

Report of the Directors

The directors have pleasure in submitting the interim report together with the unaudited condensed consolidated financial statements of Arnhold Holdings Limited (the "Company") together with its subsidiaries (collectively the "Group") for the six months ended 30 June 2005 (the "Period").

MANAGEMENT DISCUSSION AND ANALYSIS

Review of Operations

The Group continued to be engaged principally in its core business of trading of building materials and engineering equipment and its financial performance remained correlated to the level of construction activities in Hong Kong. During the Period, the Group recorded a turnover of HK\$115 million with gross profit of HK\$24.4 million (2004: HK\$154 million and HK\$27.3 million respectively). The decline in turnover was mainly caused by our decision to cancel certain low margin engineering equipment orders at the end of last year. Demand for building products was also relatively weak because most sizable projects commence construction in the second half of the year. However, gross profit margin improved from 17.8% to 21.1% as a result of the Group's focus on higher value-added trading activities. The Group's continued efforts in cost control and process flow improvement also resulted in a reduction of 10.6% in operating costs. Accordingly, Group's loss attributable to shareholders for the Period was reduced to HK\$1.5 million (2004: HK\$2.1 million, as restated).

The Group continued to consolidate its market position in Hong Kong and successfully improved its coverage of the Mainland and Macau. As a result, the Group's outstanding orders on hand at Period end amounted to HK\$149 million, representing an increase of 46.8% over the end of last year (At December 2004: HK\$101 million).

Segmental Information

Revenues from the building products business were HK\$99.1 million, representing a decrease of 18.7% compared with HK\$121.9 million in the last corresponding period. Turnover of plumbing fixtures and tiles was HK\$27.1 million lower. The decrease in sales revenue was partially offset by the HK\$4.1 million improvement in marble export operations. Despite the substantial decrease in turnover, operating results were reduced by only 6.2% to HK\$21.7 million because of the improved margin in nearly all areas.

Turnover of the engineering business was decreased by 48.8% to HK\$16.3 million because of our decision to cancel certain low margin orders at the end of last year. Consequently, operating results were decreased from HK\$4.2 million to HK\$2.7 million. In order to capture future growth opportunities, the Group has located several new air handling products from Europe and North Asia for launching towards the end of the year.

Capital Commitment

The Group commenced the construction work of its new marble processing factory in Dongguan, PRC. Upon completion of the new factory by end of the year, we expect to triple our production capacity and shall be able to meet the increasing overseas demand for marble mosaic. We estimate that the total capital expenditure for the new plant will be around HK\$20.0 million, of which HK\$4.7 million was paid as at end of the Period. The Group expects to finance this project from internal resources and bank credit facilities.

Report of the Directors

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

Financial Hedging

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. Further information of the forward exchange contracts is disclosed in the notes to the interim financial information.

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 2004: Nil). The Group remained conservative in working capital management and maintained a breakeven position in terms of operating cashflow. As at Period end, cash balances amounted to HK\$73.9 million (At 31 December 2004: HK\$84.4 million). The decline in cash balances was largely caused by the payment of HK\$9.9 million final dividend declared in 2004.

Most of the Group's cash balances are 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.

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 2005, the amount of guarantees outstanding was HK\$1.0 million (At 31 December 2004: HK\$2.5 million).

Banking facilities with assets pledged

A property with net book value of HK\$53.0 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 340 and 110 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 (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), were authorised to grant share options to eligible persons as incentives. Details of share options granted were disclosed in the section "Share Option Scheme" of this report.

Outlook

Hong Kong is still in the initial stages of recovery following years of economic restructuring. Market conditions remain competitive and the Group will allocate more resources to explore growth opportunities in Macau, the Mainland and mosaic exports. Our aim is to strengthen our leading position in Hong Kong and gradually expand our customer base overseas. With a healthy financial foundation and a dedicated, professional team, the Group remains cautiously optimistic it can take full advantage of the economic recovery.

