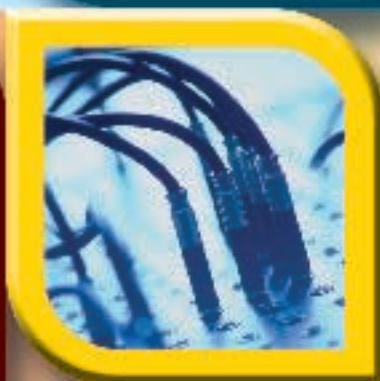


China Conservational Power Holdings Limited  
中國環保電力控股有限公司



INTERIM REPORT **2004**

## CORPORATE INFORMATION

### Board of Directors

#### *Executive Directors*

Mr. Chan Tat Chee (*Chairman*)

Mr. Hon Ming Kong

Mr. Lee Yu Leung

Mr. Ting Pascal

Mr. Chen Jun Nong

Mr. Lin Hoi Kwong

#### *Non-Executive Director*

Mr. Li Yong, Alfa

#### *Independent Non-Executive Directors*

Mr. Fork Siu Lun, Tommy

Mr. Tsoi Wai Kwong

Mr. Loo Chung Keung, Steve

### Company Secretary

Ms. Chow Man Ngan

### Audit Committee

Mr. Fork Siu Lun, Tommy

Mr. Tsoi Wai Kwong

Mr. Loo Chung Keung, Steve

### Auditors

HLB Hodgson Impey Cheng

Chartered Accountants

Certified Public Accountants

### Registered office

P.O. Box 309

Ugland House

South Church Street

George Town

Grand Cayman

Cayman Islands

British West Indies

### Head office and principal place of business in Hong Kong

Unit 3606, 36/F

China Merchants Tower

Shun Tak Centre

168-200 Connaught Road Central

Sheung Wan, Hong Kong

Tel: (852) 3105 1863

Fax: (852) 3105 1862

### Legal advisers

*Hong Kong law*

Morrison & Foerster

*Cayman Islands law*

Maples and Calder

### Principal bankers

The Hongkong and Shanghai Banking Corporation Limited

Bank of China (Hong Kong) Limited

Standard Chartered Bank

### Cayman Islands principal share registrar and transfer office

Butterfield Bank (Cayman) Limited

Butterfield House, 68 Fort Street

P.O. Box 705, George Town

Grand Cayman, Cayman Islands

British West Indies

### Hong Kong branch share registrar and transfer office

Hong Kong Registrars Limited

Shops 1712-1716

17th Floor, Hopewell Centre

183 Queen's Road East

Hong Kong

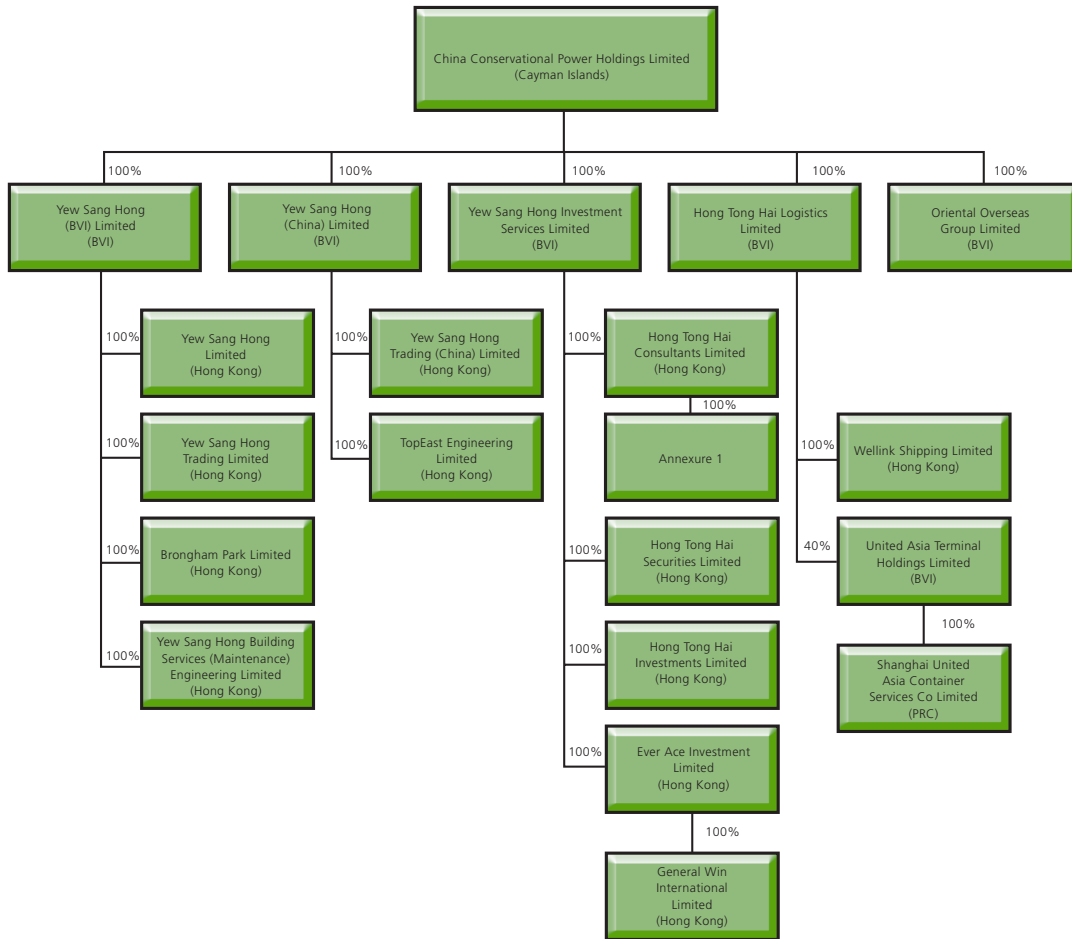
### Stock Code

0290



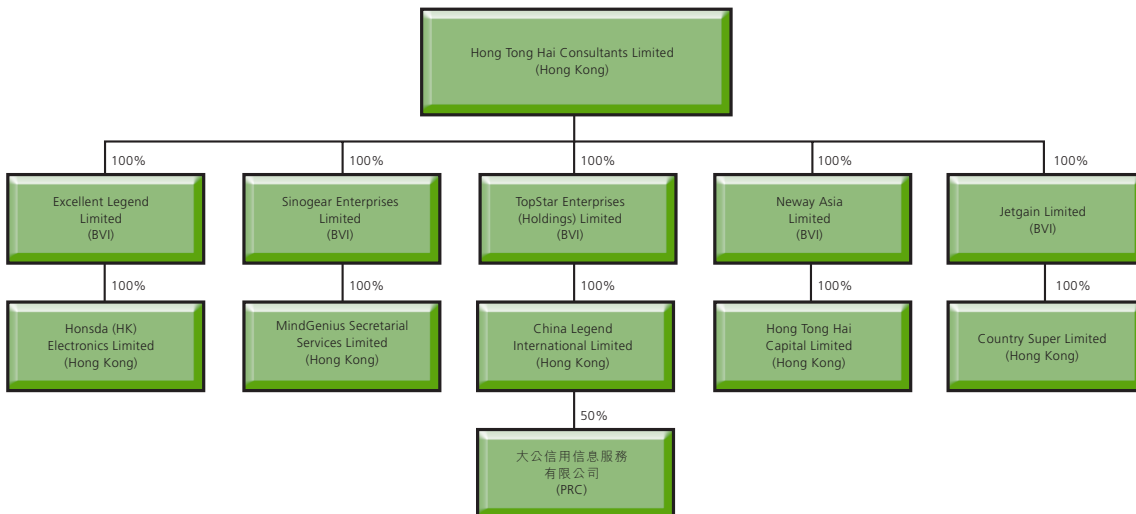
## GROUP STRUCTURE

As at 30 September 2004, the corporate structure of the principal members of the Group are set out below:-



### Annexure I

As at 30 September 2004



## MANAGEMENT DISCUSSION AND ANALYSIS

### REVIEW OF OPERATIONS

During the period, the Group recorded an unaudited loss attributable to shareholders of approximately HK\$24,708,000 (2003: loss of approximately HK\$7,692,000). A reason of increasing in loss was mainly attributable to the sale of certain listed investments of the Group, thus generated a loss of approximately HK\$4,753,000. Such investment recorded an unrealised profit of approximately HK\$5,213,000 in the corresponding period of last year.

### ELECTRICAL ENGINEERING CONTRACTING BUSINESS

During the period, the Group principally continued its outstanding work in progress. The electrical engineering contracting business generated a turnover of approximately HK\$27,887,000, representing a decline of 50.6% from HK\$56,508,000 last year. Turnover from electrical engineering contracting business accounted for 43.6% (2003: 80.3%) of the total turnover.

