CHINA ASSETS (HOLDINGS) LIMITED

Interim Report 2002

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 2002:

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the six months ended 30th June 2002

		Unaudited	
		Six months ended 30th June	
		2002	2001
	Note	***US$***	*US$*
Turnover	*2*	**51,132**	267,722
Administrative expenses		**(732,152)**	(693,377)
Other operating expenses		**(91,696)**	—
Other operating income		**3,000,211**	438,185
Operating profit	*3*	**2,227,495**	12,530
Share of profits of associated companies	*4*	**483,314**	2,548,023
Profit before taxation		**2,710,809**	2,560,553
Taxation	*5*	**(569,097)**	(398,582)
Profit attributable to shareholders		**2,141,712**	2,161,971
Earnings per share	*6*	**0.0288**	0.0291

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30th June 2002 and 31st December 2001

	Note	**Unaudited 30th June 2002** *US$*	Audited 31st December 2001 *US$*
Investments in associated companies		**60,831,271**	60,942,034
Investments		**11,964,974**	9,556,123
		72,796,245	70,498,157
Current assets			
Accounts receivable, other receivables and prepayments		**98,973**	222,626
Amount due from a related company	*9*	**107,471**	98,501
Bank balances and cash		**7,503,245**	7,537,620
		7,709,689	7,858,747
Current liabilities			
Accounts payable and accrued expenses		**699,804**	723,516
		699,804	723,516
Net current assets		**7,009,885**	7,135,231
Total assets less current liabilities		**79,806,130**	77,633,388
Financed by:			
Share capital		**7,438,316**	7,438,316
Reserves		**72,367,814**	70,195,072
Shareholders' funds		**79,806,130**	77,633,388

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30th June 2002

	Unaudited	
	Six months ended 30th June	
	2002	2001
	US$	*US$*
Net cash outflow from operating activities	**(565,411)**	(854,564)
Net cash inflow from investing activities	**531,036**	864,357
(Decrease)/increase in cash and cash equivalents	**(34,375)**	9,793
Cash and cash equivalents at 1st January	**7,537,620**	6,794,378
Cash and cash equivalents at 30th June	**7,503,245**	6,804,171
Analysis of the balances of cash and cash equivalents:		
Bank balances and cash	**7,503,245**	6,804,171

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th June 2002

	Unaudited				
	Share Capital	**Share premium**	**Capital reserve**	**Accumulated losses**	**Total**
	US$	***US$***	***US$***	***US$***	***US$***
At 1st January 2002	**7,438,316**	**68,445,344**	**7,856,982**	**(6,107,254)**	**77,633,388**
Exchange differences arising on translation of the accounts of associated companies	**—**	**—**	**(9,553)**	**—**	**(9,553)**
Net losses not recognized in the profit and loss account	**—**	**—**	**(9,553)**	**—**	**(9,553)**
Profit attributable to shareholders	**—**	**—**	**—**	**2,141,712**	**2,141,712**
Realisation of exchange differences upon disposal of partial interests in an associated company to the profit and loss account	**—**	**—**	**40,583**	**—**	**40,583**
At 30th June 2002	**7,438,316**	**68,445,344**	**7,888,012**	**(3,965,542)**	**79,806,130**
At 1st January 2001	7,438,316	68,445,344	6,272,963	(8,528,961)	73,627,662
Exchange differences arising on translation of the accounts of associated companies	—	—	94,764	—	94,764
Net gains not recognized in the profit and loss accounts	—	—	94,764	—	94,764
Profit attributable to shareholders	—	—	—	2,161,971	2,161,971
At 30th June 2001	7,438,316	68,445,344	6,367,727	(6,366,990)	75,884,397

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 ("HKSA").

These condensed interim accounts should be read in conjunction with the 2001 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 2001 except that the Group has adopted the following new/revised SSAPs issued by the HKSA which are effective for accounting periods commencing on or after 1st January 2002:

SSAP 1 (revised)	:	Presentation of financial statements
SSAP 11 (revised)	:	Foreign currency translation
SSAP 15 (revised)	:	Cash flow statements
SSAP 25 (revised)	:	Interim financial reporting
SSAP 33	:	Discontinuing operations
SSAP 34	:	Employee benefits

The changes to the Group's accounting policies and the major effect of adopting these new/revised policies is set out below:

SSAP 11 (revised): Foreign currency translation

The balance sheet of subsidiaries and associated companies expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the profit and loss is translated at an average rate. Exchange differences are dealt with as a movement in reserves.

