

NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars)

1 Significant accounting policies

Basis of preparation

This interim financial report is unaudited, but has been reviewed by KPMG in accordance with Statement of Auditing Standards 700 “Engagements to review interim financial reports”, issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). KPMG’s independent review report to the Board of Directors is set out on pages 31 and 32. In addition, this interim financial report has been reviewed by the Company’s Audit Committee.

This interim financial report has been prepared in accordance with the requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“HKSE”), including compliance with Statement of Standard Accounting Practice (“SSAP”) 25 “Interim financial reporting” issued by the HKICPA.

The financial information relating to the financial year ended 31 December 2003 included in the interim financial report does not constitute the Company’s statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2003 are available from the Company’s registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 23 April 2004.

The same accounting policies adopted in the 2003 annual financial statements have been applied to the interim financial report.

The notes on the interim financial report include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the issue of the 2003 annual financial statements.

2 Gains on investments

		Six months ended 30 June	
	<i>Note</i>	2004	2003
Gain on disposal of 12,819,000 shares of Skyworth Digital Holdings Limited	<i>10(c)</i>	\$ 16,938,629	\$ –
Gain on disposal of 22.87% interest in Everbright Timber Industry (Shenzhen) Company Limited		–	2,064,532
Write-back of amount due from jointly controlled entity		–	1,528,897
Write-back of impairment loss on Skyworth Digital Holdings Limited		–	13,273,890
		<u>–</u>	<u>13,273,890</u>

3 Turnover

The principal activity of the Company and of its subsidiaries is the holding of equity investments primarily in companies or entities with significant business interests or involvement in the PRC. In particular, the Group focuses on investing in Sino-foreign joint ventures in the PRC and companies with substantial operations or investments in the PRC.

Share of jointly controlled entities' turnover represents the Group's share of jointly controlled entities' invoiced value of goods sold.

Group turnover represents interest income and dividend income from listed investments and is analysed as follows:

	Six months ended 30 June	
	2004	2003
Interest income from deposits with banks and other financial institutions	\$ 10,719	\$ 194,844
Dividend income from listed investments	456,380	214,095
	\$ 467,099	\$ 408,939

4 Segment reporting

Segment information is presented in respect of the Group's business segments which are based on the nature of business of its associates, jointly controlled entities and other investee companies. No geographical segment information is presented as the revenue of the Group, its associates and jointly controlled entities and the Group's results were substantially derived from the PRC.

The Group's associates, jointly controlled entities and other investee companies comprise the following main business segments:

Manufacture of industrial products:	Electronic and electrical instruments, plywood and timber products.
Manufacture of consumer products:	Audio-visual products.
Communications:	Provision of paging, internet content, software and solution, paid e-mail services and offline magazine publishing.
Real estate:	Development of residential and commercial properties for sale.

Segment revenue includes the Group's share of jointly controlled entities' turnover. Segment results include only those relating to the Group.

	Revenue		Segment results	
	Group and Group's share of jointly controlled entities' turnover		Contribution to profit from ordinary activities before taxation	
	Six months ended 30 June		Six months ended 30 June	
	2004	2003	2004	2003
Manufacture of				
industrial products	\$20,684,741	\$ 28,636,655	\$ (2,794,355)	\$ 4,049,549
Manufacture of				
consumer products	456,380	214,095	17,089,473	13,178,984
Communications	-	-	-	(65,773)
Real estate	-	-	(4,286,113)	(1,949,609)
Unallocated	10,719	194,844	(3,002,636)	(2,598,874)
	<u>\$21,151,840</u>	<u>\$ 29,045,594</u>	<u>\$ 7,006,369</u>	<u>\$ 12,614,277</u>

5 Profit from operations

Profit from operations is arrived at after charging/(crediting):

		Six months ended 30 June	
		2004	2003
(a)	Other net loss:		
	Net exchange loss	\$ (407)	\$ (989)
(b)	Operating expenses:		
	Administrative fee <i>(Note)</i>	\$ 343,114	\$ 342,164
	Auditors' remuneration	350,000	345,000
	Consultancy fee	–	100,961
	Custodian fee	30,000	120,000
	Legal and secretarial fees	435,809	365,685
	Management fee <i>(Note)</i>	2,024,522	1,938,376
	Project fee	–	221,013
	Other operating expenses	1,729,446	1,270,950
		\$ 4,912,891	\$ 4,704,149

Note: Administrative fee is paid to ING Management (Hong Kong) Limited, a wholly owned subsidiary of ING Groep N.V., pursuant to the agreements as disclosed in the 2003 directors' report. ING Groep N.V. is a substantial shareholder of the Company.