Report of the Directors

DIRECTORS

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

Executive directors:

Michael John Green
Daniel George Green
Lai Ka Tak, Patrick

Non-executive directors:

Augustus Ralph Marshall
Christopher John David Clarke

Independent non-executive directors:

V-Nee Yeh
Thaddeus Thomas Beczak
Simon Murray

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 is 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 recognize 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 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 2005 and the date of this report, 15,049,600 Shares were available for issue under the Scheme representing 6.7% of the total issued share capital of the Company.

Report of the Directors

SHARE OPTION SCHEME *(continued)*

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-month 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 2005 were as follows:

	Date of Options granted	Outstanding Options as at 1 January 2005	Granted during the Period	Exercised/ lapsed/ cancelled during the Period	Outstanding Options as at 30 June 2005	Subscription price per Share <i>HK\$</i>
Directors						
Daniel George	18 September 2003	1,200,000	-	-	1,200,000	0.500
Green	19 November 2004	2,000,000	-	-	2,000,000	0.602
Lai Ka Tak, Patrick	18 September 2003	1,500,000	-	-	1,500,000	0.500
	19 November 2004	1,700,000	-	-	1,700,000	0.602
Employees	18 September 2003	1,000,000	-	-	1,000,000	0.500
		<u>7,400,000</u>	<u>-</u>	<u>-</u>	<u>7,400,000</u>	

At the dates before the Options were granted, being 17 September 2003 and 18 November 2004, the market values per Share were HK\$0.500 and HK\$0.600 respectively.

The Options granted on 18 September 2003 can be exercised in two instalments, 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.

The Options granted 19 November 2004 can be exercised in two instalments, 50% of which at any time between 1 November 2006 and 30 August 2010 and the remaining 50% at any time between 1 November 2007 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.

Report of the Directors

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

As at 30 June 2005, the interests and short positions of each 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:

Ordinary shares of HK\$0.10 each

	Personal interests	Family interests	Number of shares held			Total interests	Percentage of issued share capital
			Corporate interests	Trusts and similar interests	Equity derivatives (Note iii)		
<i>Executive directors:</i>							
Michael John Green	1,272,000	-	-	166,093,617 (Note i)	-	167,365,617	74.55%
Daniel George Green	-	-	-	166,093,617 (Note ii)	3,200,000	169,293,617	75.41%
Lai Ka Tak, Patrick	-	-	-	-	3,200,000	3,200,000	1.43%
<i>Non-executive directors:</i>							
Augustus Ralph Marshall	-	-	-	-	-	-	-
Christopher John David Clarke	200,000	-	-	-	-	200,000	0.09%
<i>Independent non-executive directors:</i>							
V-Nee Yeh	74,444	-	-	-	-	74,444	0.03%
Thaddeus Thomas Beczak	-	-	-	-	-	-	-
Simon Murray	343,487	-	-	-	-	343,487	0.15%

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 represent interests of share options granted to directors under the share option scheme to subscribe for shares of the Company, further details of which are set out in the section "Share Option Scheme" of this report.

Report of the Directors

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

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 2005, none of the directors and chief executives of the Company and/or any of their respective associates had any interested 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 2005, the Company had been notified of the following substantial shareholder's interests, being 5% or more of the Company's issued ordinary share capital. These interests are 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 2005, 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 of directors has resolved that no interim dividend be paid for the Period (2004: Nil).

PURCHASE, SALE OR REDEMPTION OF SHARES

The Company has not redeemed any of its shares during the six months ended 30 June 2005. 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

The Code on Corporate Governance Practices

The Company is committed to maintaining high standards of corporate governance in fulfilling its responsibilities to shareholders.

