

Notes to the Interim Financial Information

1 BASIS OF PREPARATION AND ACCOUNTING POLICIES

This unaudited condensed consolidated financial information of the Group has been prepared in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants.

This unaudited condensed consolidated financial information should be read in conjunction with the 2004 annual financial statements.

The accounting policies and methods of computation used in the preparation of this unaudited condensed consolidated financial information are consistent with those used in the annual financial statements for the year ended 31 December 2004 except that the Group has changed certain of its accounting policies following its adoption of new/revised Hong Kong Financial Reporting Standards (“HKFRSs”), Hong Kong Accounting Standards (“HKASs”) and Interpretations (hereinafter collectively referred as “new HKFRSs”) which are effective for accounting periods commencing on or after 1 January 2005.

This interim financial information has been prepared in accordance with those new HKFRSs issued and effective as at the time of preparing this information (July 2005). The new HKFRSs that will be applicable at 31 December 2005, including those that will be applicable on an optional basis, are not known with certainty at the time of preparing this interim financial information.

The changes to the Group’s accounting policies and the effects of adopting these new policies are set out in note 2 below.

Notes to the Interim Financial Information

2 CHANGES IN ACCOUNTING POLICIES

In 2005, the Group adopted the new HKFRSs below, which are relevant to its operations. The 2004 comparatives have been amended as required, in accordance with the relevant requirements.

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investment in Associates
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings Per Share
HKAS 34	Interim Financial Reporting
HKAS 36	Impairment of Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 40	Investment Property
HKAS-Int 12	Consolidation – Special Purpose Entities
HKAS-Int 15	Operating Lease – Incentives
HKAS-Int 21	Income Taxes- Recovery of Revalued Non-Depreciable Assets
HKFRS 2	Share-based Payment

2.1 Effects of adopting new HKFRSs

The adoption of HKASs 1, 2, 7, 8, 12, 14, 16, 18, 19, 21, 24, 27, 28, 33, 34, 36 and HKAS-Ints 12 and 15 did not result in substantial changes to the Group's accounting policies. In summary:

- HKAS 1 has affected the presentation and disclosure of the accounts.
- HKASs 2, 7, 8, 12, 14, 16, 18, 19, 21, 27, 28, 33, 34, 36 and HKAS-Ints 12 and 15 have no material effect on the Group's accounting policies.
- HKAS 24 has affected the identification of related parties and some other related-party disclosures.

The effects of the adoption of certain new HKFRSs, which result in substantial changes to the Group's accounting policies, are set out below.

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2 CHANGES IN ACCOUNTING POLICIES *(continued)*

2.1 Effects of adopting new HKFRSs *(continued)*

HKAS 17

In prior years, the leasehold land and buildings were accounted for at fair value less accumulated depreciation and accumulated impairment.

The adoption of HKAS 17 has resulted in a change in the accounting policy relating to the reclassification of leasehold land and land use rights from property, plant and equipment to operating leases. The up-front prepayments made for the leasehold land and land use rights are expensed in the profit and loss account on a straight-line basis over the period of the lease or where there is impairment, the impairment is expensed in the profit and loss account. This new accounting policy has been adopted retrospectively and comparative amounts have been restated accordingly. The building portion of leasehold properties was previously stated at fair value. Following the adoption of HKAS 17 where leasehold land is subject to amortization, the accounting policy on buildings has been changed and buildings are now stated at cost less accumulated depreciation and impairment. This change in accounting policy has been applied retrospectively. The resulting effect on the financial statements of the Group is set out in notes 2.2 and 2.3 below.

HKASs 32 and 39

In prior years, derivative financial instruments, including foreign exchange forward contracts, entered into by the Group were not reflected in the balance sheet.

Following the adoption of HKASs 32 and 39, all derivative financial instruments entered into by the Group are stated at fair value. Changes in their fair values are recognized in the profit and loss account. The above changes in accounting policies were adopted by way of an adjustment to the opening balances of retained earnings as at 1 January 2005. Comparative amounts have not been restated nor has the opening balance of the fair value reserve been restated as this is prohibited by the transitional arrangements in HKAS 39. The resulting effect on the financial statements of the Group is set out in notes 2.2 and 2.3 below.

