segment much more than the electronics component segment during the Reporting Period. Cost of plastic, one of the important elements of the lighter products, has increased due to the continuous rise in oil price. There was also a slight drop in turnover for the lighter segment to approximately HK$71.8 million only during this Reporting Period mainly due to the decrease in the US market. The segment result also dropped to approximately HK$1.0 million as compared to approximately HK$3.3 million during the Corresponding Period. The Group will cautiously monitor the performance of the lighter segment in the coming months especially with the prolonged worldwide increase in oil price.

PROSPECTS

The principal business activities of the Group remain the same as last year, which includes (i) manufacturing and trading of high-ends electronics and electrical parts and components; and (ii) engaging in the design, manufacture and trading of a wide range of cigarette lighters and lighter-related accessories.

During this interim period, the Group was able to maintain a growth in both turnover and profits. Although we remain optimistic about the performance for 2005, there are still uncertainties in the market such as the appreciation of Renminbi, skilled labour and power supply shortage problem in the PRC together with the recent stubbornly high oil price and increase in material prices, the Group will cautiously review and regularly assess the impact of these uncertainties on its performance. At the present moment, Renminbi expenses will only be confined to PRC plant manufacturing overheads so as to lower the impact of Renminbi appreciation on production cost, the problem of power supply shortage will be resolved by our own generators and improved sourcing strategy will be formulated to stabilize the material prices and to alleviate the possible adverse impact from the rise in material prices and currency fluctuation.

The Semiconductor Industry Association predicted that the strong growth of the industry in 2005 will continue to occur in the second half of the year and the key drivers of the growth are cellular telephones, personal computers, digital televisions and digital cameras with the Asia-Pacific region will continue to be the fastest-growing market. The Group, being one of the major producers of electronics components in the world, will continue to explore and crystallize every opportunity in the latter half of the year as well as to capture the potential market growth by enlarging its customer base and increasing its sales volume. The electronic components manufacturing segment has successfully obtained the ISO/TS 16949:2002 certification in July 2005, this standard specifies the high level quality system requirements for the design, development, production, installation and serving of automotive-related products. The ISO/TS 16949:2002 standard is a stringent and a prerequisite requirement for entering into the customers in the automotive industry. With the certification of this standard on hand, the quality of the products and service of the Group will further be enhanced in order to leverage the potential growth of the automotive industry in the PRC.

FINANCIAL REVIEW

Liquidity and Financial Resources

The Group continued to maintain a healthy financial position, as at 30 June 2005, net current assets and current ratio of the Group were approximately HK$119.0 million (as at 31 December 2004: HK$103.5 million) and 2.16 (as at 31 December 2004: 1.96) respectively. The current assets comprised inventories of approximately HK$59.6 million (as at 31 December 2004: HK$55.7 million), trade and bills receivables of approximately HK$112.4 million (as at 31 December 2004: HK$100.6 million) and cash and cash equivalents of approximately HK$38.6 million (as at 31 December 2004: HK$38.8 million).

As at 30 June 2005, the Group had no bank loan and no overdrafts (as at 31 December 2004: Nil) but only has finance lease obligation of HK$0.2 million (as at 31 December 2004: HK$0.1 million). Our gearing was at a ratio of 0.09% (as at 31 December 2004: 0.04%). The computation is based on interest bearing borrowing divided by equity attributable to shareholders of the parent as at 30 June 2005.

Capital Structure

The Group generally finances its operation with internally generated resources. The Directors believe that the Group has sufficient financial resources to satisfy its operations and capital expenditure requirement.

Charges on Group's Assets

The Group did not have any assets pledged at the balance sheet date (as at 31 December 2004: Nil).

Foreign Exchange Exposure

The Group mainly earns revenue and incurs costs in US dollars, Renminbi and Hong Kong dollars. The management is aware of possible exchange rate exposure due to the recent 2% appreciation of Renminbi on 21 July 2005. However, the Group's cash outlay on purchase of raw materials are mainly dominated in US dollars, foreign exchange exposure to the Group would be minimal so long as the Hong Kong SAR Government's policy to peg the Hong Kong dollars to the US dollars remains in effect and the use of financial instruments for hedging purposes is considered not necessary at the present moment.

