Interim Report 2004

東方有色集團有限公司*

ONFEM HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

* For identification purpose only

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Performance

The consolidated turnover of ONFEM Holdings Limited ("**Company**") and its subsidiaries (collectively, "**Group**") for the six months ended 30 June 2004 amounted to approximately HK$34.6 million, representing a decrease of 63% as compared with the corresponding period last year.

Since China Minmetals Corporation ("**China Minmetals**") acquired a controlling stake in the Company through its wholly-owned subsidiary in October 2003, the management had been implementing various measures and strategies such as reduction of administrative expenses and termination or liquidation of under-performing businesses with a view to improving the operating result of the Group.

During the period under review, turnover of the Group decreased. The decrease was mainly attributable to the suspension or slowing down of the businesses of several major subsidiaries of the Company, which commenced liquidation or underwent restructuring during the period. As a result, the contribution of those subsidiaries to the Group's turnover was greatly reduced.

Although the restructuring and winding-up of certain under-performing subsidiaries of the Company have resulted in a decrease of the Group's turnover during the period, such measures have helped to reduce the negative impact of those subsidiaries on the Group's overall performance. Indeed, a gain of approximately HK$66.7 million (30 June 2003: HK$0.4 million) was recorded when these subsidiaries were excluded from the consolidated accounts of the Group in the first half of 2004. In addition, during the period under review, no provision for revaluation of investment properties was made by the Group (the provision for revaluation of investment properties in the first half of 2003 amounted to approximately HK$17.4 million). In the first half of the year, taking into account the factors mentioned above, the Group's overall financial performance returned to profitability. It indicated that the management's relentless efforts on improving the Group's operation started to fruit. Net profit of the Group in the first half of 2004 was approximately HK$60.1 million (net loss in the first half of 2003 was approximately HK$40.4 million). Basic earnings per share was approximately HK cents 7.78. The board of directors resolved not to pay an interim dividend.

Business Review

Manufacturing and Trading

The external segment turnover from manufacturing and trading in the first half of 2004 was approximately HK$24.6 million, representing a decrease of 13% as compared with the corresponding period last year. It contributed 71% (30 June 2003: 31%) to the consolidated turnover of the Group and the segment loss amounted to approximately HK$0.5 million (30 June 2003: profit of HK$0.3 million).

During the period under review, the shareholding and business of one of the subsidiaries in this business segment, Enful Holdings Limited and its subsidiaries (collectively, "**Enful**"), have undergone a series of restructuring, which is expected to continue in the second half of this financial year. As a result, Enful's contribution to the turnover in this segment has been reduced significantly during the period which has a negative impact on the turnover derived from manufacturing and trading segment during the period. This segment also turned from a gain to a loss as compared with the corresponding period last year. It was largely caused by the loss incurred by Jaeger Oil & Chemical Holdings Limited and its subsidiaries (collectively, "**Jaeger**"), another subsidiary which is engaged in this business segment, resulting from the increase in cost and intense market competition.

(i) Industrial Lubricant Products

Jaeger

For the six months ended 30 June 2004, Jaeger recorded a turnover with a slight increase of 2% as compared with the corresponding period last year, of which 83% came from the People's Republic of China ("**PRC**"), 16% from Hong Kong and the rest from the South-east Asian market. A loss of approximately HK$0.5 million (30 June 2003: profit of HK$1.5 million) was recorded during the period.

Consequential to the weaker US dollar and surge of oil price, the overall cost of Jaeger's mid to high-end lubricant products rose by more than 12%, which posed pressure on profit margin. Furthermore, Hong Kong and Chinese enterprises became more conservative in their procurement policies in the wake of the nation-wide austerity measures implemented by the Chinese government in the early March of this year and as a result, demand for lubricant products was curbed. In Southern China, due to increasing competition in the market, the business environment in the first half of the year was more difficult as compared with last year. In an effort to maintain its market share, Jaeger lowered the prices of its products slightly to cope with the market changes and to satisfy customers' demand. Due to increase in cost and slow growth in demand and compounded by price reduction, Jaeger temporarily recorded a small loss in the first half of this year notwithstanding that it was no longer affected by the outbreak of Severe Acute Respiratory Syndrome which took place in the corresponding period last year.

With an attempt to make up the shrinkage of business in Southern China, Jaeger strived to reduce marginal cost through maximising its business scale by aggressively developing markets in Eastern and Northwestern China and establishing sales networks in Ningbo, Chongqing and Xian. During the period, turnover in the areas outside Guangdong province increased by 41% over that in the corresponding period last year.

As regard to product development, in mid 2004, Jaeger secured the distribution rights in the PRC for a full range of products manufactured by "G.W. Smith & Sons", a leading die-casting lubricant manufacturer in the United States of America ("**USA**"). It is expected that this arrangement will strengthen the competitiveness of Jaeger in the high-end market and will be conducive to its expansion into the markets of automobiles and heavy industry in Central and Northern China in the near future. At the same time, Jaeger has been actively training its sales team and recruiting distributors in different parts of the PRC for Rita-Lok adhesives from the United Kingdom. Jaeger will promote aggressively the products of "Rita-Lok" as its key selling products.