In prior periods, the profit and loss account of foreign enterprises was translated at closing rate. This is a change in accounting policy, however, the translation of the profit and loss account of foreign enterprises in prior periods has not been restated as the effect of this change is not material to the current and prior periods.

2. Turnover and segment information

The principal activity of the Group is investment holding in Hong Kong and the Mainland China. Revenues recognized during the period arose only on the Company's Hong Kong investments as follows:

	Unaudited Six months ended 30th June	
	2002	2001
	US$	*US$*
Turnover		
Interest income	**51,132**	172,573
Dividend income from listed investments	**—**	95,149
	51,132	267,722

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

For the six months ended 30th June 2002

	Investments holding	**Manufacturing and distribution of pharmaceutical products**	**Manufacturing and distribution of PVC sheets**	**Manufacturing and distribution of steel products**	**Toll roads operation**	**Total**
	US$	***US$***	***US$***	***US$***	***US$***	***US$***
Segment revenues	**51,132**	—	—	—	—	**51,132**
Segment results	**542,679**	—	—	—	—	**542,679**
Write-back of provision for impairment losses on investments in toll roads	—	—	—	—	**2,500,000**	**2,500,000**
Unallocated income						**8,664**
Unallocated expenses*						**(823,848)**
Operating profit						**2,227,495**
Share of profits/(losses) of associated companies	**1,075,670**	**1,014,273**	**(1,760,043)**	**153,414**	—	**483,314**
Taxation	**(183,556)**	**(334,710)**	**(30,954)**	**(19,877)**	—	**(569,097)**
Profit attributable to shareholders						**2,141,712**

For the six months ended 30th June 2001

	Investments holding	Manufacturing and distribution of pharmaceutical products	Manufacturing and distribution of PVC sheets	Manufacturing and distribution of steel products	Toll roads operation	Total
	US$	*US$*	*US$*	*US$*	*US$*	*US$*
Segment revenues	267,722	—	—	—	—	267,722
Segment results	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

* Included in the balance is the management fee of US$615,592 (2001: US$618,195) paid to a related company *(note 9)*

There are no sales or other transactions between the business segments. The segment revenues and segment results of the Group were substantially derived from Hong Kong.

3. Operating profit

Operating profit is stated after crediting and charging the following:

	Unaudited Six months ended 30th June	
	2002	2001
	US$	*US$*
Crediting		
Other operating income		
Write-back of provision for impairment losses on investments in toll roads	**2,500,000**	—
Gains on disposal of listed investments	**164,355**	107,374
Unrealised gains on listed investments	**327,192**	279,771
Charging		
Administrative expenses		
Management fee paid to a related company *(note 9)*	**615,592**	618,195
Net exchange loss	**6,595**	1,925
Other operating expenses		
Loss on disposal of partial interests in an associated company	**91,696**	—

4. Share of profits of associated companies

The share of profits of associated companies is stated after charging the Group's share of provision for contingent liabilities of an associated company of US$2,000,000 *(note 8)*.

5. Taxation

No provision for Hong Kong profits tax has been made in the interim 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 condensed consolidated profit and loss account represents:

	Unaudited Six months ended 30th June	
	2002	2001
	US$	*US$*
Share of taxation attributable to associated companies	**569,097**	398,582

6. **Earnings per share**

The calculation of earnings per share is based on the Group's profit attributable to shareholders of US$2,141,712 (2001: US$2,161,971), and on 74,383,160 (2001: 74,383,160) shares in issue during the period.

7. **Commitments**

As at 30th June 2002 and 31st December 2001, the Group has the following capital commitments:

	30th June 2002	31st December 2001
	US$	*US$*
Contracted but not provided for *(Note)*	**302,500**	320,941

The Group's share of capital commitments of an associated company not included in the above are as follows:

	30th June 2002	31st December 2001
	US$	*US$*
Contracted but not provided for	**437,581**	419,765

Note : The commitments relate to the unpaid capital of an investment in Mainland China.

