CHINA ASSETS (HOLDINGS) LIMITED

INTERIM REPORT 2001

INTERIM RESULTS

The Board of Directors of China Assets (Holdings) Limited (the "Company") has pleasure in reporting the following unaudited consolidated financial results of the Company and its subsidiaries (the "Group") for the six months ended 30th June 2001:

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE SIX MONTHS ENDED 30TH JUNE 2001

		Unaudited Six months ended 30th June	
		2001	2000
	Note	***US$***	*US$*
Turnover	2	**267,722**	260,739
Administrative expenses		**(693,377)**	(671,727)
Other operating income		**438,185**	403,768
Operating profit/(loss)	3	**12,530**	(7,220)
Share of profits of associated companies	2	**2,548,023**	2,544,888
Profit before taxation		**2,560,553**	2,537,668
Taxation	4	**(398,582)**	(423,401)
Profit attributable to shareholders		**2,161,971**	2,114,267
Earnings per share	5	**0.0291**	0.0284

CONDENSED CONSOLIDATED BALANCE SHEET
AS AT 30TH JUNE 2001 AND 31ST DECEMBER 2000

	Note	**Unaudited 30th June 2001 US$**	Audited 31st December 2000 US$
Investments in associated companies		**57,549,949**	55,679,969
Investments		**11,244,952**	11,162,788
Current assets			
Accounts receivable, other receivables and prepayment		**403,627**	321,967
Amount due from a related company	8	**137,669**	210,537
Bank balances and cash		**6,804,171**	6,794,378
		7,345,467	7,326,882
Current liabilities			
Accounts payable		**252,628**	434,977
Accrued expenses		**3,343**	107,000
		255,971	541,977
Net current assets		**7,089,496**	6,784,905
		75,884,397	73,627,662
Financed by:			
Share capital		**7,438,316**	7,438,316
Reserves	6	**68,446,081**	66,189,346
Shareholders' funds		**75,884,397**	73,627,662

CONDENSED CONSOLIDATED CASH FLOW STATEMENT
FOR THE SIX MONTHS ENDED 30TH JUNE 2001

	Unaudited Six months ended 30th June **2001** ***US$***	 2000 *US$*
Net cash outflow from operating activities	**(854,564)**	(626,156)
Net cash inflow from returns on investments and servicing of finance	**1,416,148**	1,016,450
Net cash (outflow)/inflow from investing activities	**(551,791)**	1,286,899
Increase in cash and cash equivalents	**9,793**	1,677,193
Cash and cash equivalents at 1st January	**6,794,378**	6,507,525
Cash and cash equivalents at 30th June	**6,804,171**	8,184,718
Analysis of the balances of cash and cash equivalents:		
Bank balances and cash	**6,804,171**	8,184,718

CONDENSED CONSOLIDATED STATEMENT OF RECOGNISED GAINS AND LOSSES FOR THE SIX MONTHS ENDED 30TH JUNE 2001

	Unaudited	
	Six months ended 30th June	
	2001	2000
	US$	*US$*
Exchange differences arising on translation of the accounts of associated companies	**94,764**	(206,754)
Net gains/(losses) not recognised in the profit and loss account	**94,764**	(206,754)
Profit for the period	**2,161,971**	2,114,267
Total recognised gains and losses	**2,256,735**	1,907,513

NOTES TO CONDENSED INTERIM ACCOUNTS

1 Basis of preparation and accounting policies

These unaudited consolidated condensed interim accounts are prepared in accordance with Hong Kong Statement of Standard Accounting Practice (“SSAP”) 25, Interim Financial Reporting, issued by the Hong Kong Society of Accountants.

These condensed interim accounts should be read in conjunction with the 2000 annual financial statements.

The accounting policies and methods of computation used in the preparation of these condensed interim accounts are consistent with those used in the annual accounts for the year ended 31st December 2000 except that the Group has changed certain of its accounting policies following its adoption of the following SSAPs issued by the Hong Kong Society of Accountants which are effective for accounting periods commencing on or after 1st January 2001:

SSAP 26: Segment reporting
SSAP 30: Business combinations

The changes to the Group’s accounting policies and the effect of adopting these new policies is set out below:

(a) SSAP 26: Segment Reporting

In Note 2 to these condensed interim accounts the Group has disclosed segment revenue and results as defined under SSAP 26. In accordance with the Group’s internal financial reporting the Group has determined that business segments be presented as the primary reporting format and geographical as the secondary reporting format. Comparative information has been given.