Contingent Liabilities

The Group did not have any significant contingent liabilities at the balance sheet date (as at 31 December 2004: Nil).

DISCLOSURE OF INTERESTS

DIRECTORS' INTERESTS IN SHARES

At 30 June 2005, the interests and short positions of the directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO"), as recorded in the register required to be kept under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code"), were as follows:

Long Position in shares of the Company

Name of director	Capacity	Number of ordinary shares held	Interest %
Ms. Lam Pik Wah	Corporate	60,000,000 *(Note 1)*	20.51
Mr. Lam Hung Kit	Corporate	60,000,000 *(Note 1)*	20.51
Mr. Lam Yat Keung	Family	60,000,000 *(Note 2)*	20.51

Note 1: The 60,000,000 shares in the Company were beneficially owned by Smart Number Investments Limited ("Smart Number"), which is owned as to 66.7% by Ms. Lam Pik Wah and as to 33.3% by Mr. Lam Hung Kit.

Note 2: These ordinary shares are owned by Smart Number, a controlled corporation of Ms. Lam Pik Wah, the wife of Mr. Lam Yat Keung.

Save as disclosed above, none of the directors or chief executives of the Company had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS

At 30 June 2005, to the best knowledge of the directors, the parties (other than a director or chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO were as follows:

DISCLOSURE OF INTERESTS (Continued)

SUBSTANTIAL SHAREHOLDERS (Continued)

Name of shareholder	Capacity	Number of ordinary shares held	Interest %
Smart Number Investments Limited *(Note 1)*	Beneficial owner	60,000,000	20.51
Forever Gain Profits Limited *(Note 2)*	Beneficial owner	58,000,000	19.83
Mr. Wan Bing Hung *(Note 2)*	Corporate	58,000,000	19.83
Mr. Ko Kin Hang *(Note 3)*	Beneficial owner	14,798,000	5.06

Note 1: The above interest in the name of Smart Number was also disclosed as interests of certain directors under the heading "Directors' interests in shares".

Note 2: According to the Disclosure of Interests filing dated 17 March 2004, Forever Gain Profits Limited is wholly owned by Mr. Wan Bing Hung.

Note 3: According to the Disclosure of Interests filing dated 9 July 2004, Mr. Ko Kin Hang is beneficially interested in 5.06% of the shares capital of the Company at the date of this report.

Save as disclosed above, the directors are not aware of any other persons who, as at 30 June 2005, had interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

SHARE OPTION SCHEME

Pursuant to the Share Option Scheme adopted on 28 November 2002 (the "Scheme"), the directors of the Company may grant options to employees, non-executive directors, suppliers, customers, persons or entities that provide research, development or technological support or services to the Group, shareholders and ex-employees who have contributed to the development and growth of the Group to subscribe for shares in the Company at a consideration of HK$1. The subscription price for the shares under the Scheme shall be a price determined by the directors of the Company being at least the higher of: (i) the closing price of the shares as stated in the Stock Exchange's daily quotation sheets on the date of grant; or (ii) the average closing price of the shares stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant; or (iii) the nominal value of the shares. Options granted are exercisable at any time during a period of ten years after the date of the options are granted. Options granted should be accepted within 28 days from the date of offer.

SHARE OPTION SCHEME (Continued)

The maximum number of shares which may be issued upon exercise of all options to be granted under the Scheme and the other schemes shall not exceed 10% of the shares in issue at the date on which the Scheme becomes unconditional.

The Company may, by approval of the shareholders in general meeting, grant options beyond the 10% limit provided that the options in excess of the 10% limit are granted only to participants specifically identified by the Company before shareholders' approval is sought.

Unless approved by the shareholders as set out herein, the total number of shares issued and to be issued upon exercise of the options granted to each participant (including both exercised and outstanding options) in any twelve month period must not exceed 1% of the shares of the Company in issue. Where any further grant of options to a participant would result in the shares issued and to be issued upon exercise of any options granted and to be granted to such person (including exercised, cancelled and outstanding options) in the twelve month period up to and including the date of such further grant representing in aggregate over 1% of the shares in issue, such further grant must be separately approved by the shareholders in general meeting with such participant and his associates abstaining from voting.