Management fee is paid to Baring Capital (China) Management Limited ("BCCM") pursuant to the terms of the agreements as disclosed in the 2003 directors' report. BCCM is also a wholly owned subsidiary of ING Groep N.V.

6 Income tax

- (a) No provision for Hong Kong Profits Tax has been made for the period ended 30 June 2004 as the Group has no assessable profits for the period. Income tax in the consolidated income statement for the period ended 30 June 2003 represents share of jointly controlled entities' taxation for the prior period. Taxation in the consolidated balance sheet represents provision for Hong Kong Profits Tax relating to the prior periods.
- (b) The Group has not recognised deferred tax assets in respect of the Group's share of tax losses of \$6,782,499 (31 December 2003: \$4,548,684) sustained by its associates. The tax losses will expire during 2007 to 2009.

7 Earnings per share

(a) *Basic*

The calculation of basic earnings per share is based on profit attributable to shareholders of \$7,006,369 (30 June 2003: \$12,558,916) and on 539,514,000 (30 June 2003: 539,512,000) ordinary shares in issue during the period.

(b) *Diluted*

Diluted earnings per share is not shown for the periods ended 30 June 2004 and 2003 as the potential ordinary shares are anti-dilutive.

8 Interest in associates

	At	At
	30 June	31 December
	2004	2003
Share of net assets	\$ 60,465,810	\$ 63,625,224
Amount due to associate	(7,780)	(8,028)
	<u>\$ 60,458,030</u>	<u>\$ 63,617,196</u>

Amount due to associate is unsecured, interest free and has no fixed terms of repayment.

- (i) On 30 June 2004, the Group's associate, China Property Development (Holdings) Limited ("CPDH"), completed a reorganisation pursuant to which, the Group's holding of 1,100 ordinary shares of US\$0.01 each were redesignated as 460 non-voting ordinary shares of US\$0.01 each and 640 ordinary shares of US\$0.01 each. Upon completion of the reorganisation, the Group's profit sharing ratio and proportion of voting rights held remain at 52.38% and 30% respectively.
- (ii) Sound Advantage Limited and Choice Capital Limited are wholly owned subsidiaries of CPDH. They hold equity interests of 30% and 50% in World Lexus Pacific Limited ("World Lexus") respectively. World Lexus' sole asset is a wholly owned PRC subsidiary, Beijing Pacific Palace Real Estate Development Co Ltd ("Beijing Pacific Palace"), which is engaged in a property development project at the Lido area of Jiangtai Town, Chaoyang District, Beijing, the PRC ("Pacific Town project").

The Pacific Town project is a medium density residential project with a mixed development of high rise apartments and villas. The development of the project will be carried out in several phases. During the period, Beijing Pacific Palace has obtained the pre-sale permit from the relevant government authorities for Phase I of the Pacific Town project. Pre-sale of the properties of Phase I commenced in late August 2004.

- (iii) Subsequent to the period end, CPDH entered into an agreement to acquire the remaining 20% equity interest in World Lexus from the minority shareholders for a consideration of RMB40 million (equivalent to \$37.7 million). The consideration is payable in 2 equal instalments within 90 days and 180 days of the issue of the pre-sale permit of the Pacific Town project. Pursuant to the agreement, CPDH is also required to reimburse the preliminary costs amounting to RMB45 million (equivalent to \$42.4 million) of the Pacific Town project incurred by the minority shareholders prior to CPDH's acquisition of the 80% equity interest in World Lexus in 2002. The reimbursement will be settled in 2 instalments. The first instalment is payable on completion and the remaining instalment is payable within 90 days of completion subject to certain conditions. The acquisition has not been completed as of the date of the interim report was approved by the Company's directors.
- (iv) During the period, CPDH paid total fees of US\$494,781 (equivalent to \$3.9 million) (period ended 30 June 2003: US\$Nil) to certain related parties of the Company who act as fund manager and project manager pursuant to the private placement memorandum of CPDH dated 13 September 2003. These related parties are either companies wholly owned by ING Groep N.V. or companies in which a director of the Company is a member of the senior management.