The certain term contracts of electrical maintenance work for Hong Kong Housing Authority ("HKHA"), the electrical engineering work of Ho Man Tin South Estate Phase 3 and Tin Shui Wai Area 102-phase 3 were completed during the period under review. As at 30 September 2004, the Group's outstanding electrical engineering contracts on hand amounted to approximately HK\$32,452,000.

With the halt of constructing public housing and substantial decline in the number of public housing projects, the Group's electrical engineering contracting division mainly focused on school improvement programmes, electrical installation work for Tung Chung Area 31 Phase 3 & 5, various electrical maintenance work for HKHA (9 districts) and Lei Cheng Uk Estate project. It is believed that the electrical engineering contracting business will continuously shrink.

### ELECTRICAL MATERIALS & COMPONENT TRADING BUSINESS

Given the unruly damage caused by the continued unfavourable market condition of local construction industry coupled with the halt of public housing projects resulting from the structural changes in government housing policies, the external sales from electrical materials and components trading decreased by 84.6% to approximately HK\$1,788,000 from approximately HK\$11,590,000 in the corresponding period of last year. In addition, with the import of electrical appliances imported from the Mainland China. It is believed that this situation will hardly be improved in short-term.

## SECURITIES BROKERAGE BUSINESS

Hong Tong Hai Securities Limited (“HTHS”) and Hong Tong Hai Consultants Limited are engaged in corporate consultancy, direct investment and securities brokerage business. Although the Hong Kong stock market is active recently, the business will hardly achieve surprisingly good development in short term under keen competitions after the elimination of the minimum brokerage fee regulation. The securities brokerage sales of the Group decreased to HK\$1,637,000 from HK\$2,051,000 in the corresponding period of last year. However, the Company’s directors believe that the financial sector will play a more important role in Hong Kong amidst the transformation of the economy. Moreover, overseas financial firms are being admitted as Qualified Foreign Institutional Investors to operate in the PRC capital markets. It is also expected that those PRC firms with Qualified Domestic Institutional Investors status will be allowed to invest in the Hong Kong’s financial market in the near future. There will be substantial growth potentials for the Group’s securities brokerage business.

