

2003

Interim Report



東方有色集團有限公司*
ONFEM HOLDINGS LIMITED

* For identification purpose only

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL PERFORMANCE

The unaudited consolidated turnover of ONFEM Holdings Limited (the “Company”) and its subsidiaries (collectively, the “Group”) for the period under review amounted to approximately HK\$92.4 million, representing a decrease of 25% as compared to the corresponding period last year; whereas, loss attributable to shareholders decreased by 31% from approximately HK\$58.5 million during the corresponding period last year to approximately HK\$40.4 million this year.

The Group has instituted efforts to reduce staff cost, raise overall profit margin and shorten debt collection period. Currently, the Group is mainly engaged in three principal business, namely, manufacturing and trading, specialised construction contracting and property development and leasing. The Group will continue to explore new business opportunities to bring in additional sources of income in the future.

BUSINESS REVIEW

1. Manufacturing and Trading

The segment is mainly engaged in the manufacturing and trading of two types of products, industrial lubricant products and doors and timber products respectively. Turnover of the segment increased 5% to approximately HK\$28.3 million as compared to the corresponding period last year, comprising 31% of the consolidated turnover (30 June 2002: 22%). The business turned around from a loss of approximately HK\$5.7 million during the first half of 2002 to a profit of approximately HK\$0.3 million during the same period this year.

i) Industrial Lubricant Products

During the period under review, the turnover of this sub-segment decreased by 2% as compared to the corresponding period in 2002. Of this turnover, 81% came from China, 18% came from Hong Kong and the rest came from Southeast Asia. As a result of the SARS outbreak which had wide impact on the economies of China, Hong Kong, Southeast Asia and other parts of the world, the operating environment deteriorated during the period under review. The effects of these negative factors have resulted in decrease in turnover as customers delayed or even cancelled their orders.

During the period, the Group has consolidated its sales structure, strengthen its relationship with major customers and reach out to new customers and prospects. With regard to new product development, the Group seized the opportunities arising from the increased demand for cleaning products during the SARS outbreak. It successfully launched a series of cleaning products. During the year, the Group also obtained the distribution rights for a full range of Hangsterfer’s products, a leading metal working lubricant manufacturer from the United States of America, and Rite-Lok adhesives from Chemence of the United Kingdom, for Hong Kong, Macau and China regions. This enhanced the Group’s competitiveness in the high-end metal working product market. The Group is also actively exploring cooperation opportunities with suppliers to develop quality new products in order to be more cost effective and efficient.

In the second half of 2003, it will focus on promoting its new products, further establish its brand name through participation in industrial products exhibitions in Dongguan and Shanghai in China and Thailand. The Group expects that the performance of this sub-segment will improve along with the gradual recovery of the manufacturing sector in Southern China.

ii) Doors and Timber Products

Turnover of this sub-segment amounted to approximately HK\$4.2 million during the period, representing an increase of 77% as compared to the same period last year. Of this turnover, 77% came from China and 23% from Hong Kong. Considering the demand in the door products market in China, the Group is currently restructuring this sub-segment to place the door products as its core products with a range of timber products as its secondary product line.

The Group received two major contracts with Phase II of Shanghai Shimao Riviera Garden (上海世茂濱江花園), the tallest residential complex in China, and The Sky Castle (深圳擎天華庭), the tallest residential building in Shenzhen during the period under review, for the provision and installation of fire-rated security doors. The winning of both contracts, together with the established Bridgman Door sales point in major construction materials supermarkets in China, signified that Bridgman Door has been recognised as one of the brand names in China, and the Group is expanding from project based model to a retail-driven business.

2. Specialised Construction Contracting

The specialised construction contracting segment, operated by three groups of subsidiaries, namely, the Enful Group (“Enful”), the Polycrown Group (“Polycrown”) and the Condo Group (“Condo”), contributes the Group’s major revenue stream. Sales revenues amounted to approximately HK\$54.8 million, a 36% decrease compared to the corresponding period last year. The sales revenue contribution from this business to the total turnover of the Group also decreased from 70% in the first half of 2002 to 59% in the same period this year. However, the segmental loss from this business also decreased from approximately HK\$35.7 million to approximately HK\$18.3 million this year, mainly due to the decrease in project provisions and staff costs. During the period, the Group has reallocated its resources to ensure projects under construction are running smoothly and restructuring of the individual subsidiary companies are carried out at the same time.

i) Enful

The majority of Enful’s revenues in this business came from Hong Kong. A number of construction and environmental protection projects awarded in 2002 are expected to be completed by the end of 2003. These include environmental and acoustic projects for the West Rail Tin Shui Wai Station in Hong Kong. The operational progress of various projects was affected by SARS to varying degrees. Price wars initiated by business rivals resulted in decrease in turnover. Enful’s turnover in this segment, therefore, decreased 88% to approximately HK\$4.0 million during the period under review as compared to the corresponding period last year.