(ii) *Doors and Timber Products*

Enful – Manufacturing and Trading Segment

Since Enful has been focusing on internal consolidation and shareholding restructuring during the period under review, it only made a negligible contribution to the turnover of this segment in the first half of the year (refer to the business review in relation to the specialised construction contracting business below for the overall business of Enful).

Specialised Construction Contracting

In the first half of 2004, the segment turnover from specialised construction contracting amounted to approximately HK$4.8 million, representing a decrease of 91% as compared with the corresponding period last year. It contributed 14% (30 June 2003: 59%) to the consolidated turnover of the Group. The segment loss was reduced from approximately HK$18.3 million in the first half of 2003 to approximately HK$3.5 million in the first half of 2004.

Due mainly to the winding-up of Condo Curtain Wall Company Limited ("**CCW**"), Condo Engineering (China) Limited ("**CEC**") and Polycrown Engineering Limited ("**PEL**") and Enful's resources being focused on internal consolidation, contributions of these companies to the turnover of the Group were greatly reduced and hence the decline in the segment turnover of the Group's specialised construction contracting business in the first half of the year. However, as this segment was operating at a loss in the corresponding period last year, the slowdown of the business in this segment during the period under review also reduced the segment loss as a whole.

(i) *Enful – Specialised Construction Contracting Segment*

In May 2004, the Group acquired a 48% equity interest in Enful held by Sinowise Development Limited. As a result, the beneficial interest of the Group in Enful increased from 52% to 100%. As the local government in the PRC requested for return of the land where Enful's production plant was erected, Enful has been negotiating with the local government during the period under review and the negotiation is still in progress. As mentioned above, Enful utilised most of its resources in its shareholding restructuring and internal business consolidation, no major construction projects were undertaken during the period. Segment turnover of Enful, mainly from the PRC, was only approximately HK$1.2 million (30 June 2003: HK$4.0 million). Segment loss in the first half of the year amounted to approximately HK$3.0 million, representing an increase as compared with the corresponding period last year.

Enful has become a wholly-owned subsidiary of the Group after the shareholding restructuring. With the full control of Enful, the Group is in a position to further enhance Enful's operation and development objectives with those of the Group.

Subsequent to the business restructuring, Enful will be principally engaged in the businesses of provision and installation of "百聞" doors for the construction projects undertaken and high value-added acoustic plaster.

In June 2004, Enful secured the distribution rights of K13 acoustic plaster in Hong Kong from ICC, a USA company. It lays a solid foundation for Enful to undertake large acoustic plaster projects in the future.

(ii) *Condo Group Limited and its subsidiaries (collectively, "**Condo**")*

In June 2004, the Group acquired 90.39% and 9.61% equity interests in Shanghai Jin Qiao Condo Decoration Engineering Company Limited ("**SJQ**") from the liquidator of CEC and an independent third party respectively and the procedures in relation to registration of the share transfer are in progress.

The business of SJQ was not affected by the winding-up of CEC, its immediate controlling shareholder, and continued to expand its operation and reduce its costs during the first half of 2004. The value of contracts on hand of SJQ was approximately HK$50 million. As the acquisition of SJQ was not completed as at 30 June 2004, the accounts of SJQ were not consolidated into the Group's consolidated accounts for the six months ended 30 June 2004.

Looking ahead to the second half of the year, SJQ will step up its efforts in developing as well as differentiating its product design and services in relation to curtain wall construction business in its existing markets in the Yangtze River Delta, and gradually penetrate into the markets in the area of Beijing as well as Central and Western China with a view to achieving better result.

Besides, the Group will take proactive steps to urge liquidators of CCW and CEC under Condo to complete the liquidations as soon as possible so as to recover the debts due to the Group.

(iii) *Polycrown Engineering (Holdings) Limited ("**PEHL**") and its subsidiaries (collectively, "**Polycrown**")*

In the first half of 2004, turnover of Polycrown was approximately HK$3.6 million, representing a decrease of 91% as compared with the corresponding period last year, of which 48% from Hong Kong and 52% from the PRC.

On 15 June 2004, the board of directors of PEL (a wholly-owned subsidiary of PEHL) resolved to wind-up PEL. On 11 August 2004, PEHL was ordered to wind-up by the High Court of Hong Kong as it failed to repay its debts due to the Group. The aforesaid events would not have material adverse impact on the Group except that the Group repaid a bank loan of approximately HK$28.5 million for Polycrown in performing its obligation as a guarantor. Additionally, the accounts of Polycrown have been completely deconsolidated from the consolidated accounts of the Group since 11 August 2004.

