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ARNHOLD HOLDINGS LIMITED

安利控股有限公司

INTERIM REPORT 2004

中期業績報告



REPORT OF THE DIRECTORS

The directors have pleasure in submitting the interim report together with the unaudited interim financial information of Arnhold Holdings Limited (the “Company”) and its subsidiaries (collectively the “Group”) for the period ended 30 June 2004 (the “Period”).

MANAGEMENT DISCUSSION AND ANALYSIS

Review of Operations

During the Period, the Group achieved a turnover of HK\$153.7 million and gross profit of HK\$27.3 million (2003: HK\$173.6 million and HK\$27.5 million respectively). The decline in turnover was mainly caused by our decision to scale down the contracting operations and shipments of building products were scheduled in the second half of the year. However, gross profit margin improved from 15.8% to 17.8% because of the higher contribution from trading activities. The Group’s continued efforts in cost control and process flow improvement also resulted in a reduction of 7.5% in operating costs. Accordingly, the Group’s loss attributable to shareholders for the Period was reduced to HK\$1.9 million (2003: loss of HK\$4.1 million of which HK\$1.5 million related to the impact of further revaluation of the Group’s property).

The Group’s outstanding orders on hand at the Period end amounted to HK\$166.5 million, representing a decrease of 33.7% over the end of last year (At December 2003: HK\$251.2 million). This was mainly caused by the Group’s decision to focus on businesses with sustainable high profit margin and growth opportunities. The Group only accepted orders that were in line with our strategic focus with reasonable profit margin. To avoid distraction of management time, orders with low margin and higher credit risk with total amount of HK\$26.4 million were also cancelled.

Segmental Information

Revenues from the building products business were HK\$121.9 million, representing a decrease of 15.8% compared with HK\$144.8 million in the last corresponding period, out of which the decrease of HK\$10.4 million was due to the scaling down of contracting operations. Turnover of plumbing fixtures and tiles was HK\$17.9 million lower because shipments were scheduled towards the second half of the year to match market requirements. These were partially offset by the improvement of HK\$5.5 million in construction chemicals and marble export operations. Operating results were reduced by only 5.4% to HK\$23.1 million because of the improved margin in construction chemicals and marble exports.

Turnover of the engineering business increased by 10.2% to HK\$31.8 million because of the increased demand for air handling products in the first half of the year. As a result, operating results of the engineering business increased from HK\$3.1 million to HK\$4.2 million.

Liquidity and Financial Resources

The Group maintained a healthy balance sheet with no bank borrowing and zero gearing as at Period end (At 31 December 2003: Nil). The Group further strengthened its cash reserves during the last six months with positive cash flow of HK\$12.9 million from operating activities. As at end of June 2004, cash balances amounted to HK\$72.9 million with most placed in time deposits with reputable financial institutions. The Group will continue its conservative cash flow management policy and expects to meet its future financial requirements through internal resources and bank credit facilities. The Group adopts hedging policies for managing its risk exposure to foreign currency fluctuations and forward exchange contracts have been arranged with the Group’s principal bankers to mitigate exchange risks.

REPORT OF THE DIRECTORS

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

Contingent Liabilities

Certain subsidiaries have given undertakings to the 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 these subsidiaries. As at 30 June 2004, the amount of guarantees outstanding was HK\$5.5 million (At 31 December 2003: HK\$16.2 million).

Banking facilities with assets pledged

A property with net book value of HK\$49.0 million at Period end held by a subsidiary of the Group is pledged to a bank to obtain banking facilities.

Employees

At the end of the Period, the Group had approximately 316 and 103 employees in the Mainland and Hong Kong respectively. The Group continues to provide remuneration packages and training programmes to employees with reference to prevailing market practices. The Group 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 ("Listing Rules") on The Stock Exchange of Hong Kong Limited ("Stock Exchange"), were authorised to grant share options to eligible persons as incentive. Details of share options granted were disclosed in the section "Share Option Scheme" of this report.

Outlook

Market sentiments has recovered slightly over the past few months. However, Hong Kong is still exposed to the risks associated with China's economic adjustments, uncertainty surrounding global economic prospects and high local unemployment rate. The Group expects that the market conditions in Hong Kong will remain competitive. In view of these challenges, the Group has redirected its focus towards high value-added business activities and restructured its management team. With its solid financial foundation and clear focus, the Group is well positioned to achieve better results.