(b) SSAP 30: Business Combinations

Goodwill/ Negative goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary and associated company at the date of acquisition. Goodwill on acquisitions occurring on or after 1st January 2001 is included in intangible assets and is amortised using the straight-line method over its estimated useful life. Goodwill on acquisitions that occurred prior to 1st January 2001 was written off against reserves. The Group has taken advantage of the transitional provisions in SSAP 30 and such goodwill has not been retroactively capitalised and amortised. However any impairment arising on such goodwill is accounted for in accordance with SSAP 31 "Impairment of Assets".

Negative goodwill represents the excess of the fair value of the Group's share of the net assets acquired over the cost of acquisition. For acquisitions after 1st January 2001, negative goodwill is presented in the same balance sheet classification as goodwill.

For acquisitions prior to 1st January 2001, negative goodwill was taken directly to reserves on acquisition. The Group has taken advantage of the transitional provisions in SSAP 30 and such negative goodwill will not be restated.

The gain or loss on disposal of an entity includes the unamortised balance of goodwill relating to the entity disposed of or, for pre 1st January 2001 acquisitions, the related goodwill written off against reserves to the extent it has not previously been realised in the profit and loss account.

2 Turnover and segment information

The principal activity of the Group is investment holding carried out in Hong Kong and the People's Republic of China. Revenues recognized during the period are as follows:

	Unaudited Six months ended 30th June	
	2001	2000
	US$	*US$*
Turnover		
Interest income on bank deposits	**172,573**	260,739
Dividend income from listed investments	**95,149**	—
	267,722	260,739

An analysis of the Group's revenue and results for the period by business segments is as follows:

For the six months ended 30th June 2001

	Investment holdings	Pharmaceutical	PVC sheets manufacturing	Steel products manufacturing	Group
	US$	*US$*	*US$*	*US$*	*US$*
Segment revenue	**267,722**	**—**	**—**	**—**	**267,722**
Segment result	**654,867**	**—**	**—**	**—**	**654,867**
Unallocated income					**51,040**
Unallocated expenses					**(693,377)**
Operating profit					**12,530**
Share of profits of associated companies	**1,248,272**	**749,656**	**287,077**	**263,018**	**2,548,023**
Taxation	**(170,604)**	**(144,136)**	**(40,498)**	**(43,344)**	**(398,582)**
Profit attributable to shareholders					**2,161,971**

2 Turnover and segment information *(continued)*

For the six months ended 30th June 2000

	Investment holdings	Pharmaceutical	PVC sheets manufacturing	Steel products manufacturing	Group
	US$	*US$*	*US$*	*US$*	*US$*
Segment revenue	260,739	—	—	—	260,739
Segment result	664,507	—	—	—	664,507
Unallocated income					—
Unallocated expenses					(671,727)
Operating loss					(7,220)
Share of profits of associated companies	792,282	926,940	382,285	443,381	2,544,888
Taxation	(152,391)	(139,041)	(57,194)	(74,775)	(423,401)
Profit attributable to shareholders					2,114,267

The segment revenue and segment result of the Group were substantially derived from Hong Kong.

3 Operating profit/(loss)

Operating profit/(loss) is stated after crediting and charging the following:

	Unaudited Six months ended 30th June	
	2001	2000
	US$	*US$*
Crediting		
Administrative expenses		
Net exchange gain	**—**	9,758
Other operating income		
Gains on disposal of listed investments	**107,374**	385,533
Unrealised gains on listed investments	**279,771**	18,235
Charging		
Administrative expenses		
Management fee	**618,195**	618,668
Net exchange loss	**1,925**	—

4 Taxation

No provision for Hong Kong profits tax has been made in the accounts as the Company has no 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 to the consolidated profit and loss account represents:

	Unaudited Six months ended 30th June	
	2001	2000
	US$	*US$*
Share of taxation attributable to associated companies	**398,582**	423,401

5 Earnings per share

The calculation of earnings per share is based on the Group's profit attributable to shareholders of US$2,161,971 (2000: US$2,114,267), and on 74,383,160 (2000: 74,383,160) shares in issue during the period.