Real Estates Development and Property Leasing

During the period, the real estates development business did not generate any profit for the Group as the Haitian Garden in Zhuhai, the PRC was still under construction. Turnover from property leasing business in the first half of 2004 amounted to approximately HK$4.7 million, which accounted for 14% (30 June 2003: 6%) of the Group's consolidated turnover, decreased by 16% as compared with the corresponding period last year. The property leasing business recorded a segment profit of approximately HK$3.0 million in the first half of 2004 against the segment loss of approximately HK$12.7 million which included a loss on revaluation of investment properties in the corresponding period of 2003.

(i) Haitian Garden, Zhuhai, the PRC

On 8 January 2004, the Group successfully acquired a 20% equity interest in Zhuhai (Oriental) Blue Horrison Properties Company Limited ("**ZOBHP**") from Zhuhai Shining Metals Group Inc., turning ZOBHP into a wholly-owned subsidiary of the Company and enabling the Group to own a 100% equity interest in the project.

The Group has repositioned the Haitian Garden real estates development project as "The New Generation Panoramic Seaview Deluxe Apartments in Zhuhai" according to the recommendation from a consultant research report. The revised design proposal was approved in principle by the local government on 4 March 2004 and further changes were made as requested. The Group expects to receive final approval from the authority shortly. The Group will strive to commence superstructure work in the second half of 2004 and sale in mid 2005 as scheduled.

Driven by the development in the Pan-Pearl River Delta area and the proposed construction of the Hong Kong-Zhuhai-Macau Bridge as well as the overall economic development of Zhuhai and its neighbouring area, the demand for real estates property in Zhuhai is growing. Sales of residential properties in Zhuhai were satisfactory in the first half of 2004 while buyers appeared to increase.

(ii) ONFEM Tower, 29 Wyndham Street, Central, Hong Kong

As at 30 June 2004, the occupancy rate of ONFEM Tower ("**Tower**") was approximately 94%. Taking into account the current situation of the office leasing market, the Group is satisfied with the current occupancy rate, the average rental and the quality of tenants, some of which are multinational corporations. The Group will continuously implement a series of measures to enhance the value of the Tower. In addition to the appointment of a renowned property management company to provide professional property management services and to increase supervision, the Group is also considering about the issues on maintenance of the Tower in the medium-term to long-term perspective with a view to providing quality facilities and services to tenants. This will help in increasing return on investments in a long run.

Other Business

Greater Beijing Region Expressways Limited is an investment of the Group. Its major subsidiary, Greater Beijing First Expressways Limited ("**First Expressways**"), was wound-up in June 2000. The four toll charging highways in Beijing, owned by First Expressways, have all been sold out. The Group will continuously monitor the progress of the liquidation and strive for the best interest of the Group.

Prospects

Through continuous efforts of the management, consolidation of the existing under-performing businesses is almost completed whereas most of the non wholly-owned subsidiaries have become wholly-owned subsidiaries of the Group after restructuring in the first half of 2004. Looking forward, the Group will formulate the operation and development objectives of those subsidiaries in accordance with the overall strategy and development objective previously adopted and "Developing Business, Increasing Profit" will be the focus of the Group. In the meantime, the Group will strive to utilise the resources of each subsidiary effectively and enable all the subsidiaries to complement each other's strengths so as to improve the overall performance of the Group and to increase the possibility of increasing the shareholders' return.

The Group has set clear objectives for the development of its real estates business and specialised construction contracting business in the PRC, with high technology investment as an ancillary focus. Leveraging the synergies between the competitive edge of the controlling shareholder, China Minmetals, in the PRC and the strengths of the Group, the Group intends to expand and enlarge its business scale through direct investment, mergers and acquisitions. Accordingly, the Group strives to capitalise on market opportunities for its core business and the major efforts include:

(i) during the period under review, the Group has been evaluating a number of premium real estates development projects in major cities of the PRC. The Group is currently undertaking in-depth assessment of certain selected projects; and

(ii) on 29 July 2004, Wilson Murray Far East Limited ("**WMFE**"), an indirect wholly-owned subsidiary of the Company, and Guangzhou Tian He Orienmet Property Co., Ltd. ("**GTH**"), an associate of China Minmetals H.K. (Holdings) Limited, entered into a project management services agreement in respect of the Guangzhou Tian He Jin Hai Building (廣州天河金海大廈) development project. According to the agreement, WMFE is employed as the project manager of the project to provide GTH with construction project management services which include the provision of advice and assistance in technical or professional aspects, construction cost control, assistance in obtaining the completion acceptance document as well as preparation of construction records for GTH. The maximum service fees receivable by WMFE under the project amount to RMB40.0 million.

    The agreement will strengthen the business of the Group and secure a stable stream of income for the Group in the current financial year and the coming two financial years. More importantly, it is the Company's first cooperation project with the company under China Minmetals. As an integration between the Group's extensive experience in real estates and specialised construction contracting businesses and the abundant business resources of China Minmetals, the cooperation achieves internal synergies and strengthens the real estates development and project management capabilities of the Group.

