# CHINA ASSETS (HOLDINGS) LIMITED

INTERIM REPORT **2003**

# 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 2003:

## CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

*For the six months ended 30th June 2003*

| | | Unaudited Six months ended 30th June | |
|---|---|---|---|
| | | **2003** | 2002 |
| | *Note* | ***US$*** | *US$* |
| Turnover | *2* | **131,782** | 51,132 |
| Administrative expenses | | **(729,562)** | (732,152) |
| Other operating expenses | | **(754,282)** | (91,696) |
| Other operating income | | **7,105,169** | 3,000,211 |
| Operating profit | *3* | **5,753,107** | 2,227,495 |
| Share of results of associated companies | *2* | **2,102,508** | 483,314 |
| Profit before taxation | | **7,855,615** | 2,710,809 |
| Taxation | *4* | **(669,075)** | (569,097) |
| Profit attributable to shareholders | | **7,186,540** | 2,141,712 |
| Earnings per share | *5* | **0.0966** | 0.0288 |

## CONDENSED CONSOLIDATED BALANCE SHEET

*As at 30th June 2003 and 31st December 2002*

| | Note | **Unaudited 30th June 2003 US$** | Audited 31st December 2002 US$ |
|---|---|---|---|
| Non-current assets | | | |
| Investments in associated companies | | **60,788,894** | 56,526,487 |
| Investments | | **2,013,285** | 8,362,662 |
| | | **62,802,179** | 64,889,149 |
| Current assets | | | |
| Other receivables and prepayments | | **187,091** | 149,551 |
| Amount due from a related company | *7(b)* | **40,098** | 13,229 |
| Other investments | | **2,326,410** | 3,080,692 |
| Bank balances and cash | | **24,966,474** | 14,109,535 |
| | | **27,520,073** | 17,353,007 |
| Current liabilities | | | |
| Accounts payable | | **1,764,779** | 759,254 |
| Accrued expenses | | **5,529** | 97,650 |
| | | **1,770,308** | 856,904 |
| Net current assets | | **25,749,765** | 16,496,103 |
| Total assets less current liabilities | | **88,551,944** | 81,385,252 |
| Financed by: | | | |
| Share capital | | **7,438,316** | 7,438,316 |
| Reserves | | **81,113,628** | 73,946,936 |
| Shareholders' funds | | **88,551,944** | 81,385,252 |

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

*For the six months ended 30th June 2003*

| | Unaudited | |
|---|---|---|
| | **Six months ended 30th June** | |
| | **2003** | 2002 |
| | ***US$*** | *US$* |
| Net cash inflow/(outflow) from operating activities | **705,763** | (565,411) |
| Net cash inflow from investing activities | **10,151,176** | 531,036 |
| Increase/(decrease) in cash and cash equivalents | **10,856,939** | (34,375) |
| Cash and cash equivalents at 1st January | **14,109,535** | 7,537,620 |
| Cash and cash equivalents at 30th June | **24,966,474** | 7,503,245 |
| Analysis of the balances of cash and cash equivalents: | | |
| Bank balances and cash *(note)* | **24,966,474** | 7,503,245 |

*(note)* Included in the bank balances and cash of the Group are Renminbi deposits and cash in Mainland China of US$16,951,382 (31st December 2002: US$7,610,656). Renminbi is not a freely convertible currency.

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*For the six months ended 30th June 2003*

| | Unaudited | | | | |
|---|---|---|---|---|---|
| | Share capital *US$* | Share premium *US$* | Capital reserve *US$* | Retained profits/ (accumulated losses) *US$* | Total *US$* |
| At 1st January 2003 | **7,438,316** | **68,445,344** | **8,025,767** | **(2,524,175)** | **81,385,252** |
| Exchange differences arising on translation of the accounts of associated companies | **—** | **—** | **(19,790)** | **—** | **(19,790)** |
| Net losses not recognized in the profit and loss account | **—** | **—** | **(19,790)** | **—** | **(19,790)** |
| Profit attributable to shareholders | **—** | **—** | **—** | **7,186,540** | **7,186,540** |
| Realisation of exchange differences upon dilution of interests in an associated company to the profit and loss account | **—** | **—** | **(58)** | **—** | **(58)** |
| At 30th June 2003 | **7,438,316** | **68,445,344** | **8,005,919** | **4,662,365** | **88,551,944** |
| 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 |