The Group has actively developed several related businesses, such as environmental protection materials and engineering projects. In addition to existing target markets, Enful has also established sales networks in Beijing, Shanghai, Shenzhen and Guangzhou in order to expand its market coverage.

ii) *Polycrown*

Polycrown's turnover amounted to approximately HK\$41.5 million during the period under review, representing a decrease of 6% as compared to the same period last year. The turnover consisted of a contribution of 98% from Hong Kong and 2% from China.

In view of the sluggish economic environment in Hong Kong, Polycrown participated in relatively few new tender projects. The majority of Polycrown's electrical and mechanical engineering projects have been completed. The Kwai Chung Container Port-Terminal 9 is the remaining major project on hand, with completion expected in mid 2005.

Polycrown's management has adopted a number of measures to reduce costs and to stabilise its operations during the first half of the year. Polycrown also stepped up its efforts in the collection of its accounts receivable to maintain cashflow for its daily operations. Nevertheless, the Group foresees that Polycrown still has to face a number of challenges in its near future operations.

iii) *Condo*

Although the outbreak of SARS in Hong Kong and China affected the progress of projects under construction, sales revenues from Condo posted an increase of 10% when comparing with the corresponding period in 2002, to approximately HK\$9.3 million during the six months ended 30 June 2003. Losses decreased substantially as both gross and net profit margins have been improved.

Since two subsidiaries of Condo had failed to repay their debt, individual creditors took legal action against both companies by demanding winding-up of these companies. Despite the Group's continuous efforts to restructure these companies' debts, the said subsidiaries went into liquidation as agreement could not be reached with certain minority shareholders.

During the period, the management continues to maintain the operation of Condo by focusing on debt collections, strengthening supervision and control in order to carry out those existing projects, such as Tianjin Xinda Plaza and Shanghai German Centre projects on schedule.

3. Property Development and Leasing

The business mainly comprises Haitian Garden in Zhuhai, China, a residential complex under development, and ONFEM Tower in Hong Kong for leasing purpose. Revenues from the property development and leasing business for the six months ended 30 June 2003 amounted to approximately HK\$5.6 million, representing a decline of 44% as compared to the previous year. These revenues accounted for 6% of the Group's total turnover (30 June 2002: 8%). During the period under review, a revaluation loss of approximately HK\$17.4 million was recognised (30 June 2002: HK\$10.0 million). This business therefore continued to post a widening loss, from approximately HK\$5.9 million during the first half of 2002, to approximately HK\$12.4 million this year.

ij) ONFEM Tower, 29 Wyndham Street, Central

For the period ended 30 June 2003, the occupancy rate of ONFEM Tower was approximately 84%. The Group considers this occupancy rate encouraging under the current difficult market situation. The average rental charges and quality of tenants are satisfactory, with a number of tenants being multinational companies. ONFEM Tower, together with the Group's other investment properties, recorded a turnover of approximately HK\$5.6 million, representing a surge of 12%. The Group adopted a series of measures to increase the value of ONFEM Tower, which included the appointment of a reputable property management company to offer professional property management advisory services, and the commencement of internal maintenance work for the property. The Group will continue to strengthen its management in ONFEM Tower to ensure a stable source of income.

ii) Haitian Garden, Zhuhai, China

Both substructure construction and inspection works for the project have been completed. Since the project is still under construction, it has not yet contributed any recognisable profits to the Group.

Considering the project's superior geographical locations and the favourable market environment that may be derived from the construction proposal of Hong Kong-Zhuhai-Macau Bridge (港珠澳大橋), the Group has revised the project design in order to offer luxury properties with its magnificent outlook, comprehensive facilities and panoramic sea view.

PROSPECTS

The Directors of the Company believe that market demand suppressed during the SARS crisis would bounce back in the third quarter. The performance of the manufacturing and trading businesses should also improve. As such, the Group will further strengthen the competitiveness of its industrial lubricant products sub-segment. In addition, the Group expects the construction of Hong Kong-Zhuhai-Macau Bridge will benefit the Haitian Garden project development.