However, the overall limit on the number of shares which may be issued upon exercise of all options granted under all share option schemes of the Company must not exceed 30% of the shares in issue from time to time.

During the period ended 30 June 2005, no options were granted under the Scheme and there were no outstanding share options under the Scheme.

CORPORATE GOVERNANCE

CORPORATE GOVERNANCE PRACTICE

In the opinion of the directors, save as disclosed below, the Company has complied with the Code on Corporate Governance Practices (the "Code"), as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules"), throughout the accounting period covered by the interim report.

Under the code provisions A.4.1. of the Code, non-executive directors should be appointed for specific terms and subject to re-election. However, all the Independent Non-executive Directors are not appointed for specific terms but are subject to retirement by rotation and re-election at the Company's annual general meeting under the Bye-laws of the Company. As such, the Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those in the Code.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions by the directors of the Company (the "Model Code"). Having made specific enquiry of the directors of the Company, all the directors confirmed that they had complied with the required standards as set out in the Model Code during the six months ended 30 June 2005.

OTHER INFORMATION

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2005, the Group had about 2,325 employees spreading from Hong Kong to the PRC. Industrial relationship had been well maintained. Employees are remunerated by reference to qualifications, experience, responsibility and performance. The Group had also adopted a share option scheme whereby certain employees of the Group may be granted options to acquire shares.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the period, there was no purchase, sale or redemption by the Company or any of its subsidiary companies of the Company's listed securities.

AUDIT COMMITTEE

The Audit Committee is composed of the three independent non-executive directors of the Company. Its principal duty is to review and supervise the Company's and the Group's financial reporting process and internal controls.

REVIEW OF INTERIM RESULTS

The unaudited interim results of the Group for the six months ended 30 June 2005 have been reviewed by the Audit Committee of the Company and the Group's auditors, Messrs. KLL Associates CPA Limited, Certified Public Accountants.

APPRECIATION

On behalf of the Board, I would like to thank our customers, suppliers, bankers, staffs and our shareholders for their support, efforts and commitments to the Group during the period.

By Order of the Board
Lam Yat Keung
President

Hong Kong, 24 August 2005

INDEPENDENT REVIEW REPORT

KLL ASSOCIATES CPA LTD
華融會計師事務所有限公司

8th Floor, Wing On Centre,
111 Connaught Road Central,
Hong Kong

TO THE DIRECTORS OF
SEMTECH INTERNATIONAL HOLDINGS LIMITED

Introduction

We have been instructed by the Company to review the interim financial report set out on pages 13 to 29.

Directors' responsibilities

The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants and the relevant provisions thereof. The interim financial report is the responsibility of, and has been approved by, the directors.

It is our responsibility to form an independent conclusion, based on our review, on the interim financial report, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Review work performed

We conducted our review in accordance with Statement of Auditing Standards 700 ("SAS 700") "Engagements to Review Interim Financial Reports" issued by the Hong Kong Institute of Certified Public Accountants. A review consists principally of making enquiries of the management and applying analytical procedures to the interim financial report and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

INDEPENDENT REVIEW REPORT (Continued)

Review conclusion

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30 June 2005.

Without modifying our review conclusion, we draw to your attention that the comparative condensed consolidated income statement for the six months ended 30 June 2004 and the comparative condensed consolidated cash flow statement and condensed consolidated statement of changes in equity for the six months ended 30 June 2004 disclosed in the interim financial report have not been reviewed in accordance with SAS 700.

KLL Associates CPA Limited
Certified Public Accountants (Practising)
Lee Ka Leung, Daniel
Practising Certificate Number P01220

Hong Kong, 24 August 2005

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2005

	Notes	Six months ended 30 June 2005 HK$'000 (Unaudited)	30 June 2004 HK$'000 (Re-presented) (Unaudited)
Turnover	5	**241,227**	176,942
Cost of sales		**(197,683)**	(137,169)
Gross profit		**43,544**	39,773
Other operating income		**1,200**	1,366
Distribution expenses		**(5,362)**	(6,151)
Administrative expenses		**(14,262)**	(11,818)
Other operating expenses		**–**	(13)
Finance costs		**(5)**	(572)
Profit before taxation	7	**25,115**	22,585
Taxation	8	**(4,198)**	(3,801)
Net profit for the period		**20,917**	18,784
Attributable to:			
Shareholders of the parent		**20,917**	18,764
Minority interests		**–**	20
		20,917	18,784
Dividends	9	**2,925**	2,925
Earnings per share			
Basic	10	**HK7.15 cents**	HK7.71 cents
Diluted		**N/A**	N/A