DIRECTORS

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

Executive directors:

Michael John Green
Leung Tak Tong, Eric
Lai Ka Tak, Patrick
Daniel George Green (appointed on 1 January 2004)
Woo Chun Yu, Adolf (resigned on 31 August 2004)

Non-executive directors:

Simon Murray
Augustus Ralph Marshall

Independent non-executive directors:

Christopher John David Clarke
V-Nee Yeh
Thaddeus Thomas Beczak (appointed on 17 May 2004)

REPORT OF THE DIRECTORS

SHARE OPTION SCHEME

A Share Option Scheme (“the 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 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 Scheme

The purpose of the 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 Scheme

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

(iii) Maximum number of Shares available for issue under the 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 Scheme and any other share option scheme shall not exceed 10% of the total number of Shares in issue of the Company as at the date of approval of the Scheme. As at 30 June 2004, 15,749,600 Shares were available for issue under the Scheme representing 7.0% of the total issued share capital of the Company.

(iv) Maximum entitlement to any one participant

Under the 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/her 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 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 Scheme

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

REPORT OF THE DIRECTORS

SHARE OPTION SCHEME (continued)

Details of Options granted to directors and employees under the Scheme as at 30 June 2004 were as follows:

	Date of Options granted	Outstanding Options as at 1 January 2004	Granted during the Period	Exercised/ lapsed/ cancelled during the Period	Outstanding Options as at 30 June 2004	Subscription price per share HK\$
Directors						
Leung Tak Tong, Eric	18 September 2003	1,500,000	–	–	1,500,000	0.50
Woo Chun Yu, Adolf *	18 September 2003	1,500,000	–	–	1,500,000	0.50
Lai Ka Tak, Patrick	18 September 2003	1,500,000	–	–	1,500,000	0.50
Daniel George Green **	18 September 2003	1,200,000	–	–	1,200,000	0.50
Employees	18 September 2003	1,500,000	–	*** (500,000)	1,000,000	0.50
		<u>7,200,000</u>	<u>–</u>	<u>(500,000)</u>	<u>6,700,000</u>	

* Mr. Woo Chun Yu, Adolf resigned as a director of the Group on 31 August 2004 and 1,500,000 Options with exercise price of HK\$0.50 per Share were lapsed as a result of his resignation.

** Mr. Daniel George Green was appointed as a director of the Company on 1 January 2004 and 1,200,000 Options with exercise price of HK\$0.50 per Share were reclassified for disclosure.

*** These Options with exercise price of HK\$0.50 per Share were lapsed on 16 May 2004 since the grantee ceased to be an employee of the Company during the Period.

The market value per Share as of 17 September 2003, being the date before the Options were granted, was HK\$0.50.

The above granted Options can be exercised in two instalments whereby 50% of which at any time between 1 September 2005 and 30 August 2010 and the remaining 50% at any time between 1 September 2006 and 30 August 2010.

Apart from the 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 acquisition of shares in, or debentures of, the Company or any other body corporate. None of the directors (including their spouse and children under 18 years of age) have been granted, or have exercised, any rights to subscribe for shares of the Company.

REPORT OF THE DIRECTORS

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

As at 30 June 2004, the interests and short positions of each of the directors in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register maintained by the Company under Section 352 of the SFO or as notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

The Company

Ordinary shares of HK\$0.10 each

	Personal interests	Family interests	Corporate interests	Number of shares held		Total interests	Percentage of issued share capital
				Trusts and similar interests	Equity derivatives <i>(Note iii)</i>		
Executive directors:							
Michael John Green	1,272,000	–	–	166,093,617 <i>(Note i)</i>	–	167,365,617	74.55%
Daniel George Green	–	–	–	166,093,617 <i>(Note ii)</i>	1,200,000	167,293,617	74.52%
Leung Tak Tong, Eric	–	–	–	–	1,500,000	1,500,000	0.67%
Woo Chun Yu, Adolf <i>(Note iv)</i>	–	–	–	–	1,500,000	1,500,000	0.67%
Lai Ka Tak, Patrick	–	–	–	–	1,500,000	1,500,000	0.67%
Non-executive directors:							
Simon Murray	343,487	–	–	–	–	343,487	0.15%
Augustus Ralph Marshall	–	–	–	–	–	–	–
Independent non-executive directors:							
Christopher John David Clarke	200,000	–	–	–	–	200,000	0.09%
V-Nee Yeh	74,444	–	–	–	–	74,444	0.03%
Thaddeus Thomas Beczak	–	–	–	–	–	–	–

