



CHINA NORTHERN ENTERPRISES INVESTMENT FUND LIMITED

(Incorporated in the Cayman Islands with limited liability)



INTERIM REPORT 2003



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INTERIM RESULTS

The board of directors (the "Board") of China Northern Enterprises Investment Fund Limited announces the unaudited condensed consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 31 December 2003 (the "Period"). The condensed consolidated interim financial statements (the "Interim Financial Statements") have been reviewed by the Company's audit committee (the "Audit Committee").

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

FOR THE SIX MONTHS ENDED 31 DECEMBER 2003

		Six months ended 31 December 2003 (Unaudited) HK\$	From 13 November 2002 (date of incorporation) to 31 December 2002 (Unaudited) HK\$
	<i>Note</i>		
TURNOVER	2	35,775,040	—
Cost of sales		(34,105,791)	—
Gross profit		1,669,249	—
Other revenue	2	35,405	—
Other income		79,046	—
Operating and administrative expenses		(2,512,495)	—
LOSS BEFORE TAXATION	3	(728,795)	—
Taxation	4	—	—
LOSS ATTRIBUTABLE TO THE SHAREHOLDERS		(728,795)	—
DIVIDEND	5	—	—
LOSS PER SHARE			
Basic	6	(3.8 cents)	—
Diluted	6	N/A	—

CONDENSED CONSOLIDATED BALANCE SHEET

AT 31 DECEMBER 2003

		31 December 2003	30 June 2003
		(Unaudited)	(Audited)
	Note	HK\$	HK\$
NON-CURRENT ASSETS			
Fixed assets	7	626,104	–
Interest in associated company	8	450,000	–
Non-trading securities	9	6,390,000	–
		<hr/> 7,466,104 <hr/>	<hr/> – <hr/>
CURRENT ASSETS			
Trading securities	10	13,318,640	–
Deposits and other receivables		5,396,468	50,000
Bank balances		19,848,665	5,432
		<hr/> 38,563,773 <hr/>	<hr/> 55,432 <hr/>
CURRENT LIABILITIES			
Accruals and other payables		60,000	20,000
Amount due to the shareholder		–	186,760
		<hr/> 60,000 <hr/>	<hr/> 206,760 <hr/>
NET CURRENT ASSETS/(LIABILITIES)		<hr/> 38,503,773 <hr/>	<hr/> (151,328) <hr/>
NET ASSETS/(LIABILITIES)		<hr/> 45,969,877 <hr/>	<hr/> (151,328) <hr/>
CAPITAL AND RESERVES			
Issued capital	11	530,000	–
Reserves	12	45,439,877	(151,328)
		<hr/> 45,969,877 <hr/>	<hr/> (151,328) <hr/>
SHAREHOLDERS' FUNDS		<hr/> 45,969,877 <hr/>	<hr/> (151,328) <hr/>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 31 DECEMBER 2003

	Issued capital (Unaudited) HK\$	Share premium (Unaudited) HK\$	Accumulated losses (Unaudited) HK\$	Total (Unaudited) HK\$
At 13 November 2002 (date of incorporation) and 31 December 2002	—	—	—	—
At 1 July 2003	—	—	(151,328)	(151,328)
Issuance of shares	530,000	52,470,000	—	53,000,000
Share issue expenses	—	(6,150,000)	—	(6,150,000)
Loss attributable to the shareholders for the Period	—	—	(728,795)	(728,795)
At 31 December 2003	530,000	46,320,000	(880,123)	45,969,877

CONDENSED CONSOLIDATED CASH FLOW STATEMENT
FOR THE SIX MONTHS ENDED 31 DECEMBER 2003

	Six months ended 31 December 2003 (Unaudited) HK\$	From 13 November 2002 (date of incorporation) to 31 December 2002 (Unaudited) HK\$
Net cash outflow from operating activities	(1,051,286)	—
Net cash outflow from investing activities	(25,768,721)	—
Net cash inflow from financing activities	46,663,240	—
INCREASE IN CASH AND CASH EQUIVALENTS	19,843,233	—
CASH AND CASH EQUIVALENTS AT 1 JULY 2003/13 NOVEMBER 2002	5,432	—
CASH AND CASH EQUIVALENTS AT 31 DECEMBER 2003/2002	19,848,665	—
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Bank Balances	19,848,665	—

NOTES TO THE INTERIM FINANCIAL STATEMENTS*FOR THE SIX MONTHS ENDED 31 DECEMBER 2003***1. PRINCIPAL ACCOUNTING POLICIES****(a) Basis of preparation**

The Interim Financial Statements of the Group for the Period have been prepared in accordance with Hong Kong Statement of Standard Accounting Practice ("SSAP") 25 "Interim financial reporting" issued by the Hong Kong Society of Accountants.