Looking ahead, the Group anticipates a positive outlook along with the improved business environment. The Group will develop on its competitive advantages in China, and seize opportunities arising from the 2008 Beijing Olympics, the 2010 Shanghai World Expo as well as the construction of Hong Kong-Zhuhai-Macau Bridge. The Board of Directors is pleased to see the loss has been reduced.

The Group will further enhance its corporate governance, continue to restructure its business and raise operational efficiencies.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2003, the gearing ratio of the Group, representing a ratio of total borrowings to total assets, was maintained at 11.4% (31 December 2002: 14.3%). Cash and bank deposits, as at 30 June 2003, amounted to approximately HK\$216.2 million (31 December 2002: HK\$210.6 million).

The Group obtained its source of fund through various means in order to maintain a balance between cost and risk. Apart from the fund generated from normal operations and the cash and bank deposits, the Group obtained financial resources from bank borrowings, finance lease obligations and loan from a minority investor which amounted to approximately HK\$94.5 million (31 December 2002: HK\$130.9 million), HK\$0.2 million (31 December 2002: HK\$0.2 million) and HK\$4.2 million (31 December 2002: HK\$3.3 million) respectively as at 30 June 2003.

The bank borrowings denominated in Renminbi (“RMB”) were approximately RMB38.6 million (31 December 2002: RMB38.6 million) while the remaining balances were denominated in Hong Kong dollars. Except an approximately RMB28.6 million bank loan with fixed interest rate, all the Group’s bank borrowings are on a floating rate basis.

Capital commitments of the Group are to be partly financed by bank borrowings.

FINANCIAL RISKS AND MANAGEMENT

The Group’s strategies towards financial risk management include diversification of funding sources and extension of credit periods. For the period ended 30 June 2003, finance costs maintained at approximately HK\$3.5 million (30 June 2002: HK\$3.5 million).

The total borrowings of the Group as at 30 June 2003 amounted to approximately HK\$98.9 million (31 December 2002: HK\$134.4 million). The borrowings were repayable as follows:

	30 June 2003 (Unaudited) HK\$'000	31 December 2002 (Audited) HK\$'000
Within one year	98,861	134,364
In the second year	–	58
	98,861	134,422

EXPOSURE TO FLUCTUATION IN EXCHANGE RATES

Most of the transactions of the Group were denominated in Hong Kong dollars, RMB and US dollars. Given that the exchange rates of Hong Kong dollar against RMB and US dollar are stable, no hedging or other alternative measures have been implemented by the Group. As at 30 June 2003, the Group had no significant exposure under foreign exchange contracts, interest or currency swaps or other financial derivatives.

CHARGES ON GROUP ASSETS

As at 30 June 2003, the Group pledged certain investment properties and land and buildings with an aggregate carrying amount of approximately HK\$190.4 million (31 December 2002: HK\$206.4 million) as collateral for the Group's banking facilities. Besides, fixed deposits amounted to approximately HK\$71.3 million (31 December 2002: HK\$101.6 million) have been pledged by the Group as securities for general banking facilities and issuance of performance bonds. Certain inventories of the Group were held under trust receipt loan arrangements.

CONTINGENT LIABILITIES

Details of the contingent liabilities of the Company and the Group are set out in Note 15 to the accounts.

EMPLOYEES

As at 30 June 2003, the Group employed 445 staff (30 June 2002: 664 staff). The total remunerations and benefits of the Directors of the Company and staff for the period ended 30 June 2003 were approximately HK\$19.5 million (30 June 2002: HK\$37.4 million). The Group adopts a remuneration policy in line with market practice.

INFORMATION RELATING TO SHARE OPTION SCHEME

On 29 May 2003, the Company adopted a new share option scheme (the "New Scheme") which is in compliance with Chapter 17 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). No options have been granted under the New Scheme since its adoption. On the same day, the old share option scheme adopted by the Company on 30 September 1993 (the "Old Scheme") was terminated. There were no outstanding options granted under the Old Scheme.

