CHINA ASSETS (HOLDINGS) LIMITED

CHINA ASSETS

INTERIM REPORT

2 0 0 4

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Lao Yuan Yi *(Chairman)*
Mr. Wang Jun Yan

Non-executive Directors

Mr. Jiang Wei
Mr. Yeung Wai Kin
Mr. Zhao Yu Qiao

Independent Non-executive Directors

Mr. Peter Duncan Neil Robertson
Mr. Fan Jia Yan
Mr. Wu Ming Yu

COMPANY SECRETARY

Mr. Lau On Kwok

REGISTERED OFFICE

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Hong Kong
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SOLICITORS

Victor Chu & Co.

AUDITORS

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong

BANKERS

Bank of China (Hong Kong) Limited
CITIC Ka Wah Bank Limited
The Hongkong and Shanghai Banking Corporation Limited
Standard Chartered Bank

REGISTRARS

Computershare Hong Kong Investor Services Limited
46th Floor, Hopewell Centre
183 Queen's Road East
Hong Kong

STOCK CODE

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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 2004:

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

FOR THE SIX MONTHS ENDED 30TH JUNE 2004

		Unaudited Six months ended 30th June	
		2004	2003
	Note	***US$***	*US$*
Turnover	*2*	**658,627**	131,782
Administrative expenses		**(645,707)**	(729,562)
Other operating expenses		**(401,318)**	(754,282)
Other operating income		**78,541**	7,105,169
Operating (loss)/profit	*3*	**(309,857)**	5,753,107
Share of results of associated companies	*2*	**902,260**	2,102,508
Profit before taxation		**592,403**	7,855,615
Taxation	*4*	**(344,040)**	(669,075)
Profit attributable to shareholders		**248,363**	7,186,540
Earnings per share			
Basic	*5*	**0.0033**	0.0966
Diluted		**N/A**	N/A

CONDENSED CONSOLIDATED BALANCE SHEET

AS AT 30TH JUNE 2004 AND 31ST DECEMBER 2003

	Note	Unaudited 30th June 2004 US$	Audited 31st December 2003 US$
Non-current assets			
Investments in associated companies		**29,213,710**	29,201,249
Investments		**30,649,184**	30,653,298
Other receivables, non-current portion		—	590,849
		59,862,894	60,445,396
Current assets			
Other receivables and prepayments		**1,193,167**	1,925,064
Other investments		**1,810,567**	—
Bank balances and cash		**28,498,701**	28,971,909
		31,502,435	30,896,973
Current liabilities			
Accounts payable		**100,653**	127,709
Accrued expenses		—	92,820
Amount due to a related company	*7(b)*	**9**	279
Taxation payable		**81,863**	64,508
		182,525	285,316
Net current assets		**31,319,910**	30,611,657
Total assets less current liabilities		**91,182,804**	91,057,053
Financed by:			
Share capital		**7,438,316**	7,438,316
Reserves		**83,744,488**	83,618,737
Shareholders' funds		**91,182,804**	91,057,053

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30TH JUNE 2004

	Unaudited Six months ended 30th June 2004 *US$*	 2003 *US$*
Net cash inflow from operating activities	**922,083**	705,763
Net cash (outflow)/inflow from investing activities	**(1,395,291)**	10,151,176
(Decrease)/increase in cash and cash equivalents	**(473,208)**	10,856,939
Cash and cash equivalents at 1st January	**28,971,909**	14,109,535
Cash and cash equivalents at 30th June	**28,498,701**	24,966,474
Analysis of the balances of cash and cash equivalents:		
Bank balances and cash *(note)*	**28,498,701**	24,966,474

(note) Included in the bank balances and cash of the Group are Renminbi deposits and cash in Chinese Mainland of US$19,169,923 (31st December 2003: US$18,895,719). Renminbi is not a freely convertible currency.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30TH JUNE 2004

