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ARNHOLD HOLDINGS LIMITED

安利控股有限公司

INTERIM REPORT 2002

2002年中期業績報告



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## **REPORT OF THE DIRECTORS**

The directors have pleasure in submitting their interim report together with the unaudited interim financial information for the period ended 30 June 2002.

### **MANAGEMENT DISCUSSION AND ANALYSIS**

#### **Results**

During the reporting period, the Group has successfully resumed its focus on the traditional business of trading of building materials and engineering equipment. Despite the continued weakness of the economy of Hong Kong, as shown by the increasing unemployment rate and weak consumer spending, the Group has achieved significant improvement in financial results. Revenue of our building products and engineering equipment increased by 22% and 3% respectively. The Group's turnover for the period amounted to HK\$254 million, representing a growth of 16.2% over the last corresponding period (2001: HK\$219 million). Gross profit margin was improved from 13.2% to 15.4% while operating expenses was reduced by 21.1% to HK\$45.6 million (2001: HK\$57.8 million). Group loss attributable to shareholders for the period was reduced to HK\$5.7 million compared with a loss of HK\$18.6 million in June 2001. The current period's loss would be further reduced to HK\$4.1 million if we exclude the one-off charge of HK\$1.6 million resulting from the disposal of our technology investment. Such improvement in financial results was largely attributable to the Group's efforts in expanding market coverage, enhancing operational efficiency and implementing stringent cost reduction measures.

As a result of our decision to scale down the contracting business, the Group's outstanding orders on hand at the period end was HK\$325 million, representing a decline of 27.2% over the end of last year (At 31 December 2001: HK\$447 million). We will continue to expand our market share and introduce new business opportunities to improve the order book status.

The Group also has achieved progress in realising cash through our divestment in the technology sector. Starcase Limited, a subsidiary of the Company that made the technology investment in Wit Soundview Dawntreader Fund II, is at the final stage of creditor's liquidation. The liquidator successfully disposed the investment in July and we received cash dividend of approximately HK\$1.1 million in August. As a result, a realised loss of approximately HK\$1.6 million has been charged to the profit and loss account and there will not be any further financial exposure to the Group.

#### **Liquidity and Financial Resources**

As disclosed in our 2001 annual report, the Group used HK\$387.1 million of the surplus funds to repurchase 395,000,000 shares of the Company. After this share repurchase exercise, we still maintain a healthy financial position with positive cashflow of HK\$23.8 million from operating activities. As at end of June 2002, cash balance amounted to HK\$47.2 million, most of which have been placed in time deposits with reputable financial institutions. The Group had no bank borrowing as at the period end and thus maintained zero gearing (At 31 December 2001: Nil). In managing the foreign currency risk, the Group has continued with its hedging policy through booking of forward foreign exchange contracts.

#### **Contingent Liabilities**

As at 30 June 2002, the amount of contingent liabilities was HK\$28 million (At 31 December 2001: HK\$33 million) in relation to guarantees of performance bonds and letters of guarantee to third parties on behalf of the subsidiaries provided by the banks while certain subsidiaries have given undertakings to the banks that they will perform certain contractual non-financial obligations to third parties.

#### **Bank facilities with asset pledged**

A property with net book value of HK\$53 million at period ended 30 June 2002 held by a subsidiary of the Group is pledged to a bank to obtain banking facilities.

# REPORT OF THE DIRECTORS

## MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

### Employees

At the end of the period, the Group had approximately 300 and 150 employees in the Mainland and Hong Kong respectively. The Group continues to provide remuneration packages to employees with reference to prevailing market practices. The Group also adopted a new share option scheme on 11 July 2002 under which the directors of the Company, subject to the compliance of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, are authorised to grant share options to eligible persons as incentive. As at period ended 30 June 2002, no share option was granted under the new share option scheme.

### Outlook

2002 has been another turbulent year for Hong Kong companies. Although signs of recovery have emerged in US, the speed of economic recovery of Hong Kong is still uncertain. Sluggish property market and deflationary pressure are expected to continue to affect our operations in the near term.

Nevertheless, we believe that China's entry to the World Trade Organization, the construction projects for 2008 Olympic Games and the HK\$600 billion infrastructure investment plan of the Hong Kong government, will underpin the demand for quality products of the Group in both the Mainland and Hong Kong. To capitalise on such business opportunities, the Group will continue to adopt a cautious credit policy to search for suitable projects in both the Mainland and Hong Kong.

Through our clear corporate strategies of providing the best services, expanding market share, improving efficiency and maintaining stringent cost control, we are optimistic that the Group can further strengthen its leading position and achieve better results in 2002.