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|---|--|
| 1. Purpose of the New Scheme | To recognize and acknowledge the contributions that the eligible person had made or may from time to time make to the Group whether in the past or in the future |
| 2. Participants of the New Scheme | Any directors or any employees of any company of the Group and any advisers of, consultants of, contractors to any company of the Group or any person who has any relationship (whether business or otherwise) with any company of the Group or any person whom the Directors of the Company consider, in their sole discretion, has contributed or will contribute or can contribute to the Group |
| 3. Maximum number of shares | The maximum number of shares to be issued upon exercise of all outstanding options granted and yet to be exercised under the New Scheme and any other share option schemes of the Company must not in aggregate exceed 30 per cent. of the issued share capital of the Company from time to time |
| 4. Total number of shares available for issue upon exercise of all options under the New Scheme | 77,218,178 shares unless shareholders' approval has been obtained according to the requirements of the Listing Rules, being 10% of the issued share capital of the Company at the date of approval of the New Scheme by the shareholders of the Company |

- | | |
|---|--|
| 5. Maximum entitlement of each participant under the New Scheme | No options under the New Scheme may be granted to any eligible person, which, if exercised in full, would result in the total number of shares issued and to be issued upon the exercise of the options already granted or to be granted to such eligible person under the New Scheme (including exercised, cancelled and outstanding options) in the 12-month period up to and including the date of such new grant exceeding 1% of the issued share capital as at the date of such new grant. Any grant of further options above this limit shall be subject to the requirements under the Listing Rules |
| 6. The period within which the shares must be taken up under an option | The Directors of the Company may in their absolute discretion determine the period during which an option may be exercised and notify each grantee, save that such period shall not be later than 10 years from the date on which the Directors of the Company make an offer of the option subject to the provisions for early termination thereof |
| 7. The minimum period for which an option must be held before it can be exercised | Not applicable |
| 8. Time of acceptance and the amount payable on acceptance of the option | The offer of an option made in accordance with the New Scheme may be accepted within 28 days from the date of the offer and the amount payable on acceptance of the option is HK\$10.00 |
| 9. The basis of determining the subscription price | <p>The subscription price shall be determined by the Directors of the Company at the time of grant of the relevant option and shall not be less than the highest of:</p> <ul style="list-style-type: none"> (i) the closing price per share of the Company as stated in the daily quotations sheet of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on the date of the grant of the relevant option; (ii) the amount equivalent to the average closing price per share of the Company as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of the grant of the relevant option; and (iii) the nominal value of a share of the Company |
| 10. The remaining life of the New Scheme | The New Scheme was adopted on 29 May 2003 and will remain in force for a period of ten years from the date of adoption |

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2003, the interests of the Directors and the chief executive of the Company in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of the Securities and Futures Ordinance (the "SFO")) which have been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO) or pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, as recorded in the register kept by the Company pursuant to section 352 of the SFO, were as follows:

Long Position in Shares of the Company

Name of director	Nature of interest	Number of ordinary shares held
He Xiaoli	Personal	20,000

Save as disclosed above, as at 30 June 2003, none of the Directors or the chief executive of the Company or any of their associates had any personal, family, corporate or other interests in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of the SFO).

During the six months ended 30 June 2003, none of the Directors or the chief executive of the Company nor their spouses or children under 18 years of age, was granted or had exercised any right to subscribe for any equity or debt securities of the Company or any of its associated corporations (within the meaning of the SFO).

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2003, according to the register of interests kept by the Company under section 336 of the SFO, the following entities have interests in the shares of the Company which fall to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO:

Long Position in Shares of the Company

Name of shareholder	Notes	Number of ordinary shares held	Percentage of total issued shares
State Nonferrous Metals Industry Administration	1 & 3	416,009,928	53.87%
China Nonferrous Metals Holdings (Cook Islands) Limited	1	416,009,928	53.87%
China Nonferrous Metals Group (Hong Kong) Limited (in liquidation) ("CNMG(HK)")	2 & 3	416,009,928	53.87%
Haka International Limited ("Haka")		383,188,208	49.62%

Notes:

1. By virtue of the SFO, these companies are deemed to be interested in the 383,188,208 shares held by Haka and 32,821,720 shares held by CNMG(HK).
2. In addition to 32,821,720 shares held by itself, CNMG(HK) is deemed to be interested in 383,188,208 shares held by Haka.
3. On 19 February 2001, the director of the State Economic and Trade Commission of The People's Republic of China (the "PRC") promulgated that the State Nonferrous Metals Industry Administration of the PRC was cancelled in the course of restructuring of the non-ferrous metals industry of the PRC.

The High Court of the Hong Kong Special Administrative Region issued an order for the winding up of CNMG(HK) on 8 May 2002 and ordered that John Lees and Desmond Chiong be appointed as liquidators of CNMG(HK) on 19 June 2002.