8. **Contingent liabilities**

As at 30th June 2002, outstanding corporate guarantees amounted to approximately US$29.72 million was given by Shenzhen SPEC Plastics Holdings Co. Ltd. ("SPPC"), an associated company of the Group, against certain bank loans granted to Shenzhen Petrochemical Industry (Group) Co. Ltd. ("SPEC") and its group companies. SPEC is the holding company of SPPC. The Group has been in negotiation with the management of SPPC and SPEC to resolve these unauthorized corporate guarantees. SPEC recently proposed to swap its interests in two companies ("Asset Swap"), which have an aggregate book value of approximately RMB44 million (approximately US$5.3 million) as at 31st December 2001 with the Group's investments in SPPC. The Group aims to enter into an agreement with SPEC and complete the Asset Swap by the year end. For prudence sake, a provision of US$2 million was made against the investment in the interim accounts to take into account a possible disparity between the actual value and book value of the Asset Swap. As at 30th June 2002, the Group's maximum exposure to these contingent liabilities amounted to approximately US$4.6 million, representing the Group's share of net asset value of SPPC less provision of US$2 million.

9. Related party transactions

(a) During the period and in the normal course of its business, the Company paid management fee totalling US$615,592 (2001: US$618,195) 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, both executive directors of the Company and Mr. Yeung Wai Kin, a non-executive director of the Company, are also directors of CAML. Mr. Tsui Che Yin, Frank is also a shareholder of CAML.

(b) The balance with CAML of US$107,471 (31st December 2001: US$98,501) 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 (2001: US$Nil).

NET ASSET VALUE

The consolidated net asset value per share of the Group at 30th June 2002 was US$1.0729 (31st December 2001: US$1.0437).

DIRECTORS' INTERESTS IN EQUITY OR DEBT SECURITIES

At 30th June 2002, 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:

	Number of ordinary shares		
Name of director	**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 (including their spouse and children under 18 years of age) 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 2002, the Company had been notified of the following substantial shareholders' interests, being 10% or more of the Company's issued share capital. These interests are in addition to those disclosed above in respect of the directors and chief executive.

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 (the "Listing Rules") 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 three independent non-executive directors and a non-executive director.

INVESTMENT REVIEW

A net profit of US$2,141,712 was recorded for the six months ended 30th June 2002, in line with that recorded for the corresponding period last year.

The economic environment in China was relatively stable in the first half with both contracted and utilized foreign investments continuing to grow. Corporate managements continued to reduce investments to fully utilize excess production capacities. The WTO effect just accelerated this corporate action as Chinese companies underwent a re-engineering process in an attempt to increase efficiency in anticipation of direct competition from foreign companies in a level playing field.

The Group's investee companies were also undergoing a restructuring process. Local governments intended to unload their investments by transferring their stakes to management or third party private entrepreneurs. This was to lessen the government's burden of caring the workers and employees.

Just before the end of the first half, the Group entered into an agreement with the Chinese partner ("Buyer") of Suzhou Universal Chain Transmission Co., Ltd. ("Suzhou Chain") whereby the Buyer acquired 3.33% out of the Group's 33.3% interest in Suzhou Chain. The Group will be able to realize some cash from this investment which has not been very profitable due to severe market conditions. The reduction of the Group's interest in Suzhou Chain from 33.3% to 30% will enable the Group to strictly follow the new Listing Rules requirements without having to apply for a waiver.

The intended disposal of the Group's investment in the two toll roads in Zhongshan also made significant progress. Negotiation has reached the final stage for fixing the definitive terms on total consideration and time and means of payment. With due prudence, we would expect to conclude the agreement in the second half. Barring any unexpected changes, we should be able to recoup at least the original cost of investment. The Group continued to receive part of the toll income since the inception of the investments. After due consideration of the recent positive developments, the Group has written back the previous provision for impairment losses of US$2.5 million during the interim period.

The planned new share issue of Shandong Lukang Pharmaceutical Co., Ltd. ("Lukang") has been delayed. Although the China Securities Regulatory Commission ("CSRC") had already approved the new share issue, a recently promulgated new policy left the planned issue in suspense. Lukang could not meet the new requirements, along with some 20 other listed companies which have been approved to issue additional shares. The CSRC, however, was prepared to consider these cases individually and allow the new shares issue to go ahead in a controlled time frame. The size will also be reduced. Lukang's management expect that the issue will take place around early December with the size being scaled down by about 30%.

An agreement was also entered into with the management (the "Management") of Zhejiang Huayu Crafts Weaving & Dyeing Co., Ltd. ("Huayu") whereby the Management which just acquired the Chinese party's stake in Huayu will acquire all of the foreign investors' interest at around book cost. A first payment has been received, with the balance being settled by the year end. There will be a write-back by the Group.