	Unaudited				
	Share capital US$	Share premium US$	Capital reserve US$	Retained profits/ (accumulated losses) US$	Total US$
At 1st January 2004	**7,438,316**	**68,445,344**	**7,849,636**	**7,323,757**	**91,057,053**
Exchange differences arising on translation of the accounts of associated companies and subsidiaries	—	—	(122,612)	—	(122,612)
Net losses not recognized in the profit and loss account	—	—	(122,612)	—	(122,612)
Profit attributable to shareholders	—	—	—	248,363	248,363
At 30th June 2004	**7,438,316**	**68,445,344**	**7,727,024**	**7,572,120**	**91,182,804**
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
Realization 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

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 25, "Interim Financial Reporting", issued by the Hong Kong Institute of Certified Public Accountants.

These condensed interim accounts should be read in conjunction with the 2003 annual accounts.

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 2003.

2 Turnover and segment information

The principal activity of the Group is investment holding in Hong Kong and Chinese Mainland. Revenues recognized during the period were as follows:

	Unaudited Six months ended 30th June	
	2004	2003
	US$	US$
Turnover		
Interest income	**195,401**	106,278
Dividend income from listed investments	**—**	25,504
Dividend income from unlisted investments	**463,226**	—
	658,627	131,782

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 2004					
	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	658,627	—	—	—	—	658,627
Segment results	335,850	—	—	—	—	335,850
Unallocated expenses*	—	—	—	—	—	(645,707)
Operating loss						(309,857)
Share of profits/(losses) of associated companies	997,377	—	—	(95,117)	—	902,260
Taxation	(344,040)	—	—	—	—	(344,040)
Profit attributable to shareholders						248,363

	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

* Included in the unallocated expenses is the management fee of US$512,730 (2003: US$584,131) paid to a related company *(note 7(a))*

There are no sales or other transactions between the business segments.

The segment revenue of the Group derived from Hong Kong and Chinese Mainland amounted to US$36,918 (2003: US$131,745) and US$621,709 (2003: US$37) respectively during the six months ended 30th June 2004. There are no sales or other transactions between the geographical segments.

3 Operating (loss)/profit

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

	Unaudited	
	Six months ended 30th June	
	2004	2003
	US$	*US$*
Crediting		
Included in other operating income		
Net gain on disposal of investments in toll roads	—	3,316,904
Deemed profit on dilution of interests in an associated company	—	3,393,009
Gains on disposal of listed investments	**11,800**	373,687
Unrealized gains on listed investments	—	21,569
Net exchange gain	**58,250**	—
Charging		
Included in administrative expenses		
Management fee paid to a related company *(note 7(a))*	**512,730**	584,131
Net exchange loss	—	3,864
Included in other operating expenses		
Provision for impairment losses on other investments	—	754,282
Write-off of accounts receivable	**400,000**	—
Unrealized losses on listed investments	**1,318**	—

4 Taxation

Hong Kong profits tax has been provided for at the rate of 17.5% (2003: 17.5%) on the estimated 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	
	2004	2003
	US$	*US$*
Current taxation:		
— Hong Kong profits tax	**—**	—
— Overseas taxation	**21,869**	—
	21,869	—
Share of taxation attributable to associated companies	**322,171**	669,075
Taxation charge	**344,040**	669,075

There was no material unprovided deferred taxation for the period.

5 Earnings per share

The calculation of basic and diluted earnings per share are based on the Group's profit attributable to shareholders of US$248,363 (2003: US$7,186,540). The basic earnings per share is based on the weighted average number of 74,383,160 (2003: 74,383,160) ordinary shares in issue during the period.

Diluted earnings per share were not presented as there were no dilutive potential ordinary shares in existence during the six months ended 30th June 2004.

6 Commitments

As at 30th June 2004 and 31st December 2003, the Group's share of capital commitments of associated companies are as follows:

	30th June 2004	31st December 2003
	US$	*US$*
Contracted but not provided for	**1,366,179**	997,495

The Group and the Company did not have any other material commitments at 30th June 2004 (2003: Nil).