## SEA FREIGHT FORWARDING SERVICES BUSINESS

The implementation of Closer Economic Partnership Arrangement (CEPA) has strengthened Hong Kong’s role as the gateway to Mainland China and facilitated the trading between the Straits. Taking advantage of this, the management has commenced sea freight forwarding services business in China, Hong Kong and Taiwan in the second half year of 2003, for the half year ended 30 September 2004 recording a satisfactory turnover over about HK\$31,738,000.

## OTHER BUSINESSES

The Group recorded a realised loss of approximately HK\$4,753,000 during the period for the disposal of approximately 2.6% equity interests in South Sea Holding Company Limited, a listed company in Hong Kong. However, taking into account the accumulated unrealised gain of HK\$10,291,000 for the year ended 31 March 2004, the investment in South Sea Holding Company Limited contributed a profit of HK\$5,538,000 to the Group. Another jointly controlled entity which is engaged in credit rating business in Beijing also recorded a loss of approximately HK\$2,600,000. In addition, based on its applying prudence principle, the Group has made provision of impairment for part of goodwill. In June 2004, a subsidiary was granted a money lender licence to engage in financing business and it contributed insignificant turnover and results to the Group during the period.

## FINANCIAL REVIEW AND ANALYSIS

### Financing

#### *Liquidity, Financial Resources and Gearing*

The Group's total current assets and current liabilities were approximately HK\$180,578,000 (as at 31 March 2004: HK\$208,779,000) and HK\$39,384,000 (as at 31 March 2004: HK\$62,239,000) respectively, as at 30 September 2004, while the current ratio was about 4.59 times (as at 31 March 2004: 3.35 times). As at 30 September 2004, the Group's aggregate cash balance amounted to HK\$29,885,000 (as at 31 March 2004: HK\$41,095,000), representing approximately 16.5% (as at 31 March 2004: 19.7%) of total current assets. The directors believe that the Group has adequate funds for business operation and maintains a good liquidity.

As shown in the Group's consolidated balance sheet as at 30 September 2004, consolidated shareholders' funds amounted to approximately HK\$194,692,000 (as at 31 March 2004: HK\$219,400,000); whereas the Group's total borrowing was about HK\$5,002,000 (as at 31 March 2004: HK\$4,881,000) only, which mainly comprised of HK dollar overdrafts, borrowings and finance lease obligations. Bank overdrafts carry interests calculated on the prime lending rate whereas finance charges are fixed on the date the finance leases are entered. Comparing the stock as at 31 March 2004, the stock as at the end of this period increased 27.13%, which was mainly attributed to the policy of keeping appropriate inventories for television trading business.

As at 30 September 2004, the gearing ratio, defined as total debts over total assets, was approximately 2.14% (as at 31 March 2004: 1.72%). The increase in the gearing ratio was mainly due to the bank borrowings arising from the Company's margin securities business.

#### *Placing of New Shares and Use of Proceeds*

On 4 November 2004, the Company entered into an agreement with an independent agent for the placement of 64,454,000 new shares. All new shares of HK\$0.10 each share, were placed to independent investors at the placing price of HK\$0.23 each share. The proceeds from the abovementioned placing of shares mainly will be used for identify the new investment projects in the PRC and as the Group's general working capital.

#### *Major Investments*

The Group entered into a co-operation agreement with 中科實業集團(控股)公司(「中科集團」) relating to the formation of a joint venture “東莞中科環保電力有限公司”. The registered capital of this joint venture is RMB110 million, among which RMB56.1 million, representing 51% interest in the joint venture, will be contributed by the Group. The joint venture was formally established on 5 November 2004 for 25 years until 4 November 2029. On 24 November 2004, all parties involved had already injected their registered capital in cash to the joint venture in accordance with their proportion to the registered capital.

On 29 March 2004, the Group entered into a conditional sale and purchase agreement with an independent third party, under which the Group purchased 40% interest equity of an investment company with an account receivable at HK\$28,000,000. The acquired company holds 100% effective interests of an enterprise engaged in container depots and the provision of logistic services in Shanghai, the PRC. The contract was completed on 3 April 2004.



On 2 June 2004, the Group further acquired the remaining 49% of the issued share capital of a subsidiary, namely, TopEast Engineering Limited, for a cash consideration of HK\$49,000. On 9 September 2004, the Group further acquired the remaining 49% of the issued share capital of another subsidiary, namely Country Super Limited, for a cash consideration of HK\$490,000. During the period, a subsidiary commenced television trading business and it contributed insignificant turnover and results to the Group.

### Foreign Exchange Management

The Group's purchases from overseas suppliers are always subject to foreign currency fluctuations. The Group monitors the risks in foreign exchange by way of placing forward foreign exchange contracts. Since the Company's shares listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Group basically has not changed its foreign exchange management policy. The risks in foreign exchange within this period were reduced accordingly because of the decrease in overseas purchases at times of reduced trade activities. As at 30 September 2004, the Group had no significant outstanding forward foreign exchange contracts on hand.