The financial problems faced by Shenzhen SPEC Plastics Holdings Co., Ltd. ("SPPC") were caused by the unauthorized guarantees issued by SPPC for and under undue influence of its parent company, Shenzhen Petrochemical Industry (Group) Co., Ltd. ("SPEC"). SPEC recently proposed to swap some clean assets under its control for the Group's investments in SPPC so as to reduce the potential loss of the Group. It is hoped that an agreement can be reached with SPEC before the year end. For prudence sake, a provision of US$2 million was made against this investment.

The Company is managed by China Assets Management Limited and no individual was employed directly by the Company or its subsidiaries during the period.

At 30th June 2002, the Group had long-term investments, at cost less provisions, of US$40.49 million (31st December 2001: US$39.84 million) and listed investments at market value of US$1.65 million (31st December 2001: US$1.55 million). A review of the Group's investments is set out below.

LONG-TERM INVESTMENTS

First Shanghai Investments Ltd. ("FSIL")

The overall performance of FSIL remained stable in the first half. The half-yearly profit, however, was lower than that of the corresponding period last year, which was boosted by the gains on disposal of two investments. During the period, the financial services division benefited from the active IPO market and recorded satisfactory results. The children's products division also recorded improved results. Business of other divisions was in line with expectation.

A mandate has been awarded to the merchant bank to prepare for an IPO for Goodbaby Child Products Co., Ltd. During the period, the Group acquired a total of 10.22 million shares in FSIL, increasing its shareholding from 21.04% to 21.94%.

As at 30th June 2002, the share of net asset value of FSIL by the Group amounted to US$26.94 million, representing 33.76% of the net asset value of the Group.

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

Lukang recorded a satisfactory growth in both turnover and gross profit due to increased production capacity of the newly completed projects. However, as the effective profit tax rate returned to 33% as a result of the cessation of the local tax rebate, profit after tax fell year-on-year. Financial expenses also jumped substantially as interests expenses could no longer be capitalized into the projects.

Despite the recent change of policy which imposed more stringent conditions for issuing additional shares, Lukang was given the green light for its new shares offer as its application had already been approved by the CSRC before the new policy was announced. The size of the new offer however might be reduced to comply with the new rules. Lukang is now in discussion with the relevant authority in the hope of an early completion of the new shares offer.

As at 30th June 2002, the share of net asset value of Lukang by the Group amounted to US$25.25 million, representing 31.64% of the net asset value of the Group.

Genius Technology International Ltd. ("GTI")

The securities markets in China was rather dull in the first half. Most securities companies continued to cut back expenditures. This had a negative impact on Shenzhen Genius Information Technology Co. Ltd. ("SGI") which is 90% held by GTI. During the period, a new management team was appointed to SGI. In order to remain competitive and cope with market changes, SGI underwent a comprehensive restructuring. Headcount was cut by one-third and all non-core businesses were terminated. This would reduce monthly overhead by more than 30%. The positive effect has begun to emerge and despite the restructuring, turnover for the first half was only marginally lower year-on-year.

Recent developments showed signs of market improvements. As the IT bubble burst, companies like SGI that have a solid operating base and tangible products will be able to survive and benefit from the consolidation. As a result, the Group increased its shareholding from 11.48% to 13.20% by way of subscription of additional shares in GTI during the period. The proceeds from issuing new shares will be applied to the development of SGI's existing core businesses.

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

Due to intensive competition in traditional PVC sheet products, SPPC readjusted its products mix and increased production of PVC chips for drugs packaging, which provided a higher profit margin. As working capital was under pressure, SPPC scaled down its raw material trading business. As a result, a drop was recorded on both turnover and profit for the half year.

Meanwhile, the Group continued to negotiate with SPPC and its holding company — SPEC to resolve the problem caused by the unauthorized guarantees. SPEC recently proposed to swap whatever clean assets were left for the Group's investments in SPPC so that the Group would not be exposed to the risk of a huge book loss. The assets include two companies in which SPEC has interests. The book value of SPEC's share in these two companies is reported to be around RMB44 million as at 31st December 2001. The Group aims to enter into an agreement with SPEC and complete the asset swap proposal by the year end. For prudence sake, a provision of US$2 million was made against this investment. At the same time, the relevant government authorities are still considering the proposals submitted by SPEC to comprehensively resolve the problem of SPEC.