HKAS 40 and HKAS-Int 21

In prior years, changes arising on the revaluation of the Group's investment properties were recognized directly in the property revaluation reserve except when, on a portfolio basis, the reserve was insufficient to cover a deficit on the portfolio, in which case the excess was charged to the profit and loss account. When a deficit previously recognized in the profit and loss account reversed, the reversal was recognized as a credit in the profit and loss account. The Group was required to apply the tax rate that would be applied for the recovery of carrying amount of the investment properties through sale to determine whether any amounts of deferred tax liabilities arising from the revaluation of investment properties.

Following the adoption of HKAS 40, changes in the fair values of investment properties are recorded in the profit and loss account in accordance with the fair value model in HKAS 40. There is no requirement for the Group to restate the comparative information and accordingly, any adjustment relating to the treatment of the property revaluation surplus has made to the retained earnings as at 1 January 2005, including the reclassification of any amount held in the property revaluation reserve.

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2 CHANGES IN ACCOUNTING POLICIES *(continued)*

2.1 Effects of adopting new HKFRSs *(continued)*

As from 1 January 2005, in accordance with HKAS-Int 21, the Group recognizes deferred tax liabilities on movements in the value of an investment property using tax rates that are applied for recovery of the carrying value of the investment properties through use, if the Group has no intention to sell it and the property would have been depreciable had the Group not adopted the fair value model. The resulting effect on the financial statements of the Group is set out in notes 2.2 and 2.3 below.

HKFRS 2

In prior years, no amounts were recognized for equity-settled share-based payment transactions in the Group, including the share options granted to employees or directors of the Group to acquire shares of the Company at specified exercise prices under the share option scheme operated by the Group.

With effect from 1 January 2005, in order to comply with HKFRS 2, the Group recognizes the fair value of such share options as an expense in the profit and loss account. A corresponding increase is recognized in the employee share-based compensation reserve under equity. As a transition provision, the cost of share options granted after 7 November 2002 and had not yet vested on 1 January 2005 was expensed retrospectively in the profit and loss account of the respective periods. The resulting effect on the financial statements of the Group is set out in notes 2.2 and 2.3 below.

Notes to the Interim Financial Information

2 CHANGES IN ACCOUNTING POLICIES *(continued)*

2.2 Effects of changes in the accounting policies on condensed consolidated profit and loss account

	Effects of adopting			
	HKAS 32 &	HKAS 17	HKFRS 2	Total
	HKAS 39	HKAS 17	HKFRS 2	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Effects for the six months ended 30 June 2005				
Increase in net unrealized fair value				
loss on derivative financial instruments	(3,451)	–	–	(3,451)
Increase in staff costs	–	–	(305)	(305)
Increase in amortization of leasehold land and land use rights	–	(515)	–	(515)
Decrease in depreciation of leasehold buildings	–	460	–	460
Increase in loss attributable to shareholders	(3,451)	(55)	(305)	(3,811)
Increase in basic loss per share (cents)	(1.54)	(0.02)	(0.14)	(1.70)
Increase in diluted loss per share (cents)	(1.54)	(0.02)	(0.14)	(1.70)
Effects for the six months ended 30 June 2004				
Increase in staff costs	–	–	(194)	(194)
Increase in amortization of leasehold land and land use rights	–	(514)	–	(514)
Decrease in depreciation of leasehold buildings	–	442	–	442
Increase in loss attributable to shareholders	–	(72)	(194)	(266)
Increase in basic loss per share (cents)	–	(0.03)	(0.09)	(0.12)
Increase in diluted loss per share (cents)	–	(0.03)	(0.09)	(0.12)

