

NOTES TO THE INTERIM FINANCIAL INFORMATION

1. BASIS OF PREPARATION

This interim financial report is unaudited, but has been reviewed by KPMG in accordance with Statement of Auditing Standards 700 “Engagements to review interim financial reports”, issued by the Hong Kong Society of Accountants (“HKSA”). KPMG’s independent review report to the board of directors is included on page 5.

The interim financial report has been prepared in accordance with the requirements of the Main Board Listing Rules of The Stock Exchange of Hong Kong Limited, including compliance with Statement of Standard Accounting Practice 25 “Interim financial reporting” issued by the HKSA.

The financial information relating to the financial year ended 31 December 2000 included in the interim financial report does not constitute the company’s statutory accounts for that financial year but is derived from those accounts. Statutory accounts for the year ended 31 December 2000 are available from the company’s registered office. The auditors have expressed an unqualified opinion on those accounts in their report dated 15 March 2001.

The same accounting policies as those adopted in the 2000 annual accounts have been applied to the interim financial report.

The notes on the interim financial report include an explanation of events and transactions that are significant to an understanding of the changes in the financial position and performance of the group since the 2000 annual accounts.

2. TURNOVER AND OTHER REVENUE

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	
	2001 HK\$'000	2000 HK\$'000
Turnover		
Sales of inventories	188,245	183,484
Revenue from construction contracts	26,531	80,980
Commission income	3,974	2,750
	<u>218,750</u>	<u>267,214</u>
Other revenue		
Interest income from bank deposits	9,763	3,284
Administration fee received from an associate	465	420
Reversal of provision for doubtful debts	305	193
Gross rental income from investment properties	208	156
Sundry income	67	50
	<u>10,808</u>	<u>4,103</u>
Total revenues	<u>229,558</u>	<u>271,317</u>

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3. COST OF SALES

	(Unaudited) Six months ended 30 June	
	2001 HK\$'000	2000 HK\$'000
Cost of inventories sold	162,604	153,566
Cost of construction contracts	25,290	65,479
Sub-contracting fee on construction contracts	66	1,540
Cost of consumable stocks	1,818	1,342
	<u>189,778</u>	<u>221,927</u>

4. OPERATING EXPENSES

	(Unaudited) Six months ended 30 June	
	2001 HK\$'000	2000 HK\$'000
Administrative expenses:		
Salaries and wages	35,294	32,221
Depreciation	3,982	3,779
Operating lease rentals on properties paid to third parties	3,786	3,530
Travelling expenses	1,055	1,023
Entertainment expenses	836	1,020
Stamps, postage and telephone	696	735
Advertising expenses	388	670
Legal and professional fees	761	349
Auditors' remuneration	828	633
Amortisation of goodwill	45	45
	<u>47,671</u>	<u>44,005</u>
Other operating expenses:		
Provision for stock obsolescence	103	284
Provision for doubtful debts	1,052	–
Loss on disposal of fixed assets	206	17
Deficit on revaluation of other properties	2,586	–
Write off of leasehold improvements	1,708	–
Sundry expenses	4,455	4,223
	<u>10,110</u>	<u>4,524</u>
	<u>57,781</u>	<u>48,529</u>

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5. FINANCE COSTS

	(Unaudited) Six months ended 30 June	
	2001 HK\$'000	2000 HK\$'000
Interest expenses		
Short-term bank loans and overdrafts	402	830
Bank loans wholly repayable within five years	8	219
	<u>410</u>	<u>1,049</u>

6. TAXATION

Hong Kong profits tax has not been provided as there is no estimated assessable profit for the period (2000: 16% on the estimated assessable profit for the period). 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/(credited) to the consolidated profit and loss account represents:

	(Unaudited) Six months ended 30 June	
	2001 HK\$'000	2000 HK\$'000
Company and subsidiaries		
Hong Kong profits tax	–	328
Overseas taxation	49	33
Deferred taxation	–	(328)
	<u>49</u>	<u>33</u>
The associate		
Hong Kong profits tax	–	78
	<u>49</u>	<u>111</u>

7. (LOSS)/EARNINGS PER SHARE

(a) Basic (loss)/earnings per share

The calculation of basic (loss)/earnings per share is based on the group's loss attributable to ordinary shareholders of HK\$18,600,000 (2000: group's profit attributable to shareholders of HK\$185,000) and the weighted average number of 615,896,000 (2000: 331,995,000) ordinary shares in issue during the period.