The Stock Exchange has promulgated the Code on Corporate Governance Practices (the "CG Code") which came into effect in January 2005. Throughout the Period, the Group has complied itself with all the code provisions of the CG Code except that:

- non-executive directors are not appointed for a specific term and directors are not subject to retirement by rotation at least once every three years. The Bye-laws of the Company (the "Bye-laws") provided that save that the Board shall have the absolute discretion to determine whether or not the Chairman and/or the Managing Director of the Company shall be subject to retirement by rotation, each annual general meeting one-third of the directors for the time being (or, if their number is not a multiple of three (3), the number nearest but not less than one-third) shall retire from office by rotation. To ensure the smooth running and continuous adhering to the strategic view of the Company, the Board believes that it is more practical for the Chairman/Managing Director not subject to retirement by rotation. The Board also considers it not necessary to appoint non-executive directors for a specific term as the Bye-laws enable all directors, including those non-executives, to retire at least once every three years;
- the Company has not adopted the terms of reference of the Remuneration Committee as prescribed in the CG Code in full but has duly adopted its own terms of reference that better suits the practical situation of the Company. The Board considers that the key responsibilities of the Remuneration Committee shall focus on assessing the reasonableness of the remuneration of the directors and fixing the remuneration packages for all directors. The Board understands that the terms of reference adopted by the Remuneration Committee deviates from rules B.1.3(a)-(e) of the CG Code as its scope does not cover the senior management of the Company. However, the Board considers that it is not practical for the Remuneration Committee to adopt the full terms stipulated in the CG Code because the management structure of the Group is relatively simple and its scale of operations is modest. It is also noted that the executive directors have extensive experience in the industry and are fully qualified to determine the remuneration packages of employees of the Company including the senior management. It has always been the Company's practice to provide compensation with reference to the prevailing market conditions. The remuneration details, together with the financial statements of the Company, are also subject to review and approval by the Board annually. As a result, it is considered more practical not to delegate the responsibility to the Remuneration Committee to determine any specific remuneration packages of the senior management. The Board believes that such arrangement a) will maintain a formal and transparent procedure for setting policy on executive directors' remuneration and for fixing the remuneration packages for all directors; b) will not affect the Company in providing transparent information of the directors' remuneration to the public; c) will give adequate authority to the Remuneration Committee to protect the interest of the Company and the minority shareholders; d) will enable the Company to maintain a reasonable balance of cost and benefit.

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CORPORATE GOVERNANCE *(continued)*

The Code for Securities Transactions by Directors

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. The Company, having made specific enquiry, confirms that all directors of the Company complied throughout the Period with the required standard set out in the Model Code and the Company's code of conduct regarding directors' securities transactions.

AUDIT COMMITTEE

The Audit Committee of the Company provides an important link between the Board and the Company's auditors in matters coming within the scope of the Group audit. It also reviews the effectiveness of the external audit and of internal controls and risk evaluation. The Committee comprises two independent non-executive directors, namely Messrs V-Nee Yeh and Thaddeus Thomas Beczak and a non-executive director, Mr Christopher John David Clarke.

The Audit Committee has reviewed the unaudited condensed consolidated financial statements for the Period.

On behalf of the Board
Michael John Green
Chairman

Hong Kong, 8 September 2005

Condensed Consolidated Profit and Loss Account

For the period ended 30 June 2005

	Note	(Unaudited)	
		(As restated)	
		Six months ended	
		30 June 2005	30 June 2004
		HK\$'000	HK\$'000
Turnover	4	115,376	153,707
Cost of sales	5	(91,025)	(126,415)
Gross profit		24,351	27,292
Other revenues	4	1,643	1,562
Operating expenses	6	(26,834)	(30,028)
Operating loss		(840)	(1,174)
Finance costs	7	(11)	(38)
Share of loss of an associate		(277)	(471)
Loss from ordinary activities before taxation		(1,128)	(1,683)
Taxation	8		
Company and subsidiaries		(322)	(446)
The associate		-	-
Loss attributable to shareholders		(1,450)	(2,129)
Basic loss per share (cents)	9	(0.65)	(0.95)
Diluted loss per share (cents)	9	(0.65)	(0.95)
Dividend		-	-
Dividend per share		-	-