## DIRECTORS

The directors of the Company during the period and up to the date of this report are:

### Executive directors:

Michael John Green	
Simon Murray	(resigned on 8 February 2002)
Augustus Ralph Marshall	(resigned on 8 February 2002)
Yip Ka Kay, Kevin	(resigned on 8 February 2002)
Leung Tak Tong, Eric	(appointed on 8 February 2002)
Woo Chun Yu, Adolf	(appointed on 8 February 2002)
Lai Ka Tak, Patrick	(appointed on 8 February 2002)

### Non-executive directors:

Geoffrey Alan Spender	(resigned on 8 February 2002)
Simon Murray	(appointed on 8 February 2002)
Augustus Ralph Marshall	(appointed on 8 February 2002)

### Independent non-executive directors:

Christopher John David Clarke  
V-Nee Yeh

## REPORT OF THE DIRECTORS

### SHARE OPTION SCHEME

An Executive Share Option Scheme (“the Scheme”) was approved by the shareholders at a special general meeting of the Company on 10 December 1993. The Scheme was terminated on 14 February 2002 since a conditional cash offer (“Offer”) to repurchase 395,000,000 shares of the Company has been approved by a special general meeting held on 14 January 2002 and become unconditional on 15 January 2002. Pursuant to the clauses 6.3(c) and 7 of the Scheme, all options shall be exercisable (to the extent of the outstanding options not exercised) at any time within 30 days after the date on which the Offer becomes or is declared unconditional. Upon expiry of the period described above, all options shall terminate automatically and shall not be exercisable (to the extent not already exercised). On 14 January 2002, 3,600,000 share options were exercised by grantees at the price of HK\$0.592 per share granted under the Scheme. At the date before options were exercised, the market value per share was HK\$0.90. The remaining 23,204,000 share options lapsed on 14 February 2002.

Details of options granted to directors and employees under the Scheme were as follows:

	Date of options granted	Outstanding options as at 1 January 2002	Granted during the period	Exercised during the period	Lapsed as a result of share repurchase	Outstanding options as at 30 June 2002	Subscription price per share
HK\$							
Directors							
Eric T T Leung	12 December 1995	704,000	–	–	(704,000)	–	0.8304
	25 June 1996	1,000,000	–	–	(1,000,000)	–	1.2288
	1 January 1997	1,500,000	–	–	(1,500,000)	–	1.2032
	3 July 1997	3,125,000	–	–	(3,125,000)	–	1.3680
Adolf C Y Woo	25 June 1996	500,000	–	–	(500,000)	–	1.2288
	1 January 1997	1,000,000	–	–	(1,000,000)	–	1.2032
	3 July 1997	4,875,000	–	–	(4,875,000)	–	1.3680
Patrick K T Lai	8 May 1999	3,000,000	–	(3,000,000)	–	–	0.5920
Simon Murray	18 August 2000	10,000,000	–	–	(10,000,000)	–	1.6200
Continuous employees	3 July 1997	500,000	–	–	(500,000)	–	1.3680
	8 May 1999	600,000	–	(600,000)	–	–	0.5920
		26,804,000	–	(3,600,000)	(23,204,000)	–	

# REPORT OF THE DIRECTORS

## SHARE OPTION SCHEME (Continued)

A New Share Option Scheme (“the New Scheme”) was approved and adopted by the shareholders at a special general meeting of the Company on 11 July 2002. The following information relating to the New Scheme are made pursuant to the requirements as contained in Chapter 17 of the Listing Rules (Reference is made to the circular of the Company dated 24 June 2002 (the “Circular”). Terms defined in the Circular have the same meanings when used in the following summary unless the context requires otherwise):

**(i) Purpose of the New Scheme**

The purpose of the New Scheme is to recognise and acknowledge the contribution that Eligible Persons have made or may make to the Company and to attract and retain and motivate talented staff.

**(ii) Participants of the New Scheme**

The participants of the New Scheme shall be such Eligible Persons as the Board in its absolute discretion determines.

**(iii) Maximum number of shares available for issue under the New Scheme**

The maximum number of the Shares which may be issued upon exercise of all outstanding Options to subscribe for Shares granted and yet to be exercised under the New Scheme and any other share option scheme shall not exceed 10% of the total number of Shares in issue of the Company from time to time. No share option was granted during the six months period ended 30 June 2002. Accordingly, there was no Share available for issue under the New Scheme as at 30 June 2002 and of the date of this interim report.

**(iv) Maximum entitlement to any one participant**

Under the New Scheme, the maximum entitlement to Options of each Eligible Person shall be such that the total number of Shares issued and to be issued upon exercise of Options granted and to be granted to him in any 12 months period up to each Commencement Date must not exceed 1% of the issued share capital of the Company at the relevant Commencement Date.