Liquidity and Financial Resources

As at 30 June 2004, the gearing ratio (total borrowings over total assets) of the Group reduced to 6.5% from 9.2% at 31 December 2003. The Group had cash and bank deposits (excluding pledged deposits) of approximately HK$142.4 million as at 30 June 2004 (31 December 2003: HK$199.3 million).

The Group obtained its source of fund through various means in order to maintain a balance between cost and risk. Apart from the fund generated from normal operations, the Group also obtained financial resources from bank borrowings and other borrowings, which amounted to approximately HK$37.6 million (31 December 2003: HK$66.7 million) and HK$6.6 million (31 December 2003: HK$4.6 million) respectively as at 30 June 2004.

The bank borrowings denominated in Renminbi ("**RMB**") as at 30 June 2004 were approximately RMB28.6 million (31 December 2003: RMB28.6 million) while the remaining balances were denominated in Hong Kong dollars. Apart from the bank borrowings denominated in RMB which were obtained by the Group at fixed interest rates, the Group's bank borrowings were on a floating rate basis.

Capital commitments of the Group amounted to approximately HK$172.0 million, mainly for properties under development, as at 30 June 2004 are to be partly financed by bank borrowings.

Financial Risks and Management

The Group's strategies towards financial risk management include diversification of funding sources and extension of credit periods. For the six months ended 30 June 2004, finance costs of the Group were reduced to approximately HK$1.2 million (30 June 2003: HK$3.5 million).

The total borrowings of the Group as at 30 June 2004 amounted to approximately HK$44.2 million (31 December 2003: HK$71.3 million) were all repayable within one year.

Exposure to Fluctuation in Exchange Rates

Most of the transactions of the Group were denominated in Hong Kong dollars, RMB and US dollars. Given that the exchange rates of Hong Kong dollar against RMB and US dollar are stable, no hedging or other alternative measures have been implemented by the Group. As at 30 June 2004, the Group had no significant exposure under foreign exchange contracts, interest or currency swaps or other financial derivatives.

Charges on Group Assets

As at 30 June 2004, the Group pledged an investment property with a carrying amount of approximately HK$195.0 million (31 December 2003: HK$195.0 million) and fixed deposits amounted to approximately HK$53.2 million (31 December 2003: HK$53.2 million) as securities for the Group's general banking facilities. Certain inventories of the Group were also held under trust receipt loan arrangements.

Contingent Liabilities

Details of the contingent liabilities of the Company and the Group are set out in Note 14 to the accounts.

Employees

As at 30 June 2004, the Group employed 229 staff (30 June 2003: 445 staff). The total remunerations and benefits of the directors of the Company ("**Directors**") and staff of the Group during the six months ended 30 June 2004 were approximately HK$16.9 million (30 June 2003: HK$19.5 million). The Group adopts a remuneration policy in line with market practice.

INFORMATION RELATING TO SHARE OPTION SCHEME

On 29 May 2003, the Company adopted a new share option scheme ("**Scheme**") which is in compliance with Chapter 17 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("**Listing Rules**"). As at 30 June 2004, details of the outstanding share options, all of which were granted on 15 March 2004 and have not been exercised, are as follows:

Category of participant		Exercise period of share options	Exercise price of share options *HK$*	Number of share options outstanding as at 30 June 2004
(i)	Directors	16 March 2004 to 15 March 2007	0.83	12,000,000
(ii)	Employees of the Group	17 March 2004 to 26 April 2007*	0.83	9,100,000

The closing price of the shares of the Company immediately before the date on which the share options disclosed above were granted (that is, 12 March 2004) was HK$0.81 while details of the outstanding share options held by each Director are set out in the section entitled "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures" below.

The Directors consider that it is inappropriate to value the share options disclosed above because any valuation of those options based on a large number of speculative assumptions would not be meaningful and would be misleading.

A summary of the principal terms of the Scheme has been set out in the 2003 annual report of the Company. The terms of the Scheme have never been amended since its adoption.

* *The exercisable period for the share options granted to each employee of the Group lasts 3 years commencing from the date of acceptance of the share options by each respective employee.*

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2004, the interests and short positions of the Directors and the chief executive of the Company in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of the Securities and Futures Ordinance ("**SFO**")), which have been notified to the Company and The Stock Exchange of Hong Kong Limited 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 pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, as recorded in the register kept by the Company pursuant to section 352 of the SFO, were as follows:

Long Position in Shares of the Company

(a) *Shares*

Name of director	Nature of interest	Number of ordinary shares held
He Xiaoli	Personal	20,000

Save as disclosed above, as at 30 June 2004, none of the Directors or the chief executive of the Company or any of their associates had any personal, family, corporate or other interests or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of the SFO).