CONDENSED CONSOLIDATED BALANCE SHEET

At 30 June 2005

	Notes	30 June 2005 HK$'000 (Unaudited)	31 December 2004 HK$'000 (Restated) (Audited)
Non-current assets			
Property, plant and equipment	*11*	**125,044**	127,348
Lease prepayments on land use rights		**1,579**	1,596
Investment properties		**11,251**	11,182
Intangible assets		**1,586**	1,689
Goodwill		**–**	12
Negative goodwill		**–**	(2,023)
Interest in a jointly controlled entity		**614**	424
Deferred tax assets		**627**	–
		140,701	140,228
Current assets			
Inventories		**59,632**	55,721
Trade and bills receivables	*12*	**112,422**	100,556
Prepayments, deposits and other receivables		**10,768**	15,417
Lease prepayments on land use rights		**34**	34
Pledged deposits		**–**	500
Bank balances and cash		**38,612**	38,839
		221,468	211,067
Current liabilities			
Trade and bills payables	*13*	**76,455**	79,063
Other payables and accruals		**9,115**	13,601
Amounts due to directors		**9,145**	11,945
Tax payable		**7,570**	2,900
Obligations under finance leases		**157**	76
		102,442	107,585

CONDENSED CONSOLIDATED BALANCE SHEET (Continued)

At 30 June 2005

	Notes	30 June 2005 HK$'000 (Unaudited)	31 December 2004 HK$'000 (Restated) (Audited)
Net current assets		**119,026**	103,482
Total assets less current liabilities		**259,727**	243,710
Non-current liabilities			
Obligations under finance leases		**65**	20
Deferred tax liabilities		**12,459**	12,301
		12,524	12,321
Net assets		**247,203**	231,389
Capital and reserves			
Share capital		**29,250**	29,250
Reserves		**215,008**	193,344
Proposed dividends		**2,925**	8,775
Equity attributable to shareholders of the parent		**247,183**	231,369
Minority interests		**20**	20
Total equity		**247,203**	231,389

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2005

	Share capital HK$'000	Share premium HK$'000	Contributed surplus HK$'000	Property revaluation reserves HK$'000	Proposed dividends HK$'000	Exchange fluctuation reserve HK$'000	Retained profits HK$'000	Total equity attributable to shareholders of the parent HK$'000	Minority interests HK$'000	Total Equity HK$'000
At 1 January 2005										
– as originally stated	29,250	104,013	5,800	21,524	8,775	(63)	61,808	231,107	20	231,127
– adjustments on adoption of new accounting standards *(notes 2 and 3)*	-	-	-	-	-	-	2,285	2,285	-	2,285
– as restated	29,250	104,013	5,800	21,524	8,775	(63)	64,093	233,392	20	233,412
Exchange realignments	-	-	-	-	-	(44)	-	(44)	-	(44)
Surplus on revaluation of property	-	-	-	1,693	-	-	-	1,693	-	1,693
Net gain/(loss) recognised directly in equity	-	-	-	1,693	-	(44)	-	1,649	-	1,649
Net profit for the period	-	-	-	-	-	-	20,917	20,917	-	20,917
Net gain/(loss) for the period	-	-	-	1,693	-	(44)	20,917	22,566	-	22,566
Dividends paid	-	-	-	-	(8,775)	-	-	(8,775)	-	(8,775)
Proposed interim dividends	-	-	-	-	2,925	-	(2,925)	-	-	-
At 30 June 2005	29,250	104,013	5,800	23,217	2,925	(107)	82,085	247,183	20	247,203

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Continued)