## 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 2002 annual accounts.

The accounting policies and methods of computation used in the preparation of these condensed accounts are consistent with those used in the annual accounts for the year ended 31st December 2002 except that the Group has changed certain of its accounting policies following its adoption of the revised SSAP 12 "Income Taxes" issued by the HKSA which is effective for accounting periods commencing on or after 1st January 2003.

The changes to the Group's accounting policies and the effect of adopting this revised policy are set out below:

**Deferred taxation**

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided for on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

In prior year, deferred taxation was accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset was expected to be payable or recoverable in the foreseeable future. The adoption of the revised SSAP 12 does not have material financial impact to the Group's financial statements.

### 2 Turnover and segment information

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

| | **Unaudited Six months ended 30th June** | |
|---|---|---|
| | **2003** | 2002 |
| | ***US$*** | *US$* |
| Turnover | | |
| Interest income | **106,278** | 51,132 |
| Dividend income from listed investments | **25,504** | — |
| | **131,782** | 51,132 |

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 2003** | | | | | |
|---|---|---|---|---|---|---|
| | **Investment holding** *US$* | **Manufacturing and distribution of pharmaceutical products** *US$* | **Manufacturing and distribution of PVC sheets** *US$* | **Manufacturing and distribution of steel products** *US$* | **Toll roads operation** *US$* | **Total** *US$* |
| Segment revenue | **131,782** | **—** | **—** | **—** | **—** | **131,782** |
| Segment results | **527,038** | **—** | **—** | **—** | **—** | **527,038** |
| Net gain on disposal of investments in toll roads | **—** | **—** | **—** | **—** | **3,316,904** | **3,316,904** |
| Provision for impairment loss on other investments | **—** | **—** | **(754,282)** | **—** | **—** | **(754,282)** |
| Deemed profit on dilution of interests in an associated company | **—** | **3,393,009** | **—** | **—** | **—** | **3,393,009** |
| Unallocated expenses* | **—** | **—** | **—** | **—** | **—** | **(729,562)** |
| Operating profit | | | | | | **5,753,107** |
| Share of profits/(losses) of associated companies | **1,021,784** | **1,459,336** | **—** | **(378,612)** | **—** | **2,102,508** |
| Taxation | **(161,103)** | **(489,118)** | **—** | **(18,854)** | **—** | **(669,075)** |
| Profit attributable to shareholders | | | | | | **7,186,540** |

| | For the six months ended 30th June 2002 | | | | | |
|---|---|---|---|---|---|---|
| | Investment holding *US$* | Manufacturing and distribution of pharmaceutical products *US$* | Manufacturing and distribution of PVC sheets *US$* | Manufacturing and distribution of steel products *US$* | Toll roads operation *US$* | Total *US$* |
| Segment revenue | 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 |

* Included in the unallocated expenses is the management fee of US$584,131 (2002: US$615,592) paid to a related company *(note 7(a))*

There are no sales or other transactions between the business segments. The segment revenue 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 | |
|---|---|---|
| | **2003** | 2002 |
| | ***US$*** | *US$* |
| **Crediting** | | |
| *Included in other operating income* | | |
| Net gain on disposal of investments in toll roads | **3,316,904** | — |
| Write-back of provision for impairment losses on investments in toll roads | **—** | 2,500,000 |
| Deemed profit on dilution of interests in an associated company | **3,393,009** | — |
| Gains on disposal of listed investments | **373,687** | 164,355 |
| Unrealised gains on listed investments | **21,569** | 327,192 |
| **Charging** | | |
| *Included in administrative expenses* | | |
| Management fee paid to a related company *(note 7(a))* | **584,131** | 615,592 |
| Net exchange loss | **3,864** | 6,595 |
| *Included in other operating expenses* | | |
| Provision for impairment losses on other investments | **754,282** | — |
| Loss on disposal of partial interests in an associated company | **—** | 91,696 |

## 4 Taxation

No provision for Hong Kong profits tax has been made in the condensed 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 | |
|---|---|---|
| | **2003** | 2002 |
| | ***US$*** | *US$* |
| Share of taxation attributable to associated companies | **669,075** | 569,097 |

There was no material unprovided deferred taxation for the period.