**(v) Period and payment on acceptance of options**

Under the New Scheme, an Offer may be accepted by an Eligible Person in whole or in part in respect of all shares for which it is offered to such Eligible Person when the duplicate letter comprising acceptance of the Offer duly signed by the Eligible Person together with a remittance in favour of the Company of HK\$1.00 by way of consideration for the grant thereof is received by the Company within forty days from the Offer Date.

**(vi) The basis of determining the exercise price**

The Subscription Price in respect of any Option shall be not less than the highest of (i) the closing price of a Share as stated in the Stock Exchange's daily quotations sheet on the relevant Commencement Date in respect of such Option; which must be a Business Day; (ii) an amount equivalent to the mean closing price of a Share as stated in the Stock Exchange's daily quotations sheets for the five Business Days immediately preceding the relevant Commencement Date in respect of such Option, which must be a Business Day, and (iii) the nominal value of a Share.

**(vii) Remaining life of the New Scheme**

The New Scheme is valid and effective for a period of 10 years commencing on the Adoption Date unless otherwise terminated under the terms of the New Scheme.

## REPORT OF THE DIRECTORS

### DIRECTORS' INTERESTS IN EQUITY

At 30 June 2002, the interests of the directors in the shares of the Company as recorded in the register maintained by the Company under Section 29 of the Securities (Disclosure of Interests) Ordinance or as notified to the Company were as follows:

Ordinary shares of HK\$0.10 each

	Number of shares held	
	Personal interests	Corporate interests
<b>Executive director:</b>		
Michael John Green	1,272,000	138,510,900*
<b>Non-executive director:</b>		
Simon Murray	343,487	495,562**
<b>Independent non-executive directors:</b>		
Christopher John David Clarke	50,000	–
V-Nee Yeh	74,444	–

\* Such shares were held through corporations on behalf of the Michael Green Family Trust.

\*\* Such shares were held by a private investment holding company wholly owned by a corporation, which Mr Simon Murray is a director and in which he has a beneficial interest of approximately 31%.

The following directors beneficially own the non-voting deferred shares of HK\$0.01 each in Arnhold Investments Limited, a subsidiary of the Company, as at 30 June 2002:

Name of beneficial owner	Number of non-voting deferred shares
Michael Green Family Trust	81,500,000
Leung Tak Tong, Eric	1,000,000
Woo Chun Yu, Adolf	1,000,000
Simon Murray	500,000

Save as aforesaid, no other directors of the Company or their associates had any beneficial or non-beneficial interests in the share capital of the Company or its subsidiaries.

Apart from the New Scheme mentioned above, at no time during the period was the Company or its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

# REPORT OF THE DIRECTORS

## SUBSTANTIAL SHAREHOLDERS

The register of substantial shareholders maintained under section 16(1) of the Securities (Disclosure of Interests) Ordinance shows that as at 30 June 2002, the Company had been notified of the following substantial shareholder's interests, being 10% or more of the Company's issued ordinary share capital. These interests are in addition to those disclosed above in respect of the directors and chief executive.

<b>Name of shareholder</b>	<b>Ordinary shares held</b>	<b>Percentage of total issued shares</b>
Amethyst International Finance Limited	27,582,717	12.3%

Amethyst International Finance Limited is a wholly owned subsidiary of GEMS Oriental and General Fund Limited.

## INTERIM DIVIDEND

The Board has resolved to recommend that no interim dividend be paid for the six months ended 30 June 2002 (2001: Nil).

## PURCHASE, SALE OR REDEMPTION OF SHARES

During the six months ended 30 June 2002, 395,000,000 ordinary shares of HK\$0.10 each of the Company were repurchased and cancelled by the Company at the price of HK\$0.98 per share by way of a general offer ("Offer"). The Offer was approved at the special general meeting on 14 January 2002 and became unconditional on 15 January 2002. The total consideration payable by the Company under the Offer was approximately HK\$387.10 million. Saved as disclosed above, the Company has not redeemed any of its shares during the period. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the period.

## CODE OF BEST PRACTICE

None of the directors of the Company is aware of any information which would indicate that the Company is not, or during the six months ended 30 June 2002 was not, in compliance with the Code of Best Practice as set out in the Appendix 14 to Listing Rules of The Stock Exchange of Hong Kong Limited, save that non-executive directors have not been appointed for a specific term.

## AUDIT COMMITTEE

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the unaudited condensed accounts for the six months ended 30 June 2002 with the directors.