Notes:

- (i) Such shares were held through corporations on behalf of the Michael Green Family Trust.
- (ii) Such shares were held through corporations on behalf of the Michael Green Family Trust in which Mr. Daniel George Green has a beneficial interest.
- (iii) These represented interests of Options granted to directors under the Scheme to subscribe for shares of the Company, further details of which are set out in the section "Share Option Scheme" of this report.
- (iv) Mr. Woo Chun Yu, Adolf resigned as a director of the Group on 31 August 2004.

REPORT OF THE DIRECTORS

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES (*continued*)

Arnhold Investments Limited – a wholly-owned subsidiary
Non-voting deferred shares of HK\$0.01 each

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

All interests in the shares and underlying shares of equity derivatives of the Company are long positions. None of the directors held any short position in the shares, underlying shares of equity derivatives or debentures of the Company.

Save as disclosed above, as at 30 June 2004, none of the directors and chief executives or the Company and/or any of their respective associates had any interest and short position in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO).

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

The register of substantial shareholders maintained under Section 336 of the SFO shows that as at 30 June 2004, the Company had been notified of the following substantial shareholder's interest, being 5% or more of the Company's issued share capital. This interest is in addition to those disclosed above in respect of the directors and chief executives:

Name of shareholder	Ordinary shares held	Percentage of total issued shares
Pacific Investments (BVI) Limited	16,957,431	7.55%

Pacific Investments (BVI) Limited is a wholly-owned subsidiary of Usaha Tegas Sdn. Bhd.

Save as disclosed above, as at 30 June 2004, the directors are not aware of any other persons who have interests or short positions in the shares, underlying shares of equity derivatives or debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) which would be required to disclose to the Company pursuant to Part XV of the SFO.

INTERIM DIVIDEND

The board (the "Board") of Directors has resolved that no interim dividend be paid for the six months ended 30 June 2004 (2003: Nil).

PURCHASE, SALE OR REDEMPTION OF SHARES

The Company has not redeemed any of its shares during the six months ended 30 June 2004. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the Period.

REPORT OF THE DIRECTORS

CORPORATE GOVERNANCE

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 2004 was not, in compliance with the Code of Best Practice as set out in Appendix 14 to Listing Rules of the Stock Exchange, save that the non-executive directors have not been appointed for a specific term as they are subject to retirement by rotation and re-election at annual general meetings in accordance with the Company's bye-law 87(1).

The Company has adopted a code of conduct regarding directors' securities transactions on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in the Listing Rules. All directors of the Company have complied with the required standard set out in the Model Code and the Company's code of conduct regarding directors' securities transactions.

DISCLOSURE UNDER 13.20 OF THE LISTING RULES

As at 30 June 2004, trade and retention receivables due from a group of customers which are affiliated companies of one another comprising Paul Y. – ITC Construction Limited, Paul Y. – ITC Construction & Engineering Co. Limited, Paul Y. – ITC General Contractors Limited, Paul Y. – ITC Interior Contractors Limited and Paul Y. Construction Co., Limited (collectively the "Customers"), to certain subsidiaries of the Group amounted to HK\$15,576,000 (the "Receivables") representing approximately 11.56% of the then total market capitalization (HK\$134,698,000) of the Company.

The Customers are independent third parties not connected with any of the substantial shareholders, directors or chief executives of the Company or any of its subsidiaries or any of their respective associates. The Receivables which are unsecured, interest-free, with payment terms based on progressive certification of work done and credit terms of 30 to 60 days, were derived from sales of building materials and provision of marble contracting work to the Customers in the ordinary course of the business of the Company.

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 2004 with the directors.