For the six months ended 30 June 2005

	Share capital *HK$'000*	Share premium *HK$'000*	Contributed surplus *HK$'000*	Property revaluation reserves *HK$'000*	Proposed dividends *HK$'000*	Exchange fluctuation reserve *HK$'000*	Retained profits *HK$'000*	Total equity attributable to shareholders of the parent *HK$'000*	Minority interests *HK$'000*	Total Equity *HK$'000*
At 1 January 2004	15,000	6,459	5,800	20,395	–	(1,084)	23,883	70,453	–	70,453
Issue of shares on private placements	5,000	36,500	–	–	–	–	–	41,500	–	41,500
Issue of shares on exercise of share options	3,450	21,528	–	–	–	–	–	24,978	–	24,978
Share issue expenses	–	(1,074)	–	–	–	–	–	(1,074)	–	(1,074)
Issue of shares on acquisition of subsidiaries	5,800	40,600	–	–	–	–	–	46,400	–	46,400
Exchange realignments	–	–	–	–	–	817	–	817	–	817
Proposed interim dividends	–	–	–	–	2,925	–	(2,925)	–	–	–
Net profit for the period	–	–	–	–	–	–	18,764	18,764	20	18,784
At 30 June 2004	29,250	104,013	5,800	20,395	2,925	(267)	39,722	201,838	20	201,858

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2005

	Six months ended	
	30 June 2005	30 June 2004
	HK$'000	*HK$'000*
		(Re-presented)
	(Unaudited)	(Unaudited)
Net cash from operating activities	**11,856**	1,277
Net cash used in investing activities	**(3,238)**	(26,826)
Net cash (used in)/from financing activities	**(8,845)**	66,673
Net (decrease)/increase in cash and cash equivalents	**(227)**	41,124
Cash and cash equivalents at the beginning of period	**38,839**	(3,422)
Cash and cash equivalents at the end of period, represented by bank balances and cash	**38,612**	37,702

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30 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 of Securities on The Stock Exchange of Hong Kong Limited and the Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by Hong Kong Institute of Certified Public Accountants ("HKICPA").

As a result of the change of financial year end date of the Company from 30 June to 31 December during the year ended 31 December 2004, the interim financial report of the Company for 2004 covers the twelve months period from 1 July 2003 to 30 June 2004. For the purpose of the condensed financial statements for the six months ended 30 June 2005, the comparative condensed consolidated income statement, condensed consolidated cash flow statement and condensed consolidated statement of changes in equity for the six months ended 30 June 2004 have been re-prepared and presented in the condensed financial statements for the six months ended 30 June 2005.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed financial statements have been prepared under the historical cost convention except for leasehold land and buildings and investment properties, which are measured at fair values.

The accounting policies used in the condensed financial statements are consistent with those adopted in the preparation of the Group's annual financial statements for the year ended 31 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 Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by HKICPA that are effective for accounting periods beginning on or after 1 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 has 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.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

Business Combinations

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 January 2005. The principal effects of the application of HKFRS 3 to the Group are summarised below:

Goodwill

In previous periods, goodwill arising on acquisitions was capitalised and amortised over its estimated useful life. The Group has applied the relevant transitional provisions in HKFRS 3. With respect to goodwill previously capitalised on the balance sheet, the Group has discontinued amortising such goodwill from 1 January 2005 onwards and goodwill will be tested for impairment at least annually and in the financial year in which the acquisition takes place. Goodwill arising on acquisitions after 1 January 2005 is measured at cost less accumulated impairment losses (if any) after initial recognition. As a result of this change in accounting policy, no amortisation of goodwill has been charged in the current period. Comparative figures for 2004 have not been restated.

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 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 at 1 January 2005, which was previously presented as a deduction from assets, with a corresponding increase to retained earnings.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

Interests in Jointly Controlled Entities

In previous periods, interests in jointly controlled entities were accounted for using the equity method. In current period, the Group has applied HKAS 31 "Interests in Joint Ventures" which allows entity to use either proportionate consolidation or the equity method to account for its interests in jointly controlled entities. Upon the application of HKAS 31, the Group has elected to continue applying the equity method to account for its interests in jointly controlled entities. As a result, there has been no change in accounting method in respect of the Group's interests in jointly controlled entities.

