Interim Results

The management is pleased to report that the Group has continued to achieve profitable results. For the six months period ended 30th June, 2004, net profit of the Group was HK$2,663,000, increased by almost 6 times when compared to the prior period (six months ended 30th June, 2003: HK$384,000). Earnings per share were HK0.22 cent.

Business Review

Principal Operations

For the first half of 2004, the Group continued to engage in the businesses of power generation, trading of iron ore, provision of finance, as well as property and securities investment. In February 2004, the Group also completed the acquisition of the 100% equity interest in a securities brokerage company in Hong Kong. The turnover of the Group for the six months period amounted to HK$87,949,000, showing an increase of about 48% when compared to the previous period if the turnover of the discontinued chemical fibers operation is excluded. Profit from operations was HK$2,130,000.

The Group's power generation operation currently comprising two coal-fired power plants with each has an installed capacity of 50 megawatts. Both power plants are situated in Sanmenxia City, Henan Province, the People's Republic of China (the "PRC") with one of the power plants is in operation and the other one is due for completion of construction in late 2004. For the first half year, the power plant in operation generated an on-grid electricity sale of about 159 million kilowatt-hours, equivalent to a revenue of HK$37,068,000, and contributed an operating profit of HK$5,357,000. The operation recorded satisfactory results despite the fact that the general increase in coal price during the review period had posed considerable adverse impact to the operation's profitability. Management is of the view that the power generation operation will continue to perform well and a notable increase in its profitability is expected when construction of the second power plant is completed and commences its full-scale production in early 2005.

The Group's iron ore trading operation continued to deliver profitable results with turnover and operating profit for the review period amounted to HK$46,760,000 and HK$558,000 respectively. Nevertheless, when compared to the prior period, there was a considerable decrease in the operation's profit mainly due to the macro-control measures imposed by the Chinese government over the steel industry, which resulted in a general decline in demand and price of iron ore during the review period. As the market for iron ore in China has stabilized in recent months, management is prudently optimistic about the performance of this operation for the remainder of the year.

The newly acquired securities brokerage company contributed HK$1,663,000 to the Group's turnover for the first half year. As a whole, the securities investment, dealing and brokerage operations of the Group recorded an operating profit of HK$1,962,000 which mainly represented holding gains of Hong Kong listed securities.

The Group was not very active in its financing business during the review period. Interest income amounted to HK$1,262,000 and an operating loss of HK$1,661,000 was incurred. The loss was mainly attributable to the provision of HK$3,000,000 made against an overdue loan in view of the decrease in value of the underlying collateral.

The Group's property segment recorded an operating profit of HK$496,000 for the review period. When compared to the prior period, the decreases in revenue and profitability of this operation were primarily a result of the lower occupancy rate of the Group's investment properties during the first half year. As certain new tenancies have been entered into in recent months, performance of this operation is expected to improve for the second half of 2004.

Jointly Controlled Entity

The Group's 30% owned jointly controlled entity, Shanghai Hong Qiao Friendship Shopping Center Co., Ltd. ("Shanghai Hong Qiao"), continued to perform well during the review period. For the first half year, the turnover of Shanghai Hong Qiao reached its record high of approximately HK$229 million. The Group's share of profit of Shanghai Hong Qiao, as a result of its strong sales and profitability growth, also rose by 38% reaching HK$2,729,000 (six months ended 30th June, 2003: HK$1,975,000).

Associate

The Group's share of profit of the associate, Xi'an Gaoxin Hospital Co. Ltd. ("Xi'an Gaoxin Hospital"), was HK$3,871,000 for the review period comparing favorably against the share of loss of HK$2,802,000 in the prior period. The improved results of Xi'an Gaoxin Hospital were primarily related to the recovery of demand for the hospital's medical services after the containment of the SARS effect in late 2003. Management is optimistic about the performance of Xi'an Gaoxin Hospital for the remainder of the year.

FINANCIAL REVIEW

Liquidity, Financial Resources and Capital Structure

The liquidity position of the Group remained healthy throughout the first half year. At 30th June, 2004, the Group had liquid assets comprising bank balances and marketable listed securities totaled HK$107,982,000 (31st December, 2003: HK$104,255,000).

At 30th June, 2004, total bank and other borrowings amounted to HK$177,585,000 and was about double the amount at the last balance sheet date (31st December, 2003: HK$89,045,000). The increase was mainly due to the new bank loans raised to finance the construction of the second power plant in Sanmenxia City. Of the total bank and other borrowings, about 41% was due within one year, 13% was due after one year but not exceeding two years, 39% was due after two years but not exceeding five years and the remaining 7% was due after five years. In terms of currency denomination, about 84% of the total balance was denominated in Renminbi with the rest in Hong Kong dollars. In terms of interest rate, about 64% and 36% of the total balance were bearing floating and fixed interest rate respectively.

In relation to the acquisition of the two power plants in Sanmenxia City, the Group issued two convertible bonds in October 2003 both of the principal amount of HK$40,000,000 with maturity in October 2004 and April 2006 respectively. The convertible bonds are bearing interest at 1.5% per annum and carry the rights to convert into ordinary shares of the Company at HK$0.5 per share (subject to adjustment).

There was no change to the Company's issued share capital during the period. At 30th June, 2004, the shareholders' funds of the Group amounted to HK$524,980,000 (31st December, 2003: HK$522,320,000), equivalent to a consolidated net asset value of about HK43 cents per share of the Company. Gearing ratio as of the period end date calculated on the basis of the Group's net borrowings of HK$101,730,000 (i.e. the amount of bank and other borrowings of HK$177,585,000 after deducting bank balances, cash and deposits totaling HK$75,855,000) plus convertible bonds of the total principal amount of HK$80,000,000 over shareholders' funds was at the moderate level of 35%.

With the amount of cash resources and liquid assets on hand as well as banking facilities available to the Group, management is of the view that the Group has sufficient financial resources to meet its ongoing operational requirements.

Foreign Currency Management

For the period under review, the Group's exposure to foreign exchange risk continued to be insignificant for reasons as outlined in the Company's 2003 Annual Report.

Pledge of Assets

At 30th June, 2004, investment properties with a carrying value of HK$52,000,000 and property, plant and equipment with a net book value of HK$43,260,000 were pledged to secure bank facilities granted to the Group.

Capital Commitments

At 30th June, 2004, the Group had a commitment of HK$35,812,000 in relation to the remaining construction costs of the second power plant in Sanmenxia City; and a commitment of HK$18,350,000 representing the consideration payable to acquire the additional 15% equity interest in the two power plants in Sanmenxia City.

As for the first commitment, a credit facility of RMB30,000,000 has been secured after the period end for financing the construction costs, as for the second commitment, the Group is in the course of effecting the acquisition.

Contingent Liabilities

The Group had no material contingent liabilities at 30th June, 2004.

EMPLOYEES AND REMUNERATION POLICY

At 30th June, 2004, the Company and its subsidiaries had about 400 employees in Hong Kong and the Mainland. There was no material change to the remuneration policy of the Group from those disclosed in the Company's 2003 Annual Report. Total staff costs incurred for the period, including directors' remuneration, was approximately HK$7,300,000.

BUSINESS PROSPECTS

The Group recorded very encouraging results for the first half year. For the remainder of 2004, it continues to be the priority of the management to further improve financial performance of the Group with the view to lay down a solid foundation for its future growth. Our goal is to build a diversified business portfolio with strong recurrent earnings base and capability for further growth. In respect of new investments, management will continue to look for opportunities that will bring substantial value to shareholders, and emphasis will be placed on those opportunities that are Mainland-related and well positioned to benefit from the continuous strong growth of China's economy.