### Contingent Liabilities and Capital Commitments

Details of the contingent liabilities and capital commitments are set out in notes 18 and 20 respectively of the condensed financial statements.

### Pledge of Assets

Details of the pledge of assets are set out in note 19 of the condensed financial statements.

## PROSPECTS

The deteriorating waste problem in Mainland China cities has already aroused serious concerns of all levels of the Mainland Chinese Government. As shown by statistics, medium to large cities in the Mainland China are producing 100 million tons of waste per year, and a large city of a size such as Guangzhou is creating 6,000 tons of waste each day. Among over 670 medium to large cities in the whole nation, approximately 30% of them are trapped in wastes. As such, the Group considers that the above situation represents a new investment opportunity. Apart from going on with its existing electrical engineering business, the Group is determined to develop waste combustion electric power business in the Mainland China. As a result, the Group and 中 科 集 團 established 東 莞 中 科 環 保 電 力 有 限 公 司 (the "Plant") in Dongguan, Guangdong, which mainly engages in generating electricity through waste combustion.

The total investment of the Plant amounts to about RMB328 million, about 33% of which will be provided by the Group and 中 科 集 團 in accordance with their proportionate equity interests in the Plant, while the remaining 66% will be raised externally through financing and other channels. The Plant is ready on 5 November 2004 with the injection of the registered capital completed on 29 November 2004 and it is expected to commence trial running by the third quarter of 2005 at the earliest. Upon official commencement of production, the Plant will be able to process 1,000 tons of waste per day, resolving the urban waste problem in the Dongguan city. On the other hand, heat generated during the combustion process can be used for power generation and put onto power network. The annual waste treatment volume of the entire project will reach 365,000 tons, while

the power generation capacity will be 240 million kWh per year. The total operation life span is 25 years in the form of build-operate-transfer. As such, the major income of the project will be from two sources, one is the urban waste treatment fees payable by the Dongguan Municipal Government to the Plant calculated on a treatment volume basis; and the other is the income generated from electricity put onto power network.

Hong Kong has a brighter prospect in sight, while the pressure for deflation is decreasing. Coupled with an increasing demand for capital, the Hong Kong economy is on the track to improvement. In order to maintain its competitiveness in the market, the Group has to equip itself with the capability to provide diversified and comprehensive services. To this end, the Group has already commenced its securities brokerage, financing, corporate consultant and company secretary business through certain subsidiaries. The directors of the Company believe, the Group can capitalise on the opportunities of undertaking a range of securities brokerage and financing businesses, which in turn will enhance its flexibility in related businesses. However, the Group does not intend to overemphasise on those business.

The swift growth in the PRC economy, the implementation of CEPA and the launch of the "9+2" Pan-Pearl River Delta Policy have enhanced the trading and business relationships with the PRC. In view of this, the Group is confident with its in logistics business development in the PRC, Hong Kong and Taiwan. Therefore, we expect our Group's sea freight forwarding services business will be stable increasing.

Due to the changes in public housing and the infrastructure policies during recent years, the demand for the Group's electrical engineering and electrical equipment trading are relatively weak and expected that this situation will continue. Meanwhile, the Mainland China has recorded tremendous progress with giant strides. In view of this, the Group has therefore been exploring new investment opportunities in the Mainland China. Apart from the existing core businesses of electrical engineering and electrical equipment trading, the Group also diversified into waste combustion electric power business and logistic business, and has been actively identifying some emerging investments that generate stable revenue as its long-term investments in the PRC.

## **CORPORATE GOVERNANCE AND OTHER INFORMATION**

### **Code of Best Practice**

In the opinion of the directors, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") at any time during the six months ended 30 September 2004.

### **Review of Interim Results**

The interim financial report of the Group for the six months ended 30 September 2004 has not been audited, but has been reviewed by the Audit Committee of the Board and the Company's auditors, Messrs. HLB Hodgson Impey Cheng.





## Audit Committee

The Company has set up an Audit Committee (the "Committee") on 3 April 2001, comprising of three independent non-executive directors of the Company with terms of reference prepared based on "A Guide for the formation of an Audit Committee" published by the HKICPA. The principal duties of the Committee are to review and supervise the Group's financial reporting process and internal control system. The meeting of the Committee was held on 17 December 2004. The Committee has already reviewed the interim report and the condensed financial statements for the period.

## INTERIM DIVIDEND

The directors of the Company have resolved not to declare any interim dividend for the six months ended 30 September 2004 (2003: Nil).

## DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 September 2004, the directors of the Company and/or any of their respective associates had the following interests and short positions in the shares, underlying shares and debentures of the Company and its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO")) as recorded in the register required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Part XV of the SFO or the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") under the Listing Rules: –

### (a) Interests and short positions in the shares, underlying shares and debentures of the Company

#### (i) Long position in the shares of the Company

Name of Director	Number of ordinary shares beneficially held and nature of interest		Approximate percentage of total shareholdings (%)
	Personal	Corporate	
Hon Ming Kong ( <i>Note</i> )	–	54,900,000	17.0353%
Tsoi Wai Kwong	174,000	–	0.0540%
Chen Jun Nong	120,000	–	0.0372%

*Note:* These shares are owned by Highworth Venture Limited, a company incorporated in the British Virgin Islands which is wholly-owned by Mr. Hon Ming Kong.