9 Interest in jointly controlled entities

	At	At
	30 June	31 December
	2004	2003
Share of net assets	\$ 23,324,580	\$ 26,484,133
Amounts due from jointly controlled entities	<u>1,734,416</u>	<u>2,750,243</u>
	<u>\$ 25,058,996</u>	<u>\$ 29,234,376</u>

Amounts due from jointly controlled entities are unsecured, interest free and have no fixed terms of repayment.

In March 2002, the Group entered into a conditional agreement with Beijing Capital Group pursuant to which, the Group agreed to sell an equity interest of 9% in Beijing Far East Instrument Company Limited, a jointly controlled entity in which the Group currently holds a 35% equity interest, for a consideration of approximately RMB14 million (equivalent to \$13 million), subject to the fulfilment of certain conditions. The consideration is payable over a period of 5 years. Up to 30 June 2004, the disposal has not been accounted for as the conditions have not been satisfied.

10 Non-trading investments

		At	At
		30 June	31 December
	<i>Note</i>	2004	2003
Investment in unlisted joint venture	<i>(a)</i>	\$ –	\$ –
Investments in unlisted companies	<i>(b)</i>	–	–
Listed investments	<i>(c)</i>	20,500,000	44,497,050
		\$ 20,500,000	\$ 44,497,050

Notes:

- (a) The Group invested \$61,495,650 for an 18% equity interest in Beijing Asia Pacific First Star Communications Technology Co. Ltd. The cost of investment is fully provided for.
- (b) The Group invested \$23,557,891 for a 10.44% equity interest in ChinaGo Limited. The cost of investment is fully provided for.
- (c) At 31 December 2003, the Group held 22,819,000 ordinary shares of Skyworth Digital Holdings Limited, a company listed on the HKSE. During the period, the Group disposed of 12,819,000 shares for a total consideration of \$28,580,450, resulting in a gain on disposal, net of expenses, of \$16,938,629. As at 30 June 2004, the remaining 10,000,000 shares were stated at their market value at \$2.05 per share as quoted on the HKSE. A revaluation surplus of \$1,000,000 has been transferred to investment revaluation reserve during the period ended 30 June 2004.

11 Investment deposit

The amount represents the purchase consideration paid to acquire a 15% equity interest in a joint venture entity in the PRC. The PRC joint venture is engaged in the development of residential properties at the Taiyanggong Zone F in Beijing, the PRC. The acquisition has not been completed as at 30 June 2004.

12 Cash and cash equivalents

	At 30 June 2004	At 31 December 2003
Deposits with banks and other financial institutions	\$ 37,815,902	\$ 13,890,347
Cash at bank and in hand	483,469	580,162
	<u>\$ 38,299,371</u>	<u>\$ 14,470,509</u>

13 Share capital

	No. of shares	Amount
Authorised:		
Ordinary shares of \$0.10 each	<u>1,200,000,000</u>	<u>\$ 120,000,000</u>
Issued and fully paid:		
At 1 January 2004 and 30 June 2004	<u>539,514,000</u>	<u>\$ 53,951,400</u>

- (a) The Company has a share option scheme under which the Board of Directors of the Company may grant options to employees of the Company and its subsidiaries, including directors, to subscribe for shares in the Company. The number of options granted and outstanding at 30 June 2004 is as follows:

Date options granted	Period during which options exercisable	Number of options granted and outstanding at 31 December 2003 and 30 June 2004
27 November 2001	28 May 2002 to 27 November 2004	18,861,150
11 December 2001	28 May 2002 to 27 November 2004	2,694,450

There were no options granted or exercised during the period.