On behalf of the Board  
**Michael John Green**  
*Chairman*

Hong Kong, 17 September 2002



**CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT  
FOR THE PERIOD ENDED 30 JUNE 2002**

		(Unaudited)	
		Six months ended	
		30 June	
	<i>Note</i>	2002 HK\$'000	2001 HK\$'000
Turnover	2	254,154	218,750
Cost of sales	3	<u>(215,011)</u>	<u>(189,778)</u>
Gross profit		39,143	28,972
Other revenues	2	2,670	10,808
Operating expenses	4	(45,617)	(57,781)
Realised loss on disposal of non-trading securities		<u>(1,614)</u>	<u>–</u>
Operating loss		(5,418)	(18,001)
Finance costs	5	(77)	(410)
Share of loss of an associate		<u>(178)</u>	<u>(140)</u>
Loss from ordinary activities before taxation		(5,673)	(18,551)
Taxation	6		
Company and subsidiaries		(42)	(49)
The associate		<u>–</u>	<u>–</u>
Loss attributable to shareholders		<u>(5,715)</u>	<u>(18,600)</u>
Dividend		<u>–</u>	<u>–</u>
Basic loss per share (cents)	7	<u>(2.00)</u>	<u>(3.02)</u>
Diluted loss per share (cents)	7	<u>(2.00)</u>	<u>(3.01)</u>

## CONDENSED CONSOLIDATED BALANCE SHEET AS AT 30 JUNE 2002

	<i>Note</i>	(Unaudited) At 30 June 2002 HK\$'000	At 31 December 2001 HK\$'000
Non-current assets			
Fixed assets			
– Investment properties		17,501	17,501
– Other properties, plant and equipment		82,798	84,371
Interest in an associate		9,322	9,538
Non-trading securities	10	–	2,736
Other investments		2,288	2,288
		111,909	116,434
Current assets			
Inventories		27,439	20,415
Construction contracts		2,385	3,715
Trade and other receivables	11	202,825	240,295
Taxation recoverable		–	223
Cash and cash equivalents	12	47,151	413,808
		279,800	678,456
Current liabilities			
Trade and other payables	13	152,029	160,687
Provisions	14	2,443	2,181
Taxation payable		2	–
		154,474	162,868
Net current assets		125,326	515,588
Total assets less current liabilities		237,235	632,022
Non-current liabilities			
Deferred taxation		430	430
Net assets		236,805	631,592
Capital and reserves			
Share capital	15	22,450	61,590
Reserves		214,355	570,002
Shareholders' funds		236,805	631,592

**Approved by the board of directors on 17 September 2002**

**Michael John Green**  
*Chairman*

**Lai Ka Tak, Patrick**  
*Finance Director*

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT FOR THE PERIOD ENDED 30 JUNE 2002

	(Unaudited)	
	Six months ended	
	30 June	
	2002	2001
	HK\$'000	HK\$'000
Operating activities		
Loss from ordinary activities before taxation	(5,673)	(18,551)
Adjustment for:		
Depreciation	2,939	3,982
Amortisation of goodwill	45	45
Interest income	(676)	(9,763)
Interest expenses	77	410
Share of loss of an associate	178	140
Realised loss on disposal of non-trading securities	1,614	–
(Gain)/loss on disposal of fixed assets	(1)	206
Deficit on revaluation of other properties	–	2,586
Write off of leasehold improvements	–	1,708
	(1,497)	(19,237)
Operating loss before changes in working capital		
Increase in amount due from an associate	(7)	(101)
Increase in inventories	(7,024)	(3,788)
Decrease/(increase) in construction contracts	1,330	(2,865)
Decrease in trade and other receivables	38,592	46,506
Decrease in trade and other payables	(8,658)	(18,233)
Increase in provisions	262	–
	22,998	2,282
Cash generated from operations		
Interest received	676	9,763
Interest paid	(77)	(410)
Dividend received from an associate	–	1,470
Hong Kong profits tax refund/(paid)	225	(463)
Overseas tax paid	(42)	(49)
	23,780	12,593
Net cash from operating activities carried forward	23,780	12,593

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT FOR THE PERIOD ENDED 30 JUNE 2002