Financial Instruments

In the current period, the Group has applied HKAS 39 "Financial Instruments: Recognition and Measurement". 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 39 are as follows:

Financial assets and financial liabilities other than debt and equity securities

From 1 January 2005 onwards, the Group classifies and measures its financial assets and financial liabilities other than debt and equity securities 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 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. This change has had no material effect on the results for the current or prior periods.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

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 revaluation 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 lease prepayments on land use rights 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 3 for the financial impact). Alternatively, where the allocation between the land and buildings elements cannot be made reliably, the leasehold interests in land continue to be accounted for as property, plant and equipment.

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 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. This change has had no material effect on the results for the current or prior periods.

3. SUMMARY OF THE EFFECTS OF CHANGES IN ACCOUNTING POLICIES

The effects of changes in the accounting policies described above on the condensed consolidated income statement for the current and prior periods are as follows:

	Six months ended 30 June 2005 *HK$'000*	30 June 2004 *HK$'000*
Decrease in depreciation of property, plant and equipment	**42**	42
Increase in amortisation of lease prepayments on land use rights	**(17)**	(17)
Decrease in release of negative goodwill to income	**(53)**	–
(Decrease)/increase in profit for the period	**(28)**	25

The effects of changes in the accounting policies described above on the condensed consolidated balance sheet as at 31 December 2004 and 1 January 2005 are as follows:

	As at 31 December 2004 (Originally stated) *HK$'000*	Effect of HKAS 17 *HK$'000*	As at 31 December 2004 (Restated) *HK$'000*	Effect of HKFRS 3 *HK$'000*	**As at 1 January 2005 (Restated)** *HK$'000*
Property, plant and equipment	128,716	(1,368)	127,348	–	**127,348**
Lease prepayments on land use rights	–	1,630	1,630	–	**1,630**
Negative goodwill	(2,023)	–	(2,023)	2,023	**–**
Total effects on assets and liabilities	126,693	262	126,955	2,023	**128,978**
Retained profits	61,808	262	62,070	2,023	**64,093**
Minority interests	20	–	20	–	**20**
Total effects on equity	61,828	262	62,090	2,023	**64,113**

4. POTENTIAL IMPACT ARISING ON THE NEW ACCOUNTING STANDARDS NOT YET EFFECTIVE

The Group has not early applied the following new HKFRSs that have been issued but are not yet effective. The directors of the Company anticipate that the application of these new HKFRSs 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 and 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

5. TURNOVER

Turnover represents the net amounts received and receivable for goods sold by the Group to outside customers, less returns and allowances.

6. SEGMENT INFORMATION

The Group's operating businesses are structured and managed separately according to the nature of their operations and the products. These businesses are the basis on which the Group reports it primary segment information and their details are as follows:

a) Electronic products segment engages in the manufacture and trading of electronic and electrical parts and components.

b) Lighter products segment engages in the design, manufacture and sale of cigarette lighters and related accessories.

6. SEGMENT INFORMATION (Continued)

The Group's turnover and net profit for the period by business segment are as follows:

	Lighter products		Electronic products		Consolidated	
	Six months ended 30 June		Six months ended 30 June		Six months ended 30 June	
	2005	2004	**2005**	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment turnover	**71,820**	72,540	**169,407**	104,402	**241,227**	176,942
Segment results	**953**	3,329	**25,664**	20,772	**26,617**	24,101
Unallocated income less expenses					**(1,497)**	(944)
Finance costs					**(5)**	(572)
Profit before taxation					**25,115**	22,585
Taxation					**(4,198)**	(3,801)
Net profit for the period					**20,917**	18,784

7. PROFIT BEFORE TAXATION

	Six months ended	
	30 June 2005	30 June 2004
	HK$'000	*HK$'000*
Profit before taxation has been arrived at after charging:		
Depreciation of property, plant and equipment	**7,365**	4,487
Amortisation of lease prepayments on land use rights	**17**	17
Amortisation of goodwill	**–**	1
Amortisation of intangible assets	**348**	304
Impairment of goodwill	**12**	–
and after crediting:		
Revaluations surplus on investment properties	**69**	–
Interest income	**14**	17

8. TAXATION

	Six months ended 30 June 2005 HK$'000	Six months ended 30 June 2004 HK$'000
Current tax		
Hong Kong	**4,663**	–
Other jurisdictions	**4**	–
	4,667	–
Deferred taxation	**(469)**	3,801
	4,198	3,801

Hong Kong Profits Tax is calculated at 17.5% (2004: 17.5%) of the estimated assessable profits for the period.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

9. DIVIDENDS

On 13 June 2005, a dividend of HK$0.03 per share was paid to shareholders as the final dividend for 2004.