(b) Diluted (loss)/earnings per share

The calculation of diluted (loss)/earnings per share is based on the group's loss attributable to ordinary shareholders of HK\$18,600,000 (2000: group's profit attributable to shareholders of HK\$185,000) and the weighted average number of 617,791,000 (2000: 343,881,000) ordinary shares after adjusting for the effects of all dilutive potential ordinary shares.

The diluted loss per share for the current period has no diluting effect and is presented for reference only.

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7. (LOSS)/EARNINGS PER SHARE (Continued)

(c) Reconciliation

	(Unaudited) Six months ended 30 June	
	2001 Number of shares	2000 Number of shares
Weighted average number of ordinary shares used in calculating basic (loss)/earnings per share	615,896,000	331,995,000
Deemed issue of ordinary shares for no consideration	1,895,000	11,886,000
Weighted average number of ordinary shares used in calculating diluted (loss)/earnings per share	<u>617,791,000</u>	<u>343,881,000</u>

8. TRADE AND OTHER RECEIVABLES

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

	(Unaudited) At 30 June 2001 HK\$'000	At 31 December 2000 HK\$'000
Current	83,929	108,995
One to three months overdue	70,567	90,120
More than three months overdue but less than twelve months overdue	39,668	39,052
Overdue more than twelve months	<u>23,799</u>	<u>26,745</u>
Total debtors, retention receivable and bills receivable	217,963	264,912
Prepayments and other receivables	<u>8,025</u>	<u>7,582</u>
	<u>225,988</u>	<u>272,494</u>

Debts from construction contracts are due when architect's 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.

9. CASH AND CASH EQUIVALENTS

	(Unaudited) At 30 June 2001 HK\$'000	At 31 December 2000 HK\$'000
Bank deposits	407,268	404,519
Cash at bank and in hand	<u>21,982</u>	<u>11,903</u>
	<u>429,250</u>	<u>416,422</u>

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10. TRADE AND OTHER PAYABLES

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

	(Unaudited) At 30 June 2001 HK\$'000	At 31 December 2000 HK\$'000
Due within one month or on demand	58,040	62,116
Due after one month but within three months	14,421	11,688
Due after three months but within six months	1,834	1,880
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Total creditors and bills payable	74,295	75,684
Accruals and other accounts payable	76,521	94,664
Advances received from customers	3,066	1,767
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	153,882	172,115
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11. SHARE CAPITAL

	(Unaudited) At 30 June 2001 HK\$'000	At 31 December 2000 HK\$'000
Authorised		
800,000,000 ordinary shares of HK\$0.10 each	80,000	80,000
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Issued and fully paid		
615,896,000 ordinary shares of HK\$0.10 each	61,590	61,590
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NOTES TO THE INTERIM FINANCIAL INFORMATION

12. RESERVES

Group

	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 2000	69,813	11,389	–	190,811	808	272,821
Profit attributable to shareholders	–	–	–	2,012	–	2,012
Deficit on revaluation	–	–	(12,035)	–	–	(12,035)
Premium on issue of ordinary shares	375,036	–	–	–	–	375,036
Share issue expenses	(8,434)	–	–	–	–	(8,434)
Exercise of share options	1,847	–	–	–	–	1,847
At 31 December 2000	438,262	11,389	(12,035)	192,823	808	631,247
Loss attributable to shareholders	–	–	–	(18,600)	–	(18,600)
Deficit on revaluation	–	(8,833)	(11,554)	–	–	(20,387)
Share issue expenses	(44)	–	–	–	–	(44)
At 30 June 2001	438,218	2,556	(23,589)	174,223	808	592,216
Company and subsidiaries	438,262	11,389	(12,035)	185,690	808	624,114
The associate	–	–	–	7,133	–	7,133
At 31 December 2000	438,262	11,389	(12,035)	192,823	808	631,247
Company and subsidiaries	438,218	2,556	(23,589)	168,700	808	586,693
The associate	–	–	–	5,523	–	5,523
At 30 June 2001	438,218	2,556	(23,589)	174,223	808	592,216

13. SHARE OPTIONS

The company operates an Executive Share Option Scheme (“the Scheme”) which was approved by the shareholders at a special general meeting of the company held on 10 December 1993. Under the Scheme the directors may, at their discretion, grant to employees and executive directors of the group, options to subscribe for the company’s shares. The subscription price for the company’s shares under the Scheme is determined by the board of directors and will not be less than 80% of the average of the closing prices of the company’s shares on The Stock Exchange of Hong Kong Limited on the five trading days immediately preceding the date of offer of the options or the nominal value of the company’s shares, whichever is the higher. The maximum number of shares over which options may be outstanding may not exceed 10% of the ordinary share capital in issue from time to time.

