



中洲控股有限公司
Central China Enterprises Limited

Embracing a glorious
future through our
continuous advancement

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INTERIM RESULTS

The board of directors (the "Board") of Central China Enterprises Limited (the "Company") presents herewith the interim report and condensed financial statements of the Company and its subsidiaries (collectively, the "Group") for the six months ended 30 June 2004. The consolidated results, consolidated cash flow statement and consolidated statement of changes in equity of the Group for the six months ended 30 June 2004, and the consolidated balance sheet as at 30 June 2004 of the Group, all of which are unaudited and condensed, along with selected explanatory notes, are set out on pages 6 to 17 of this report:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2004

	Notes	For the six months ended 30 June	
		2004	2003
		(unaudited) HK\$'000	(unaudited) HK\$'000
Turnover	2	74,329	348
Cost of sales		(73,416)	(7)
Gross profit		913	341
Other revenues		21	34
Other income		-	5,000
Distribution costs		-	(17)
Administrative expenses		(10,815)	(22,155)
Other operating expenses		(5,210)	(5,210)
Loss from operations	3	(15,091)	(22,007)
Finance costs	4	(275)	(793)
Net investment gain (loss)	5	1	(6,564)
Share of result of associate		-	(7,244)
Loss on disposal of subsidiaries		(3,404)	(620)
Gain on disposal of associate		38,826	-
Profit (Loss) before taxation		20,057	(37,228)
Income tax	6	-	-
Profit (Loss) after taxation		20,057	(37,228)
Minority interests		-	-
Net profit (loss) for the period		20,057	(37,228)
Earnings (Loss) per share	8		
- Basic		3.96 cents	(13.98) cents
- Diluted		N/A	N/A

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2004

	Notes	As at 30 June 2004 (unaudited) HK\$'000	As at 31 December 2003 (audited) HK\$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	9	1,233	4,973
Goodwill	9	28,654	33,864
Interest in associate		–	9,004
		<u>29,887</u>	<u>47,841</u>
Current assets			
Inventories		607	117
Film in progress		15,000	–
Trade and other receivables	10	18,603	12,794
Bank balances and cash		26,021	806
		<u>60,231</u>	<u>13,717</u>
Current liabilities			
Trade and other payables	11	3,492	10,356
Obligations under finance leases		80	148
Bank loan – due within one year	12	–	16,723
		<u>3,572</u>	<u>27,227</u>
Net current assets (liabilities)		<u>56,659</u>	<u>(13,510)</u>
Total assets less current liabilities		<u>86,546</u>	<u>34,331</u>
Non-current liabilities			
Obligations under finance leases		<u>(12)</u>	<u>(34)</u>
Minority interests		<u>(7)</u>	<u>(7)</u>
		<u>86,527</u>	<u>34,290</u>
CAPITAL AND RESERVES			
Share capital	13	6,733	532,674
Reserves		79,794	(498,384)
		<u>86,527</u>	<u>34,290</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2004

	For the six months ended 30 June	
	2004 (unaudited) HK\$'000	2003 (unaudited) HK\$'000
Net cash used in operating activities	(39,938)	(3,642)
Net cash from investing activities	49,802	5,402
Net cash from (used in) financing activities	15,351	(2,027)
Net increase (decrease) in cash and cash equivalents	25,215	(267)
Cash and cash equivalents at beginning of the period	806	984
Cash and cash equivalents at end of the period representing bank balances and cash	26,021	717

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2004

	Share Capital	Reserves				Total share-holders' equity HK\$'000
	Paid-up share capital HK\$'000 (Note 13)	Share premium HK\$'000	Translation reserve HK\$'000	Deficit HK\$'000	Total reserves HK\$'000	
As at 1 January 2004	532,674	491,076	(16)	(989,444)	(498,384)	34,290
Net profit for the period	-	-	-	20,057	20,057	20,057
Movement in translation reserve in relation to the disposal of an overseas associate	-	-	16	-	16	16
Reduction of capital pursuant to the Special Resolution and the sanction of the Order (Note 13(i))	(530,011)	(341,236)	-	871,247	530,011	-
New issue and allotment of shares pursuant to the Subscription Agreement (Note 13(ii))	2,950	14,071	-	-	14,071	17,021
New issue and placing of shares pursuant to the Placing Agreements (Note 13(iii))	1,120	14,023	-	-	14,023	15,143
As at 30 June 2004	6,733	177,934	-	(98,140)	79,794	86,527
As at 1 January 2003	532,674	491,076	(16)	(930,585)	(439,525)	93,149
Exchange differences arising on translation of the financial statements of foreign subsidiaries	-	-	(51)	-	(51)	(51)
Net loss for the period	-	-	-	(37,228)	(37,228)	(37,228)
As at 30 June 2003	532,674	491,076	(67)	(967,813)	(476,804)	55,870

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30 June 2004

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

These unaudited condensed consolidated financial statements have been prepared in accordance with the requirements of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the Statement of Standard Accounting Practice 2.125 "Interim financial reporting" (SSAP 25) issued by the Hong Kong Institute of Certified Public Accountants.