7 Related party transactions

Significant related party transaction, which was carried out in the normal course of business is as follows:

(a) During the period, the Company paid management fee totalling US$512,730 (2003: US$584,131) to China Assets Investment Management Limited ("CAIML"), a related company, under the management agreement signed between the Company and CAIML.

CAIML is a subsidiary of FSIL, an associated company of the Company. Mr. Lao Yuan Yi, the Chairman and an executive director of the Company, Mr. Wang Jun Yan, an executive director of the Company and Mr. Yeung Wai Kin, a non-executive director of the Company, are also directors of CAIML. Both Mr. Lao and Mr. Yeung are the directors of FSIL. Mr. Shi Yucheng, Charlie, a former executive director of the Company and a director of CAIML resigned on 2nd April 2004 and 27th April 2004 respectively. Mr. Tsui Che Yin, Frank, a former non-executive director of the Company who resigned on 14th April 2004, is a shareholder of CAIML.

(b) As at 30th June 2004, management fee payable to CAIML amounted to US$9 (31st December 2003: US$279). The balance was unsecured, interest-free and will be settled in the third quarter of 2004.

8 Subsequent event

In July 2004, the Group has disposed of part of its interests in an investment at cash consideration of approximately US$3.4 million. The gain on disposal of approximately US$3.3 million will be recognized in the final results of 2004.

DIVIDEND

The Directors do not recommend the payment of an interim dividend (2003: US$Nil).

NET ASSET VALUE

The consolidated net asset value per share of the Group at 30th June 2004 was US$1.2259 (31st December 2003: US$1.2242).

CONNECTED TRANSACTIONS

The related party transactions disclosed in note 7 to the condensed interim accounts constituted continuing connected transactions under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). Details of the transactions have been made in the 2003 annual report and the announcement made by the Company on 11th August 2004. The Company is now in negotiation with CAIML about certain amendments to be made in the management agreement in order to comply with the applicable requirements under Chapter 14A of the Listing Rules.

SHARE OPTIONS

At the Annual General Meeting of the Company held on 19th May 2004, the shareholders of the Company approved adoption of a share option scheme (the "Scheme"). The purpose of the Scheme is to enable the Group to grant options for the subscription of shares in the Company to selected participants as incentives or rewards for their contribution to the Group. Pursuant to the terms of the Scheme, the Directors may at their discretion offer any employee, proposed employee or director of the Company, any of its subsidiaries, its investment manager (the "Manager") or any invested entity in which the Group holds not less than 20% of its equity interest to take up options to subscribe for the shares in the Company.

Details of the share options granted under the Scheme and remain outstanding as at 30th June 2004 are as follows:

	Options held at 1st January 2004	Options granted during the period	Options held at 30th June 2004	Exercise Price	Closing Price before the Date of Grant	Date of Grant	Exercise Period
				HK$	*HK$*		
Directors:							
Lao Yuan Yi	0	740,000	740,000	2.65	2.50	21/05/2004	25/05/2004 – 23/05/2014
Wang Jun Yan	0	700,000	700,000	2.65	2.50	21/05/2004	25/05/2004 – 23/05/2014
Jiang Wei	0	50,000	50,000	2.65	2.50	21/05/2004	25/05/2004 – 23/05/2014
Yeung Wai Kin	0	700,000	700,000	2.65	2.50	21/05/2004	25/05/2004 – 23/05/2014
Zhao Yu Qiao	0	700,000	700,000	2.65	2.50	21/05/2004	25/05/2004 – 23/05/2014
Peter Duncan Neil Robertson	0	70,000	70,000	2.65	2.50	21/05/2004	25/05/2004 – 23/05/2014
Fan Jia Yan	0	70,000	70,000	2.65	2.50	21/05/2004	25/05/2004 – 23/05/2014
Wu Ming Yu	0	70,000	70,000	2.65	2.50	21/05/2004	25/05/2004 – 23/05/2014
Ex-director:							
Xin Shu Lin	0	50,000	50,000	2.65	2.50	21/05/2004	25/05/2004 – 21/12/2004
Employees of the Manager	0	700,000	700,000	2.65	2.50	21/05/2004	25/05/2004 – 23/05/2014
	0	3,850,000	3,850,000				