(b) *Share options*

As at 30 June 2004, the following outstanding share options were granted to the Directors on 15 March 2004 under the Scheme:

Name of Director	Date of acceptance of share options	Exercise period of share options	Exercise price of share options *HK$*	Number of share options outstanding as at 30 June 2004
Lin Xizhong	16 March 2004	16 March 2004 to 15 March 2007	0.83	4,000,000
Wang Xingdong	16 March 2004	16 March 2004 to 15 March 2007	0.83	3,000,000
Yan Xichuan	16 March 2004	16 March 2004 to 15 March 2007	0.83	2,000,000

Name of Director	Date of acceptance of share options	Exercise period of share options	Exercise price of share options *HK$*	Number of share options outstanding as at 30 June 2004
Qian Wenchao	16 March 2004	16 March 2004 to 15 March 2007	0.83	1,500,000
He Xiaoli	16 March 2004	16 March 2004 to 15 March 2007	0.83	1,500,000

Save as disclosed above, during the six months ended 30 June 2004, none of the Directors or the chief executive of the Company nor their spouses or children under 18 years of age, was granted or had exercised any right to subscribe for any equity or debt securities of the Company or any of its associated corporations (within the meaning of the SFO).

SUBSTANTIAL INTERESTS IN THE SHARE CAPITAL OF THE COMPANY

As at 30 June 2004, according to the register of interests kept by the Company under section 336 of the SFO, the following entities have interests and short position in the shares of the Company which fall to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO:

Long Position in Shares of the Company

Name of shareholder	Number of ordinary shares held	Percentage of total issued shares
China Minmetals *(Note)*	416,585,852	53.95%
China Minmetals H.K. (Holdings) Limited *(Note)*	416,585,852	53.95%
June Glory International Limited ("**June Glory**")	416,585,852	53.95%

Note: By virtue of the SFO, these companies are deemed to be interested in the 416,585,852 shares held by June Glory.

AUDIT COMMITTEE

The audit committee of the Company comprises three Independent Non-executive Directors namely, Mr. Lam Chun, Daniel, Mr. Selwyn Mar and Ms. Tam Wai Chu, Maria. The audit committee has reviewed the unaudited condensed consolidated accounts of the Group for the six months ended 30 June 2004.

CODE OF BEST PRACTICE

The Directors are not aware of any information that would reasonably indicate that the Company is not, or was not for any part of the period during the six months ended 30 June 2004 in compliance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules except that the Independent Non-executive Directors are not appointed for specific term as they are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Company's bye-laws.

CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules as its code of conduct regarding securities transactions by Directors ("**Code**") and has made specific enquiry of all Directors and has received a written confirmation from each Director confirming that he/she has complied with the Code throughout the six months ended 30 June 2004 if he/she carried out any securities dealings.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2004.

By Order of the Board
Wang Xingdong
Managing Director

Hong Kong, 17 September 2004
Website: http://www.onfem.com

UNAUDITED INTERIM RESULTS

The board of directors of ONFEM Holdings Limited ("**Company**") herewith announces the unaudited consolidated results of the Company and its subsidiaries ("**Group**") for the six months ended 30 June 2004 together with comparative figures of the corresponding period in 2003. The interim condensed consolidated accounts have not been audited but have been reviewed by the audit committee of the Company.

Condensed Consolidated Profit and Loss Account
For the six months ended 30 June 2004

	Note	Six months ended 30 June	
		2004	2003
		(Unaudited)	(Unaudited)
		HK$'000	HK$'000
Turnover	2	**34,590**	92,408
Cost of sales		**(16,266)**	(70,101)
Gross profit		**18,324**	22,307
Other revenues		**3,659**	4,623
Distribution costs		**(5,757)**	(5,384)
Administrative expenses		**(20,545)**	(39,430)
Other operating expenses		**(961)**	(1,087)
Loss on revaluation of investment properties		**–**	(17,390)
Gain on deconsolidation of subsidiaries	16	**66,676**	339
Operating profit/(loss)	3	**61,396**	(36,022)
Finance costs		**(1,198)**	(3,469)
Profit/(loss) before taxation		**60,198**	(39,491)
Taxation	5	**(86)**	(146)
Profit/(loss) after taxation		**60,112**	(39,637)
Minority interests		**–**	(779)
Profit/(loss) attributable to shareholders		**60,112**	(40,416)
Basic earnings/(loss) per share (HK cents)	7	**7.78**	(5.23)