These condensed financial statements should be read in conjunction with the 2003 annual financial statements.

The basis of preparation and accounting policies adopted in the preparation of these condensed financial statements are consistent with those used in the audited annual financial statements for the year ended 31 December 2003.

2. TURNOVER AND SEGMENTAL INFORMATION

The principal activities of the Group are computer hardware and provision of maintenance support services, software design and development, and guaranteed income investments in a power plant and a motor spare parts business in the People's Republic of China (the "PRC").

Business segments for the six months end 30 June 2004 (unaudited)

	Discontinuing operation	Continuing operations				Consolidated HK\$'000
		Internet software services HK\$'000 (Note (i))	Computer hardware and maintenance support services HK\$'000	Software design and development HK\$'000	Power plant HK\$'000 (Note (ii))	
TURNOVER						
External sales	-	73,845	484	-	-	74,329
Contribution to loss from operations	-	(420)	(758)	-	-	(1,178)
Other revenues						21
Unallocated expenses (Note (iii))						(13,934)
Loss from operations						(15,091)

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2004

2. TURNOVER AND SEGMENTAL INFORMATION (continued)

Business segments for the six months ended 30 June 2003 (unaudited)

	Discontinuing operation	Continuing operations				Consolidated HK\$'000
		Computer hardware and maintenance support services	Software design and development	Power plant	Motor spare parts business	
	HK\$'000 (Note (i))	HK\$'000	HK\$'000	HK\$'000 (Note (ii))	HK\$'000 (Note (ii))	HK\$'000
TURNOVER						
External sales	-	-	348	-	-	348
Contribution to loss from operations	-	-	(3,032)	-	-	(3,032)
Other revenues						34
Other income						5,000
Unallocated expenses (Note (iii))						(24,009)
Loss from operations						(22,007)

Notes:

- (i) The Group was also engaged in the provision of Internet software services. This operation was disposed of on 28 November 2003.
- (ii) No return has been recognised in both periods as the recoverability of the guaranteed return is considered by the directors to be uncertain.
- (iii) There were no sales or other transactions between the business segments. Unallocated expenses mainly represent corporate expenses.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2004

3. LOSS FROM OPERATIONS

	For the six months ended 30 June	
	2004	2003
	(unaudited)	(unaudited)
	HK\$'000	HK\$'000
Loss from operations has been arrived at after crediting and charging the following:		
Crediting:		
Net gain on disposal of property, plant and equipment	–	20
Reversal for provision for doubtful debts	–	5,000
Charging:		
Depreciation and amortisation of:		
– property, plant and equipment	610	1,528
– goodwill arising on acquisition of subsidiary (included in other operating expenses)	5,210	5,210
	<u>5,820</u>	<u>6,738</u>

4. FINANCE COSTS

	For the six months ended 30 June	
	2004	2003
	(unaudited)	(unaudited)
	HK\$'000	HK\$'000
Interest on bank borrowings wholly repayable within five years	268	767
Interest element of finance leases	7	7
Other borrowing costs	–	19
Total borrowing costs	<u>275</u>	<u>793</u>

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2004

5. NET INVESTMENT GAIN (LOSS)

	For the six months ended 30 June	
	2004	2003
	(unaudited)	(unaudited)
	HK\$'000	HK\$'000
Unrealised holding loss on other investments	–	(3,748)
Loss on disposal of other investments	–	(2,426)
Loss on disposal of investment securities	–	(580)
Dividend income	–	17
Interest income	1	173
	<u>1</u>	<u>(6,564)</u>

6. INCOME TAX

Current tax

Hong Kong profits tax is calculated at 17.5% (2003: 17.5%) on the estimated assessable profit for the period. Taxation for overseas subsidiaries is similarly charged at the appropriate current rates of taxation ruling in the relevant countries.

No provision for Hong Kong profits tax has been made in the financial statements as the companies operating in Hong Kong did not have any assessable profit in both periods.

No provision for PRC income tax has been made in the financial statements as the companies operating in the PRC had no assessable profit for both periods.

Deferred tax

No deferred tax liabilities are recognised in the financial statements as the Group did not have material temporary difference arising between the tax bases of assets and liabilities and their carrying amounts as at 30 June 2003 and 2004.