**5 Earnings per share**

The calculation of earnings per share is based on the Group's profit attributable to shareholders of US$7,186,540 (2002: US$2,141,712), and on 74,383,160 (2002: 74,383,160) shares in issue during the period.

**6 Commitments**

As at 30th June 2003 and 31st December 2002, the Group has the following capital commitments:

| | **30th June 2003** ***US$*** | 31st December 2002 *US$* |
|---|---|---|
| Contracted but not provided for *(note a)* | — | 237,869 |

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

| | **30th June 2003** ***US$*** | 31st December 2002 *US$* |
|---|---|---|
| Contracted but not provided for | **334,393** | 895,686 |

*note* (a) The commitments for 2002 were related to the unpaid capital of an investment in Mainland China.

(b) The Group and the Company did not have any other material commitments at 30th June 2003 (2002: Nil).

**7 Related party transactions**

(a) During the period and in the normal course of its business, the Company paid management fee totalling US$584,131 (2002: US$615,592) to China Assets Investment Management Limited ("CAIML"), a related company.

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

(b) The balance with CAIML of US$40,098 (31st December 2002: US$13,229) represented the prepaid management fee for the period ended 30th June 2003. The balance had been used to offset against the management fee payable by the Company for the third quarter of 2003.

## DIVIDEND

The Directors do not recommend the payment of an interim dividend (2002: US$Nil).

## NET ASSET VALUE

The consolidated net asset value per share of the Group at 30th June 2003 was US$1.1905 (31st December 2002: US$1.0941).

## DIRECTORS' INTERESTS AND SHORT POSITIONS IN THE SHARES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 30th June 2003, the interests and short positions of the directors and chief executives of the Company in the shares of the Company or its associated corporations (within the meaning of the Securities and Futures Ordinance (Cap. 571) ("SFO")) as recorded in the register maintained by the Company under section 352 of the SFO or as notified to the Company were as follows:

| Name of Director | Type of interest | Entity in which the Director has interests | Number of ordinary shares held | Percentage of issued share capital |
|---|---|---|---|---|
| Mr. Yeung Wai Kin | Personal | the Company | 15,000 | 0.02% |

Save as disclosed above, no other directors or chief executives of the Company had any beneficial or legal interests in any shares of the Company or its associated corporations as recorded in the register maintained by the Company. All the interests described above represent long position in the shares of the Company and no short positions were recorded in the register maintained by the Company as at 30th June 2003.

## SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

The register of substantial shareholders' interests maintained under section 336 of the SFO reveals that as at 30th June 2003, the Company had been notified of the following interests of the substantial shareholders of the Company, being 5% or more of the Company's issued shares that carry a right to vote at general meetings of the Company. These interests are in addition to those described above in respect of the Company's directors and chief executives.

| Name | Type of interest | Number of ordinary shares held | Percentage of issued share capital |
|---|---|---|---|
| First Shanghai Investments Limited ("FSIL") *(Note 1)* | Corporate | 25,162,866 | 33.83% |
| First Shanghai Direct Investments Limited ("FSDI") *(Note 1)* | Corporate | 25,162,866 | 33.83% |
| Golad Resources Limited *(Note 1)* | Corporate | 25,162,866 | 33.83% |
| Chen Dayou | Personal | 8,405,000 | 11.30% |
| Deutsche Bank Aktiengesellschaft *(Note 2)* | Corporate | 5,480,000 | 7.37% |
| Deutsche Bank AG, London Branch *(Note 2)* | Corporate | 5,480,000 | 7.37% |

*Note 1:* Both FSDI and FSIL 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.