Condensed Consolidated Balance Sheet
As at 30 June 2004

	Note	30 June 2004 (Unaudited) HK$'000	31 December 2003 (Audited) HK$'000
Non-current assets			
Negative goodwill	8	**(10,103)**	–
Fixed assets	8	**221,541**	220,479
Construction in progress		**14**	–
Non-trading securities		**25,200**	28,440
Deferred tax assets		**932**	932
Retention receivables		**–**	607
Other assets		**1,681**	1,738
		239,265	252,196
Current assets			
Inventories		**225,631**	218,475
Amount due from a fellow subsidiary		**–**	1
Amounts due from minority investors		**–**	37
Trade and other receivables	9	**20,557**	48,392
Gross amounts due from customers for contract work		**52**	3,261
Trading securities		**3,241**	2,142
Pledged deposits		**53,210**	53,210
Cash and bank deposits		**142,358**	199,288
		445,049	524,806
Current liabilities			
Amounts due to minority investors		**–**	9,571
Trade and other payables	10	**78,438**	135,865
Gross amounts due to customers for contract work		**–**	16,363
Taxation payable		**17,763**	32,005
Short-term borrowings	11	**44,164**	71,304
		140,365	265,108
Net current assets		**304,684**	259,698
Total assets less current liabilities		**543,949**	511,894
Financed by:			
Share capital	12	**77,218**	77,218
Reserves		**456,948**	397,489
Shareholders' funds		**534,166**	474,707
Minority interests		**5,745**	30,778
Non-current liabilities			
Amounts due to minority investors		**688**	3,741
Other liabilities		**3,350**	2,668
		4,038	6,409
		543,949	511,894

Condensed Consolidated Statement of Changes in Equity
For the six months ended 30 June 2004

	Share capital HK$'000	**Share premium HK$'000**	**Contributed surplus HK$'000**	**(Unaudited) Capital redemption reserve HK$'000**	**Investment revaluation reserve HK$'000**	**Accumulated losses HK$'000**	**Total HK$'000**
At 1 January 2004	**77,218**	**409,738**	**601,415**	**769**	**11,520**	**(625,953)**	**474,707**
Deficit on revaluation of non-trading securities	**–**	**–**	**–**	**–**	**(3,240)**	**–**	**(3,240)**
Exchange difference on translation of the accounts of foreign subsidiaries	**–**	**–**	**–**	**–**	**–**	**2,587**	**2,587**
Profit for the period	**–**	**–**	**–**	**–**	**–**	**60,112**	**60,112**
At 30 June 2004	**77,218**	**409,738**	**601,415**	**769**	**8,280**	**(563,254)**	**534,166**

	Share capital HK$'000	Share premium HK$'000	Contributed surplus HK$'000	(Unaudited) Capital redemption reserve HK$'000	Investment revaluation reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2003	77,218	409,738	601,415	769	(360)	(589,722)	499,058
Surplus on revaluation of non-trading securities	–	–	–	–	11,520	–	11,520
Exchange difference on translation of the accounts of foreign subsidiaries	–	–	–	–	–	(115)	(115)
Loss for the period	–	–	–	–	–	(40,416)	(40,416)
At 30 June 2003	77,218	409,738	601,415	769	11,160	(630,253)	470,047

Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2004

	Six months ended 30 June	
	2004	2003
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Net cash (used in)/generated from operating activities	**(13,181)**	24,268
Net cash (used in)/generated from investing activities	**(15,312)**	18,567
Net cash used in financing activities	**(2,012)**	(1,065)
(Decrease)/increase in cash and cash equivalents	**(30,505)**	41,770
Cash and cash equivalents at beginning of period	**162,247**	110,155
Cash and cash equivalents at end of period	**131,742**	151,925
Analysis of balances of cash and cash equivalents:		
Cash and bank deposits	**142,358**	209,140
Bank overdrafts	**(10,616)**	(53,932)
Trust receipt bank loans	**–**	(3,283)
	131,742	151,925

Notes to Accounts (Unaudited)

1. Basis of preparation and accounting policies

The unaudited condensed consolidated accounts are prepared in accordance with Statement of Standard Accounting Practice 25, "Interim Financial Reporting", issued by the Hong Kong Society of Accountants (renamed as the Hong Kong Institute of Certified Public Accountants since 8 September 2004).

The accounts should be read in conjunction with the 2003 annual accounts.

The accounting policies and method of computation used in the preparation of the accounts are consistent with those used in the annual accounts for the year ended 31 December 2003.

2. Segment information

The Group's operations comprise the following main business segments:

Manufacturing and trading:	Manufacturing and trading of lubricant oil and chemical products, doors and fire proof materials.
Construction and engineering contracts:	Design and installation of curtain walls and aluminium windows, as well as construction work related to electrical and mechanical engineering and other contracting businesses.
Property leasing:	Leasing of premises to generate rental income and to gain from the appreciation in the properties' values in the long term.
Property development:	Development of residential and commercial properties.
Security investment and trading:	Trading and investment of securities.

Inter-segment sales are charged at prevailing market prices.