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

Suzhou Chain continued to suffer from a sluggish industrial chains market and reported a fall on both turnover and profit for the period. Export sales grew slightly but most sales orders were of ad hoc nature and were in smaller quantity. This made Suzhou Chain difficult to schedule a long term production plan to optimize efficiency.

During the period, the Group reached an agreement to dispose of 3.33% interests to the PRC shareholder of Suzhou Chain. Upon completion of the disposal, the Group will receive a total of RMB620,000 (approximately US$75,000), which translates into a 23 times price-earning multiple of the actual earnings of 2001. Loss on disposal of this partial interests of US$91,000 has been accounted for in the consolidated accounts for the period.

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

Production and operation remained stable during the period. Due to severe competition in the region, Huate recorded a drop in both turnover and profit for the period. However, as Huate continued to expand its customer base and reduce operating costs, it achieved a better than expected half-yearly result.

Trial production for new stainless steel products continues with satisfactory progress. As Huate gradually establishes its foothold in the stainless steel market, it will gradually increase production volume in order to maximize production efficiency. According to the preliminary plan, Huate will shift back the whole stainless steel production to Wuxi Huasheng Precision Alloy Material Co., Ltd in the second half.

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 in stainless steel and alloy material products production. The initial purpose of setting up Huasheng was 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 a 29.75% interests. At the end of 30th June 2002, an aggregate of US$1.48 million had been contributed by all the shareholders using the dividends received from Huate.

Trial production has already commenced in Huate during the period and more efforts will be made in the development of new markets in the second half. Huasheng is now in the process of installing additional production equipment which will enable Huasheng to achieve a better product mix and also enhance production capacity.

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

Owing to the renovation work on the 105 National Highway during the period, more traffic was diverted to Dongfu Road. As a result, Dongfu recorded a significant growth in toll revenue in the first half.

The Group is guaranteed a minimum return on this investment. Due to the delay in payment, a provision of US$2.37 million had been made in 1998 for the outstanding guaranteed returns. In 1999, a further provision of US$0.87 million and US$0.5 million had been made for the outstanding amortisation returns and for diminution in value respectively. The Group continued to receive part of the monthly toll road revenue as a regular payment throughout the period.

Discussion on the early settlement of the investment achieved satisfactory progress and has reached the final stage of fixing the detailed settlement terms. It is proposed that the investment be terminated and that the Group's 35% interests in Dongfu be sold to a company under the control of the municipal government. Although the exact consideration is still under negotiation, the Group expects to recoup at least the initial investment cost. The Group expects the disposal will be completed in the second half. After due consideration of the recent positive developments, the Group considers it appropriate to write back a previous provision of US$0.5 million against the investment cost.

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

Nangang also benefited from the renovation work on the 105 National Highway nearby and recorded growth in toll revenue for the period.

The Group is guaranteed a minimum return on this investment. Due to the delay in payment, a provision of US$1.80 million had been made in 1998 for the outstanding guaranteed returns. In 1999, a further provision of US$0.66 million and US$2 million had been made for the outstanding amortisation returns and for diminution in value respectively. The Group continued to receive part of the monthly toll road revenue as a regular payment throughout the year.

Discussion on the early settlement of the investment achieved satisfactory progress and has reached the final stage of fixing the detailed settlement terms. It is proposed that the investment be terminated and that the Group's 29.23% interests in Nangang be sold to a company under the control of the municipal government. Although the exact consideration is still under negotiation, the Group expects to recoup at least the initial investment cost. The Group expects the disposal will be completed in the second half. After due consideration of the recent positive developments, the Group considers it appropriate to write back a previous provision of US$2 million against the investment cost.

INVESTMENTS FOR WHICH FULL PROVISIONS HAD BEEN MADE

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

No improvement was seen in the domestic sheet glass market which was in excess supply. During the period, Zhenhua successfully reduced both production and operation costs. However, as product price plunged by nearly one-third over the corresponding period, Zhenhua still recorded a substantial loss for the first half.

In consideration of the deteriorating situation, management is now studying different alternatives for Zhenhua to continue its future development. A full provision of US$3.2 million was made against this investment in 1998 in view of the dim future for the sheet glass industry.

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 will repay the Group's investment cost plus interest over a period of three years ended 31st December 1998. As at 31st December 1999, a total of US$2.78 million had been recovered. After a new settlement agreeement was signed in October 2000, Ultragrace Limited ("Ultragrace") which was a related company of Keep Mount and the official window company of the Sansui Municipal Government in Hong Kong, agreed to pay for the outstanding amount owed by Keep Mount over 11 instalments and a further amount of HK$200,000 (approximately US$25,650) was paid to the Group. Up to the end of 2000, a total of US$2.81 million had been receieved from Keep Mount and Ultragrace.