AUDIT COMMITTEE

The audit committee of the Company currently includes three Independent Non-executive Directors namely, Mr. Selwyn Mar, Ms. Tam Wai Chu, Maria and Mr. Lam Chun, Daniel. Its principal duties include the review of the Group's financial information, assessing internal control and risk management procedures in place and monitoring internal and external audit coverage to ensure all key risk areas are considered. The audit committee has reviewed the unaudited interim condensed consolidated accounts for the six months ended 30 June 2003.

CODE OF BEST PRACTICE

The Directors of the Company are not aware of any information that would reasonably indicate that the Company is not, or was not for any part of the period during the six months ended 30 June 2003 in compliance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules except that the Non-executive Directors of the Company are not appointed for specific term as they are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Company's Bye-laws.

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

During the six months ended 30 June 2003, there was no purchase, sale or redemption of the Company's listed securities by the Company or any of its subsidiaries.

By Order of the Board
Wang Xingdong
Managing Director

Hong Kong, 19 September 2003

UNAUDITED INTERIM RESULTS

The Board of Directors of ONFEM Holdings Limited (the “Company”) herewith announces the unaudited condensed consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2003 together with comparative figures of the corresponding period in 2002. The interim condensed consolidated accounts have not been audited but have been reviewed by the audit committee of the Company.

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the six months ended 30 June 2003

	Note	Six months ended 30 June	
		2003 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000
TURNOVER	2	92,408	123,022
Cost of sales		(70,101)	(107,839)
GROSS PROFIT		22,307	15,183
Other revenues		4,623	6,612
Distribution costs		(5,384)	(1,216)
Administrative expenses		(39,430)	(63,620)
Other operating expenses		(1,087)	(1,004)
Loss on revaluation of investment properties		(17,390)	(10,000)
Gain on liquidation of a subsidiary		339	-
Provision for loan to intermediate holding company		-	(331)
LOSS FROM OPERATIONS	3	(36,022)	(54,376)
Finance costs		(3,469)	(3,502)
LOSS BEFORE TAXATION		(39,491)	(57,878)
Taxation	5	(146)	(1,000)
LOSS AFTER TAXATION		(39,637)	(58,878)
Minority interests		(779)	376
NET LOSS FOR THE PERIOD		(40,416)	(58,502)
Basic loss per share (HK cents)	7	(5.23)	(7.58)

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2003

	Note	30 June 2003 (Unaudited) HK\$'000	31 December 2002 (Audited) HK\$'000
Non-current assets			
Property, plant and equipment	8	216,545	235,752
Non-trading securities		28,080	16,560
Deferred tax assets		910	979
Retention receivables		4,123	3,488
Other assets		1,683	2,326
		251,341	259,105
Current assets			
Inventories	9	231,983	229,727
Amounts due from fellow subsidiaries		-	80
Amounts due from minority investors		1,898	1,898
Trade and other receivables	10	66,255	103,212
Gross amounts due from customers for contract work		21,379	13,055
Trading securities		9,231	20,643
Pledged deposits		71,326	101,604
Cash and bank deposits	11	216,157	210,640
		618,229	680,859
Current liabilities			
Amount due to intermediate holding company	16(b)	3	3
Amount due to minority investors		14,667	13,753
Trade and other payables	12	183,089	190,710
Gross amounts due to customers for contract work		25,962	27,347
Taxation payable		35,320	34,433
Short-term borrowings		98,861	134,364
		357,902	400,610
Net current assets		260,327	280,249
Total assets less current liabilities		511,668	539,354
Financed by:			
Share capital	13	77,218	77,218
Reserves		392,829	421,840
Shareholders' funds		470,047	499,058
Minority interests		34,871	34,072
Non-current liabilities			
Long-term borrowings		-	58
Amounts due to minority investors		3,742	2,944
Other liabilities		3,008	3,222
		6,750	6,224
		511,668	539,354

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2003

	(Unaudited)						Total HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Contributed surplus HK\$'000	Capital	Investment	Accumulated losses HK\$'000	
				redemption reserve HK\$'000	revaluation reserve HK\$'000		
At 1 January 2003	77,218	409,738	601,415	769	(360)	(589,722)	499,058
Surplus on revaluation of non-trading securities	-	-	-	-	11,520	-	11,520
Exchange difference on translation of the accounts of foreign subsidiaries	-	-	-	-	-	(115)	(115)
Loss for the period	-	-	-	-	-	(40,416)	(40,416)
At 30 June 2003	77,218	409,738	601,415	769	11,160	(630,253)	470,047