The Directors consider it inappropriate to disclose a theoretical value of the options as various factors crucial for valuation could not be predicted or ascertained accurately. Any valuation based on assumptions would be speculative, not meaningful and could be misleading to the shareholders.

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

As at 30th June 2004, no 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")) were recorded in the register maintained by the Company under section 352 of the SFO or were notified to the Company.

Apart from the management agreement and the share option scheme stated above, at no time during the period was the Company, its subsidiaries, its associated companies, its fellow subsidiaries or its holding company a party to any arrangement to enable the directors and chief executives of the Company to hold any interests or short positions in the shares or underlying shares in, or debentures of, the Company or its associated corporation.

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 2004, 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.

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	6,080,000	8.17%
Deutsche Bank Securities Inc *(Note 2)*	Corporate	4,809,365	6.47%
Deutsche Bank AG, London Branch *(Note 2)*	Corporate	1,270,635	1.71%
QVT Associates GP LLC *(Note 3)*	Corporate	4,809,365	6.47%
QVT Fund LP *(Note 3)*	Corporate	4,809,365	6.47%

Note 1: Both FSIL and 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.

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

Note 3: QVT Associates GP LLC has corporate interest in the issued share capital of the Company through its direct interest in QVT Fund LP.

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 2004.

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 Listing Rules at any time during the six months ended 30th June 2004.

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 recorded a net profit of US$248,363 for the six months ended 30th June 2004, representing 96.54% decrease over the same period of 2003. The substantial drop in profit was mainly due to the lack of any major divestments or special gains in the Company and First Shanghai Investments Ltd. during the period and the change in accounting treatment of interests in Shandong Lukang Pharmaceutical Co., Ltd. ("Lukang") from equity accounting to cost accounting in August 2003.

For the first half of 2004, the Chinese economy continued to grow at a fast pace. The gross domestic product for the first half of the year reached RMB5,878.8 billion (approximately US$708.3 billion), representing an increase of 9.7% over the same period last year. The consumer price index and retail price index were also up by 3.6% and 2.4% respectively. Utilization of foreign capital continued to rise, with the contracted amount and the actual utilized amount increasing by 42.7% and 12.0% year-on-year respectively.

Despite various macroeconomic control measures implemented by the PRC government to slow down the overheated sectors, fixed assets investment still grew by 28.6% over the same period as last year to RMB2,608.2 billion (approximately US$314.2 billion). The average price of raw material, fuels and power also rose by 9.8% year-on-year. As a result of the increased production costs such as coal, steel, water and electricity, performance of the Group's investee companies were adversely affected. Lukang, which suffered from intense competition, reported a substantial drop in its interim profit. Suzhou Universal Chain Transmission Co., Ltd. and Dezhou Zhenhua Glass Co., Ltd. both recorded losses for the period.

Benefiting from the rapid growth in the telecommunication market in China, KongZhong Corporation ("KongZhong") achieved a remarkable result for the first half of the year. In July 2004, KongZhong listed its shares in the Nasdaq National Market and raised a total of US$80 million (gross). The Company and other selling shareholders also disposed of part of their shares in KongZhong and received the proceeds of US$20 million (gross). As a result of the disposal, the Company will achieve a disposal profit of approximately US$3.3 million (gross), which will be reflected in the results of the second half year.