Notes to the Interim Financial Information

2 CHANGES IN ACCOUNTING POLICIES (continued)

2.3 Effects of changes in the accounting policies on condensed consolidated balance sheet

	Effects of adopting				
	HKAS 32 &				
	HKAS 39	HKAS 40	HKAS 17	HKFRS 2	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
As at 30 June 2005					
Increase/(decrease) in assets					
Leasehold land and land use rights	–	–	50,886	–	50,886
Leasehold buildings and other fixed assets	–	–	(49,367)	–	(49,367)
Derivative financial instruments	142	–	–	–	142
	<u>142</u>	<u>–</u>	<u>1,519</u>	<u>–</u>	<u>1,661</u>
Increase/(decrease) in liabilities/equity					
Deferred tax liabilities	–	–	(329)	–	(329)
Employee share-based compensation reserve	–	–	–	835	835
Revaluation reserve	–	(44)	(1,348)	–	(1,392)
Loss attributable to shareholders	(3,451)	–	(55)	(305)	(3,811)
Derivative financial instruments	2,205	–	–	–	2,205
Retained earnings	1,388	44	3,251	(530)	4,153
	<u>142</u>	<u>–</u>	<u>1,519</u>	<u>–</u>	<u>1,661</u>
As at 31 December 2004					
Increase/(decrease) in assets					
Leasehold land and land use rights	–	–	51,401	–	51,401
Leasehold buildings and other fixed assets	–	–	(49,827)	–	(49,827)
	<u>–</u>	<u>–</u>	<u>1,574</u>	<u>–</u>	<u>1,574</u>
Increase/(decrease) in liabilities/equity					
Deferred tax liabilities	–	–	(329)	–	(329)
Employee share-based compensation reserve	–	–	–	530	530
Revaluation reserve	–	–	(1,348)	–	(1,348)
Retained earnings	–	–	3,251	(530)	2,721
	<u>–</u>	<u>–</u>	<u>1,574</u>	<u>–</u>	<u>1,574</u>

Notes to the Interim Financial Information

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities include those related to estimates of contract costs, impairment of assets, income taxes and provision for doubtful debts.

4 TURNOVER, OTHER REVENUES AND SEGMENT INFORMATION

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 recognized during the Period are as follows:

	(Unaudited)	
	Six months ended	
	30 June 2005	30 June 2004
	HK\$'000	HK\$'000
Turnover		
Sales of inventories	115,285	150,699
Revenue from construction contracts	–	174
Commission income	91	2,834
	115,376	153,707
Other revenues		
Interest income from bank deposits	460	180
Administration fee received from the associate (<i>Note 21a</i>)	210	474
Gross rental income from investment properties	351	295
Sundry income	622	613
	1,643	1,562
Total revenues	117,019	155,269

Notes to the Interim Financial Information

4 TURNOVER, OTHER REVENUES AND SEGMENT INFORMATION (continued)

An analysis of the Group's turnover and contribution to the Group's results by business segments (primary reporting segment) is set out below:

	(Unaudited)			
	(As restated)			
	Six months ended			
	30 June 2005		30 June 2004	
	Turnover	Operating results	Turnover	Operating results
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Principal activities:				
Building products	99,111	21,667	121,923	23,098
Engineering equipment	16,265	2,684	31,784	4,194
	<u>115,376</u>	<u>24,351</u>	<u>153,707</u>	<u>27,292</u>
Administrative and other expenses		(25,191)		(28,466)
Operating loss		(840)		(1,174)
Finance costs		(11)		(38)
Share of loss of an associate		(277)		(471)
Loss from ordinary activities before taxation		(1,128)		(1,683)
Taxation		(322)		(446)
Loss attributable to shareholders		<u>(1,450)</u>		<u>(2,129)</u>

5 COST OF SALES

	(Unaudited)	
	Six months ended	
	30 June 2005	30 June 2004
	HK\$'000	HK\$'000
Cost of inventories sold	88,811	125,399
Cost of construction contracts	(1,949)	239
Cost of consumable stocks	712	751
Sub-contracting fee on construction contracts	–	26
Net unrealised fair value loss on derivative financial instruments	3,451	–
	<u>91,025</u>	<u>126,415</u>