A deferred tax asset has not been recognised in the financial statements in respect of tax losses available to offset future profits due to the uncertainty of future profit streams against which asset can be utilised.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2004

7. DIVIDENDS

No dividends were paid or declared for the six months ended 30 June 2004 (2003: Nil).

8. EARNINGS (LOSS) PER SHARE

The calculation of basic earnings (loss) per share for the six months ended 30 June 2004 is based on the net profit for the six months ended 30 June 2004 of approximately HK\$20,057,000 (six months ended 30 June 2003: loss of approximately HK\$37,228,000) and on the weighted average of 506,963,474 ordinary shares (six months ended 30 June 2003 (restated): 266,337,015 ordinary shares) in issue during the period.

The weighted average number of ordinary shares for the last period has been adjusted for the share consolidation and share subdivision effected on 10 February 2004 and 31 May 2004 respectively, further details of which are set out in notes 13(i) and (iv) to this report.

No diluted earnings (loss) per share has been presented for both periods as the exercise of the Company's outstanding share options would have an anti-dilutive effect in diluted earnings (loss) per share.

9. CAPITAL EXPENDITURE

	Goodwill (unaudited) HK\$'000	Property, plant and equipment (unaudited) HK\$'000
For the six months ended 30 June 2004		
Opening net book amount as at 1 January 2004	33,864	4,973
Additions	-	3
Disposals	-	(3,133)
Amortisation/depreciation charge (Note 3)	(5,210)	(610)
Closing net book amount as at 30 June 2004	<u>28,654</u>	<u>1,233</u>

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2004

10. TRADE AND OTHER RECEIVABLES

The Group allows an average credit period of 30 days to its trade customers. The ageing analysis of trade receivables at the balance sheet date is as follows:

	30 June 2004 (unaudited) HK\$'000	31 December 2003 (audited) HK\$'000
Up to 30 days	98	81
31 to 60 days	-	-
61 to 90 days	-	-
91 days or above	270	400
Total trade receivables	368	481
Other receivables (Note)	18,235	12,313
	18,603	12,794

Note:

Included in other receivables as at 30 June 2004 is the outstanding balance for the purchase consideration due from the purchaser in connection with the disposal of a subsidiary during the year ended 31 December 2001. This outstanding balance, which is repayable within one year from the balance sheet date, is analysed as follows:

	30 June 2004 (unaudited) HK\$'000
Buildnow Industries Limited	9,729
Allowance for other receivables	(6,000)
	3,729

HK\$1,500,000 of the amount due by Buildnow Industries Limited was subsequently settled after the balance sheet date and the directors of the Company are currently negotiating for the recovery of the remaining outstanding balance. Buildnow Industries Limited is not related to the Group, or the Company's directors or substantial shareholders.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2004

11. TRADE AND OTHER PAYABLES

The ageing analysis of trade payables as at the balance sheet date is as follows:

	30 June 2004 (unaudited) HK\$'000	31 December 2003 (audited) HK\$'000
Up to 30 days	97	106
31 to 60 days	–	–
61 to 90 days	–	–
91 days or above	2	–
Total trade payables	99	106
Other payables (Note)	3,393	10,250
	<u>3,492</u>	<u>10,356</u>

Note:

Included in other payables as at 30 June 2004 are an amount due to a director, Mr. Chan Tat Chee and an amount due to a former director, Mr. Chung Chi Shing amounting to approximately HK\$279,000 and HK\$715,000 respectively. The amounts due represented operating expenses paid on behalf of the Group, the terms of which are unsecured, interest-free and repayable within one year from the balance sheet date.

12. BANK LOAN

The maturity of the bank loan is as follows:

	30 June 2004 (unaudited) HK\$'000	31 December 2003 (audited) HK\$'000
Within one year and shown under current liabilities (Note)	–	16,723

Note:

As at 31 December 2003, the bank loan of the Group was guaranteed by Henan Hongkong Finance Limited, a wholly owned subsidiary of Henan Hongkong Enterprises Limited, without charge. In addition, the Group's guaranteed return in Henan Taiwu Electric Power Co., Ltd. was also pledged to the bank to secure the bank loan. The bank loan was fully repaid during the six months ended 30 June 2004.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2004

13. SHARE CAPITAL

The following movements in the Company's authorised and issued share capital took place during the six months ended 30 June 2004:

- (i) The share capital of the Company was by virtue of a special resolution passed by the shareholders of the Company on 3 October 2003 (the "Special Resolution") and with the sanction of an Order of the High Court of The Hong Kong Special Administrative Region dated 3 February 2004 (the "Order") reduced from HK\$532,674,200 divided into 2,663,371,000 shares of HK\$0.20 each to HK\$2,663,371 divided into 26,633,710 shares of HK\$0.10 each, and that such reduction be effected by consolidating every 100 of the 2,663,371,000 shares of HK\$0.20 each in issue into one consolidated share of HK\$20, and cancelling paid up capital to the extent of HK\$19.90 upon each such consolidated share, and by reducing the nominal amount of all such consolidated shares to HK\$0.10 per new share, with effect from 10 February 2004.