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

Six months ended 30 June (Unaudited)

	Manufacturing and trading		Construction and engineering contracts		Property leasing		Property development		Security investment and trading		Elimination		Total	
	2004 HK$'000	2003 HK$'000	**2004 HK$'000**	2003 HK$'000	**2004 HK$'000**	2003 HK$'000	**2004 HK$'000**	2003 HK$'000	**2004 HK$'000**	2003 HK$'000	**2004 HK$'000**	2003 HK$'000	**2004 HK$'000**	2003 HK$'000
REVENUES														
Sales to external customers	**24,577**	28,344	**4,817**	54,825	**4,747**	5,622	**-**	-	**449**	3,617	**-**	-	**34,590**	92,408
Inter-segment sales	**-**	1,069	**-**	-	**-**	-	**-**	-	**-**	-	**-**	(1,069)	**-**	-
	24,577	29,413	**4,817**	54,825	**4,747**	5,622	**-**	-	**449**	3,617	**-**	(1,069)	**34,590**	92,408
RESULTS														
Segment results	**(496)**	343	**(3,516)**	(18,274)	**2,964**	(12,725)	**(69)**	310	**1,530**	5,266	**-**	-	**413**	(25,080)
Gain on deconsolidation of subsidiaries													**66,676**	-
Unallocated corporate expenses, net													**(5,693)**	(10,942)
Operating profit/(loss)													**61,396**	(36,022)
Finance costs													**(1,198)**	(3,469)
Taxation													**(86)**	(146)
Minority interests													**-**	(779)
Profit/(loss) attributable to shareholders													**60,112**	(40,416)

3. Operating profit/(loss)

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

	Six months ended 30 June	
	2004 (Unaudited) HK$'000	2003 (Unaudited) HK$'000
Depreciation on:		
Owned fixed assets	**1,561**	1,458
Leased fixed assets	**–**	83
(Gain)/loss on disposal of fixed assets	**(117)**	40
Recognition of negative goodwill as income	**(2,635)**	–
Operating leases in respect of land and buildings	**1,378**	1,681
(Recovery of)/provision for bad and doubtful debts (a)	**(1,709)**	2,143
Provision for inventory obsolescence and net realisable value	**405**	749
Exchange loss/(gain), net	**1,013**	(5,669)
Unrealised gain on revaluation of trading securities	**(1,099)**	(1,802)
Gain on assignment of benefit of debt by a former minority investor	**(3,050)**	–
Cost of inventories sold	**14,820**	11,751
Gross rental and management fee income from investment properties	**(4,747)**	(5,622)

(a) An amount of approximately HK$3,603,000, being the write-back of the provision for a loan to China Nonferrous Metals Group (Hong Kong) Limited ("**CNMG**"), a former intermediate holding company of the Company, is included in the recovery of bad and doubtful debts. The said amount was received during the period from the liquidators of CNMG as the total of the second and third interim dividends to the unsecured creditors of CNMG.

4. Staff costs

	Six months ended 30 June	
	2004 (Unaudited) HK$'000	2003 (Unaudited) HK$'000
Including the emoluments of the directors of the Company ("**Directors**"):		
Wages and salaries	**16,329**	18,841
Pension costs - defined contribution plans	**546**	745
Provision for/(write-back of) long service payment	**6**	(39)
	16,881	19,547

5. Taxation

No provision for Hong Kong profits tax has been made as the Group had no 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:

	Six months ended 30 June	
	2004 (Unaudited) HK$'000	2003 (Unaudited) HK$'000
Hong Kong profits tax	**–**	–
Overseas taxation	**86**	146
	86	146

6. Dividend

The Directors have resolved not to pay an interim dividend for the six months ended 30 June 2004 (30 June 2003: Nil).

7. Earnings/(loss) per share

The calculation of basic earnings/(loss) per share is based on the unaudited consolidated profit/(loss) attributable to ordinary shareholders of approximately HK$60,112,000 (30 June 2003: loss of HK$40,416,000) and the weighted average number of 772,181,783 shares (30 June 2003: 772,181,783 shares) in issue during the period.

No diluted earnings per share is presented as there were no dilutive potential shares in existence during the period.

8. Capital expenditure

	Negative goodwill (Unaudited) HK$'000	Fixed assets (Unaudited) HK$'000
Opening net book amount as at 1 January 2004	–	220,479
Acquisition of a subsidiary (a)	(12,738)	–
Other additions	–	2,715
Disposals	–	(92)
Recognition as income/(depreciation charge)	2,635	(1,561)
Closing net book amount as at 30 June 2004	(10,103)	221,541

(a) On 8 January 2004, the Group acquired the remaining 20% equity interest in Zhuhai (Oriental) Blue Horrison Properties Company Limited ("**ZOBHP**"), a company incorporated in the People's Republic of China ("**PRC**") and engaged in a commercial and residential property development project, namely the "Haitian Garden" in Zhuhai, the PRC. As a result of the acquisition, ZOBHP has turned from an 80%-owned subsidiary into a wholly-owned subsidiary of the Company. The consideration of approximately RMB12,859,000 (equivalent to approximately HK$12,088,000) for the aforesaid acquisition was settled in cash. 20% of the fair value of the net identifiable assets of ZOBHP at the date of acquisition was approximately HK$24,826,000. The resulting negative goodwill of approximately HK$12,738,000 will be recognised as income in the profit and loss account on a straight-line basis over 29 months.