*Note 2:* Deutsche Bank Aktiengesellschaft has corporate interest in the issued share capital of the Company through its direct 100% interest in Deutsche Bank AG, London Branch.

Save as disclosed above, no other shareholders of the Company had any beneficial or legal interests in 5% or more of the Company's issued shares that carry a right to vote in general meetings of the Company as recorded in the register maintained by the Company. All the interests described above represent long position in the shares of the Company and no short positions, deemed interests or derivative interests were recorded in the register maintained by the Company as at 30th June 2003.

## 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 OF THE LISTING RULES

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 at any time during the six months ended 30th June 2003.

## 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

The Group generated a net profit of US$7,186,540 for the six months ended 30th June 2003 (the "Period"), representing 236% increase over the same period of 2002.

This impressive result was due to the following major accomplishments during the Period.

In May 2003, the Group designated its wholly-owned subsidiary in China to receive RMB76.9 million (approximately US$9.3 million) which represented its entire divestment proceeds from Zhongshan Dongfu Road and Bridge Investment Company Limited ("Dongfu") in PRC. Currently, Dongfu is undergoing a liquidation process, after which it would assist the Group in seeking the relevant PRC government approvals to convert the RMB proceeds to the U.S. dollars. The Dongfu divestment contributed a net profit of US$3.3 million to the Group.

Shangdong Lukang Pharmaceutical Company Limited ("Lukang") reported a 45% increase in net profit during the Period. In June 2003, Lukang successfully raised a total of RMB360 million (approximately US$43.5 million) through the issuance of 47 million new shares. As a result, the Group was able to record a deemed profit of US$3.4 million on dilution of interests in Lukang from 17.45% to 15.46%.

Communication Over The Air Inc. ("COTA") continued to deliver satisfactory result and comfortably outperformed the budget during the Period. It is expected that COTA would be able to achieve decent profitability in 2003.

In June 2003, conditional sales and purchase agreements (the "Agreement") were entered between the Group and the management of both Wuxi Huate Steel Strip Company Limited ("Huate") and Wuxi Huasheng Precision Alloy Material Company Limited ("Huasheng"). The Group would receive RMB17 million (approximately US$2.05 million) for selling the entire equity interests in both Huate and Huasheng. By August 2003, the sales were completed as the Wuxi MOFTEC and Industry & Commercial Bureau approved the shareholding changes. As a result, the Group designated its wholly-owned subsidiary in China to receive the entire RMB17 million in July 2003.

During the Period, the Group continued to pursue the enforcement of the settlement agreement signed with Shenzhen Petrochemical Industry (Group) Co. Ltd. ("SPEC"), under which SPEC would swap its 5% equity interests in Shenzhen Electra Air-conditioning Company Ltd. (the "Air-conditioning Company") and its 90.57% equity interests of Shenzhen SPEC Biopharmaceutical Industry Company Ltd. ("BCL") with the Group's interests in Shenzhen SPEC Plastics Holdings Co., Ltd.. At the same time, the Group also actively looked for buyers for the proposed equity interests in the two aforesaid companies. In June 2003, a supplementary settlement agreement was signed with SPEC and the majority shareholder of the Air-conditioning Company in which the majority shareholder agreed to acquire the 5% interests in the Air-conditioning Company at a consideration of US$1.07 million, payable upon completion of relevant procedures for the transfer. In August 2003, an agreement was also signed with an independent buyer who agreed to acquire entire 90.57% interests of BCL at a consideration of US$1.0 million, payable in 3 installments over the next 18 months. As the disposal of BCL was made through the sale of a wholly-owned subsidiary of the Group ("Subsidiary") before the Subsidiary would complete its shareholding registration of BCL in PRC, the Company would not be in breach of the Listing Rules of 21.04 (3)(a). As a result of the disposal, further provision of US$0.75 million was provided against the investment.

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

At 30th June 2003, the Group had long-term investments, at cost less provisions made, of US$27.73 million (31st December 2002: US$33.30 million) and listed investments at market value of US$0.81 million (31st December 2002: US$1.50 million). A review of the Group's investments is set out below.