The share premium account of the Company was by virtue of the Special Resolution and with the sanction of the Order reduced from HK\$491,076,364 as at 31 December 2003 to HK\$149,839,914, with effect from 10 February 2004.

By virtue of the reduction of capital sanctioned by the Order and the Special Resolution, the share capital of the Company was accordingly HK\$1,200,000,000 consisting of 12,000,000,000 ordinary shares of HK\$0.10 each, of which 26,633,710 ordinary shares have been issued and fully paid, with effect from 10 February 2004.

- (ii) On 30 June 2003, the Company entered into a subscription agreement (the "Subscription Agreement") with Aimstar Holdings Limited ("Aimstar") and Mr. Chan Tat Chee, a director of the Company, as guarantor in relation to the subscription of an aggregate of 29,500,000 new shares of HK\$0.10 each in the Company by Aimstar for a total consideration of HK\$18,000,000 (the "Subscription"). The Subscription was completed on 10 February 2004. The net proceeds from the Subscription was applied to repay a substantial portion of the bank loan.
- (iii) On 12 May 2004, the Company entered into a placing agreement (as amended by the supplemental agreement dated 28 May 2004) with Sanfull Securities Limited in relation to the placing (the "Placing") on new shares (the "Placing Shares") of the Company (the "Placing Agreements"). Sanfull Securities Limited has successfully placed a total of 112,000,000 Placing Shares at HK\$0.14 per Placing Share to not less than six independent investors and the completion of the Placing took place on 14 June 2004.
- (iv) By an ordinary resolution passed by the shareholders of the Company on 28 May 2004, each of the issued and unissued shares of HK\$0.10 each in the capital of the Company was subdivided into ten shares of HK\$0.01 each (the "Subdivided Share") in the capital of the Company with effect from 31 May 2004 (the "Share Subdivision"). Upon completion of the Share Subdivision, the authorised share capital of the Company was HK\$1,200,000,000 comprising 120,000,000,000 Subdivided Shares of HK\$0.01 each, of which 673,337,100 Subdivided Shares have been issued and fully paid.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2004

13. SHARE CAPITAL (continued)

A summary of the above movements in the authorised and issued share capital of the Company is as follows:

		Number of shares	Par value HK\$'000
Authorised:			
As at 1 January 2004		6,000,000,000	1,200,000
Reduction of capital pursuant to the Special Resolution and the sanction of the Order	Note 13(i)	6,000,000,000	-
Increase in authorised shares pursuant to the Share Subdivision	Note 13(iv)	108,000,000,000	-
As at 30 June 2004		<u>120,000,000,000</u>	<u>1,200,000</u>
Issued and fully paid:			
As at 1 January 2004		2,663,371,000	532,674
Reduction of capital pursuant to the Special Resolution and the sanction of the Order	Note 13 (i)	(2,636,737,290)	(530,011)
New issue and allotment of shares pursuant to the Subscription Agreement	Note 13 (ii)	29,500,000	2,950
New issue and placing of shares pursuant to the Placing Agreements	Note 13 (iii)	112,000,000	1,120
Increase in issued shares pursuant to the Share Subdivision	Note 13 (iv)	505,203,390	-
As at 30 June 2004		<u>673,337,100</u>	<u>6,733</u>

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2004

14. THE UNDERTAKING

Pursuant to the Order in connection with the reduction of share capital and reduction of share premium account as set out in note 13(i), an undertaking was given by the Company that after the reduction of share capital and reduction of share premium account took effect, in the event of its making any future recoveries in respect of the assets (as identified in the First Schedule of the Order), in respect of which provision for diminution in value or depreciation was made in the accounts of the Company between 1 January 1998 and 30 June 2003, beyond their written down value in the Company's accounts as at 30 June 2003, all such recoveries beyond that written down value up to an amount of HK\$254,306,257.39 (the "Limit"), will be credited to a special capital reserve in the accounting records of the Company ("Special Capital Reserve").

While any debt of or claim against the Company, at the date on which the reduction of share capital and reduction of share premium account became effective (the "Effective Date"), remains outstanding and the persons entitled to the benefit of such debts or claims have not agreed otherwise, the Special Capital Reserve shall not be treated as realised profits for the purposes of section 79B of the Companies Ordinance and (for so long as the Company remains a listed company within the definition of section 2 of the Companies Ordinance) shall be treated as an undistributable reserve of the Company for the purposes of section 79C of the Companies Ordinance or any statutory re-enactments or modifications thereof.