	(Unaudited)						Total HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Contributed surplus HK\$'000	Capital	Investment	Accumulated losses HK\$'000	
				redemption reserve HK\$'000	revaluation reserve HK\$'000		
At 1 January 2002	77,218	409,738	601,415	769	-	(453,021)	636,119
Surplus on revaluation of non-trading securities	-	-	-	-	9,443	-	9,443
Loss for the period	-	-	-	-	-	(58,502)	(58,502)
At 30 June 2002	77,218	409,738	601,415	769	9,443	(511,523)	587,060

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2003

	Six months ended	
	30 June 2003 (Unaudited) HK\$'000	30 June 2002 (Unaudited) HK\$'000
Net cash from operating activities	24,268	36,127
Net cash from investing activities	18,567	506
Net cash used in financing activities	(1,065)	(50,181)
Increase (Decrease) in cash and cash equivalents	41,770	(13,548)
Cash and cash equivalents at beginning of period	110,155	135,651
Cash and cash equivalents at end of period	151,925	122,103
Cash and cash equivalents:		
Cash and bank deposits (excluding a frozen deposit)	209,140	218,353
Bank overdrafts	(53,932)	(70,587)
Trust receipt bank loans	(3,283)	(25,663)
	151,925	122,103

NOTES TO ACCOUNTS

1 BASIS OF PREPARATION AND ACCOUNTING POLICIES

The interim accounts are prepared in accordance with Statement of Standard Accounting Practice ("SSAP") 25, "Interim Financial Reporting", issued by the Hong Kong Society of Accountants.

The unaudited condensed consolidated accounts have been prepared on a basis consistent with the principal accounting policies adopted in the 2002 annual accounts, with the exception of changes in accounting policy to comply with SSAP 12 (revised) "Income Taxes" issued by the Hong Kong Society of Accountants, which is effective for accounting periods commencing on or after 1 January 2003.

On adoption of the revised SSAP 12, deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

In prior years, deferred taxation was accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset was expected to be payable or recoverable in the foreseeable future. The adoption of this standard has had no material effect on the results for the prior accounting periods. Accordingly, no prior period adjustment is required.

2 SEGMENT INFORMATION

(a) Business segments

The Group's operations comprise the following main business segments:

Construction and engineering contracts:	Design and installation of curtain walls and aluminium windows, as well as construction work related to electrical and mechanical engineering and other contracting businesses.
Manufacturing and trading:	Manufacturing and trading of oil and chemical products, doors and fire proof materials.
Property leasing:	Leasing of premises to generate rental income and to gain from the appreciation in the properties' values in the long term.
Property development:	Development of residential and commercial properties.
Securities investment and trading:	Trading and investment of securities.

Inter-segment sales are charged at prevailing market prices.

An analysis of the Group's revenue and results for the period by business segments is as follows:

	Six months ended 30 June													
	Construction and engineering contracts		Manufacturing and trading		Property leasing		Property development		Securities investment and trading		Elimination		Total	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
	(Unaudited)		(Unaudited)		(Unaudited)		(Unaudited)		(Unaudited)		(Unaudited)		(Unaudited)	
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
REVENUE														
Sales to external customers	54,825	85,971	28,344	27,018	5,622	5,017	-	5,016	3,617	-	-	-	92,408	123,022
Inter-segment sales	-	-	1,069	21,668	-	-	-	-	-	-	(1,069)	(21,668)	-	-
	54,825	85,971	29,413	48,686	5,622	5,017	-	5,016	3,617	-	(1,069)	(21,668)	92,408	123,022
RESULT														
Segment result	(18,274)	(35,716)	343	(5,701)	(12,725)	(6,401)	310	479	5,266	334	-	-	(25,080)	(47,005)
Unallocated corporate expenses, net													(10,942)	(7,371)
Loss from operations													(36,022)	(54,376)
Finance costs													(3,469)	(3,502)
Taxation													(146)	(1,000)
Minority interests													(779)	376
Loss attributable to shareholders													(40,416)	(58,502)

(b) Geographical segments

The Group's business is managed on a worldwide basis, but it takes place in four principal economic environments. Hong Kong and Macau, and the People's Republic of China (other than Hong Kong and Macau) ("China") are the major markets for all the Group's business, except that a small portion of its income is derived from Australia and other Southeast Asian countries.

Segment turnover is based on the geographical locations of the customers.