6 Reserves

Group

	Share premium	Capital reserve	Accumulated losses	Total
	US$	*US$*	*US$*	*US$*
At 1st January 2000	68,445,344	7,546,897	(10,564,601)	65,427,640
Profit attributable to shareholders	—	—	2,035,640	2,035,640
Exchange differences arising on translation of the accounts of associated companies	—	(215,234)	—	(215,234)
Share of post acquisition reserves of associated companies	—	(659,105)	—	(659,105)
Goodwill written off on additional investment in an associated company	—	(377,621)	—	(377,621)
Realisation of capital reserve upon disposal of an associated company to the profit and loss account	—	(21,974)	—	(21,974)
At 31st December 2000	68,445,344	6,272,963	(8,528,961)	66,189,346
Companies and subsidiaries	68,445,344	8,034,132	(25,514,883)	50,964,593
Associated companies	—	(1,761,169)	16,985,922	15,224,753
At 31st December 2000	68,445,344	6,272,963	(8,528,961)	66,189,346

6 Reserves *(continued)*

Group *(continued)*

	Share premium US$	Capital reserve US$	Accumulated losses US$	Total US$
At 1st January 2001	68,445,344	6,272,963	(8,528,961)	66,189,346
Profit attributable to shareholders	—	—	2,161,971	2,161,971
Exchange differences arising on translation of the accounts of associated companies	—	94,764	—	94,764
At 30th June 2001	68,445,344	6,367,727	(6,366,990)	68,446,081
Companies and subsidiaries	68,445,344	8,034,132	(25,058,034)	51,421,442
Associated companies	—	(1,666,405)	18,691,044	17,024,639
At 30th June 2001	68,445,344	6,367,727	(6,366,990)	68,446,081

7 Commitments

Capital commitments outstanding at 30th June 2001 and 31st December 2000 not provided for in the accounts were as follows:

	Group	
	30th June 2001 ***US$***	31st December 2000 *US$*
Contracted but not provided for	**320,941**	743,800

The commitments relate to an investment in the People's Republic of China (the "PRC").

8 Related party transactions

(a) During the period and in the normal course of its business, the Company paid management fee totalling US$618,195 (2000:US$618,668) to China Assets Management Limited ("CAML"), a related company.

Mr Lao Yuan Yi, the chairman of the Company, Mr Tsui Che Yin, Frank and Mr Shi Yucheng, Charlie, executive directors of the Company, are also the chairman, the president and the managing director of CAML respectively. Mr Yeung Wai Kin is also the non-executive director of both the Company and CAML. Mr Tsui Che Yin, Frank is also a shareholder of CAML.

(b) The balance with CAML of US$137,669 (31st December 2000: US$210,537) mainly represents the amount of cash received from the toll roads on behalf of the Company. The balance is kept in a bank account of CAML and is repayable, with the interest income thereon, at the request of the Company.

DIVIDEND

The Directors do not recommend the payment of an interim dividend (2000: US$Nil).

NET ASSET VALUE

The consolidated net asset value per share of the Group at 30th June 2001 was US$1.0202 (31st December 2000: US$0.9898).

DIRECTORS' INTERESTS IN EQUITY OR DEBT SECURITIES

At 30th June 2001, the beneficial interests of the Directors and their associates in the issued share capital of the Company or any of its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance")) as recorded in the register maintained by the Company under section 29 of the SDI Ordinance or as notified to the Company were as follows:

Name of director	Number of ordinary shares		
	Personal interests	Family interests	Corporate interests
Yeung Wai Kin	15,000	—	—

Save as disclosed above, at no time during the period, the Directors and chief executives or their associates had any interest in, or had been granted, or exercised, any rights to subscribe for the shares in the Company or its associated corporations required to be disclosed pursuant to the SDI Ordinance.

Save as disclosed above, at no time during the period was the Company or its subsidiaries 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.

SUBSTANTIAL SHAREHOLDERS

The register of substantial shareholders maintained under section 16(1) of the SDI Ordinance shows that as at 30th June 2001, the Company had been notified of the following substantial shareholders' interests, being 10% or more of the Company's issued share capital.

Name of shareholder	Number of ordinary shares
Golad Resources Limited *(Note)*	25,162,866
Chen Dayou	8,405,000

Note: Both First Shanghai Investments Limited ("FSIL") and First Shanghai Direct Investments Limited ("FSDI") have corporate interests in the issued share capital of the Company through their direct or indirect share interests in Golad Resources Limited. Golad Resources Limited is wholly owned by FSDI, which is, in turn, wholly owned by FSIL.