On behalf of the Board

Michael John Green
Chairman

Hong Kong, 9 September 2004

**CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE PERIOD ENDED 30 JUNE 2004**

		(Unaudited)	
		Six months ended	
		30 June	
	<i>Note</i>	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Turnover	2	153,707	173,628
Cost of sales	3	<u>(126,415)</u>	<u>(146,118)</u>
Gross profit		27,292	27,510
Other revenues	2	4,421	5,468
Operating expenses	4	(32,621)	(35,260)
Unrealised loss on revaluation of other properties		<u>–</u>	<u>(1,500)</u>
Operating loss		(908)	(3,782)
Finance costs	5	(38)	(13)
Share of loss of an associate		<u>(471)</u>	<u>(144)</u>
Loss from ordinary activities before taxation		(1,417)	(3,939)
Taxation	6		
Company and subsidiaries		(446)	(162)
The associate		<u>–</u>	<u>–</u>
Loss attributable to shareholders		<u>(1,863)</u>	<u>(4,101)</u>
Basic loss per share (cents)	7	<u>(0.83)</u>	<u>(1.83)</u>
Diluted loss per share (cents)	7	<u>(0.83)</u>	<u>(1.83)</u>
Dividend		<u>–</u>	<u>–</u>
Dividend per share		<u>–</u>	<u>–</u>

CONDENSED CONSOLIDATED BALANCE SHEET AS AT 30 JUNE 2004

		(Unaudited) At 30 June 2004 <i>HK\$'000</i>	At 31 December 2003 <i>HK\$'000</i>
	<i>Note</i>		
Non-current assets			
Fixed assets	9		
– Investment properties		17,501	17,501
– Other properties, plant and equipment		74,214	73,959
Interest in an associate		231	2,446
Non-trading securities	10	–	–
Other investments		2,288	2,288
		94,234	96,194
Current assets			
Inventories		10,178	12,096
Construction contracts		1,309	1,181
Trade and other receivables	11	98,404	135,866
Cash and cash equivalents	12	72,921	72,672
		182,812	221,815
Current liabilities			
Trade and other payables	13	77,773	106,662
Provisions	14	2,096	2,437
Proposed dividend		–	9,878
Taxation payable		158	150
		80,027	119,127
Net current assets			
		102,785	102,688
Total assets less current liabilities		197,019	198,882
Non-current liabilities			
Deferred taxation		754	754
Net assets		196,265	198,128
Capital and reserves			
Share capital	15	22,450	22,450
Reserves		173,815	175,678
Shareholders' funds		196,265	198,128

Approved by the board of directors on 9 September 2004

Michael John Green
Chairman

Lai Ka Tak, Patrick
Finance Director

CONDENSED CONSOLIDATED CASH FLOW STATEMENT FOR THE PERIOD ENDED 30 JUNE 2004

	(Unaudited) Six months ended 30 June	
	2004 HK\$'000	2003 HK\$'000
Operating activities		
Loss from ordinary activities before taxation	(1,417)	(3,939)
Adjustment for:		
Depreciation	2,564	2,497
Amortisation of goodwill	–	45
Interest income	(180)	(230)
Interest expenses	38	13
Share of loss of an associate	471	144
Loss on disposal of fixed assets	–	2
Unrealised loss on revaluation of other properties	–	1,500
	1,476	32
Operating profit before changes in working capital	1,476	32
Decrease/(increase) in amount due from an associate	1,744	(99)
Decrease in inventories	1,918	912
(Increase)/decrease in construction contracts	(128)	2,934
Decrease in trade and other receivables	37,462	25,793
Decrease in trade and other payables	(28,889)	(17,863)
Decrease in provisions	(341)	(81)
	13,242	11,628
Cash generated from operations	13,242	11,628
Interest received	180	230
Interest paid	(38)	(13)
Hong Kong profits tax refund/(paid)	1	(47)
Overseas tax paid	(439)	(45)
	12,946	11,753
Net cash from operating activities	12,946	11,753
Investing activities		
Payment for purchase of fixed assets	(2,819)	(356)
Proceeds from sale of fixed assets	–	3
	(2,819)	(353)
Net cash used in investing activities	(2,819)	(353)
Financing activities		
Dividend paid	(9,878)	–
Ordinary shares repurchase expenses	–	(5)
	(9,878)	(5)
Net cash used in financing activities	(9,878)	(5)
Net increase in cash and cash equivalents	249	11,395
Cash and cash equivalents at the beginning of the Period	72,672	54,617
Cash and cash equivalents at the end of the Period	72,921	66,012
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	72,921	66,012