## (ii) Long position in the underlying shares of the Company

<b>Share options in the Company</b>					
<b>Name of Director</b>	<b>Date of Grant of share options</b>	<b>Exercise period of share options</b>	<b>Exercise price per share HK\$</b>	<b>Number of share options outstanding</b>	<b>Number of total underlying shares</b>
Hon Ming Kong	14/5/02	14/11/02-13/11/07	4.960	2,000,000	4,000,000
	27/8/03	27/8/03-26/8/08	1.306	2,000,000	
Hon Yik Kwong (Note)	28/7/03	28/7/03-27/7/08	1.350	2,000,000	2,000,000
Lee Yu Leung	1/2/02	1/9/02-31/8/07	1.494	2,000,000	4,000,000
	27/8/03	27/8/03-26/8/08	1.306	2,000,000	

Note: Mr. Hon Yik Kwong resigned as an Executive Director of the Company on 26 November 2004.

Other than as disclosed above and certain nominee shares in subsidiaries held by the Directors in trust for the Group, none of the Directors, or their associates, had any personal, family, corporate or other interests in the securities of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are required to be entered into the register kept by the Company pursuant to section 352 of the SFO or any interests which are required to be notified to the Company and the Stock Exchange pursuant to the Mode Code in the Listing Rules or under Division 7 and 8 of Part XV of the SFO.

## SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 30 September 2004, the register of substantial shareholders' interests in shares and short positions maintained under section 336 of the SFO showed that the Company had been notified of the following interests, being 5% or more held in the shares and underlying shares of the Company.

Long position in the shares of the Company:–

Name of Shareholder(s)	Number of ordinary shares held	Approximate percentage of total shareholding (%)
Highworth Venture Limited ( <i>Note a</i> )	54,900,000	17.035
YSH Investments Limited ( <i>Note b</i> )	43,756,000	13.577
AWH Fund Ltd. ( <i>Note c</i> )	27,366,000	8.492

Notes:

- (a) Highworth Venture Limited is a company beneficially owned by Mr. Hon Ming Kong, an Executive Director of the Company.
- (b) Mr. Lai Sai Sang, the former Chairman of the Company and currently director of certain subsidiaries of the Group, has a 90.4% beneficial interest in YSH Investments Limited and therefore Mr. Lai Sai Sang is deemed to be interested in the 43,756,000 shares held by YSH Investments Limited by virtue of SFO.
- (c) Based on the information provided by the Stock Exchange on 23 December 2004.

Except as disclosed above, to the best of the knowledge and belief of the Company, no other person, together with his/her associates, was beneficially interested in shares of the Company representing 5% or more of the issued share capital of the Company.

## SHARE OPTION SCHEMES

The Company had a share option scheme (the "2001 share option scheme") which was adopted on 3 April 2001. Pursuant to a shareholders' resolution dated 12 February 2003, the 2001 share option scheme enabling the directors to grant options to employees, including executive directors of the Company and its subsidiaries, to subscribe for shares of the Company was terminated.

A new share option scheme (the "New Option Scheme") was approved and adopted by the shareholders of the Company on 12 February 2003. The New Option Scheme is valid and effective for a period of 10 years after the date of adoption. Outstanding options granted pursuant to the 2001 share option scheme shall continue to be subject to the provisions of the 2001 share option scheme and the adoption of the New Option Scheme will not in any event affect the terms of the grant of such outstanding options.

Under the terms of the New Option Scheme, the directors of the Company may, at their discretion, grant options to the full-time employees, including executive directors of the Company and its subsidiaries, to subscribe for shares of the Company for recognition of their contribution as incentives or rewards. Options granted must be taken up within 30 days of the date of grant. A nominal consideration of HK\$1 is payable on acceptance of

the grant of an option which will entitle the holders to subscribe for shares of the Company during a period of 5 years commencing on the date of acceptance of the option at a price not less than the higher of (i) the nominal value of the shares of the Company, (ii) the closing price of the shares of the Company on the Stock Exchange on the date of grant and (iii) the average of the closing prices of the shares of the Company on the Stock Exchange for the five trading days immediately preceding the date of the grant of the option. The maximum number of shares which may be issued upon the exercise of all outstanding options granted and yet to be exercised under the New Option Scheme and any other schemes of the Company must not exceed 30% of the shares of the Company in issue from time to time. Subject to the shareholders' approval, the maximum number of shares in respect of which options may be granted under the New Option Scheme shall not exceed 10% of the shares in issue as at the date of the approval, or the maximum number of shares in respect of which options may be granted to any employee may not exceed 1% of the shares in issue from time to time in a 12-month period. Subject to the entitlements of dividends, bonus, rights declared before the exercise of options, any shares allotted and issued on the exercise of an option will rank pari passu with the other shares in issue at the date of exercise of the relevant option.

At 30 September 2004, the number of shares in respect of which options had been granted and remaining outstanding under new option schemes of the Company was 22,380,000 representing 6.94% of the shares of the Company in issue at that date.

As at the date of this report, the total number of securities available for issue under the existing share option scheme is 3,500,000 shares, representing 1.09% of the issued share capital of the Company.