PURCHASE, SALE OR REDEMPTION OF SHARES

The Company has not redeemed any of its shares during the period. 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

The Directors are not aware of any information that would indicate that the Company was not in compliance with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited during the period.

AUDIT COMMITTEE

The Company has set up an Audit Committee with written terms of reference since December 1998. The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal control and financial reporting matters including a review of the unaudited interim accounts for the period. The committee comprises two independent non-executive directors and a non-executive director.

INVESTMENT REVIEW

A net profit of US$2,161,971 was recorded for the six months ended 30th June 2001. This was in line with that recorded for the corresponding period last year.

The Chinese economy recorded a stable growth in the first half. Both contracted and utilized direct foreign investments jumped sharply, reflecting renewed foreign interest in China's investment prospects.

In the course of a comprehensive corporate restructuring among the state-owned enterprises, the business operating environment in China became even tougher. As excess capacities were exposed, corporate managements opted to reduce product prices in order to boost sales so as to avoid idle production facilities. This has resulted in a general price drop across most business sectors. The effect on corporate profits was reflected in the performance of some of the Group's investee companies. It is believed that this situation will continue for some time before the excess capacities can be fully absorbed.

Negotiations for the early settlement of the toll road investments in Zhongshan continued to make progress. The Guangdong Provincial Government has approved the restructuring plan submitted by the Zhongshan Municipal Government. The signing of a settlement agreement is likely to be concluded in the near future.

Shandong Lukang Pharmaceutical Co., Ltd. ("Lukang") plans to issue new shares to finance new development projects. Subject to market conditions, the new issue will substantially increase Lukang's net asset value.

Wuxi Huasheng Precision Alloy Material Co., Ltd. ("Huasheng"), which was formed to take advantage of preferential tax treatment, proceeded smoothly. Huasheng will undertake the future development programmes of Wuxi Huate Steel Strip Co., Ltd. ("Huate"). It is hoped that it will be the future growth engine for Huate. Efforts will also be made to explore the possibility of engaging in any capital market activities including an IPO for Huate.

Shenzhen SPEC Plastics Holdings Co., Ltd. has just started the one-year orientation period that is required of any company wishing to seek an IPO in China.

At 30th June 2001, the Group had long-term investments, at cost less provisions made, of US$40.35 million (31st December 2000: US$40.03 million) and listed investments at market value of US$2.21 million (31st December 2000: US$1.76 million). A review of the Group's investments is set out below.

LONG-TERM INVESTMENTS

First Shanghai Investments Ltd. ("FSIL")

FSIL recorded a satisfactory overall growth in net profits with mixed results among different business divisions. The children's products business continued to benefit from the increase in export sales and achieved a satisfactory growth in profit. A sluggish Hong Kong stock market contained profit growth of the financial services division. Performance of other business divisions remained stable. During the period, FSIL disposed of two investments, an ASP company and a property holding company respectively, at a profit. As a result of the disposals, the overall performance of FSIL improved markedly for the first half.

Genius Technology International Ltd. ("GTI")

Shenzhen Genius Information Technology Co. Ltd. ("SGI"), which is 90% held by GTI, continued to develop. Turnover during the period increased significantly, more than double that of the same period last year. A loss was incurred but was smaller than the previous corresponding period. A major management reshuffle and a business restructuring were carried out recently whereby a new management team was set up to streamline the operations and enhance the core business. Unprofitable departments will be closed or sold. It is expected that operating costs will be further reduced.

Shandong Lukang Pharmaceutical Co., Ltd. ("Lukang")

During the first half, competition in the antibiotics market remained intense in China. Product prices continued to drop while raw material costs rose at the same time. Lukang fell victim to this situation and recorded a drop in overall profit margin. During the period, Lukang managed to maintain an operating profit similar to the previous corresponding period through cutting marketing and advertising expenses. In accordance with the new PRC accounting standard, an adjustment of Rmb10 million (approximately US$1.20 million) was made for the provision of diminution in value of fixed assets. This affected the overall performance of Lukang.

In the second half, Lukang will concentrate on market developments to fully absorb the additional capacity created by the newly completed projects.