	(Unaudited)	
	Six months ended	
	30 June	
	2002	2001
	HK\$'000	HK\$'000
Net cash from operating activities brought forward	<u>23,780</u>	<u>12,593</u>
Investing activities		
Payment for purchase of fixed assets	(1,368)	(777)
Proceeds from sale of fixed assets	3	163
Payment for purchase of non-trading securities	–	(3,900)
Net cash used in investing activities	<u>(1,365)</u>	<u>(4,514)</u>
Financing activities		
Repurchase of ordinary shares	(387,100)	–
Exercise of share options	2,131	–
Ordinary shares repurchase/issue expenses	(4,103)	(44)
Short-term bank loans maturing beyond three months	–	3,532
Repayment of long-term bank loans	–	(1,234)
Repayment of short-term bank loans	–	(3,901)
Net cash used in financing activities	<u>(389,072)</u>	<u>(1,647)</u>
Net (decrease)/increase in cash and cash equivalents	(366,657)	6,432
Cash and cash equivalents at the beginning of the period	<u>413,808</u>	<u>416,422</u>
Cash and cash equivalents at the end of the period	<u><b>47,151</b></u>	<u><b>422,854</b></u>
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	47,151	429,250
Short-term bank loans maturing within three months	–	(6,327)
Bank overdraft	–	(69)
	<u><b>47,151</b></u>	<u><b>422,854</b></u>

### Analysis of changes in financing during the period

	(Unaudited)	
	Six months ended	
	30 June	
	2002	2001
	HK\$'000	HK\$'000
Short-term bank loans		
Balance at the beginning of the period	–	3,901
Drawdown during the period	5,397	22,117
Repayments during the period	(5,397)	(16,090)
Balance at the end of the period	<u><b>–</b></u>	<u><b>9,928</b></u>

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD ENDED 30 JUNE 2002

Group

	(Unaudited)						
	Share capital HK\$'000	Share premium HK\$'000	Other properties revaluation reserve HK\$'000	Investment revaluation reserve HK\$'000	Profit and loss account HK\$'000	Contributed surplus HK\$'000	Total HK\$'000
At 1 January 2002	61,590	438,218	1,772	(7,800)	137,004	808	631,592
Loss attributable to shareholders	–	–	–	–	(5,715)	–	(5,715)
Repurchase of ordinary shares	(39,500)	(347,600)	–	–	(4,103)	–	(391,203)
Exercise of share options	360	1,771	–	–	–	–	2,131
	<u>22,450</u>	<u>92,389</u>	<u>1,772</u>	<u>(7,800)</u>	<u>127,186</u>	<u>808</u>	<u>236,805</u>

Group

	(Unaudited)						
	Share capital HK\$'000	Share premium HK\$'000	Other properties revaluation reserve HK\$'000	Investment revaluation reserve HK\$'000	Profit and loss account HK\$'000	Contributed surplus HK\$'000	Total HK\$'000
At 31 December 2000, as previously reported	61,590	438,262	11,389	(12,035)	192,823	808	692,837
Effect of adopting SSAP 28	–	–	–	–	(2,299)	–	(2,299)
At 31 December 2000, as restated	61,590	438,262	11,389	(12,035)	190,524	808	690,538
Deficit on revaluation	–	–	(8,833)	(11,554)	–	–	(20,387)
Loss attributable to shareholders	–	–	–	–	(18,600)	–	(18,600)
Shares issue expenses	–	(44)	–	–	–	–	(44)
At 30 June 2001	<u>61,590</u>	<u>438,218</u>	<u>2,556</u>	<u>(23,589)</u>	<u>171,924</u>	<u>808</u>	<u>651,507</u>

There is no gain or loss not recognised in the profit and loss account for the period ended 30 June 2002. Net loss not recognised in the profit and loss account amounted to HK\$20,387,000 for the period ended 30 June 2001.

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

These unaudited consolidated condensed interim accounts are prepared in accordance with Hong Kong Statement of Standard Accounting Practice (“SSAP”) 25, Interim Financial Reporting, issued by the Hong Kong Society of Accountants (“HKSA”).

These condensed interim accounts should be read in conjunction with the 2001 annual financial statements.

The accounting policies and methods of computation used in the preparation of these condensed interim accounts are consistent with those used in the annual accounts for the year ended 31 December 2001.

The accounting policies and methods of computation used in the preparation of these condensed interim accounts are consistent with those used in the annual accounts for the year ended 31 December 2001 except that the Group has changed certain of its accounting policies following its adoption of the following SSAP issued by the HKSA which are effective for accounting periods commencing on or after 1 January 2002:

SSAP 1 (revised)	:	Presentation of financial statements
SSAP 15 (revised)	:	Cash flow statements
SSAP 25 (revised)	:	Interim financial reporting
SSAP 34	:	Employee benefits

### Employee benefits

#### (1) Employee leave entitlements

Employee entitlements to annual leave and long service payment are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service payment as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity or paternity are not recognised until the time of leave.

