

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 2001.

MANAGEMENT DISCUSSION AND ANALYSIS

Results

In the absence of new investment, the financial results of the Group largely reflect the performance of Arnhold's operations. The Group continues to be affected by the sustained downturn of the construction and real estate sector. Revenue of our Building Products and Engineering Equipment declined by 16% and 23% respectively. Turnover of the Group was HK\$219 million representing an 18% decrease from the last corresponding period (2000: HK\$267 million). Operating loss for the period was HK\$18 million compared with an operating profit of HK\$0.9 million last period. This included the deficit on revaluation of other leasehold properties of HK\$2.6 million.

Considering the relatively high risk and large working capital requirement of the contracting business, the Group has been extremely conservative and selective before committing to new contracts. However, with some growth in the trading operations of the Group, the outstanding order book at the period end was HK\$482 million, representing an increase of 10% over the end of last year.

The Company continues to adopt a cautious investment strategy, as the overall market environment remains challenging in light of an uncertain outlook for the global economy and capital spending in technology and other market sectors. As part of the Company's US\$5 million commitment to the Wit Soundview Dawntreader Fund II, further funding of US\$0.5 million was made during the first six months of 2001. China Interactive Media Group (CIMG), the Company's other investment located in Beijing, has responded to a markedly changed marketplace by transforming itself strategically from an IT services and Internet incubator to a multi-media company focused on developing and marketing content for print, Internet and television. Consistent with management's prudence in the current market environment, a further provision of HK\$11.6 million has been set aside into the revaluation reserve for the Company's technology related investments. As a result, the Company had provided fully against CIMG and 90% against its funded investment in Dawntreader Fund II.

Liquidity and Financial Resources

The Group maintained a healthy cash balance of HK\$429 million at the end of the period. Most of the Group's surplus funds have been placed in time deposits with reputable financial institutions. Gearing ratio was maintained at a low level of 1.5% (At 31 December 2000: 0.74%) – a calculation based on short and long term interest bearing bank/other borrowings of HK\$10 million (At 31 December 2000: HK\$5 million), and shareholders' funds of HK\$654 million (At 31 December 2000: HK\$693 million). The Group had repaid all its long term interest bearing bank loan by the end of the period (At 31 December 2000: HK\$1.2 million) and the short term bank borrowings bear interest at prime rate. The Group has also continued with its prudence-based approach in hedging the foreign currency exposure of Arnhold's operations through forward foreign exchange contracts.

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 the subsidiaries. As at 30 June 2001, the amount of guarantees outstanding was HK\$20,179,000 (At 31 December 2000: HK\$18,042,000).

Employees

At the end of the period, the Group employed around 340 employees in both Hong Kong and the Mainland. The Group continues to provide remuneration packages, including share options, to employees with reference to prevailing market practices.

REPORT OF THE DIRECTORS

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Outlook

We believe the challenging market condition will continue in the near term. The Group will focus on high value added trading activities of Arnhold. Through further cost cutting and improved efficiency, we believe the Group is well positioned to maintain its leading position in Hong Kong.

As a result of our prudence during the past year, we have maintained a strong balance sheet, which positions us very well in capturing strategic investment or merger and acquisition opportunities that could allow the Company to diversify its business.

DIRECTORS

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

Executive directors:

Simon Murray
Michael John Green
Augustus Ralph Marshall
Yip Ka Kay, Kevin
Lindsay Scott Servian (resigned on 30 March 2001)

Non-executive director:

Geoffrey Alan Spender

Independent non-executive directors:

Christopher John David Clarke
V-Nee Yeh

DIRECTORS' INTERESTS IN EQUITY

At 30 June 2001, 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
Executive directors:		
Simon Murray	2,334,700	7,800,000*
Michael John Green	1,272,000	138,510,900**
Independent non-executive directors:		
Christopher John David Clarke	50,000	—
V-Nee Yeh	506,000	20,000***

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DIRECTORS' INTERESTS IN EQUITY (Continued)

* *Such shares were held by a private investment holding company wholly owned by a corporation, which Mr Simon Murray controls and in which he has a beneficial interest of approximately 35%.*

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

*** *Such shares were held through a fund in which a 0.486% attributable interest is held by Mr V-Nee Yeh, who also has more than one-third of the voting rights of the investment manager of the fund.*

The company operates an Executive Share Option Scheme ("the Scheme") which was approved by the shareholders at a special general meeting of the company on 10 December 1993. Under the Scheme, the board of directors may invite its executive directors and employees of the company and its subsidiaries ("the group") to take up options to subscribe for the company's shares.

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

	Date of options granted	Outstanding options as at 1 January 2001	Exercise during the period	Outstanding options as at 30 June 2001	Subscription price per share	Exercise period	Market value per share at date of options granted	Market value per share at date of options exercised
					HK\$		HK\$	HK\$
Simon Murray	18 August 2000	10,000,000	–	10,000,000	1.6200	18 August 2001 to 9 December 2003*	2.00	–

* *These options can be exercised in three instalments during the period from 18 August 2001 to 18 August 2003, but not later than 9 December 2003.*

In addition to the total number of outstanding share options of 10,000,000 (2000: 15,832,000) ordinary shares granted to the above director, there were a total of 16,804,000 (2000: 1,100,000) outstanding share options granted to six employees as at 30 June 2001.

Apart from the Executive Share Option Scheme mentioned above, at no time during the period was the group a party to any arrangement 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.

No share options were issued to the directors and employees of the group during the six months period ended 30 June 2001.

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 2001:

Name of subsidiary company	Name of beneficial owner	Number of non-voting deferred shares
Arnhold Investments Limited	Michael John Green	81,500,000
Arnhold Investments Limited	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.

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 2001, the company had been notified of the following substantial shareholders' 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.

Name of shareholder	Ordinary shares held	Percentage of total issued shares
Amethyst International Finance Limited	188,160,000	30.6%
Pacific Investments (BVI) Limited	115,260,000	18.7%

Amethyst International Finance Limited is a wholly owned subsidiary of GEMS Oriental and General Fund Limited. Pacific Investments (BVI) Limited is a wholly owned subsidiary of Usaha Tegas Sdn. Bhd.

INTERIM DIVIDEND

The Board has resolved to recommend that no interim dividends be paid for the six months ended 30 June 2001 (2000: Nil).

PURCHASE, SALE OR REDEMPTION OF SHARES

The company has not redeemed any of its shares during the six months ended 30 June 2001. Neither the company nor any of its subsidiaries has purchased or sold any of the company's shares during the period.

COMPLIANCE WITH THE CODE OF BEST PRACTICE OF THE LISTING RULES

None of the directors is aware of any information which indicates that the Company is not, or during the six months ended 30 June 2001 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.

By order of the Board
Simon Murray
Chairman

Hong Kong, 5 September 2001