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE PERIOD ENDED 30 JUNE 2004**

	(Unaudited)					
	Share capital	Share premium	Other properties revaluation reserve	Retained earnings	Contributed surplus	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 January 2004	22,450	92,389	609	81,872	808	198,128
Loss attributable to shareholders	—	—	—	(1,863)	—	(1,863)
At 30 June 2004	<u>22,450</u>	<u>92,389</u>	<u>609</u>	<u>80,009</u>	<u>808</u>	<u>196,265</u>

	(Unaudited)					
	Share capital	Share premium	Other properties revaluation reserve	Retained earnings	Contributed surplus	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 January 2003, as previously reported	22,450	92,389	1,772	90,537	808	207,956
Changes in accounting policy – provision for net deferred tax liabilities	—	—	(283)	6	—	(277)
At 1 January 2003, as restated	22,450	92,389	1,489	90,543	808	207,679
Loss attributable to shareholders	—	—	—	(4,101)	—	(4,101)
Deficit on revaluation	—	—	(880)	—	—	(880)
Share repurchase expenses	—	—	—	(5)	—	(5)
At 30 June 2003	<u>22,450</u>	<u>92,389</u>	<u>609</u>	<u>86,437</u>	<u>808</u>	<u>202,693</u>

NOTES TO THE INTERIM FINANCIAL INFORMATION

1. BASIS OF PREPARATION

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.

These condensed interim accounts should be read in conjunction with the 2003 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 financial statements for the year ended 31 December 2003.

2. TURNOVER AND OTHER REVENUES

The principal activities of the Group are 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	
	2004 HK\$'000	2003 HK\$'000
Turnover		
Sales of inventories	150,699	158,168
Revenue from construction contracts	174	11,217
Commission income	2,834	4,243
	153,707	173,628
Other revenues		
Interest income from bank deposits	180	230
Administration fee received from the associate (<i>Note 17(a)</i>)	474	474
Write back of provision for doubtful debts	2,859	3,748
Write back of provision for stock obsolescence	–	221
Gross rental income from investment properties	295	333
Sundry income	613	462
	4,421	5,468
Total revenues	158,128	179,096

NOTES TO THE INTERIM FINANCIAL INFORMATION

2. TURNOVER AND OTHER REVENUES *(continued)*

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 2004		30 June 2003	
	Turnover <i>HK\$'000</i>	Operating results <i>HK\$'000</i>	Turnover <i>HK\$'000</i>	Operating results <i>HK\$'000</i>
<i>Principal activities:</i>				
Building products	121,923	23,098	144,778	24,414
Engineering equipment	<u>31,784</u>	<u>4,194</u>	<u>28,850</u>	<u>3,096</u>
	<u>153,707</u>	<u>27,292</u>	<u>173,628</u>	<u>27,510</u>
Administrative and other expenses		<u>(28,200)</u>		<u>(31,292)*</u>
Operating loss		<u>(908)</u>		<u>(3,782)</u>

	(Unaudited)			
	Six months ended			
	30 June 2004		30 June 2003	
	Turnover <i>HK\$'000</i>	Operating results <i>HK\$'000</i>	Turnover <i>HK\$'000</i>	Operating results <i>HK\$'000</i>
<i>Principal markets:</i>				
Hong Kong and Macau	147,487	26,408	168,991	26,801
Mainland China	<u>6,220</u>	<u>884</u>	<u>4,637</u>	<u>709</u>
	<u>153,707</u>	<u>27,292</u>	<u>173,628</u>	<u>27,510</u>
Administrative and other expenses		<u>(28,200)</u>		<u>(31,292)*</u>
Operating loss		<u>(908)</u>		<u>(3,782)</u>

* Included in administrative and other expenses is an unrealised loss on revaluation of other properties of HK\$1,500,000 for the period ended 30 June 2003.