During the period, the Group had not received any response or any further payment from Ultragrace. As the chance of settlement is remote, the Group has appointed a lawyer to start legal action and a liquidation petition will be filed against Ultragrace.

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

According to a lease agreement signed in December 1999, the whole production plant and supporting facilities of Tristar had been leased to a local steel maker. From 2001 onwards, Tristar would receive annual lease fee starting from RMB5 million (approximately US$0.6 million) and gradually increasing to RMB11 million (US$1.3 million) over a lease period of 10 years.

During the period, Tristar continued to receive quarterly lease income of around RMB1.24 million (approximately US$149,380) from the lessee. The lease income will be first applied to set off previous accumulated losses before it can be used to distribute to shareholders. A full provision of US$6.95 million had been made against this investment after two provisions of US$3.475 million each were provided in 1997 and 1998 respectively.

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

In the first quarter, the hot rolled steel market was gloomy resulting in United incurring hefty losses. Going into the second quarter, the market improved slightly thus enabling United to recoup the previous losses and report a profitable result for the first half.

During the period, United continued to develop more varieties of steel products. These new products were in better demand and had contributed to the overall profitability.

The local government recently replaced the original general manager of the PRC shareholder with the general manager of another steel mill which is also the current lessee of Tristar. The new manager will also become the chairman of both United and Tristar. It is understood that both United and Tristar will remain independent operations for a certain period but an overall restructuring will be inevitable. The Group will discuss with the PRC shareholder about any opportunities to exit from the investments.

Due to substantial accumulated losses, a full provision of US$7.38 million had been made against this investment in 1998. Although United had returned to profitability for the past few years and the accumulated losses have been substantially reduced, the Group will not consider writing back any provision unless United resumes the payment of dividend.

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

The fabrics market was still in the doldrums. During the period, Huayu continued to incur operating losses, which were further aggravated by write-off of obsolete stocks and production equipment.

In view of this, the Group initiated discussions with the new PRC shareholder, which used to be Huayu's management who bought out the PRC shareholders' stake. After extensive negotiations, the new shareholder finally agreed to acquire all of the foreign shareholders interests in Huayu at a consideration of RMB2.6 million (approximately US$317,600) with the sales and purchase agreement being signed in July. The Group is now preparing the transfer document in connection with the disposal. Upon successful completion of the disposal, the Group will be able to write back part of the provision previously made against the investment. A full provision of US$0.74 million had been made in 1998.

LISTED SHARES

During the period, the Company achieved a profit on disposal of US$164,355. The shares held at 30th June 2002 have a carrying value of US$1,322,270 and a market value of US$1,649,462. An unrealised profit of US$327,192 was included in the consolidated profit and loss account.

LIQUIDITY AND FINANCIAL RESOURCES

The Group continued to maintain a healthy financial position for the period. As at 30th June 2002, the Group had cash and bank balances of US$7.50 million (31st December 2001: US$7.54 million) and no debt. Most of the Group's investments are located in Mainland China where the RMB is the official currency and the exchange rate of which remained stable during the period.

PROSPECTS

As disclosed in previous reports, the Group continued to implement the policy of finding an exit for existing investments while looking for new opportunities in accordance with the new investment policy.

The Group increased its investments in Genius Technology International Limited ("GTI") to enable GTI's major operating subsidiary to consolidate its core businesses to focus and expand on the redefined core products.

In July 2002, the Group also invested HK$2 million (approximately US$0.26 million) in the convertible notes issued by Sino Infotech Holdings Limited which has extensive contacts and a solid base in the financial publishing and information business in China.

In July 2002, the investment committee approved an investment of US$1.2 million in Communication Over The Air Inc. ("COTA"), a company engaged in the provision of mobile data services in China. The founders of COTA have a solid track record of successfully building and selling an internet portal in China. This investment is in line with our new investment strategy of investing in companies offering value-added services in conjunction with other strategic partners.

We remain confident that ample investment opportunities will emerge during China's transition to a full market economy. Every effort will be made to take advantage of new investment targets as they arise. At the same time, the Group will continue to make effort to find an exit for the existing investments.

By Order of the Board
Lao Yuan Yi
Chairman

Hong Kong, 13th September 2002