#### (2) Pension obligations

The Group contributes to the defined contribution retirement scheme regulated under the Occupational Retirement Schemes Ordinance (“ORSO”) and AIA-JF Premium MPF Scheme which are available to all employees. Contributions to the schemes by the Group and employees are calculated as a percentage of employees’ basic salaries. The retirement benefit scheme cost charged to the profit and loss account represents contributions payable by the Group to the funds.

The Group’s contributions are expensed as incurred and are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions. The assets of the schemes are held separately from those of the Group in independently administered funds.

## NOTES TO THE INTERIM FINANCIAL INFORMATION

### 2. TURNOVER AND OTHER REVENUES

The principal activities of the Group are investing in technology companies and trading in, and the supply and installation of, building products and engineering equipment and a distributorship agency business. Revenues recognised during the period are as follows:

	(Unaudited) Six months ended 30 June	
	2002 HK\$'000	2001 HK\$'000
Turnover		
Sales of inventories	202,964	188,245
Revenue from construction contracts	46,695	26,531
Commission income	4,495	3,974
	<u>254,154</u>	<u>218,750</u>
Other revenues		
Interest income from bank deposits	676	9,763
Administration fee received from the associate (note 17 (a))	465	465
Write back of provision for doubtful debts	538	305
Write back of provision for stock obsolescence	416	–
Gross rental income from investment properties	214	208
Gain on disposal of fixed assets	1	–
Sundry income	360	67
	<u>2,670</u>	<u>10,808</u>
Total revenue	<u>256,824</u>	<u>229,558</u>

An analysis of the Group's turnover and contribution to operating loss by principal activities and by principal markets is as follows:

	(Unaudited) Six months ended			
	30 June 2002		30 June 2001	
	Turnover HK\$'000	Operating results HK\$'000	Turnover HK\$'000	Operating results HK\$'000
Principal activities:				
Building products	183,869	27,602	150,646	19,531
Engineering equipment	70,285	8,594	68,104	9,021
	<u>254,154</u>	<u>36,196</u>	<u>218,750</u>	<u>28,552</u>
Administrative and other expenses		(41,614) <sup>#</sup>		(46,553)
Operating loss		<u>(5,418)</u>		<u>(18,001)</u>

## NOTES TO THE INTERIM FINANCIAL INFORMATION

### 2. TURNOVER AND OTHER REVENUES (Continued)

	(Unaudited)			
	Six months ended			
	30 June 2002		30 June 2001	
	Turnover HK\$'000	Operating results HK\$'000	Turnover HK\$'000	Operating results HK\$'000
Principal markets:				
Hong Kong and Macau	249,267	35,442	203,306	26,552
Mainland China	4,887	754	15,444	2,000
	<u>254,154</u>	<u>36,196</u>	<u>218,750</u>	<u>28,552</u>
Administrative and other expenses		(41,614) <sup>#</sup>		(46,553)
Operating loss		<u>(5,418)</u>		<u>(18,001)</u>

<sup>#</sup> Included in the administrative and other expenses, there is a realised loss on disposal of non-trading securities of HK\$1,614,000 for the period ended 30 June 2002.

### 3. COST OF SALES

	(Unaudited)	
	Six months ended	
	30 June	
	2002 HK\$'000	2001 HK\$'000
Cost of inventories sold	169,998	162,604
Cost of construction contracts	42,667	25,290
Cost of consumable stocks	1,792	1,818
Sub-contracting fee on construction contracts	554	66
	<u>215,011</u>	<u>189,778</u>



## NOTES TO THE INTERIM FINANCIAL INFORMATION

### 4. OPERATING EXPENSES

	(Unaudited)	
	Six months ended	
	30 June	
	2002	2001
	HK\$'000	HK\$'000
Administrative expenses:		
Salaries and wages	27,416	34,024
Retirement benefit costs ( <i>note 8</i> )	975	1,270
Depreciation	2,939	3,982
Operating lease rentals on properties paid to third parties	3,188	3,786
Travelling expenses	880	1,055
Entertainment expenses	534	836
Stamps, postage and telephone	621	696
Advertising expenses	400	388
Legal and professional fees	507	761
Auditors' remuneration	654	828
Amortisation of goodwill	45	45
	38,159	47,671
	38,159	47,671
Other operating expenses:		
Specific provision for doubtful debts	1,546	1,052
Provision for stock obsolescence	601	103
Provision for annual leave entitlement	401	–
Provision for long service payment	285	–
Loss on disposal of fixed assets	–	206
Deficit on revaluation of other properties	–	2,586
Write off of leasehold improvements	–	1,708
Sundry expenses	4,625	4,455
	7,458	10,110
	7,458	10,110
	45,617	57,781

### 5. FINANCE COSTS

	(Unaudited)	
	Six months ended	
	30 June	
	2002	2001
	HK\$'000	HK\$'000
Interest expenses		
Short-term bank loans and overdrafts	77	402
Bank loans wholly repayable within five years	–	8
	77	410
	77	410

## NOTES TO THE INTERIM FINANCIAL INFORMATION

### 6. TAXATION

Hong Kong profits tax has not been provided as there is no estimated assessable profit for the period (2001: 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.