NOTES TO THE INTERIM FINANCIAL INFORMATION

3. COST OF SALES

	(Unaudited) Six months ended 30 June	
	2004 HK\$'000	2003 HK\$'000
Cost of inventories sold	125,399	136,870
Cost of construction contracts	239	7,692
Cost of consumable stocks	751	1,499
Sub-contracting fee on construction contracts	26	57
	<u>126,415</u>	<u>146,118</u>

4. OPERATING EXPENSES

	(Unaudited) Six months ended 30 June	
	2004 HK\$'000	2003 HK\$'000
Administrative expenses:		
Staff costs	20,975	23,244
Depreciation	2,564	2,497
Operating lease rentals on properties paid to third parties	1,885	1,835
Travelling expenses	597	693
Entertainment expenses	300	367
Stamps, postage and telephone	575	601
Management fee	600	390
Advertising expenses	369	265
Legal and professional fees	605	317
Auditors' remuneration	636	644
Amortisation of goodwill	-	45
	<u>29,106</u>	<u>30,898</u>
Other operating expenses:		
Provision for doubtful debts	724	832
Provision for stock obsolescence	58	246
Provision for employee leave entitlements	84	44
Provision for long service payments	(262)	612
Loss on disposal of fixed assets	-	2
Sundry expenses	2,911	2,626
	<u>3,515</u>	<u>4,362</u>
	<u>32,621</u>	<u>35,260</u>

NOTES TO THE INTERIM FINANCIAL INFORMATION

5. FINANCE COSTS

	(Unaudited) Six months ended 30 June	
	2004 HK\$'000	2003 HK\$'000
Interest expenses		
Short-term bank loans and overdrafts	<u>38</u>	<u>13</u>

6. TAXATION

Hong Kong profits tax has not been provided as there is no estimated assessable profit for the Period (2003: 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	
	2004 HK\$'000	2003 HK\$'000
Company and subsidiaries		
Hong Kong profits tax	(1)	–
Overseas taxation	447	52
Deferred taxation	–	110
	<u>446</u>	<u>162</u>
The associate		
Hong Kong profits tax	–	–
	<u>446</u>	<u>162</u>

7. LOSS PER SHARE

The calculation of basic loss per share is based on the Group's loss attributable to ordinary shareholders of HK\$1,863,000 (2003: Group's loss attributable to ordinary shareholders of HK\$4,101,000) and the weighted average of 224,496,000 (2003: 224,496,000) ordinary shares in issue during the Period. The diluted loss per share for the period ended 30 June 2003 and 2004 are the same as the basic loss per share since all potential ordinary shares are anti-dilutive.

8. RETIREMENT BENEFIT COSTS

The Group's contributions to the ORSO scheme are reduced by contributions forfeited by those employees who leave the ORSO scheme prior to vesting fully in the contributions. Forfeited contributions totaling HK\$358,000 (2003: HK\$280,000) were fully utilised during the Period.

Contributions of HK\$253,000 (2003: HK\$306,000) were payable to the Retirement Scheme at the Period-end.

NOTES TO THE INTERIM FINANCIAL INFORMATION

9. FIXED ASSETS

	(Unaudited) HK\$'000
Net book value at 1 January 2004	91,460
Additions	2,819
Disposals	–
Depreciation	<u>(2,564)</u>
Net book value at 30 June 2004	<u>91,715</u>

10. NON-TRADING SECURITIES

	(Unaudited) At 30 June 2004 HK\$'000	At 31 December 2003 HK\$'000
Unlisted equity securities, at cost	7,800	7,800
Less: impairment loss	<u>(7,800)</u>	<u>(7,800)</u>
	<u>–</u>	<u>–</u>

11. TRADE AND OTHER RECEIVABLES

	(Unaudited) At 30 June 2004 HK\$'000	At 31 December 2003 HK\$'000
Trade receivables	81,752	113,020
Retention receivables	11,487	17,133
Prepayments and other receivables	<u>5,165</u>	<u>5,713</u>
	<u>98,404</u>	<u>135,866</u>

NOTES TO THE INTERIM FINANCIAL INFORMATION

11. TRADE AND OTHER RECEIVABLES *(continued)*

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

	(Unaudited) At 30 June 2004 HK\$'000	At 31 December 2003 HK\$'000
Current	29,378	42,292
One to three months overdue	32,116	50,126
More than three months overdue but less than twelve months overdue	22,048	17,553
Overdue more than twelve months	9,697	20,182
	<hr/>	<hr/>
Total trade and retention receivables	93,239	130,153
Prepayments and other receivables	5,165	5,713
	<hr/>	<hr/>
	98,404	135,866