The undertaking, however, is subject to the following provisos:

- (1) the Company shall be at liberty to apply Special Capital Reserve for the same purposes as a share premium account may be applied;
- (2) the Limit in respect of Special Capital Reserve may be reduced by the amount of any increase, after the Effective Date, in the paid up share capital or the amount standing to the credit of the share premium account of the Company as the result of the payment up of shares by the receipt of new consideration or the capitalisation of distributable profits;
- (3) the Limit in respect of Share Capital Reserve may be reduced upon the disposal or other realisation, after the Effective Date, of any of the assets (as identified in the First Schedule of the Order) by the amount of the provision made in relation to such asset as at 30 June 2003 (which amount is set out in the First Schedule of the Order) less such amount (if any) as is credited to Special Capital Reserve as a result of such disposal or realisation; and
- (4) in the event that the amount standing to the credit of Special Capital Reserve exceeds the Limit thereof after any reduction of such Limit pursuant to provisos (2) and/or (3) above, the Company shall be at liberty to transfer the amount of any such excess to the general reserves of the Company and the same shall become available for distribution.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2004

15. OPERATING LEASE COMMITMENTS

As at 30 June 2004, the total future minimum lease payments under non-cancellable operating leases in respect of rented office premises are payable as follows:

	30 June 2004 (unaudited) HK\$'000	31 December 2003 (audited) HK\$'000
Within one year	818	3,558
In the second to fifth year inclusive	67	-
	<u>885</u>	<u>3,558</u>

16. CONTINGENCIES

As at 30 June 2004, the Group did not have any significant contingencies other than those disclosed elsewhere in this report or in the audited annual financial statements for the year ended 31 December 2003.

17. SUBSEQUENT EVENTS

- (i) Pursuant to a subscription agreement entered into between the Company and CITIC International Assets Management Limited ("CIAM") on 24 June 2004 (the "Convertible Notes Subscription Agreement"), the Company agreed to issue and CIAM agreed to subscribe HK\$20,000,000 8.5 per cent. extendable convertible notes due 2006 (the "Convertible Notes"). By an ordinary resolution passed by the shareholders of the Company on 9 August 2004 and upon the fulfilment of the conditions as set out in the Convertible Notes Subscription Agreement, the Convertible Notes were successfully issued to CIAM on 24 August 2004.
- (ii) On 27 August 2004, the Company entered into a placing agreement (as amended by the supplemental agreement dated 8 September 2004) with Kingston Securities Limited in relation to the placing of 134,660,000 new shares of the Company to independent investors at a price of HK\$0.45 per placing share.
- (iii) Beijing Yuk Chak Enterprise Ltd. ("Beijing Yuk Chak") and Abba China Holdings Limited ("Abba China"), a wholly-owned subsidiary of the Company, entered into a letter of intend ("LOI") on 27 August 2004 in relation to the negotiation of an acquisition of approximately 32.89% stake of Beijing China Sciences General Energy & Environment Co., Ltd. ("Beijing China Sciences") from Beijing Yuk Chak. Beijing China Sciences is principally engaged in waste combustion electric power business. Abba China has been granted an exclusive right for negotiation of the acquisition for three months from the date of the LOI. Abba China has subsequently deposited HK\$10,000,000 as earnest money to Beijing Yuk Chak.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2004

17. SUBSEQUENT EVENTS (continued)

- (iv) On 8 September 2004, China Sciences Green Energy Investments Limited ("Party A"), a wholly-owned subsidiary of the Company, entered into a co-operation agreement (as amended by the supplemental agreement dated 14 September 2004) (the "Co-operation Agreements") with 廣西桂林興安火電廠 (Guangxi Guilin Xin An Fire & Electrical Factory) ("Party B") and 桂林容發環保工程管理有限公司 (Guilin Rong Fa Environmental Engineering Management Limited) ("Party C") to establish a sino-foreign equity joint venture, 桂林中科環保電力有限公司 (the "JV Company"), in Guilin, the PRC for carrying on the waste incineration and processing business in Guilin. According to the Co-operation Agreements, the equity interest of Party A, Party B and Party C in the JV Company will be 80%, 10% and 10% respectively. The registered capital of the JV Company shall be RMB44 million (equivalent to approximately HK\$41.5 million) and the total investment amount shall be RMB110 million (equivalent to approximately HK\$103.8 million). The registered capital shall be contributed by the parties in proportion to their respective equity interest in the JV Company by way of cash. Further details of the aforesaid transaction are set out in the announcement dated 14 September 2004.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

For the six months ended 30 June 2004, the Group reported a turnover of approximately HK\$74,329,000 (2003: approximately HK\$348,000) representing an increase of 21,258.9% when compared with the corresponding period in 2003. The net profit attributable to shareholders was approximately HK\$20,057,000 while in the corresponding period of 2003, loss of approximately HK\$37,228,000 was recorded. The improvement in performance was partly attributable to the increase in turnover following the Group's successful establishment of a branch specializing in trading and distribution of computer hardware, which was put into full operation in the period and partly from gain on disposal of non-profitable associated company of approximately HK\$38,826,000. The Group's administrative expenses were dramatically reduced by 51.18% to approximately HK\$10,815,000 from HK\$22,155,000 of the corresponding period in 2003. It was mainly attributable to the reduction in amount of staff remuneration following the Group's costs reduction programme.