(b) On 29 April 2004, the Group acquired the remaining 48% equity interest in Enful Holdings Limited ("**EHL**"), a company incorporated in the British Virgin Islands. EHL and its subsidiaries are principally engaged in the business of manufacturing, sale and installation of fire doors and fire proof materials and products, fitting out works, environmental construction engineering and protection projects in Hong Kong and the PRC. As a result of the acquisition, EHL has turned from a 52%-owned subsidiary into a wholly-owned subsidiary of the Company. The consideration of HK$1 for the aforesaid acquisition was settled in cash. In addition, the Group paid HK$1 for the assignment of the benefit of debt, amounted to approximately HK$3,050,000, from the former minority investor of EHL to the Group.

9. Trade and other receivables

Included in trade and other receivables are trade and contract receivables of which the aging analysis is as follows:

	30 June 2004 (Unaudited) HK$'000	31 December 2003 (Audited) HK$'000
0 – 30 days	**9,011**	28,233
31 – 60 days	**2,054**	5,715
61 – 90 days	**737**	5,559
Over 90 days	**21,598**	47,083
	33,400	86,590
Less: Provision for bad and doubtful debts	**(20,117)**	(54,496)
	13,283	32,094

The normal credit period granted by the Group is from 30 days to 60 days from the date of invoice.

10. Trade and other payables

Include in trade and other payables are trade, bills and contract payables of which the aging analysis is as follows:

	30 June 2004 (Unaudited) HK$'000	31 December 2003 (Audited) HK$'000
0 – 30 days	**3,264**	6,894
31 – 60 days	**707**	1,394
61 – 90 days	**780**	1,124
Over 90 days	**6,722**	67,384
	11,473	76,796

11. Short-term borrowings

	30 June 2004 (Unaudited) HK$'000	31 December 2003 (Audited) HK$'000
Bank overdrafts, secured	**10,616**	37,041
Trust receipt bank loans, secured	**–**	3,253
Bank loans, secured	**26,963**	26,455
Current portion of long-term borrowings	**–**	28
Unsecured loan	**6,585**	–
Loan from a minority investor	**–**	4,527
	44,164	71,304

12. Share capital

	30 June 2004 (Unaudited)		31 December 2003 (Audited)	
	Number of shares '000	Amount HK$'000	Number of shares '000	Amount HK$'000
Authorised (ordinary shares of HK$0.1 each)	**2,000,000**	**200,000**	2,000,000	200,000
Issued and fully paid (ordinary shares of HK$0.1 each)	**772,182**	**77,218**	772,182	77,218

At 30 June 2004, options to subscribe for a total of 21,100,000 ordinary shares of the Company were outstanding (all of which were granted on 15 March 2004 under the share option scheme adopted on 29 May 2003).

13. Capital commitments

	30 June 2004 (Unaudited) HK$'000	31 December 2003 (Audited) HK$'000
Contracted but not provided for		
Acquisition of a subsidiary	**2,820**	–
Properties under development	**169,183**	145,814
	172,003	145,814

14. Contingent liabilities

At 30 June 2004, there were contingent liabilities in respect of the following:

(a) The Company provided corporate guarantees to various banks in respect of banking facilities extended to certain subsidiaries amounted to approximately HK$26,600,000 (31 December 2003: HK$54,900,000).

(b) The Group has undertaken and performed electrical and mechanical engineering work for various customers in Hong Kong and the PRC. In respect of such projects, the Group could have potential additional charges arising from the related tax payable. Since the amount of the potential additional charges, if any, cannot be reliably determined, no provision was made by the Group.

15. Related party transactions

The Group had the following transactions with a related party, which were carried out on normal commercial terms and in the ordinary and normal course of business of the Group:

	Six months ended 30 June	
	2004 (Unaudited) HK$'000	2003 (Unaudited) HK$'000
Rental and management fee income from a fellow subsidiary	**–**	306
Rental expenses and licence fees paid to a fellow subsidiary	**427**	–

16. Deconsolidation of subsidiaries

On 15 June 2004, the board of directors of Polycrown Engineering Limited ("**PEL**"), a 51%-owned subsidiary of the Company, had resolved that PEL be wound-up pursuant to Section 228A of the Companies Ordinance. Accordingly, the Group has not included PEL and its subsidiaries in the consolidated accounts of the Group since 15 June 2004.

The following summarises the effects of deconsolidation:

	(Unaudited) HK$'000
Sharing of net liabilities at the date of deconsolidation	95,128
Settlement of liabilities for deconsolidated subsidiaries	(28,452)
Gain on deconsolidation of subsidiaries	66,676

17. Subsequent event

On 11 August 2004, the High Court of Hong Kong ordered Polycrown Engineering (Holdings) Limited, a 51%-owned subsidiary of the Company, to be wound-up. The Directors do not expect any material adverse impact on the Group arising from such winding-up order.