	Six months ended 30 June									
	Hong Kong & Macau		China		Australia		Southeast Asian countries		Total	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
	(Unaudited)		(Unaudited)		(Unaudited)		(Unaudited)		(Unaudited)	
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	59,250	76,100	33,000	41,723	-	5,016	158	183	92,408	123,022
Loss (Profit) from operations	27,125	22,710	9,621	32,173	(706)	(479)	(18)	(28)	36,022	54,376

3 LOSS FROM OPERATIONS

Loss from operations is stated after charging (crediting) the following:

	Six months ended 30 June	
	2003	2002
	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Depreciation on:		
Owned property, plant and equipment	1,458	2,239
Leased property, plant and equipment	83	129
Loss (Gain) on disposal of property, plant and equipment	40	(1,103)
Provision for liquidation fees of subsidiaries	4,877	-
Operating leases rental	1,681	1,617
Provision for bad and doubtful debts	2,143	9,371
Exchange gains	(5,669)	(3,153)
Unrealised gain on revaluation of trading securities	(1,802)	(656)
Gross rental and management fee income from investment properties	(5,622)	(5,017)

4 STAFF COSTS

	Six months ended 30 June	
	2003	2002
	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Including emoluments of the Directors of the Company:		
Salaries and wages	18,841	34,600
Pension costs – defined contribution plans	745	862
(Reversal of provision for) Provision for long service payment	(39)	1,903
	19,547	37,365

The decrease in staff costs was mainly due to the decline in the staff force as a result of the reduction in the size of operations of Condo and Polycrown.

5 TAXATION

No provision for Hong Kong profits tax has been made as the Group had no estimated assessable profit during the period. Taxation on overseas profits has been calculated on the estimated assessable profit for the period at the rates prevailing in the countries in which the Group operates.

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

	Six months ended 30 June	
	2003	2002
	(Unaudited) HK\$'000	(Unaudited) HK\$'000
The charges comprise:		
Hong Kong profits tax	-	-
Overseas taxation	146	1,000
	146	1,000

6 DIVIDEND

The Directors of the Company have resolved not to make payment of an interim dividend for the six months ended 30 June 2003 (30 June 2002: Nil).

7 LOSS PER SHARE

Basic loss per share is calculated based on the unaudited consolidated loss attributable to ordinary shareholders of approximately HK\$40,416,000 (30 June 2002: HK\$58,502,000) and the weighted average number of 772,181,783 shares (30 June 2002: 772,181,783 shares) in issue during the period.

No diluted loss per share is presented as there were no dilutive potential ordinary shares in existence during the six months ended 30 June 2003.

8 PROPERTY, PLANT AND EQUIPMENT

	Six months ended 30 June 2003 (Unaudited) HK\$'000	Year ended 31 December 2002 (Audited) HK\$'000
Cost or valuation		
Beginning of period/year	290,807	326,571
Additions	1,064	1,796
Write-down for transfer to investment properties	-	(1,262)
Transfer to properties held for sale	-	(5,075)
Transfer from construction in progress	-	20
Revaluation deficit	(17,390)	(27,378)
Disposals	(1,490)	(3,862)
Exchange adjustments	-	(3)
End of period/year	272,991	290,807
Analysis of cost or valuation is as follows:		
At cost	75,621	76,047
At professional valuation (a)	197,370	214,760
	272,991	290,807
Accumulated depreciation and impairment losses		
Beginning of period/year	55,055	47,989
Charge for the period/year	1,541	4,846
Write-back for transfer to investment properties	-	(1,262)
Transfer to properties held for sale	-	(2,906)
Write-down for impairment loss	470	9,394
Disposals	(620)	(3,006)
End of period/year	56,446	55,055
Net book value		
End of period/year	216,545	235,752
Beginning of period/year	235,752	278,582

(a) The investment properties of the Group were valued at 30 June 2003 as HK\$197,370,000 by an independent firm of surveyors, Dudley Surveyors Limited, on an open market value basis.

9 INVENTORIES

	30 June 2003 (Unaudited) HK\$'000	31 December 2002 (Audited) HK\$'000
Manufacturing and trading stocks	10,288	10,746
Properties under development	218,986	215,772
Properties held for sale	2,709	2,709
Machinery held for sale	-	500
	231,983	229,727

10 TRADE AND OTHER RECEIVABLES

Included in trade and other receivables are trade and contract receivables of which the aging analysis is as follows:

	30 June 2003 (Unaudited) HK\$'000	31 December 2002 (Audited) HK\$'000
0 – 30 days	29,596	44,804
31 – 60 days	6,729	12,435
61 – 90 days	4,774	5,045
Over 90 days	6,442	8,702
	47,541	70,986

The normal credit period granted by the Group is from 30 days to 60 days from the date of invoice.