Prospect

The performance of the Sharpo solutions system is growing steadily. Sharp solutions are retail management system for retail chain store operators engaging in apparel, pharmaceuticals, optical and other general trading sectors in the PRC. The synergy effect generated by the computer hardware trading and distribution business, which was established in the second half of year 2003, started to contribute to the turnover of the Sharpo solution system. Leveraged on the customer base already built, the experience gained in developing value added services to the Sharpo solutions, the proprietary knowledge the Group has and the growth in the retail market in the PRC, the Group will continue to enlarge the customer base, to build up more value added services to enhance the revenue base and to increase the profit margin.

The Group will go on explore other investment opportunities which may include waste incineration and processing business in the PRC. The Group is in preliminary discussion with an independent third party in relation to a possible co-operation or investment opportunity in Guilin, the PRC in the area of environmental protection by using sophisticated technology to transform domestic waste into electricity power which will enable the Group to expand and diversify its business. The management is of the view that the materialization of such investment plan is in line with the business strategy of the Group and represents an excellent opportunity for the Group to invest in a unique business with vast market potential.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Capital Reorganization

During the period under review, the Group went on to work on the capital reorganization scheme initiated in August 2003. The scheme involved share consolidation, capital reduction, share subdivision and reduction of share premium account. The main purpose of the scheme is to eliminate accumulated losses of the Company and bring forward the time when the Company will be in a position to pay dividends. It also creates the Company greater flexibility to raise funds. The scheme was sanctioned by the High Court of Hong Kong and was completed in February 2004.

In order to improve the liquidity of the shares, to attract more investors and to widen the shareholder base of the Company, the Company proposed (a) subdivision of shares whereby each of the issued and unissued shares of HK\$0.10 each in the share capital of the Company was subdivided into ten shares of HK\$0.01 each and (b) change of board lot size from 1,000 shares to 10,000 shares. The proposals were approved by shareholders at the extraordinary general meeting held on 28 May 2004. All the formalities were completed in July 2004 and the shares of the Company are traded as such from then on.

Liquidity and Financial Resources

The Group is financed by resources from its equity capital base; internal cash flow generated by operations and the proceeds of disposal of non-core assets and investments and bank borrowings.

As at 30 June 2004, the Group had net current assets of approximately HK\$56,659,000 (31 December 2003: net current liabilities of approximately HK\$13,510,000) and shareholders' fund of approximately HK\$86,527,000 (31 December 2003: approximately HK\$34,290,000). The increase in current assets and shareholders' fund were mainly attributable to the funds raised as articulated below and the net profit of approximately HK\$20,057,000 made in the period.

The subscription agreement of 30 June 2003 entered into with Mr. Chan Tat Chee and Aimstar Holdings Limited allowing Aimstar to subscribe for 29,500,000 shares in the then share capital of the Company for a total consideration of HK\$18,000,000 was completed in February 2004. The net proceeds was applied to repay substantial portion of the Group's bank loan.

On 14 June 2004, the Company successfully raised additional equity fund of approximately HK\$15,143,000 by a placement of 112,000,000 shares at HK\$0.14 each to individuals or institutional investors. Approximately HK\$2,000,000 was used to repay the remaining portion of bank loan, the balance of approximately HK\$13,143,000 was retained for general working capital purpose.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Liquidity and Financial Resources (continued)

On 24 June 2004, the Company entered into a subscription agreement pursuant to which the Company agreed to issue and CITIC International Assets Management Limited, a wholly owned subsidiary of CITIC International Financial Holdings Limited, agreed to subscribe for a total HK\$20,000,000 8.50 per cent. extendable convertible notes due 2006 issued by the Company. The net proceeds of approximately HK\$19,000,000 will be applied to future investment in waste incineration and processing business in the PRC. The issuance of the convertible notes was approved by shareholders at an Extraordinary General Meeting held on 9 August 2004. The issuance was completed on 24 August 2004 and the net proceeds of approximately HK\$19,000,000 was received by the Company.