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 2004 HK\$'000	At 31 December 2003 HK\$'000
Bank deposits with original maturity of three months or less	37,356	46,301
Cash at bank and in hand	35,565	26,371
	<hr/>	<hr/>
	72,921	72,672

13. TRADE AND OTHER PAYABLES

	(Unaudited) At 30 June 2004 HK\$'000	At 31 December 2003 HK\$'000
Trade payables	33,696	47,837
Accruals and other accounts payables	41,267	57,181
Advances received from customers	2,810	1,644
	<hr/>	<hr/>
	77,773	106,662

NOTES TO THE INTERIM FINANCIAL INFORMATION

13. TRADE AND OTHER PAYABLES *(continued)*

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

	(Unaudited) At 30 June 2004 HK\$'000	At 31 December 2003 HK\$'000
Due within one month or on demand	23,147	35,981
Due after one month but within three months	9,967	11,387
Due after three months	582	469
	<hr/>	<hr/>
Total trade and bills payables	33,696	47,837
Accruals and other accounts payables	41,267	57,181
Advances received from customers	2,810	1,644
	<hr/>	<hr/>
	77,773	106,662

14. PROVISIONS

	Long service payments HK\$'000	Employee leave entitlement HK\$'000	Total HK\$'000
At 1 January 2004	1,413	1,024	2,437
	<hr/>	<hr/>	<hr/>
Additional provisions	(262)	1,036	774
Less: Amounts utilised	–	(952)	(952)
	<hr/>	<hr/>	<hr/>
Charge to consolidated profit and loss account	(262)	84	(178)
Less: Amounts settled	–	(163)	(163)
	<hr/>	<hr/>	<hr/>
Net effect on provisions	(262)	(79)	(341)
	<hr/>	<hr/>	<hr/>
At 30 June 2004	1,151	945	2,096
	<hr/>	<hr/>	<hr/>

NOTES TO THE INTERIM FINANCIAL INFORMATION

15. SHARE CAPITAL

	(Unaudited)		At 31 December	
	At 30 June 2004		2003	
	Authorised		Authorised	
	Number of shares	HK\$'000	Number of shares	HK\$'000
Ordinary shares of HK\$0.10 each	<u>800,000,000</u>	<u>80,000</u>	<u>800,000,000</u>	<u>80,000</u>
	Issued and fully paid		Issued and fully paid	
	Number of shares	HK\$'000	Number of shares	HK\$'000
Ordinary shares of HK\$0.10 each	<u>224,496,000</u>	<u>22,450</u>	<u>224,496,000</u>	<u>22,450</u>

16. CONTINGENT LIABILITIES

At 30 June 2004, 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
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Guarantees for credit facilities granted by a bank on behalf of subsidiaries	<u>–</u>	<u>–</u>	<u>222,000</u>	<u>222,000</u>

- (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 2004, the amount of guarantees outstanding was HK\$5,484,000 (At 31 December 2003: HK\$16,216,000).

NOTES TO THE INTERIM FINANCIAL INFORMATION

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	
	2004 HK\$'000	2003 HK\$'000
Administration fee received by Arnhold & Company, Limited from an associate (see note (a) below)	474	474
Gross rental income received by Grandful Limited from an associate (see note (b) below)	<u>132</u>	<u>132</u>

- (a) Arnhold & Company, Limited provides management services to the associate of the Group for which it charges an administration fee at a fixed monthly amount.
- (b) During the Period the associate of the Group paid rental expenses of HK\$132,000 to one of the subsidiaries of the Group, Grandful Limited.
- (c) In addition to transactions with related companies as disclosed above,
- (i) the Group paid no professional fee (2003: HK\$15,000) to a firm in which an independent non-executive director of the Company is a partner;
 - (ii) sales of construction materials of HK\$804,000 (2003: HK\$6,026,000) was made by the Group to a listed group of companies in which an independent non-executive director of the Company is also a director of that listed group.

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