Shenzhen SPEC Plastics Holdings Co., Ltd. ("SPPC")

During the period, SPPC's traditional business was adversely impacted by the direct competition of a Taiwanese-funded new PVC sheet manufacturing company. However, as the building material business and the operation in Zhuzhou Plastics Co., Ltd. reported satisfactory results, SPPC's operating results indeed improved slightly for the first half. In accordance with the new PRC accounting standard, an adjustment of Rmb2.9 million (approximately US$0.35 million) was made for the provision of diminution in value of fixed assets, which mainly arose from obsolete equipment or unused machinery. As a result, the overall performance of SPPC dropped marginally during the period.

As competition in traditional products remains severe, SPPC will shift more resources to high-margin products and explore new markets in Northern China to maintain profitability.

Suzhou Universal Chain Transmission Co., Ltd. ("SUCTC")

The industrial chains market was still depressed. Through adjusting products mix from traditional products to new products, SUCTC managed to achieve a profitable result for the period. More efforts will be put in the second half to control the production costs.

Wuxi Huate Steel Strip Co., Ltd. ("Huate")

As more steel strips manufacturers entered the market, competition became more intense. These new entrants all eyed on Huate whose outstanding performance had indeed induced new competitors. As supply increased, product price was pressed downwards. More favourable credit terms had to be extended to old customers in order to retain them and maintain market share. Despite this, Huate still achieved a decent profit for the first half.

During the period, Huate successfully obtained the qualification of "Advanced Technology Enterprise" which will allow Huate to enjoy an extension of the tax holiday (50% profit tax reduction) for 3 more years.

In the second half, Huate will put more efforts in cost control and new market developments.

Wuxi Huasheng Precision Alloy Material Co., Ltd. ("Huasheng")

Huasheng was established by the same group of shareholders of Huate to carry out Huate's new business of stainless steel and alloy material manufacturing. It was established to take advantage of the preferential tax treatment extended to new enterprises. The total registered capital of Huasheng is US$2.5 million of which the Company will contribute US$0.74 million for its 29.75% interests. As at 30th June, 2001, an aggregate of US$1.2 million had been contributed by all the shareholders using the dividends received from Huate.

Trial production of new products has already commenced in August. Efforts will be made to improve product quality and develop new markets in the second half.

Zhongshan Dongfu Road and Bridge Investment Co., Ltd. ("Dongfu")

In view of the slow payments, a provision of US$2.37 million was made in the 1998 final accounts for the outstanding guaranteed returns of 1997 and 1998. In 1999, provisions of US$871,311 and US$500,000 were made for the outstanding amortisation amount and the diminution in value respectively.

The Company continued to receive regular payments out of the toll revenue during the period. Progress continued to be made in the negotiation with the Zhongshan Municipal Government regarding an early settlement of this investment. The audit by the Provincial Audit Bureau was completed recently. The relevant government departments of the Zhongshan Municipal Government have submitted the final restructuring proposal to the Guangdong Provincial Government for approval. Once approval is obtained, negotiation on the settlement arrangement will start.

Zhongshan Nangang Road and Bridge Co., Ltd. ("Nangang")

In view of the slow payments, a provision of US$1.80 million was made in the 1998 final accounts for the outstanding guaranteed returns of 1997 and 1998. In 1999, provisions of US$639,948 and US$2,000,000 were made for the outstanding amortisation amount and the diminution in value respectively.

The Company continued to receive lump sum payments out of the toll revenue during the period. Progress continued to be made in the negotiation with the Zhongshan Municipal Government regarding an early settlement of this investment. The audit by the Provincial Audit Bureau was completed recently. The relevant government departments of the Zhongshan Municipal Government have submitted the final restructuring proposal to the Guangdong Provincial Government for approval. Once approval is obtained, negotiation on the settlement arrangement will start.

INVESTMENTS FOR WHICH FULL PROVISIONS HAD BEEN MADE

Dezhou Zhenhua Glass Co., Ltd. ("DZGCL")

The sheet glass market remained stable but price of traditional products dropped considerably during the period. In order to avoid excess competition, DZGCL shifted to producing more sheet glass with higher technical production requirements. Despite this, turnover dropped slightly compared to the previous corresponding period. A loss was incurred for the first half mainly due to the continuous rise in cost of raw material such as soda ash and coal.

Sanshui Yoright Plastic and Electrical Co., Ltd. ("Yoright")

According to the agreement reached with Keep Mount (Holdings) Limited ("Keep Mount'), the parent company of Grandbliss Development Limited through which the investment in Yoright was made, Keep Mount would repay the Company's investment cost plus interest over a period of three years ended 31st December 1998. As at the end of 1999, a total of US$2.78 million had been recovered.