**LONG-TERM INVESTMENTS**

*First Shanghai Investments Ltd. ("FSIL")*

Benefited from additional income from partial disposal of interests in an associated company, FSIL reported an improved overall result during the first half of 2003.

Despite the negative effect from SARS, business of FSIL's child products remained largely unaffected and reported stable growth. The corporate finance and stockbroking business also achieved better performance as a result of a more active stock market and increased fund raising activities in Hong Kong. FSIL has completed three sponsorships of IPO in the first half of 2003. Performance of other divisions also remained stable during the period.

The property project and hotel project located in Shanghai Zhangjiang High-tech Park and Kunshan Economy & Technology Development District respectively were progressing smoothly. It is expected that the projects can provide a stable stream of income to FSIL upon completion.

As at 30th June 2003, the share of net asset value of FSIL by the Group amounted to US$27.79 million, representing 31.38% of the net asset value of the Group.

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

Lukang achieved a satisfactory interim result for 2003, reporting an increase of 45% in net profit over the same period last year. During the period, profit margin of Lukang grew as a result of improvement in production technology and reduction of production cost. Overall result was also boosted by reduction of interest expenses due to repayment of bank loans of over RMB100 million in 2002.

Regarding the new share issue, Lukang finally received green light from the China Securities Regulatory Commission and had successfully raised a total of RMB360 million (gross) (approximately US$43.5 million) by issuing 47 million new shares in June 2003. As a result of the new shares issue, the Group's equity interest in Lukang was diluted from 17.45% to 15.46% and a deemed profit on dilution of interests in Lukang of US$3.4 million had been recorded in the interim accounts.

As at 30th June 2003, the share of net asset value of Lukang by the Group amounted to US$30.37 million, representing 34.29% of the net asset value of the Group.

*Communication Over The Air Inc. ("COTA")*

COTA continued to report satisfactory performance and outperformed the original budget during the period.

As the value-added service in wireless industry continued to grow rapidly in China, business of COTA also benefited and recorded substantial growth. Despite severe competition, COTA continued to maintain a leading position in GPRS and MMS services among China Mobile's entire service providers. As a result, COTA started to achieve net profit in January 2003 and had since maintained profitable operation and net cash inflow during the period.

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

In accordance with the court judgment and the settlement agreement signed with Shenzhen Petrochemical Industry (Group) Co. Ltd. ("SPEC"), the Group continued to pursue the transfer of two equity interests from SPEC, being 5% of Shenzhen Electra Air-conditioning Company Ltd. (the "Air-conditioning Company") and 90.57% of Shenzhen SPEC Biopharmaceutical Industry Company Ltd. ("BCL") during the period. At the same time, the Group also actively looked for buyers for the proposed equity interests in the two aforesaid companies.

After repeated efforts, the Group signed a supplementary settlement agreement with SPEC and the majority shareholder of the Air-conditioning Company on 4th June 2003 in which the majority shareholder agreed to acquire the 5% interests in the Air-conditioning Company at a consideration of US$1.07 million, payable upon completion of relevant procedures for the equity transfer from SPEC to the majority shareholder. The Group also succeeded in reaching an agreement with an independent buyer who agreed to acquire the entire 90.57% interests of BCL at a consideration of US$1.0 million, payable in 3 instalments over the next 18 months. A sale and purchase agreement was signed on 24th August 2003. The disposal of BCL was made through the sale of a wholly-owned subsidiary of the Group ("Subsidiary") before the Subsidiary would complete its shareholding registration of BCL in PRC. Accordingly, the Company will not be in breach of the Listing Rules of 21.04 (3)(a). As a result of the disposal, further provision of US$0.75 million was provided against the investment.

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

Despite intense competition and rising cost of raw materials, both turnover and net profit of Suzhou Chain improved over the previous corresponding period. During the period, Suzhou Chain succeeded in expanding export sales and adjusting its products mix to produce more specialised industrial chain products. In order to achieve a higher profit margin, Suzhou Chain had arranged to subcontract some low-margin orders to external manufacturers and at the same time utilized its own capacity to produce high-margin orders. The management of Suzhou Chain believed that such arrangement could improve the overall performance in long term.