The accounting policies adopted in the preparation of these Interim Financial Statements are consistent with those used in the Company's audited financial statements for the period ended 30 June 2003 except for the adoption of SSAP 12 (Revised) "Income taxes" which is effective for the first time for the accounting period commencing on or after 1 January 2003.

The adoption of SSAP 12 (Revised) has had no significant effect on the results for the current or prior accounting periods.

(b) Basis of consolidation

The Interim Financial Statements include the financial statements of the Group for the six months ended 31 December 2003. The results of subsidiaries acquired during the period are consolidated from their effective dates of acquisition. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Subsidiaries are those entities in which the Company, directly or indirectly controls the composition of the board of directors, controls more than half of the voting power or holds more than half of the issued share capital.

(c) Interest in associated company

An associated company is a company not being a subsidiary or a joint venture, in which an equity interest is held for the long-term and significant influence is exercised in its management. The consolidated profit and loss account includes the Group's share of the post-acquisition results of its associated company for the period. In the consolidated balance sheet, interests in associates are stated at the Group's share of the net assets of the associates plus goodwill on acquisition in so far as it has not already been amortised, less any identified impairment loss.

(d) Fixed assets

Fixed assets are stated at cost less accumulated depreciation and impairment losses.

Depreciation is provided to write off the cost of fixed assets over their estimated useful lives at 25% per annum using the straight line method.

The gain or loss arising from the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in the income statement.

(e) Investment in securities*(i) Non-trading securities*

Investments which are held for non-trading purpose are stated at fair value at the balance sheet date.

Listed securities are stated at their fair values on the basis of their quoted market prices at the balance sheet date, on an individual investment basis. Unlisted securities are stated at their estimated fair values on an individual basis. These are determined by the directors having regard to, inter alia, the prices of the most recent reported sales or purchases or projected cash flows of the securities or comparison of price/revenue ratios, price/earnings ratios and dividend yields of the securities with those of similar listed securities, with allowance made for the lower liquidity of the unlisted securities.

Changes in the fair value of individual securities are credited or debited to the investment revaluation reserve until the security is sold or is determined to be impaired. Upon disposal, the cumulative gain or loss representing the difference between the net sales proceeds and the carrying amount of the relevant security is dealt with in the profit and loss account. Where there is objective evidence that individual investments are impaired the cumulative loss recorded in the revaluation reserve is taken to the profit and loss account.

(ii) Trading securities

Trading securities are carried at fair value. At each balance sheet date, the net unrealized gains or losses arising from the changes in fair value of trading securities are recognized in the profit and loss account. Profits or losses on disposal of trading securities, representing the difference between the net sales proceeds and the carrying amounts, are recognized in the profit and loss account as they arise.

(f) Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment loss is recognized as an expense immediately, unless the relevant asset is carried at a revalued amount under another SSAP, in which case the impairment loss is treated as revaluation decrease under that SSAP.

When an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized as income immediately, unless the relevant asset is carried at a revalued amount under another SSAP, in which case the reversal of the impairment loss is treated as a revaluation increase under that SSAP.

2. TURNOVER AND REVENUE

The Group is principally engaged in the investment in listed and unlisted companies. An analysis of turnover and other revenue is as follows:

	Six months ended 31 December 2003 (Unaudited) <i>HK\$</i>	From 13 November 2002 (date of incorporation) to 31 December 2002 (Unaudited) <i>HK\$</i>
Turnover		
Proceeds from sale of trading securities	35,775,040	—
Other revenue		
Dividend income from investment in listed securities	33,720	—
Interest income	1,685	—
	35,405	—
Total revenues	35,810,445	—

3. LOSS BEFORE TAXATION

The Group's loss before taxation has been arrived at after charging and (crediting) the following:

	Six months ended 31 December 2003 (Unaudited) <i>HK\$</i>	From 13 November 2002 (date of incorporation) to 31 December 2002 (Unaudited) <i>HK\$</i>
Staff costs (inclusive of directors' remuneration)	488,000	—
Depreciation of fixed assets	63,023	—
Operating lease rentals in respect of land and buildings	150,000	—
Unrealised gains on trading securities	(79,046)	—

4. TAXATION

No provision for Hong Kong profits tax has been made in the financial statements as the Group did not generate any assessable profits during the period (2002: Nil).