Condensed Consolidated Balance Sheet

As at 30 June 2005

	Note	(Unaudited) At 30 June 2005 HK\$'000	(As restated) At 31 December 2004 HK\$'000
Non-current assets			
Investment properties	11	17,601	17,601
Leasehold buildings and other fixed assets	11	25,696	25,710
Leasehold land and land use rights		50,886	51,401
Interest in an associate		(723)	265
Non-trading securities	12	–	–
Other investments		2,288	2,288
		95,748	97,265
Current assets			
Inventories		15,175	12,411
Construction contracts		14	753
Trade and other receivables	13	63,828	85,124
Derivative financial instruments	14	142	–
Cash and cash equivalents	15	73,850	84,373
		153,009	182,661
Current liabilities			
Trade and other payables	16	50,441	74,312
Derivative financial instruments	14	2,205	–
Provisions	17	1,815	1,688
Proposed dividend		–	9,878
Taxation payable		203	198
		54,664	86,076
Net current assets		98,345	96,585
Total assets less current liabilities		194,093	193,850
Non-current liabilities			
Deferred taxation		425	425
Net assets		193,668	193,425
Capital and reserves			
Share capital	18	22,450	22,450
Reserves		171,218	170,975
Shareholders' funds		193,668	193,425

Approved by the board of directors on 8 September 2005

Michael John Green
Chairman

Lai Ka Tak, Patrick
Finance Director

Condensed Consolidated Cash Flow Statement

For the period ended 30 June 2005

	(Unaudited)	
	(As restated)	
	Six months ended	
	30 June 2005	30 June 2004
	HK\$'000	HK\$'000
Operating activities		
Loss from ordinary activities before taxation	(1,128)	(1,683)
Adjustment for:		
Depreciation of leasehold buildings and other fixed assets	958	2,121
Amortization of leasehold land and land use rights	515	514
Interest income	(460)	(180)
Interest expenses	11	38
Share of loss of an associate	277	471
Loss on disposal of fixed assets	39	–
Net unrealised fair value loss on derivative financial instruments	3,451	–
Employee share option benefits	305	194
Operating profit before changes in working capital	3,968	1,475
Decrease in amount due from an associate	711	1,744
(Increase)/decrease in inventories	(2,764)	1,918
Decrease/(increase) in construction contracts	739	(128)
Decrease in trade and other receivables	21,296	37,462
Decrease in trade and other payables	(23,871)	(28,889)
Increase/(decrease) in provisions	127	(341)
Cash generated from operations	206	13,241
Interest received	460	180
Interest paid	(11)	(38)
Hong Kong profits tax refund	–	1
Overseas tax paid	(317)	(439)
Net cash from operating activities	338	12,945
Investing activities		
Payment for purchase of fixed assets	(1,243)	(2,818)
Proceeds from sale of fixed assets	260	–
Net cash used in investing activities	(983)	(2,818)
Financing activities		
Dividend paid	(9,878)	(9,878)
Net cash used in financing activities	(9,878)	(9,878)
Net (decrease)/increase in cash and cash equivalents	(10,523)	249
Cash and cash equivalents at the beginning of the Period	84,373	72,672
Cash and cash equivalents at the end of the Period	73,850	72,921
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	73,850	72,921

Condensed Consolidated Statement of Changes in Equity

For the period ended 30 June 2005

	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Other properties revaluation reserve <i>HK\$'000</i>	Investment properties revaluation reserve <i>HK\$'000</i>	Employee share-based compensation reserve <i>HK\$'000</i>	Retained earnings <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2005, as previously reported	22,450	92,389	1,348	44	-	74,483	808	191,522
- effect of adopting								
- HKAS 17	-	-	(1,348)	-	-	3,251	-	1,903
- HKAS 40	-	-	-	(44)	-	44	-	-
- HKFRS 2	-	-	-	-	530	(530)	-	-
- opening adjustment of HKAS 39	-	-	-	-	-	1,388	-	1,388
At 1 January 2005, as restated	22,450	92,389	-	-	530	78,636	808	194,813
Loss attributable to shareholders	-	-	-	-	-	(1,450)	-	(1,450)
Employee share option benefits	-	-	-	-	305	-	-	305
At 30 June 2005	<u>22,450</u>	<u>92,389</u>	<u>-</u>	<u>-</u>	<u>835</u>	<u>77,186</u>	<u>808</u>	<u>193,668</u>
At 1 January 2004, as previously reported	22,450	92,389	609	-	-	81,872	808	198,128
- effect of adopting								
- HKAS 17	-	-	(609)	-	-	6,200	-	5,591
- HKFRS 2	-	-	-	-	114	(114)	-	-
At 1 January 2004, as restated	22,450	92,389	-	-	114	87,958	808	203,719
Loss attributable to shareholders	-	-	-	-	-	(2,129)	-	(2,129)
Employee share option benefits	-	-	-	-	194	-	-	194
At 30 June 2004	<u>22,450</u>	<u>92,389</u>	<u>-</u>	<u>-</u>	<u>308</u>	<u>85,829</u>	<u>808</u>	<u>201,784</u>