The Company repaid all the outstanding bank loans in the period. Therefore, the gearing ratio of the Group, which is calculated as total borrowings to the Groups' shareholders' fund, is zero (31 December 2003: 0.48).

Employee and Remuneration Policy

As at 30 June 2004, the Group had 47 employees, 31 of whom were based in the PRC, and remunerated them in accordance with their performance, experience and prevailing market practices.

In addition, share options may be granted to eligible persons in accordance with the terms of The 2002 Share Option Scheme. During the period under review, options amounting to 11,000,000 ordinary shares were granted to the director of the Company and employees of the Group.

DISCLOSURE OF INTERESTS

I. Directors' interests and short positions in shares, underlying shares and debentures

As at 30 June 2004, the interests and short positions of each director and chief executive of the Company in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO")) which are required to be noticed to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he/she is taken or deemed to have under such provisions of SFO); or are required pursuant to section 352 of the SFO to be entered in the register referred to therein; or are required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") to be notified to the Company and the Stock Exchange were as follows:

(a) Long positions in shares of the Company

Name of the director	Capacity	Number of shares of the Company				Approximate percentage of Total shareholding
		Personal interests	Family Interests	Corporate interests	Other interests	
Chan Tat Chee (Note 1)	Interest of a controlled corporation			295,000,000		43.81%
Tang Yuk Chee, Josephine (Note 1)	Interest of a controlled corporation			295,000,000		43.81%
Kwong Cheung Tim, Jimmy	Beneficial owner	15,000,000			15,000,000	2.23%

Note:

- By virtue of SFO, Mr. Chan Tat Chee and Ms. Tang Yuk Chee, Josephine are deemed to be interested in 295,000,000 shares of the Company held by Aimstar Holdings Limited, a company which is owned as to 50% by each of Mr. Chan Tat Chee and Ms. Tang Yuk Chee, Josephine.

DISCLOSURE OF INTERESTS (continued)

I. Directors' interests and short positions in shares, underlying shares and debentures (continued)

(b) Rights to acquire shares of the Company

Pursuant to a share option scheme adopted by the Company on 27 May 2002 (the "2002 Share Option Scheme"), Mr. Chow Ho Tung, Anthony, a director of the Company was granted share options to subscribe for shares of the Company, details of which as at 30 June 2004 were as follows:

Date of grant	Number of share options outstanding as at 30 June 2004	Option period	Subscription price per share of the Company HK\$
23 February 2004	5,600,000	14 February 2004 to 23 February 2014	0.2790 (Note 1)

Note:

1. The subscription price per share of the Company was adjusted to HK\$0.2744 on 24 August 2004 take into account the shares of the Company which may be issued by the Company as a result of the subscription of HK\$20,000,000 8.5% extendable convertible notes due 2006 under the subscription agreement dated 24 June 2004 entered into between the Company and CITIC International Assets Management Limited.

(c) Short positions in shares of the Company

The 295,000,000 shares in the Company held by Aimstar Holdings Limited in which Mr. Chan Tat Chee and Ms. Tang Yuk Chee, Josephine, both of whom are directors of the Company are deemed to be interested in, are pledged to Kingston Finance Limited.

Save as disclosed, none of the directors and chief executive of the Company or their associates had, as at 30 June 2004, any interests and short positions in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he/she is taken or deemed to have under such provisions of SFO); or are required pursuant to section 352 of the SFO to be entered in the register referred to therein; or are required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies of the Listing Rules to be notified to the Company and the Stock Exchange.

DISCLOSURE OF INTERESTS (continued)

II. Interests and short positions of shareholders

As at 30 June 2004, the persons or corporations (not being a director or chief executive of the Company) who have interests or short position in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO or have otherwise notified to the Company were as follows:

Name	Capacity	Number of shares of the Company held	Approximate percentage of shareholding
Wu Chi Chiu	Beneficial owner	73,956,400	10.98%
CITIC International Assets Management Limited (Note 1)	Beneficial owner	66,666,666 (Note 2)	9.90%
CITIC International Finance Holdings Limited (Note 1)	Interest of controlled corporation	66,666,666 (Note 2)	9.90%
CITIC Group (Note 1)	Interest of controlled corporation	66,666,666 (Note 2)	9.90%
Aimstar Holdings Limited (Note 3)	Beneficial owner	295,000,000	43.81%
Kingston Finance Limited (Note 4)	Interest of controlled corporation	295,000,000	43.81%

Notes:

1. CITIC International Assets Management Limited is wholly owned by CITIC International Financial Holdings Limited. CITIC International Financial Holdings Limited is owned as to 53% by CITIC Group.
2. The 66,666,666 shares of the Company which CITIC International Assets Management Limited represented the shares to be issued to CITIC International Assets Management Limited pursuant to the exercise of the conversion rights under the HK\$20,000,000 8.5% extendable convertible notes due 2006 subscribed under the subscription agreement dated 24 June 2004 entered into between the Company and CITIC International Assets Management Limited.
3. Aimstar Holdings Limited is owned as to 50% by each of Mr. Chan Tat Chee and Ms. Tang Yuk Chee, Josephine, both of whom are executive directors of the Company.
4. The 295,000,000 shares in the Company held by Aimstar Holdings Limited in which Mr. Chan Tat Chee and Ms. Tang Yuk Chee, Josephine, both of whom are directors of the Company are deemed to be interested in, are pledged to Kingston Finance Limited.