NOTES TO THE INTERIM FINANCIAL INFORMATION

14. NOTES TO THE CONDENSED CONSOLIDATED CASH FLOW STATEMENT

- (a) Reconciliation of (loss)/profit from ordinary activities before taxation to net cash inflow/(outflow) from operating activities:

	(Unaudited) Six months ended 30 June	
	2001	2000
	HK\$'000	HK\$'000
(Loss)/profit from ordinary activities before taxation	(18,551)	296
Depreciation	3,982	3,779
Amortisation of goodwill	45	45
Interest income	(9,763)	(3,284)
Interest expenses	410	1,049
Share of loss/(profit) of an associate	140	(484)
Loss on disposal of fixed assets	206	17
Deficit on revaluation of other properties	2,586	–
Write off of leasehold improvements	1,708	–
(Increase)/decrease in amount due from an associate	(101)	103
(Increase)/decrease in inventories	(3,788)	409
Increase in construction contracts	(2,865)	(4,584)
Decrease in trade and other receivables	46,506	33,903
Decrease in trade and other payables	(18,233)	(53,363)
Net cash inflow/(outflow) from operating activities	<u>2,282</u>	<u>(22,114)</u>

- (b) Analysis of changes in financing during the period:

	Long-term Liabilities Bank loans- Secured	Short-term Liabilities Short-term bank loans
	HK\$'000	HK\$'000
Balance at 31 December 2000	1,234	3,901
Drawdown during the period	–	22,117
Repayments during the period	(1,234)	(16,090)
Balance at 30 June 2001	<u>–</u>	<u>9,928</u>

15. CAPITAL COMMITMENT

As at 30 June 2001, the group had a commitment to invest US\$2.75 million, equivalent to HK\$21.5 million (At 31 December 2000: US\$3.25 million, equivalent to HK\$25.4 million) in a limited partnership.

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16. CONTINGENT LIABILITIES

At 30 June 2001, there were contingent liabilities in respect of the following:

(a)	The group		Company	
	(Unaudited)	At 31	(Unaudited)	At 31
	At 30 June	December	At 30 June	December
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Guarantees for credit facilities granted by a bank on behalf of subsidiaries	–	–	222,000	305,000

- (b) 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).

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	
	2001	2000
	HK\$'000	HK\$'000
Administration fee received by Arnhold & Company, Limited from an associate (see note (a) below)	465	420

- (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\$196,000 (2000: HK\$556,000) were paid to a firm in which a non-executive director is a partner.

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 companies were carried out in the ordinary course of business on normal commercial terms.

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18. PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

An analysis of the group's turnover and contribution to operating (loss)/profit by principal activities and by principal markets is as follows:

	(Unaudited) Six months ended			
	30 June 2001		30 June 2000	
	Turnover HK\$'000	Operating profit/(loss) HK\$'000	Turnover HK\$'000	Operating profit/(loss) HK\$'000
Principal activities:				
Building products	150,646	19,531	178,825	30,604
Engineering equipment	68,104	9,021	88,389	14,302
	<u>218,750</u>	<u>28,552</u>	<u>267,214</u>	<u>44,906</u>
Administrative and other expenses		(46,553)		(44,045)
Operating (loss)/profit		<u>(18,001)</u>		<u>861</u>

	(Unaudited) Six months ended			
	30 June 2001		30 June 2000	
	Turnover HK\$'000	Operating profit/(loss) HK\$'000	Turnover HK\$'000	Operating profit/(loss) HK\$'000
Principal markets:				
Hong Kong and Macau	203,306	26,552	262,393	43,575
The People's Republic of China	15,444	2,000	4,821	1,331
	<u>218,750</u>	<u>28,552</u>	<u>267,214</u>	<u>44,906</u>
Administrative and other expenses		(46,553)		(44,045)
Operating (loss)/profit		<u>(18,001)</u>		<u>861</u>