No provision for deferred taxation has been recognised in the financial statements as the amount involved is insignificant (2002: Nil).

5. INTERIM DIVIDEND

The directors do not recommend the payment of an interim dividend for the six months ended 31 December 2003 (2002: Nil).

6. LOSS PER SHARE

The calculation of basic loss per share is based on the Group's loss attributable to the shareholders of HK\$728,795 (2002: Nil) and on the weighted average number of 19,146,740 (2002: 1) ordinary shares in issue during the period.

There were no dilutive potential shares during the period end, therefore, no diluted loss per share have been presented.

7. FIXED ASSETS

	Leasehold Improvements <i>HK\$</i>	Furniture & Fixtures <i>HK\$</i>	Office Equipment <i>HK\$</i>	Computer Equipment <i>HK\$</i>	Total <i>HK\$</i>
Cost					
At 1 July 2003	–	–	–	–	–
Additions	116,060	387,290	90,561	95,216	689,127
At 31 December 2003	116,060	387,290	90,561	95,216	689,127
Accumulated depreciation					
At 1 July 2003	–	–	–	–	–
Charge for the period	6,658	47,398	4,982	3,985	63,023
At 31 December 2003	6,658	47,398	4,982	3,985	63,023
Net Book Values					
At 31 December 2003	109,402	339,892	85,579	91,231	626,104
At 30 June 2003	–	–	–	–	–

8. INTEREST IN ASSOCIATED COMPANY

	31 December 2003 (Unaudited) <i>HK\$</i>	30 June 2003 (Audited) <i>HK\$</i>
Unlisted shares at cost	300	–
Loan to associated company	449,700	–
Total	450,000	–

<u>Name</u>	<u>Place of incorporation</u>	<u>Principal Activities</u>	<u>Issued share capital</u>	<u>% equity interest held directly</u>
China Northern Enterprises Investment Group Limited	Hong Kong	Investment holding	1,000 ordinary share of HK\$1 each	30

9. NON-TRADING SECURITIES

	31 December 2003 (Unaudited) HK\$	30 June 2003 (Audited) HK\$
Unlisted equity securities at fair value	6,390,000	—

<u>Name</u>	<u>Place of incorporation</u>	<u>Principal Activities</u>	<u>Issued share capital</u>	<u>% equity interest held directly</u>
Connelly Investments Limited	British Virgin Islands	Investment holding	100 ordinary shares of US\$1.00 each	12

10. TRADING SECURITIES

	31 December 2003 (Unaudited) HK\$	30 June 2003 (Audited) HK\$
Equity securities listed in Hong Kong at market value	13,318,640	—

11. SHARE CAPITAL

	No. of Shares	HK\$
Authorised: ordinary share of HK\$0.01 each		
At 1 July 2003	38,000,000	380,000
Increase in authorised share capital on 30 September 2003	162,000,000	1,620,000
At 31 December 2003	200,000,000	2,000,000
Issued and fully paid: ordinary share of HK\$0.01 each		
At 1 July 2003	1	—
Allotted and issued fully paid on 2 October 2003	2,999,999	30,000
Allotted and issued fully paid on 27 October 2003	50,000,000	500,000
At 31 December 2003	53,000,000	530,000

12. RESERVES

	Share premium <i>HK\$</i> (Unaudited)	Accumulated losses <i>HK\$</i> (Unaudited)	Total <i>HK\$</i> (Unaudited)
At 1 July 2003	–	(151,328)	(151,328)
Issuance of share at premium	52,470,000	–	52,470,000
Share issue expenses	(6,150,000)	–	(6,150,000)
Loss attributable to the shareholders	–	(728,795)	(728,795)
	<hr/>	<hr/>	<hr/>
At 31 December 2003	<u>46,320,000</u>	<u>(880,123)</u>	<u>45,439,877</u>

13. OPERATING LEASES COMMITMENTS

At 31 December 2003, the Group had future aggregate minimum commitments for lease payments under non-cancellable operating lease as follows:

	31 December 2003 (Unaudited) <i>HK\$</i>	30 June 2003 (Audited) <i>HK\$</i>
Land and building:		
Within one year	280,000	280,000
In the second to fifth year inclusive	30,000	180,000
	<hr/>	<hr/>
	310,000	460,000
	<hr/>	<hr/>

14. RELATED PARTY AND CONNECTED TRANSACTION

During the period, the Group had the following significant related party and connected transaction:

	31st December 2003 (Unaudited) <i>HK\$</i>	From 13 November 2002 (date of incorporation) to 31 December 2002 (Unaudited) <i>HK\$</i>
Investment management fees paid to Pegasus Fund Managers Limited	189,916	–
	<hr/>	<hr/>

15. APPROVAL OF INTERIM FINANCIAL STATEMENTS

The interim financial statements were approved by the board of directors on 30 March 2004.

MANAGEMENT DISCUSSION AND ANALYSIS

Placing and public offer of shares

The Company was incorporated in the Cayman Islands on 13 November 2002 and was successfully listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 27 October 2003. The net proceeds arising from the new issue amounted to approximately HK\$44.1 million.

Business review

The Group's primary objective is to achieve earnings in the form of short to medium term (i.e. less than five years) capital appreciation as well as income from interest and dividends by investing in listed and unlisted companies mainly in Hong Kong and the PRC. The Group may from time to time make other investments outside the PRC and Hong Kong should the Directors believe that such investments may provide attractive returns. The Group also intends to invest in unlisted companies with the potential to seek a listing on the Stock Exchange or any overseas stock exchanges.

The Group's investments will normally be made in the form of equity or equity related securities and debt instruments in listed and unlisted companies engaged in different industries including (but not limited to) information technology, manufacturing, pharmaceutical, service, property, telecommunications, life and environmental and infrastructure sectors.

As at 31 December 2003, the Group's portfolio of investments assets consisted of 28.9% in listed investments and approximately 13.9% in unlisted investments and the remaining approximately 57.2% in cash and others.

During the period under review, the Group had an investment in the PRC. It was the indirect acquisition of approximately 12% of equity interests of Mellow Anti-Counterfeit Net System Co. Ltd. ("Mellow") through the Group's wholly-owned subsidiary.

Investment portfolio

The Group recorded a loss of approximately HK\$729,000 for the period from 1 July 2003 to 31 December 2003. The net assets value per share of the Group was approximately HK\$0.867 as at 31 December 2003.

Dividends

The Directors do not recommend the payment of an interim dividend for the six months ended 31 December 2003.

Investment Portfolio

For the period under review, the Group made an investment in the PRC.

An investment of approximately HK\$6 million in a British Virgin Islands company named Connelly Investments Limited (“Connelly”) through Fairwood Capital Inc., a wholly-owned subsidiary of the Company. Through this investment, the Company indirectly acquired an equity interest of 12% in Mellow, a wholly-owned subsidiary of Connelly. Mellow, the owner of a patent technology named “Mellow Digital Anti-Counterfeiting System”, is a PRC company principally engaged in the development and application of a digit anti-counterfeiting business, and the provision of digital anti-counterfeiting services for consumables, such as cigarettes, wine and retail goods in the PRC.

Prospects

In the years ahead, the Group will continue to explore more suitable investment opportunities in companies and projects with optimal growth potential in line with the Group’s progressive yet conservative investment policies in order to maximize the return to shareholders.

Liquidity and financial resources

As at 31 December 2003, the Group had cash and bank balances of approximately HK\$19.8 million. All the cash and bank balances were placed with banks in Hong Kong in any currency, bonds or treasury securities issued by the government of Hong Kong or the government of the United States or their respective agencies, for the purpose of protecting the capital value of the Group’s cash assets.

Foreign currency fluctuation

The Group’s investments may be denominated in currencies other than Hong Kong dollars, and thus is exposed to fluctuation of the exchange rate. It is expected that a portion of the distributions and payments to the Group from the invested companies will be denominated in Renminbi.

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

As at 31 December 2003, the interests and short positions of the Directors and chief executives in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which are required (a) to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) to be recorded in the register required to be kept pursuant to section 352 of the SFO; or (c) pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange, were as follows:

Long positions in the shares or underlying shares of the Company

Name	Type of interests	Capacity	Number of shares held	Approximate percentage of shareholding
Mr. Yau Chung Hong ("Mr. Yau")	Corporate	Interest of corporations	3,700,000 (<i>Note</i>)	6.98%

Note:

3,000,000 and 700,000 totaling 3,700,000 shares are owned by Sellwell Enterprises Limited ("Sellwell") and CNI Capital Limited ("CNI Capital"), which are incorporated in the British Virgin Islands and Hong Kong respectively. CNI Capital was 33.33% owned by Sellwell, which was 100% owned by Mr. Yau. By virtue of the SFO, Mr. Yau was taken to be interested in the shares held by each of Sellwell and CNI Capital.