During the period, the Group had received the second installment from the buyers of Wuxi United Iron & Steel Co., Ltd. ("United") and Wuxi Tristar Iron & Steel Co., Ltd. ("Tristar"), being HK$2 million (approximately US$0.26 million) and HK$3.6 million (approximately US$0.46 million) respectively. According to the sales and purchase agreements signed in October 2003, the third installment of HK$5.6 million (approximately US$0.72 million) in total will be payable in October 2004. Registration of the share charge of the equity interests in both United and Tristar was completed and remained effective before the remaining proceeds were fully settled.

As mentioned previously in the 2003 annual report, the Group received a letter from the buyer of 90.57% equity interests of Shenzhen SPEC Biopharmaceutical Industry Co. Ltd. ("BCL") alleging that some off-balance sheet liabilities had been uncovered. The Group entered into negotiation with the buyer and finally agreed to accept US$0.10 million for settlement. A total of HK$275,000 (approximately US$35,260) was received from the buyer in June 2004 and an amount of US$64,740 remains outstanding. As a result of the concession given, a further write-off of US$400,000 has been made in the interim accounts.

At 30th June 2004, the Group had long-term investments, at cost less provisions, of US$26.62 million (31st December 2003: US$25.09 million) and listed investments at market value of US$0.37 million (31st December 2003: US$0.06 million). A review of the Group's investments is set out below.

LONG-TERM INVESTMENTS

First Shanghai Investments Ltd. ("FSIL")

FSIL achieved a lower profit for the first half of the year, representing a year-on-year drop of approximately 49.26%. The decrease was mainly due to the lack of special gains during the first half year. During the period, FSIL benefited from an active Hong Kong stock market and recorded stable growth in its stockbroking business. Its corporate finance division completed one IPO sponsorship and several underwriting engagements.

As a result of a robust automotive market in China, FSIL recorded higher profit contribution from its business in motor vehicle meter and components. Additional investments had also been made to increase its market share in the industry.

During the period, the Company received the 2003 dividend of HK$2.98 million (approximately US$0.38 million) from FSIL. As at 30th June 2004, the share of net asset value of FSIL by the Group amounted to US$29.12 million, representing 31.94% of the net asset value of the Group.

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

During the period, Lukang suffered from various adverse conditions and reported a disappointing interim result with a profit drop of 96.69% from the corresponding period in the previous year. Since the second half of 2003, several antibiotics manufacturers established in mid-western China entered into the penicillin market and started to compete vigorously for market share. Average market average prices of traditional penicillin products such as penicillin industrial salt and 7ADCA decreased substantially as a result of the increased supply. The market was further aggravated by a notice announced in May 2004 by the National Development and Reform Commission which ordered reduction of the prices of 24 anti-infective drugs at an average rate of 30%. Also, average production costs rose continuously and weakened Lukang's profitability. Prices of raw materials and fuel such as starch, coal and auxiliary materials all increased which depressed Lukang's profits.

In view of the unfavorable conditions, Lukang adjusted its products mix and expedited its process of new products development. More resources would also be applied in strengthening the sales network. However, the worsening market conditions are expected to continue in the second half.

During the period, the Company received the 2003 dividend of RMB3.82 million (approximately US$0.46 million) from Lukang. As at 30th June 2004, the carrying value of Lukang remained at US$29.40 million, representing 32.24% of the net asset value of the Group.

KongZhong Corporation ("KongZhong")

Despite increasing competition in the wireless value-added services market in China, KongZhong delivered a remarkable interim result of revenue and profit at year-on-year growth of approximately 890% and 2,428% respectively. During the period, KongZhong remained as one of the leading service providers in terms of 2.5G revenues with China Mobile. In order to enhance its customer base, KongZhong also started to provide wireless value-added services on the networks of other operators such as China Unicom, China Telecom and China Netcom.

On 9th July, 2004, KongZhong listed a total of 10,000,000 American Depositary Shares ("ADS"), representing 400,000,000 ordinary shares on the Nasdaq National Market in the United States (the "Offering"). Pursuant to the underwriting agreement, KongZhong and the selling shareholders sold 8,000,000 ADS, and 2,000,000 ADS respectively at an initial offer price of US$10 and the Offering was completed on 14th July 2004.