Notes to the Interim Financial Information

6 OPERATING EXPENSES

	(Unaudited)	
	(As restated)	
	Six months ended	
	30 June 2005	30 June 2004
	HK\$'000	HK\$'000
Administrative expenses:		
Staff costs	18,881	20,975
Employee share option benefits	305	194
Amortization of leasehold land and land use rights	515	514
Depreciation of leasehold buildings and other fixed assets	958	2,121
Operating lease rentals on properties paid to third parties	1,958	1,885
Travelling expenses	656	598
Entertainment expenses	392	300
Stamps, postage and telephone	493	575
Management fee	640	600
Advertising expenses	298	369
Legal and professional fees	627	605
Auditors' remuneration	615	636
	26,338	29,372
Other operating expenses:		
Write back provision for doubtful debts	(2,701)	(2,859)
Provision for doubtful debts	536	724
Provision for stock obsolescence	22	58
Provision for employee leave entitlements	181	84
Provision for long service payments	10	(262)
Loss on disposal of fixed assets	39	–
Sundry expenses	2,409	2,911
	496	656
	26,834	30,028

Notes to the Interim Financial Information

7 FINANCE COSTS

	(Unaudited)	
	Six months ended	
	30 June 2005	30 June 2004
	HK\$'000	HK\$'000
Interest expenses		
Short-term bank loans and overdrafts	11	38

8 TAXATION

Hong Kong profits tax has not been provided as there is no estimated assessable profit for the Period (2004: 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 2005	30 June 2004
	HK\$'000	HK\$'000
Company and subsidiaries		
Hong Kong profits tax	–	(1)
Overseas taxation	322	447
	322	446
The associate		
Hong Kong profits tax	–	–
	322	446

9 LOSS PER SHARE

The calculation of basic loss per share is based on the Group's loss attributable to ordinary shareholders of HK\$1,450,000 (2004: Group's loss attributable to ordinary shareholders of HK\$2,129,000, as restated) and the weighted average number of 224,496,000 (2004: 224,496,000) ordinary shares in issue during the Period. The diluted loss per share for the period ended 30 June 2005 and 2004 are the same as the basic loss per share since all potential ordinary shares are anti-dilutive.

10 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\$301,000 (2004: HK\$358,000) were fully utilised during the Period.

Contributions of HK\$243,000 (2004: HK\$253,000) were payable to the Retirement Scheme at the Period-end.

Notes to the Interim Financial Information

11 FIXED ASSETS

	Investment properties	Leasehold buildings and other fixed assets	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Net book value			
At 1 January 2005, as previously reported	17,601	75,537	93,138
Effect of adopting HKAS 17	–	(49,827)	(49,827)
At 1 January 2005, as restated	17,601	25,710	43,311
Addition	–	1,243	1,243
Write off	–	(299)	(299)
Depreciation	–	(958)	(958)
At 30 June 2005	17,601	25,696	43,297
Net book value			
At 1 January 2004, as previously reported	17,501	73,959	91,460
Effect of adopting HKAS 17	–	(47,168)	(47,168)
At 1 January 2005, as restated	17,501	26,791	44,292
Addition	–	2,818	2,818
Depreciation	–	(2,121)	(2,121)
At 30 June 2004	17,501	27,488	44,989
Addition	–	493	493
Disposal	–	(2)	(2)
Depreciation	–	(2,269)	(2,269)
Revaluation	100	–	100
At 31 December 2004	17,601	25,710	43,311

12 NON-TRADING SECURITIES

	(Unaudited) At 30 June 2005 HK\$'000	At 31 December 2004 HK\$'000
Unlisted equity securities, at cost	7,800	7,800
Less: impairment loss	(7,800)	(7,800)
	–	–

Notes to the Interim Financial Information

13 TRADE AND OTHER RECEIVABLES

	(Unaudited) At 30 June 2005 HK\$'000	At 31 December 2004 HK\$'000
Trade receivables	46,698	67,998
Retention receivables	7,688	8,969
Prepayments and other receivables	9,442	8,157
	<u>63,828</u>	<u>85,124</u>

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 2005 HK\$'000	At 31 December 2004 HK\$'000
Current	16,082	24,895
One to three months overdue	19,060	27,370
More than three months overdue but less than twelve months overdue	4,250	9,511
Overdue more than twelve months	14,994	15,191
	<u>54,386</u>	<u>76,967</u>
Total trade and retention receivables	54,386	76,967
Prepayments and other receivables	9,442	8,157
	<u>63,828</u>	<u>85,124</u>

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.