DISCLOSURE OF INTERESTS (continued)

II. Interests and short positions of shareholders (continued)

Save as disclosed above, as at 30 June 2004, the directors of the Company were not aware of any other person or corporation having an interest or short position in the shares and underlying shares of the Company representing 5% or more of the issued share capital of the Company.

III. Share option schemes

As at 30 June 2004, options to subscribe for an aggregate of 52,500,000 shares of the Company granted pursuant to the share option scheme of the Company adopted on 24 July 1992 (the "1992 Share Option Scheme") and the 2002 Share Option Scheme were outstanding. Details of which were as follows:

(a) The 1992 Share Option Scheme

As at 30 June 2004, options to subscribe for an aggregate of 41,500,000 shares of the Company were lapsed due to resignation of the two former directors of the Company and 7 employees of the Group. Details of which as at 30 June 2004 were as follows:

	Date of grant	Number of share options				Outstanding as at 30 June 2004	Option period	Subscription price per share of the Company 'HK\$
		Outstanding as at 1 January 2004	Exercised during the period	Lapsed during the period	Cancelled during the period			
Former directors of the Company	26.1.2000	9,000,000	N/A	9,000,000	N/A	NIL	26.1.2001 to 25.1.2010	0.3300
Employees	26.1.2000	9,000,000	N/A	9,000,000	N/A	NIL	26.1.2001 to 25.1.2010	0.3300
	26.1.2000	1,500,000	N/A	1,500,000	N/A	NIL	26.1.2001 to 25.1.2010	0.3300
	3.2.2000	10,000,000	N/A	10,000,000	N/A	NIL	3.2.2001 to 2.2.2010	0.3648
	19.6.2000	3,000,000	N/A	3,000,000	N/A	NIL	19.6.2001 to 18.6.2010	0.3152
	28.7.2000	9,000,000	N/A	9,000,000	N/A	NIL	28.7.2001 to 27.7.2010	0.2784

DISCLOSURE OF INTERESTS (continued)

III. Share option schemes (continued)

(b) The 2002 Share Option Scheme

As at 30 June 2004, options to subscribe for an aggregate of 11,000,000 shares of the Company were outstanding and these options relates to the options granted to a director of the Company and 4 employees of the Group. Details of which as at 30 June 2004 were as follows:

	Date of grant	Number of share options					Outstanding as at 30 June 2004	Option period	Subscription price per share of the Company 'HK\$
		Granted during the period	Exercised during the period	Lapsed during the period	Cancelled during the period				
A director of the Company	23.2.2004	5,600,000	NIL	NIL	NIL	5,600,000	24.2.2004 to 23.2.2014	0.2790 (Note 1)	
Employees	23.2.2004	5,400,000	NIL	NIL	NIL	5,400,000	24.2.2004 to 23.2.2014	0.2790 (Note 1)	

Note:

- The subscription price per share of the Company was adjusted to HK\$0.2744 on 24.08.2004 take into account the shares of the Company which may be issued by the Company as a result of the subscription of HK\$20,000,000 8.5% extendable convertible notes due 2006 under the subscription agreement dated 24 June 2004 entered into between the Company and CITIC International Assets Management Limited.

IV. Valuation of share options

The options granted are not recognized in the financial statements until they are exercised. The directors of the Company consider that it is not appropriate to state the value of the share options granted during the period on the ground that a number of variables which are crucial for the valuation of the option value cannot be reasonably determined. Accordingly, the directors of the Company believe that any valuation of the share options based on a great number of speculative assumptions would not be meaningful and may be misleading to the shareholders.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SECURITIES

Save as disclosed under the "Liquidity and Financial Resources" section above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of its securities during the six months ended 30 June 2004.

CORPORATE GOVERNANCE

The Company has complied throughout the year 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 terms but are subject to retirement by rotation and re-election at the annual general meeting in accordance with the Company's Articles of Association.

REVIEW OF INTERIM REPORT

The unaudited interim report of the Group for the six months ended 30 June 2004 was reviewed by the members of the Audit Committee of the Company which comprises two independent non-executive directors of the Company.