Prior to the Offering, the Company was interested in 140,000,000 ordinary shares of KongZhong. The Company sold 14,717,480 ordinary shares (the "Disposal") in the Offering and now owns 125,282,520 ordinary shares, approximately 9.1% of KongZhong, which will be subject to lock-up and other restrictions imposed by a lock-up agreement for a period of 180 days from 8th July 2004. Based on the initial offer price of each ADS of US$10 and the underwriting discounts and commissions of each ADS of US$0.7, the Company will achieve a disposal profit (gross) of approximately US$3.3 million, which will be recorded in the results of the second half year. An announcement in connection with the Disposal was made by the Company on 15th July 2004.

On 18th August 2004, KongZhong announced that certain of its 2.5G service content in early June 2004 violated rules of China Mobile and a sanction had been imposed on KongZhong, suspending approval of any new applications for new products or services on all platforms and approval of any applications to operate in new platforms until end of 2004 and 30th June 2005 respectively. The management of KongZhong believed that the sanction should not have a material impact on the results of operation in the near future. Subsequent to the announcement, KongZhong is aware that several class-action lawsuits have been filed against KongZhong and certain of its officers in federal court in the United States, alleging that its prospectus failed to disclose and misrepresented the relevant violation in early June 2004. KongZhong has appointed a lawyer to handle the case.

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

Owing to increased production costs such as steel belt, water and electricity, Suzhou Chain reported a loss for the period, against a profit for the corresponding period last year. Since the electricity supply was suspended intermittently in the area, production plan of Suzhou Chain was seriously interrupted and average production costs surged as a result. In addition, the reduction of export tax refund rate effective from 2004 also affected its profit margin negatively.

During the period, the Company received the 2003 dividend of RMB152,441 (approximately US$18,488) from Suzhou Chain.

INVESTMENT FOR WHICH FULL PROVISIONS HAD BEEN MADE

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

Performance of Zhenhua improved slightly but a loss was recorded for the period. Average price of its glass products increased by about 10% year-on-year but the gain was almost set off totally by the rising production costs in coal and transportation expenses.

During the period, the Company received a dividend of RMB349,139 (approximately US$42,119) from Zhenhua, being the remaining portion of the 2000 dividend. 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.

LISTED SHARES

During the period, the Company achieved a profit on disposal of US$11,800. The shares held at 30th June 2004 had a carrying value of US$367,658 and a market value of US$366,340. An unrealized loss of US$1,318 was included in the consolidated profit and loss account.

LIQUIDITY AND FINANCIAL RESOURCES

The Group maintained a healthy financial position for the period. As at 30th June 2004, the Group had cash and bank balances of US$28.50 million (31st December 2003: US$28.97 million), of which US$19.17 million (31st December 2003: US$18.90 million) were held in the RMB equivalent in form of the PRC banks' deposit held in Chinese Mainland, and no debt. Most of the Group's investments are located in Chinese Mainland. RMB is not a freely convertible currency and the RMB exchange rate remained stable during the period.

EMPLOYEES

The Company is managed by China Assets Investment Management Limited. As at 30th June 2004, a qualified accountant was employed by the Company pursuant to the requirement of Rule 3.24 of the Listing Rules. In addition to basic salary payments, other benefits include mandatory provident funds scheme and discretionary employee shares option scheme.

PROSPECTS

After several major disposals completed in 2002 and 2003, the Company has finished most of the restructuring plans and is now actively looking for new investment opportunities. While focus is put on the companies with high growth potential such as technology, bio-tech and life science, the Company will take a cautious approach in assessing the higher risks attached to such companies.

By Order of the Board
Lao Yuan Yi
Chairman

Hong Kong, 17th September 2004