The fair value of the options granted in the current period totalled approximately HK\$260,200. The following significant assumptions were used to derive the fair values using the Black-Scholes option pricing model:

1. an expected volatility of 97.90%;
2. no annual dividend; and
3. the following Hong Kong Exchange Fund Note rates for the option category indicated and based on the estimated expected life indicated:

<b>Option type</b>	<b>Exchange Fund Note Rate</b>	<b>Expected Life</b>
2004A	3.170%	5 years
2004B	3.540%	5 years
2004C	2.700%	5 years
2005A	2.562%	5 years

No adjustment has been made in respect of options expected to be forfeited.

No charge is recognised in the income statement in respect of the value of options granted in the period.

The Black-Scholes option pricing model requires the input of highly subjective assumptions, including the volatility of share price. Because changes in subjective input assumptions can materially affect the fair value estimate, in the directors' opinion, the existing model does not necessarily provide a reliable single measure of the fair value of the share options.

A summary of the movements during the period in the Company's share options is as follows:

Option type	Number of share options				
	Outstanding at 1 April 2004	Granted during the Period	Lapsed during the Period	Exercised during the Period	Outstanding at 30 September 2004
<b>Directors:</b>					
Mr. Hon Ming Kong	2,000,000	-	-	-	2,000,000
	2,000,000	-	-	-	2,000,000
Mr. Hon Yik Kwong (Note)	2,000,000	-	-	-	2,000,000
Mr. Lee Yu Leung	2,000,000	-	-	-	2,000,000
	2,000,000	-	-	-	2,000,000
Sub-total	10,000,000	-	-	-	10,000,000
<b>Employees:</b>					
	500,000	-	-	-	500,000
	2,000,000	-	-	-	2,000,000
	200,000	-	-	-	200,000
	6,600,000	-	(200,000)	-	6,400,000
	5,380,000	-	(550,000)	-	4,830,000
	-	500,000	-	-	500,000
Sub-total	14,680,000	500,000	(750,000)	-	14,430,000
Total	24,680,000	500,000	(750,000)	-	24,430,000

Note: Mr. Hon Yik Kwong resigned as an Executive Director of the Company on 26 November 2004.

Details of specific categories of options are as follows:

<b>Option type</b>	<b>Date of grant</b>	<b>Exercise period</b>	<b>Closing price immediately before/on the date of grant</b> <i>HK\$</i>	<b>Exercise price per share</b> <i>HK\$</i>
2002A	1 February 2002	1 September 2002 to 31 August 2007	1.520	1.4944
2003A	2 April 2002	3 October 2002 to 2 October 2007	3.000	3.0550
2003C	3 May 2002	3 November 2002 to 2 November 2007	4.530	4.6200
2003D	14 May 2002	14 November 2002 to 13 November 2007	4.950	4.9600
2004A	28 July 2003	28 July 2003 to 27 July 2008	1.350	1.3500
2004B	27 August 2003	27 August 2003 to 26 August 2008	1.170	1.3060
2004C	16 January 2004	16 January 2004 to 15 January 2009	0.840	0.8520
2005A	1 April 2004	1 April 2004 to 31 March 2009	0.700	0.7000

The financial impact of share options granted is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recognised in the income statement in respect of the value of options granted in the period. Upon the exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which lapse or are cancelled prior to their exercise date are deleted from the register of outstanding options.



## **PURCHASE, SALE OR REDEMPTION OF SHARES**

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares during the period.

## **EMPLOYEES AND REMUNERATION POLICY**

As at 30 September 2004, the total number of staff in the Group was around 50 (As at 31 March 2004: 60). Remuneration packages are normally reviewed annually. Apart from salary payments, other staff benefits include Mandatory Provident Fund, medical insurance, annual double pay and commission. Share options might also be granted to eligible employees of the Group.

## **MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS**

The Company has adopted the Model Code under Appendix 10 to the Listing Rules as the code of conduct regarding directors' securities transactions. All directors of the Company confirmed, following specific enquiry by the Company, that they have complied with the required standard set out in the Model Code during the six months ended 30 September 2004.

By Order of the Board

**Chan Tat Chee**

*Chairman*

Hong Kong, 23 December 2004

**CONDENSED CONSOLIDATED INCOME STATEMENT***For the six months ended 30 September 2004*

	Notes	Six months ended 30 September	
		2004 HK\$'000 (unaudited)	2003 HK\$'000 (unaudited)
Turnover		<b>63,930</b>	70,361
Cost of sales		<b>(55,695)</b>	(59,892)
Gross profit		<b>8,235</b>	10,469
Other operating income		<b>2,349</b>	785
Selling expenses		<b>(84)</b>	(153)
Administrative expenses		<b>(30,233)</b>	(23,917)
Unrealised holding (loss)/gain on listed other investments		<b>(62)</b>	5,213
Impairment losses	4	<b>(2,373)</b>	–
Loss from operations	3	<b>(22,168)</b>	(7,603)
Finance costs		<b>(185)</b>	(146)
Gain on disposal of a subsidiary	17	<b>569</b>	–
Share of results of associates		<b>(323)</b>	(151)
Share of results of a joint venture		<b>(2,601)</b>	195
Loss before taxation		<b>(24,708)</b>	(7,705)
Taxation	5	<b>–</b>	–
Loss before minority interests		<b>(24,708)</b>	(7,705)
Minority interests		<b>–</b>	13
Net loss for the period		<b>(24,708)</b>	(7,692)
Dividends	6	<b>–</b>	–
Loss per share			
– basic	7	<b>(7.7) cents</b>	(3.4) cents
– diluted	7	<b>N/A</b>	N/A