- (b) Pursuant to a subscription agreement dated 14 April 2004, the Company agreed to place 107,600,000 new shares to an independent third party at a price of \$0.14 per share. The new shares shall rank pari passu in all respects with the existing issued shares of the Company. Completion of the allotment has been rescheduled to take place in October 2004.

14 Reserves

	Share premium	Exchange reserves	Investment revaluation reserve	Accumulated losses	Total
At 1 January 2003	\$ 498,097,415	\$ 3,098,294	\$ 15,414,840	\$ (403,936,214)	\$ 112,674,335
Profit for the year	-	-	-	8,181,299	8,181,299
Exchange differences on translation of financial statements of PRC jointly controlled entities	-	(106,693)	-	-	(106,693)
Share of exchange and other reserves of associates	-	(1,418)	-	(1,517,553)	(1,518,971)
Surplus on revaluation of non-trading investments	-	-	24,785,470	-	24,785,470
Shares issued from exercise of warrants	249	-	-	-	249
Transfer to income statement	-	-	(16,240,360)	-	(16,240,360)
	<u>\$ 498,097,664</u>	<u>\$ 2,990,183</u>	<u>\$ 23,959,950</u>	<u>\$ (397,272,468)</u>	<u>\$ 127,775,329</u>
At 31 December 2003	<u>\$ 498,097,664</u>	<u>\$ 2,990,183</u>	<u>\$ 23,959,950</u>	<u>\$ (397,272,468)</u>	<u>\$ 127,775,329</u>
At 1 January 2004	\$ 498,097,664	\$ 2,990,183	\$ 23,959,950	\$ (397,272,468)	\$ 127,775,329
Profit for the period	-	-	-	7,006,369	7,006,369
Exchange differences on translation of financial statements of PRC jointly controlled entities	-	131,601	-	-	131,601
Surplus on revaluation of non-trading investments	-	-	1,000,000	-	1,000,000
Transfer to income statement	-	-	(13,459,950)	-	(13,459,950)
	<u>\$ 498,097,664</u>	<u>\$ 3,121,784</u>	<u>\$ 11,500,000</u>	<u>\$ (390,266,099)</u>	<u>\$ 122,453,349</u>
At 30 June 2004	<u>\$ 498,097,664</u>	<u>\$ 3,121,784</u>	<u>\$ 11,500,000</u>	<u>\$ (390,266,099)</u>	<u>\$ 122,453,349</u>

15 Net asset value per share

The net asset value per share is computed based on the consolidated net assets of \$176,404,749 (31 December 2003: \$181,726,729) and 539,514,000 shares in issue as at 30 June 2004 and 31 December 2003.

16 Capital commitments

At 30 June 2004, the Group's share of an associate's capital commitments outstanding not provided for in the interim financial report was as follows:

	At 30 June 2004	At 31 December 2003
Authorised and contracted for	\$ 50,069,000	\$ 42,572,000
Authorised but not contracted for	<u>93,542,000</u>	<u>127,661,000</u>
	<u><u>\$ 143,611,000</u></u>	<u><u>\$ 170,233,000</u></u>

The above commitments represent estimated costs to be incurred in respect of the Phase I of the Pacific Town project as described in note 8.

17 Reorganisation

The scheme of arrangement pursuant to section 166 of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) as mentioned in note 20 to the Group's 2003 annual financial statements has not been implemented as of the date of this interim financial report.

18 Investment proposal

The proposal to invest in the development of commercial properties at Taiyanggong Zone E in Beijing, the PRC as disclosed in note 21 to the Group's 2003 annual financial statements is in progress. No formal agreement has been reached as at the date of this interim financial report.

19 Subsequent event

In August 2004, the Group's associate, CPDH, entered into an agreement to acquire the remaining 20% equity interest in World Lexus, details of which are set out in note 8.

20 Related party transactions

During the period, the Group and its associates paid management fees and other expenses to certain related companies, the details of which are set out in note 5(b) and note 8 to this interim financial report.