Save as disclosed above, as at 31 December 2003, none of the Directors and chief executives had interests in any securities of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have such provisions of the SFO); or b) to be recorded in the register required to be kept pursuant to section 352 of the SFO; or (c) pursuant to the Model Code for Securities Transactions by Directors of the Listed Companies relating to securities transactions by directors to be notified to the Company and the Stock Exchange.

SUBSTANTIAL SHAREHOLDERS

So far as was known to the Directors or chief executives of the Company, as at 31 December 2003, other than the interests and short positions of the Directors or chief executives of the Company as disclosed above, the parties who had interests or short positions in the shares or underlying shares which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under section 336 of the SFO, were as follows:

Long positions in the shares or underlying shares of the Company

Name of shareholder	Type of interests	Capacity	Number of shares	Shareholder's interests
Commerzbank Asset Management Asia Ltd.	Corporate	Investment manager	5,000,000 (Note 1)	10.00%
Sellwell Enterprises Limited	Corporate	Beneficial owner	3,000,000 (Note 2)	5.66%

Note:

1. Commerzbank Asset Management Asia Ltd. was owned as to 90.5% by Commerzbank Asset Management Asia Pacific Ltd. and as to 9.5% by Commerzbank (South East Asia) Ltd, which were in turn wholly-owned by Commerzbank AG.
2. These shareholdings have also been included as corporate interests of Directors under the section headed "directors' interests and short positions in shares, underlying shares and debentures" above.

Save as disclosed above, as at 31 December 2003, the Directors were not aware of any other person who had an interest or short position in the shares or underlying shares which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under section 336 of the SFO.

SHARE OPTION SCHEME

Pursuant to the written resolutions passed by all of the then shareholders of the Company on 30 September 2003, the Company adopted a share option scheme (the "Scheme"). Under the Scheme, the Directors of the Company may, at their absolute discretion, invite any employee (whether full-time or part time, including any executive director), any non-executive directors (including independent non-executive directors), any supplier of goods or services, any customer and any person or entity that provides research, development or other technological support to the Company to take up options to subscribe for shares in the Company representing up to a maximum of 10% of the shares in issue as at the date of commencement of listing of shares of the Company on the Stock Exchange and subject to renewal with shareholders' approval.

Up to the date hereof, no share options have been granted pursuant to the Scheme.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

The Company's shares have been listed on the Stock Exchange since 27 October 2003. For the period up to the date of this report, the Company did not purchase, redeem or sell any of its listed securities.

DIRECTORS' INTEREST IN COMPETING BUSINESS

Set out below is information disclosed pursuant to paragraph 8.10(2) of the Listing Rules.

Mr. Pong Po Lam holds directorships in the following investment companies:

Pegasus Medias Managed Fund Limited
Kallista HY Arbitrage Fund Limited
Kallista CB Arbitrage Fund Limited
Kallista US Equity Fund Limited
Kallista Arbitrage Strategies Fund Limited
Prime Investments (Holdings) Limited

The businesses of the above companies are deemed to constitute a competing business to the Group.

COMPLIANCE WITH THE CODE OF BEST PRACTICE

The Company has complied with the Code of Best Practice as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") since the date of listing of the Company's shares, except that the independent non-executive directors of the Company are not appointed for a specific term but are subject to retirement by rotation and re-election at the Company's annual general meeting in accordance with the Company's articles of association.

AUDIT COMMITTEE

The Company established an audit committee on 27 October 2003 in compliance with the Code of Best Practice as set out in Appendix 14 to the Listing Rules.

The audit committee consists of two independent non-executive Directors, namely, Mr. Lam Kwan and Ms. Hui Sham Ling, Teresa. The audit committee has reviewed with management the accounting principles and practices adopted by the Group, and discussed auditing, internal control and financial reporting matters including the review of the unaudited interim results for the six months ended 31 December 2003.

By order of the Board

Yau Chung Hong

Executive Director

Hong Kong, 30 March 2004