**CONDENSED CONSOLIDATED BALANCE SHEET***As at 30 September 2004*

	Notes	<b>30 September 2004 HK\$'000 (unaudited)</b>	31 March 2004 HK\$'000 (audited)
Non-current assets			
Property, plant and equipment	8	<b>8,262</b>	9,643
Goodwill	9	–	1,798
Interests in associates		<b>33,598</b>	6,063
Interest in a joint venture		–	2,601
Intangible asset		<b>628</b>	753
Other assets		<b>230</b>	370
Investments in securities		<b>10,782</b>	27,360
Retention money receivable		–	5,220
Investment deposits	10	–	21,231
		<b>53,500</b>	75,039
Current assets			
Development rights	22(d)	<b>3,000</b>	3,000
Inventories		<b>1,509</b>	1,187
Amounts due from customers for contract works		<b>8,644</b>	8,706
Progress payments receivable	11	<b>5,601</b>	11,466
Retention money receivable		<b>6,588</b>	4,857
Loans receivable	12	<b>53,834</b>	55,745
Amount due from an investee company		<b>5,995</b>	5,995
Amounts due from minority interests		–	490
Amount due from an associate		<b>33</b>	29
Accounts receivable	13	<b>7,982</b>	20,156
Prepayments, deposits and other receivables		<b>27,467</b>	31,980
Investment deposits	10	<b>30,000</b>	24,000
Taxation recoverable		<b>40</b>	73
Pledged bank deposits	19	<b>8,354</b>	4,012
Bank balances and cash		<b>21,531</b>	37,083
		<b>180,578</b>	208,779

**CONDENSED CONSOLIDATED BALANCE SHEET** (Continued)

As at 30 September 2004

	Notes	<b>30 September 2004 HK\$'000 (unaudited)</b>	31 March 2004 HK\$'000 (audited)
Current liabilities			
Retention money payable		<b>2,671</b>	1,710
Accounts payable, other payables and accrued charges	14	<b>27,778</b>	53,122
Amounts due to associates		<b>2,940</b>	2,080
Bills payable		<b>442</b>	75
Taxation payable		<b>551</b>	551
Obligations under finance leases		<b>297</b>	235
Borrowings	15	<b>4,705</b>	4,466
		<b>39,384</b>	62,239
Net current assets		<b>141,194</b>	146,540
Total assets less current liabilities		<b>194,694</b>	221,579
Minority interests		–	247
Non-current liabilities			
Obligations under finance leases		–	180
Retention money payable		–	1,750
Deferred taxation		<b>2</b>	2
		<b>2</b>	1,932
Total net assets		<b>194,692</b>	219,400
Capital and reserves			
Share capital	16	<b>32,227</b>	32,227
Reserves		<b>162,465</b>	187,173
Shareholders' funds		<b>194,692</b>	219,400

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY***For the six months ended 30 September 2004*

	<b>Share capital</b>	<b>Share premium</b>	<b>Special reserve</b>	<b>Capital reserve</b>	<b>Translation reserve</b>	<b>Accumulated profits/ (losses)</b>	<b>Total</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 April 2004	32,227	202,790	13,524	1,848	(37)	(30,952)	219,400
Net loss for the period	-	-	-	-	-	(24,708)	(24,708)
<b>At 30 September 2004</b>	<b>32,227</b>	<b>202,790</b>	<b>13,524</b>	<b>1,848</b>	<b>(37)</b>	<b>(55,660)</b>	<b>194,692</b>
At 1 April 2003	22,380	119,361	13,524	1,848	(37)	26,246	183,322
Net loss for the period	-	-	-	-	-	(7,692)	(7,692)
<b>At 30 September 2003</b>	<b>22,380</b>	<b>119,361</b>	<b>13,524</b>	<b>1,848</b>	<b>(37)</b>	<b>18,554</b>	<b>175,630</b>

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT***For the six months ended 30 September 2004*

	<b>Six months ended</b>	
	<b>30 September</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
	<b>(unaudited)</b>	(unaudited)
NET CASH USED IN OPERATING ACTIVITIES	<b>(12,201)</b>	(28,967)
NET CASH USED IN INVESTING ACTIVITIES	<b>(3,472)</b>	(15,676)
NET CASH (USED IN)/FROM FINANCING ACTIVITIES	<b>(118)</b>	8,364
DECREASE IN CASH AND CASH EQUIVALENTS	<b>(15,791)</b>	(36,279)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	<b>32,617</b>	42,413
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	<b>16,826</b>	6,134
ANALYSIS OF THE BALANCE OF CASH AND CASH EQUIVALENTS		
Bank balances and cash	<b>21,531</b>	6,139
Bank overdrafts	<b>(4,705)</b>	(5)
	<b>16,826</b>	6,134



## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

*For the six months ended 30 September 2004*

### **1. BASIS OF PREPARATION AND ACCOUNTING POLICIES**

The condensed financial statements have been prepared in accordance with the disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and with the Statement of Standard Accounting Practice No. 25 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants.

The condensed financial statements have been prepared under the historical cost convention as modified for the revaluation of certain investments in securities. These condensed financial statements should be read in conjunction with the 2004 annual report.