The Company reached another agreement with Ultragrace Limited ("Ultragrace"), the official window company of the Sansui Municipal Government in Hong Kong and a related company of Keep Mount in October 2000, Ultragrace agreed to pay a total of HK$2.1 million (approximately US$0.27 million) to the Company for settlement of all outstanding amounts due from Keep Mount. After an initial sum of HK$200,000 (approximately US$25,650) was received, the Company did not receive any further payments from Ultragrace.

The former responsible director and general manager of Ultragrace was involved in litigations in Hong Kong and found absconded. A demand letter was sent to Ultragrace for immediate payment but with no response. We were told that the succeeding director whom we had contacted recently died in a car accident. The Company is now trying to contact other responsible staff in Ultragrace and also considering possible lawsuit against it.

Wuxi Tristar Iron & Steel Co., Ltd. ("Tristar")

In accordance with a lease agreement signed in 1999, the whole production facilities of Tristar were leased to a local steel maker for a period of 10 years.

According to the Chinese partner, the leasee had already invested US$10 million, mainly spent on the acquisition of an imported electric furnace. As the negotiation with the foreign supplier took longer time than expected, the whole renovation work was slightly behind schedule. It is expected that trial production will commence in the last quarter of the year by which time the leasing fee will start to be accrued.

Wuxi United Iron & Steel Co., Ltd. ("WUISL")

WUISL benefited from the stable steel market in the first quarter and started to produce at full capacity (excluding the two production departments already closed). Overall production efficiency also improved after completion of the electric furnace's modification work. During the period, price of scrap steel increased considerably hence affecting profit margin. Despite this, a growth in profit was recorded for the first half.

Since the second quarter, the selling price of belt steel started to drop while the price of scrap steel continued to rise. This hurt the profit margin of WUISL. In view of that, management decided to adjust the production mix to producing more continuously-cast billets which were in better demand.

Zhejiang Huayu Crafts Weaving & Dyeing Co., Ltd. ("Huayu")

The market continued to be sluggish and showed no sign of improvement. In view of the present situation, Huayu's management decided to maintain the necessary production only and leave more resources for the future. Recently, the PRC shareholder contemplated an organisation restructure and appointed professional to perform asset evaluation for both Huayu and the holding company.

WRITE-OFF OF INVESTMENTS

Due to substantial and continuous losses, the Company had made full provisions for two of its investments, namely Foshan Nanwah Construction Material Co., Ltd. ("Nanwah") and Jinan Lingyan Cement Co., Ltd. ("JLCC") in 1996 and 1997 respectively. No improvement was seen thereafter and both of them remained in a negative net worth position. In February 2001, JLCC went into official liquidation. Pending further actions of the creditor banks, Nanwah may go into liquidation at any time. In view of the dim possibility of recovering any assets from the liquidation, it was resolved that the two investments be written off. As full provisions had been made for these investments already, the Company would not incur further losses from the write-off.

LISTED SHARES

During the period, the Company realised a trading profit of US$107,374. The shares held at 30th June 2001 have a carrying value of US$1,934,542 and a market value of US$2,214,313. An unrealised profit of US$279,771 was included in the profit and loss account.

LIQUIDITY AND FINANCIAL RESOURCES

The Group maintained a similar financial position as at the end of 2000. As at 30th June 2001, the Group had cash and bank balances of US$6.80 million (31st December 2000:US$6.79 million) and no debt. Most of the Group's investments are located in China where the RMB is the official currency and the exchange rate of which remained stable during the first half.

PROSPECTS

While the Chinese economy is growing steadily, uncertain global economic conditions are likely to have an impact on it and will render the operating environment more challenging. It is expected that with China's imminent entry into the WTO, more foreign investments will flow into China. On the one hand this will help the Chinese economy, on the other hand market competition will become more intense.

The Group's investment strategy remained intact. The focus will continue to be on projects with a technology edge and a solid track record. However, owing to volatile market conditions and economic uncertainties, the Group will continue to adopt a prudent investment strategy.

The Group will move in line with changing investment focus and sentiments and will try to team up with strategic investors when making a new investment.

Despite the challenge ahead, we believe that China offers exciting market opportunities particularly at a time when there is an economic slowdown globally. The Group will position itself to take advantage of the new investment tide.

By Order of the Board
Lao Yuan Yi
Chairman

Hong Kong, 4th September 2001