14 DERIVATIVE FINANCIAL INSTRUMENTS

	As at 30 June 2005	
	Assets	Liabilities
	HK\$'000	HK\$'000
Forward foreign exchange contracts – not qualified as hedges	<u>142</u>	<u>2,205</u>

At 1 January 2005, the fair values of the foreign exchange forward contracts in the amounts of HK\$1,738,000 and HK\$350,000 were recognized as assets and liabilities, respectively.

Notes to the Interim Financial Information

15 CASH AND CASH EQUIVALENTS

	(Unaudited) At 30 June 2005 HK\$'000	At 31 December 2004 HK\$'000
Bank deposits with original maturity of three months or less	41,815	37,541
Cash at bank and in hand	32,035	46,832
	73,850	84,373

16 TRADE AND OTHER PAYABLES

	(Unaudited) At 30 June 2005 HK\$'000	At 31 December 2004 HK\$'000
Trade payables	27,344	33,906
Accruals and other accounts payables	20,778	37,530
Advances received from customers	2,319	2,876
	50,441	74,312

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

	(Unaudited) At 30 June 2005 HK\$'000	At 31 December 2004 HK\$'000
Due within one month or on demand	21,992	28,326
Due after one month but within three months	4,636	5,077
Due after three months	716	503
Total trade and bills payables	27,344	33,906
Accruals and other accounts payables	20,778	37,530
Advances received from customers	2,319	2,876
	50,441	74,312

Notes to the Interim Financial Information

17 PROVISIONS

	Long service payments HK\$'000	Employee leave entitlement HK\$'000	Total HK\$'000
At 1 January 2005	770	918	1,688
Additional provisions	9	1,021	1,030
Less: Amounts utilised	–	(840)	(840)
Charge to condensed consolidated profit and loss account	9	181	190
Less: Amounts settled	–	(63)	(63)
Net effect on provisions	9	118	127
At 30 June 2005	779	1,036	1,815

18 SHARE CAPITAL

	(Unaudited) At 30 June 2005 Authorized		At 31 December 2004 Authorized	
	Number of shares	HK\$'000	Number of shares	HK\$'000
Ordinary shares of HK\$0.10 each	800,000,000	80,000	800,000,000	80,000
	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	224,496,000	22,450	224,496,000	22,450

19 CONTINGENT LIABILITIES

At 30 June 2005, there were contingent liabilities in respect of the following:

(a)

	The Group		The Company	
	(Unaudited) At 30 June 2005 HK\$'000	At 31 December 2004 HK\$'000	(Unaudited) At 30 June 2005 HK\$'000	At 31 December 2004 HK\$'000
Guarantees for credit facilities granted by a bank on behalf of subsidiaries	–	–	222,000	222,000

Notes to the Interim Financial Information

19 CONTINGENT LIABILITIES (continued)

- (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 2005, the amount of guarantees outstanding was HK\$1,041,000 (At 31 December 2004: HK\$2,500,000).

20 COMMITMENTS

Capital commitments for fixed assets

	(Unaudited) 30 June 2005 HK\$'000	At 31 December 2004 HK\$'000
Contracted but not provided for	<u>92</u>	<u>900</u>

21 RELATED PARTY TRANSACTIONS

Significant related party transactions which were carried out in the normal course of the Group's business were as follows:

	(Unaudited) Six months ended 30 June 2005 HK\$'000	30 June 2004 HK\$'000
Administration fee received by Arnhold & Company, Limited from an associate (see note (a) below)	210	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 Company paid professional fee of HK\$128,000 (2004: Nil) to a firm in which a non-executive director of the Company is a partner;
 - (ii) sales of construction materials of HK\$89,000 (2004: HK\$804,000) were 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.