The amount of taxation charged to the condensed consolidated profit and loss account represents:

	(Unaudited) Six months ended 30 June	
	2002 HK\$'000	2001 HK\$'000
Company and subsidiaries		
Hong Kong profits tax	–	–
Overseas taxation	42	49
Deferred taxation	–	–
	42	49
The associate		
Hong Kong profits tax	–	–
	42	49
	42	49

### 7. LOSS PER SHARE

#### (a) Basic loss per share

The calculation of basic loss per share is based on the Group's loss attributable to ordinary shareholders of HK\$5,715,000 (2001: HK\$18,600,000) and the weighted average number of 285,342,000 (2001: 615,896,000) ordinary shares in issue during the period.

#### (b) Diluted loss per share

The calculation of diluted loss per share is based on the Group's loss attributable to ordinary shareholders of HK\$5,715,000 (2001: HK\$18,600,000) and the weighted average number of 285,342,000 (2001: 617,791,000) ordinary shares after adjusting for the effects of all dilutive potential ordinary shares.

#### (c) Reconciliation

	(Unaudited) Six months ended 30 June	
	2002 Number of shares	2001 Number of shares
Weighted average number of ordinary shares used in calculating basic loss per share	285,342,000	615,896,000
Deemed issue of ordinary shares for no consideration	–	1,895,000
Weighted average number of ordinary shares used in calculating diluted loss per share	285,342,000	617,791,000

## NOTES TO THE INTERIM FINANCIAL INFORMATION

### 8. RETIREMENT BENEFIT COSTS

Contributions to the ORSO scheme and AIA-JF Premium MPF scheme by the Group and the employees are calculated as a percentage of the employees' basic salaries.

The retirement benefit scheme cost charged to the profit and loss account represents contributions payable by the Group to the scheme.

The Group's contributions are reduced by contributions forfeited by those employees who leave the ORSO scheme prior to vesting fully in the contributions. Forfeited contributions totalling HK\$303,000 (2001: HK\$254,000) were fully utilised during the period.

Contributions of HK\$345,000 were payable to the schemes at the period-end (2001: HK\$384,000). The assets of the schemes are held separately from those of the Group in independently administered funds.

### 9. CAPITAL EXPENDITURE

	<b>Fixed assets HK\$'000</b>
Net book value at 1 January 2002	101,872
Additions	1,368
Disposals	(2)
Depreciation	(2,939)
	<hr/>
Net book value at 30 June 2002	<u>100,299</u>

### 10. NON-TRADING SECURITIES

	<b>(Unaudited) At 30 June 2002 HK\$'000</b>	<b>At 31 December 2001 HK\$'000</b>
Unlisted equity securities, at cost	7,800	26,325
Less: Provision of diminution in value	(7,800)	(7,800)
Less: Impairment loss	-	(15,789)
	<hr/>	<hr/>
	<u>-</u>	<u>2,736</u>

During the period ended 30 June 2002, one of the unlisted equity securities above has been disposed and realised loss of HK\$1,614,000 has been charged to the profit and loss account. The amount of HK\$1,122,000 receivable from the disposal is included in the other receivables.

### 11. TRADE AND OTHER RECEIVABLES

	<b>(Unaudited) At 30 June 2002 HK\$'000</b>	<b>At 31 December 2001 HK\$'000</b>
Trade receivables	166,884	202,212
Retention receivables	28,063	31,720
Prepayments and other receivables	7,878	6,363
	<hr/>	<hr/>
	<u>202,825</u>	<u>240,295</u>

## NOTES TO THE INTERIM FINANCIAL INFORMATION

### 11. TRADE AND OTHER RECEIVABLES (Continued)

Included in trade and other receivables are trade debtors and retention receivables (net of specific provisions for bad and doubtful debts) with the following aging analysis:

	(Unaudited) At 30 June 2002 HK\$'000	At 31 December 2001 HK\$'000
Current	60,276	102,592
One to three months overdue	67,994	65,381
More than three months overdue but less than twelve months overdue	42,021	43,554
Overdue more than twelve months	24,656	22,405
	<hr/>	<hr/>
Total debtors and retention receivables	194,947	233,932
Prepayments and other receivables	7,878	6,363
	<hr/>	<hr/>
	<b>202,825</b>	<b>240,295</b>

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.