As a matter of prudence, provisions of US$934,000 had been made against Suzhou Chain.

*Wuxi Huate Steel Strip Co., Ltd. ("Huate")*
*Wuxi Huasheng Precision Alloy Material Co., Ltd. ("Huasheng")*

In pursuit of its long term strategy to withdraw from industries which have limited growth prospects, the Group started negotiation with the management of Huate and Huasheng during the period in respect of a disposal of all its entire interests in the two companies.

A conditional sale and purchase agreement was signed on 18th June 2003 of which the management of Huate and Huasheng agreed to acquire all of the Group's 29.75% interest in both Huate and Huasheng at a consideration of RMB17 million (approximately US$2.05 million). The disposal was conditional upon obtaining approval from the relevant authorities in connection with the disposal and transfer of shares.

As a result of the conditional disposal, a provision of US$0.56 million was provided against the investments in the interim consolidated accounts. The disposal was completed in August of 2003 after approval was obtained from the relevant authority.

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

The PRC shareholder finally resolved its frozen shares problem and signed a settlement agreement with the PRC buyer and the Group on 25th April, 2003. A total of RMB76.9 million (approximately US$9.3 million) was received by the Group in May 2003, which was then placed into the bank account of its wholly-owned subsidiary in the PRC. According to the agreement, the RMB proceeds would be converted into US$ and remitted to the Group once the relevant approval was obtained from the State Administration of Foreign Exchange.

As a result of the disposal, a profit of US$3.3 million was recorded in the interim accounts.

**INVESTMENTS FOR WHICH FULL PROVISIONS HAD BEEN MADE**

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

Although the sheet glass market became more stable during the period, turnover of Zhenhua dropped after Zhenhua commenced a major overhaul in June. Production is expected to resume in August and return to normal in the last quarter. As the products price was still in the low level, Zhenhua incurred a substantial loss for the first half.

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.

*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 (approximately US$1.3 million) over a lease period of 10 years.

During the period, the Group continued to negotiate with different interested buyers in connection with a disposal of its entire interest in Tristar.

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")*

Benefited from a robust steel market, United recorded an increase in both turnover and net profit for the first half year. During the period, United also developed more varieties of steel products which were in better demand and had contributed to the overall profitability.

The Group continued to negotiate with different interested buyers in connection with a disposal of its entire interest in United.

Due to substantial accumulated losses, a full provision of US$7.38 million had been made against this investment in 1998.

**LISTED SHARES**

During the period, the Company achieved a profit on disposal of US$373,687. The shares held at 30th June 2003 had a carrying value of US$791,716 and a market value of US$813,285. An unrealised profit of US$21,569 was included in the consolidated profit and loss account.

## LIQUIDITY AND FINANCIAL RESOURCES

The Group continued to maintain a sound financial position for the period. As at 30th June 2003, the Group had cash and bank balances of US$24.97 million (31st December 2002: US$14.11 million), of which US$16.95 million had been held in the RMB equivalent in form of the PRC banks deposit (31st December 2002: US$7.61 million) held in Mainland China, and no debt. RMB is not a freely convertible currency. Most of the Group's investments are located in Mainland China where the RMB exchange rate remained stable during the period.

## PROSPECTS

Looking forward, the Group remains reasonably optimistic for the remainder of 2003 and beyond, as the Group has been continuously able to execute its restructuring strategy effectively, while at the same time identify more promising investment opportunities with decent growth potential and superb managerial execution capability.

Currently, the Group is in a more in-depth discussion with potential investors for its equity interests in both Wuxi United Iron & Steel Company Limited and Wuxi Tristar Iron & Steel Company Limited. The discussion with the potential investors relating to the sales of the Group's equity interest in Suzhou Universal Chain Transmission Company Limited has been held on a regular basis as well.

By Order of the Board
**Lao Yuan Yi**
*Chairman*

Hong Kong, 19th September 2003