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.

Notes to the Interim Financial Information

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.

Notes to the Interim Financial Information

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 &			Total
	HKAS 39	HKAS 17	HKFRS 2	
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
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
	<u>–</u>	<u>460</u>	<u>–</u>	<u>460</u>
Increase in loss attributable to shareholders	(3,451)	(55)	(305)	(3,811)
	<u>(3,451)</u>	<u>(55)</u>	<u>(305)</u>	<u>(3,811)</u>
Increase in basic loss per share (cents)	(1.54)	(0.02)	(0.14)	(1.70)
	<u>(1.54)</u>	<u>(0.02)</u>	<u>(0.14)</u>	<u>(1.70)</u>
Increase in diluted loss per share (cents)	(1.54)	(0.02)	(0.14)	(1.70)
	<u>(1.54)</u>	<u>(0.02)</u>	<u>(0.14)</u>	<u>(1.70)</u>
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
	<u>–</u>	<u>442</u>	<u>–</u>	<u>442</u>
Increase in loss attributable to shareholders	–	(72)	(194)	(266)
	<u>–</u>	<u>(72)</u>	<u>(194)</u>	<u>(266)</u>
Increase in basic loss per share (cents)	–	(0.03)	(0.09)	(0.12)
	<u>–</u>	<u>(0.03)</u>	<u>(0.09)</u>	<u>(0.12)</u>
Increase in diluted loss per share (cents)	–	(0.03)	(0.09)	(0.12)
	<u>–</u>	<u>(0.03)</u>	<u>(0.09)</u>	<u>(0.12)</u>

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 &				Total
	HKAS 39	HKAS 40	HKAS 17	HKFRS 2	
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
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	Turnover	Operating
	HK\$'000	results	HK\$'000	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
	<i>HK\$'000</i>	<i>HK\$'000</i>
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
	<u>26,338</u>	<u>29,372</u>
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
	<u>496</u>	<u>656</u>
	<u>26,834</u>	<u>30,028</u>

Notes to the Interim Financial Information

7 FINANCE COSTS

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

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
	<i>HK\$'000</i>	<i>HK\$'000</i>
Company and subsidiaries		
Hong Kong profits tax	-	(1)
Overseas taxation	<u>322</u>	<u>447</u>
	322	446
The associate		
Hong Kong profits tax	<u>-</u>	<u>-</u>
	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	<u>17,601</u>	<u>25,696</u>	<u>43,297</u>
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	<u>17,601</u>	<u>25,710</u>	<u>43,311</u>

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)
	<u>–</u>	<u>–</u>

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
	63,828	85,124

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
Total trade and retention receivables	54,386	76,967
Prepayments and other receivables	9,442	8,157
	63,828	85,124

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 HK\$'000	Liabilities HK\$'000
Forward foreign exchange contracts – not qualified as hedges	142	2,205

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 <i>HK\$'000</i>	Employee leave entitlement <i>HK\$'000</i>	Total <i>HK\$'000</i>
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	<i>HK\$'000</i>	Number of shares	<i>HK\$'000</i>
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	<i>HK\$'000</i>	Number of shares	<i>HK\$'000</i>
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 <i>HK\$'000</i>	At 31 December 2004 <i>HK\$'000</i>	(Unaudited) At 30 June 2005 <i>HK\$'000</i>	At 31 December 2004 <i>HK\$'000</i>
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.