### 12. CASH AND CASH EQUIVALENTS

	(Unaudited) At 30 June 2002 HK\$'000	At 31 December 2001 HK\$'000
Bank deposits with original maturity of three months or less	35,180	404,677
Cash at bank and in hand	11,971	9,131
	<hr/>	<hr/>
	<b>47,151</b>	<b>413,808</b>

### 13. TRADE AND OTHER PAYABLES

	(Unaudited) At 30 June 2002 HK\$'000	At 31 December 2001 HK\$'000
Trade payables	77,372	65,757
Accruals and other payables	71,186	92,536
Advances received from customers	3,471	2,394
	<hr/>	<hr/>
	<b>152,029</b>	<b>160,687</b>

All of the above trade and other payables are expected to be settled within one year.

## NOTES TO THE INTERIM FINANCIAL INFORMATION

### 13. TRADE AND OTHER PAYABLES (Continued)

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

	(Unaudited) At 30 June 2002 HK\$'000	At 31 December 2001 HK\$'000
Due within one month or on demand	63,418	51,761
Due after one month but within three months	13,426	12,747
Due after three months	528	1,249
	<hr/>	<hr/>
Total creditors and bills payable	77,372	65,757
Accruals and other payables	71,186	92,536
Advances received from customers	3,471	2,394
	<hr/>	<hr/>
	<b>152,029</b>	<b>160,687</b>

### 14. PROVISIONS

	Long service payment HK\$'000	Annual leave entitlement HK\$'000	Total HK\$'000
At 1 January 2002	1,202	979	2,181
	-----	-----	-----
Additional provisions	285	1,543	1,828
Less: Amounts utilised	-	(1,142)	(1,142)
	<hr/>	<hr/>	<hr/>
Charge to profit and loss account	285	401	686
Less: Amounts settled	(224)	(200)	(424)
	<hr/>	<hr/>	<hr/>
Net effect on provisions	61	201	262
	-----	-----	-----
At 30 June 2002	<b>1,263</b>	<b>1,180</b>	<b>2,443</b>
	<hr/>	<hr/>	<hr/>

### 15. SHARE CAPITAL

Ordinary shares of HK\$0.10 each	Authorised	
	Number of shares	HK\$'000
At 1 January 2002 and at 30 June 2002	800,000,000	80,000
	<hr/>	<hr/>
Ordinary shares of HK\$0.10 each	Issued and fully paid	
	Number of shares	HK\$'000
At 1 January 2002	615,896,000	61,590
Exercise of share options	3,600,000	360
Repurchase of ordinary shares	(395,000,000)	(39,500)
	<hr/>	<hr/>
At 30 June 2002	<b>224,496,000</b>	<b>22,450</b>
	<hr/>	<hr/>

On 14 January 2002, 3,600,000 ordinary shares of HK\$0.10 each were issued at HK\$0.592 (the pre-determined subscription price upon the exercise of the share options granted under the Executive Share Option Scheme). These shares rank pari passu with the existing shares.

## NOTES TO THE INTERIM FINANCIAL INFORMATION

### 15. SHARE CAPITAL (Continued)

On 29 January 2002, 395,000,000 ordinary shares of HK\$0.10 each were repurchased and cancelled pursuant to the cash offer approved at the special general meeting on 14 January 2002 and became unconditional on 15 January 2002.

### 16. CONTINGENT LIABILITIES

At 30 June 2002, there were contingent liabilities in respect of the following:

(a)	Group		Company	
	(Unaudited)	At 31	(Unaudited)	At 31
	At 30 June	December	At 30 June	December
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Guarantees for credit facilities granted by a bank on behalf of subsidiaries	—	—	<b>222,000</b>	222,000
(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 2002, the amount of guarantees outstanding was HK\$27,926,000 (At 31 December 2001: HK\$32,618,000).				

### 17. 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	
	2002	2001
	HK\$'000	HK\$'000
Administration fee received by Arnhold & Company, Limited from the associate (see note (a) below)	<b>465</b>	465
(a) Arnhold & Company, Limited provides management services to the associate for which it charges an administration fee at a fixed monthly amount.		
(b) In addition to transactions with related companies as disclosed above, professional fees of HK\$227,000 (2001: HK\$196,000) were paid to a firm in which an independent non-executive director is a partner. Besides, sales of consumer goods of HK\$3,324,000 (2001: HK\$8,072,000) to a listed group of companies in which an independent non-executive director 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 the related parties under similar bases as adopted in previous years. In the opinion of the directors of the Company, the transactions with the related parties were carried out in the ordinary course of business on normal commercial terms.