11 CASH AND BANK DEPOSITS

As at 30 June 2003, included in cash and bank deposits was a net amount of approximately HK\$7,017,000 (31 December 2002: HK\$7,017,000), represented the sum of principal and interest of a bank deposit net of the provision for irrecoverable portion, being frozen by a bank (the "Bank") due to a dispute with the Bank. On 14 August 2003, a deed of compromise was entered into between the Company and the Bank to settle the dispute and such net amount was subsequently released by the Bank to the Company on 22 August 2003.

12 TRADE AND OTHER PAYABLES

Included in trade and other payables are trade, bills and contract payables of which the aging analysis is as follows:

	30 June 2003 (Unaudited) HK\$'000	31 December 2002 (Audited) HK\$'000
0 – 30 days	12,104	28,893
31 – 60 days	3,096	2,085
61 – 90 days	3,368	2,182
Over 90 days	51,845	88,021
	70,413	121,181

13 SHARE CAPITAL

	30 June 2003 (Unaudited)		31 December 2002 (Audited)	
	Number of shares '000	Amount HK\$'000	Number of shares '000	Amount HK\$'000
	Authorised (ordinary shares of HK\$0.1 each)	2,000,000	200,000	2,000,000
Issued and fully paid (ordinary shares of HK\$0.1 each)	772,182	77,218	772,182	77,218

On 29 May 2003, the Company adopted a new share option scheme and terminated the old share option scheme adopted by the Company on 30 September 1993. During the six months ended 30 June 2003, no options to subscribe for shares in the Company have been granted pursuant to both of the share option schemes. At 30 June 2003, there were also no options outstanding.

14 CAPITAL COMMITMENTS

Capital commitments of the Group outstanding as at 30 June 2003 were as follows:

	30 June 2003 (Unaudited) HK\$'000	31 December 2002 (Audited) HK\$'000
Contracted but not provided for Properties under development	146,619	142,385

15 CONTINGENT LIABILITIES

At 30 June 2003, there were contingent liabilities in respect of the following:

- (a) The Group undertook to discharge the obligations of a bank if arising from the performance bonds issued by the bank in respect of the Group's construction contract amounted to approximately HK\$11,684,000 (31 December 2002: HK\$15,840,000).
- (b) The Company had outstanding corporate guarantees to various banks in respect of banking facilities extended to certain subsidiaries amounted to approximately HK\$106,900,000 (31 December 2002: HK\$106,900,000).
- (c) The Group has undertaken and performed electrical and mechanical engineering work for various customers in Hong Kong and China. In respect of such projects the Group could have potential additional charges arising from the related tax payables. Since the amount of the potential additional charges, if any, cannot be reliably determined, no provision was made by the Group.
- (d) The Group has outstanding litigations with claims made by third parties of approximately HK\$18,699,000 (31 December 2002: HK\$12,440,000) in respect of contract works and no provision has been made by the Group.

16 RELATED PARTY TRANSACTIONS

- (a) The Group had the following material transaction with a related party, which was carried out in the normal course of the Group's business. The amount was charged to the related party in the normal course of business at terms no less than those charged to and contracted with other third parties.

	Six months ended 30 June	
	2003	2002
	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Rental and management fee income from a fellow subsidiary	306	253

- (b) Amount due to intermediate holding company is unsecured, non-interest bearing and has no fixed repayment term.

17 SUBSEQUENT EVENTS

On 8 September 2003, an adjourned hearing was held at the High Court of Hong Kong (the "Court") and winding-up orders against Condo Curtain Wall Company Limited ("CCW") and Condo Engineering (China) Limited ("CEC"), both are 52%-owned subsidiaries of the Company, respectively were made by the Court on the same date. The two banking facilities granted to CCW and CEC (as referred to in the Company's announcement dated 11 September 2003 regarding the Debt Restructuring Proposals) with outstanding amounts of approximately HK\$5 million (being the balance of the relevant banking facility subsequent to the repayment by the Company of approximately HK\$45,833,000 to the relevant bank creditor on 1 April 2003) and HK\$7 million respectively have already been fully secured by either asset or cash deposit of the Group. The winding-up of CCW and/or CEC may result in the banks' realisation of the secured asset or cash deposit but is otherwise not expected to have any material adverse impact on the financial position of the Group.