The directors have determined that an interim dividend of HK$0.01 (2004: HK$0.01) per share should be paid to the shareholders of the Company whose names appear in the Register of Members on 21 September 2005.

10. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the net profit for the period of HK$20,917,000 (2004: HK$18,764,000) and on the weighted average number of 292,500,000 (2004: 243,475,275) ordinary shares in issue during the period.

There were no dilutive potential ordinary shares in issue during the six months ended 30 June 2005 and 2004 and, accordingly, no diluted earnings per share was presented.

11. MOVEMENT IN PROPERTY, PLANT AND EQUIPMENT

During the period, the Group spent approximately HK$3,846,000 on acquisition of property, plant and equipment.

12. TRADE AND BILLS RECEIVABLES

The Group allows an average credit period of 30 to 90 days to its trade customers.

The following is an aged analysis of trade and bills receivables at the balance sheet date:

	30 June 2005	31 December 2004
	HK$'000	*HK$'000*
Within 3 months	**96,495**	92,277
4 – 6 months	**7,197**	1,460
7 – 12 months	**2,622**	5,494
13 – 24 months	**5,533**	1,325
Over 24 months	**575**	–
	112,422	100,556

13. TRADE AND BILLS PAYABLES

The following is an aged analysis of trade and bills payables at the balance sheet date:

	30 June 2005	31 December 2004
	HK$'000	*HK$'000*
Within 3 months	**70,013**	74,900
4 – 6 months	**4,460**	3,842
7 – 12 months	**1,950**	319
13 – 24 months	**32**	2
	76,455	79,063

Included in trade and bills payables at 30 June 2005 was a trade and bills payable of HK$12,676,000 (31 December 2004: HK$17,237,000) due to the jointly controlled entity of the Group, which was unsecured, interest-free and had no fixed terms of repayment.

14. CAPITAL COMMITMENTS

	30 June 2005	31 December 2004
	HK$'000	*HK$'000*
Contracted, but not provided for:		
Capital expenditure in respect of the acquisition of property, plant and equipment	**3,955**	5,593

15. RELATED PARTY TRANSACTIONS

During the period, the Group had the following material transaction with its jointly controlled entity:

	Six months ended	
	30 June	30 June
	2005	2004
	HK$'000	*HK$'000*
Purchases of finished goods	**16,774**	19,629
Purchases of raw materials	**–**	698
Sales of raw materials	**(5,113)**	(5,736)

The above transactions were carried out on terms agreed between the Group and the jointly controlled entity and were conducted in the normal course of business with reference to the prevailing market prices.

Details of the Group's trade balances with the jointly controlled entity at the balance sheet date are disclosed in note 13 to the condensed financial statements.

CORPORATION INFORMATION

BOARD OF DIRECTORS

Executive Directors:
Mr. Lam Yat Keung *(President)*
Ms. Lam Pik Wah
Mr. Lam Hung Kit

Independent Non-executive Directors:
Mr. Lo Wah Wai
Mr. Pai Te-Tsun
Mr. Ho Chi Fai

AUDIT COMMITTEE

Mr. Lo Wah Wai
Mr. Pai Te-Tsun
Mr. Ho Chi Fai

REMUNERATION COMMITTEE

Mr. Lo Wah Wai
Mr. Pai Te-Tsun
Mr. Ho Chi Fai

COMPANY SECRETARY

Ms. Yu Miu Yee, Iris

QUALIFIED ACCOUNTANT

Ms. Yu Miu Yee, Iris

AUDITORS

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Bank of Bermuda Building
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Hamilton HM11
Bermuda

Hong Kong Branch Share Registrar and Transfer Office
Tengis Limited
Ground Floor
BEA Harbour View Centre
56 Gloucester Road
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STOCK CODE

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