The basis of preparation and accounting policies adopted in the preparation of these condensed financial statements are consistent with those followed in the preparation of the Group's annual audited financial statements for the year ended 31 March 2004.

**NOTES TO THE CONDENSED FINANCIAL STATEMENTS** (Continued)

For the six months ended 30 September 2004

**2. SEGMENT INFORMATION**

For management purposes, the Group is currently organised into five operating divisions – electrical engineering contracting, sale of electrical goods, securities brokerage, sea freight forwarding services and sale of home electrical appliances. These divisions are the basis on which the Group reports its primary segment information.

**Business segments**

	Electrical engineering contracting	Sale of electrical goods	Securities brokerage	Sea freight forwarding services	(Note) Sale of home electrical appliances	Others	Eliminations	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
For the six months ended 30 September 2004								
<b>Turnover</b>								
External sales	27,887	1,788	1,637	31,738	858	22	-	63,930
Inter-segment sales	-	1,191	-	-	-	-	(1,191)	-
Total revenue	<u>27,887</u>	<u>2,979</u>	<u>1,637</u>	<u>31,738</u>	<u>858</u>	<u>22</u>	<u>(1,191)</u>	<u>63,930</u>
Inter-segment sales are charged at prevailing market rates								
<b>Results</b>								
Segment results	<u>2,187</u>	<u>(1,115)</u>	<u>(595)</u>	<u>(20)</u>	<u>(1,362)</u>	<u>(1)</u>	<u>-</u>	<u>(906)</u>
Interest income								1,847
Other operating income								502
Unrealised holding loss on listed other investments								(62)
Unallocated expenses								<u>(23,549)</u>
Loss from operations								(22,168)
Finance costs								(185)
Gain on disposal of a subsidiary								569
Share of results of associates								(323)
Share of results of a joint venture								<u>(2,601)</u>
Loss before taxation								(24,708)
Taxation								-
Loss before minority interests								<u>(24,708)</u>
Minority interests								-
Net loss for the period								<u>(24,708)</u>

Note: The Group commenced this operation during the period ended 30 September 2004.

**NOTES TO THE CONDENSED FINANCIAL STATEMENTS** (Continued)

For the six months ended 30 September 2004

**2. SEGMENT INFORMATION** (Continued)**Business segments** (Continued)

	<b>Electrical engineering contracting</b> <i>HK\$'000</i>	<b>Sale of electrical goods</b> <i>HK\$'000</i>	<b>Securities brokerage</b> <i>HK\$'000</i>	<b>Others</b> <i>HK\$'000</i>	<b>Eliminations</b> <i>HK\$'000</i>	<b>Consolidated</b> <i>HK\$'000</i>
For the six months ended 30 September 2003						
<b>Turnover</b>						
External sales	56,508	11,590	2,051	212	–	70,361
Inter-segment sales	–	3,813	–	–	(3,813)	–
Total revenue	<u>56,508</u>	<u>15,403</u>	<u>2,051</u>	<u>212</u>	<u>(3,813)</u>	<u>70,361</u>
Inter-segment sales are charged at prevailing market rates						
<b>Results</b>						
Segment results	<u>260</u>	<u>1,332</u>	<u>(235)</u>	<u>(332)</u>	<u>–</u>	1,025
Interest income						462
Other operating income						323
Unrealised holding gains on listed other investments						5,213
Unallocated expenses						<u>(14,626)</u>
Loss from operations						(7,603)
Finance costs						(146)
Share of results of associates						(151)
Share of results of a joint venture						<u>195</u>
Loss before taxation						(7,705)
Taxation						<u>–</u>
Loss before minority interests						(7,705)
Minority interests						<u>13</u>
Net loss for the period						<u><u>(7,692)</u></u>

**NOTES TO THE CONDENSED FINANCIAL STATEMENTS** (Continued)

For the six months ended 30 September 2004

**3. LOSS FROM OPERATIONS**

	<b>Six months ended</b>	
	<b>30 September</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Loss from operations has been arrived at after charging:		
Depreciation of property, plant and equipment	<b>1,770</b>	1,797
Amortisation of goodwill arising on acquisition of subsidiaries included in administrative expenses	<b>78</b>	743
Amortisation of trading right in respect of securities trading included in administrative expenses	<b>125</b>	185
Loss on disposal of property, plant and equipment	<b>169</b>	80
Cost of inventories recognised as expense	<b>3,213</b>	11,938
Loss on disposal of investments in securities	<b>4,753</b>	–

**4. IMPAIRMENT LOSSES**

	<b>Six months ended</b>	
	<b>30 September</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Impairment losses in respect of:		
Goodwill arising from acquisition of subsidiaries (Note 9)	<b>2,373</b>	–

**5. TAXATION**

Hong Kong Profits Tax is calculated at 17.5% (2003: 17.5%) of the estimated assessable profit for the period. Taxation in other jurisdictions is calculated at the rates prevailing in the respective jurisdictions. No provision for taxation has been made as the Group had no assessable profits for the period.

The Group did not have any significant movements in deferred taxation for the six months ended 30 September 2004.

**6. DIVIDENDS**

No dividends were paid or declared during the period. The directors do not recommend the payment of any interim dividend for the six months ended 30 September 2004 (For the six months ended 30 September 2003: Nil).

**NOTES TO THE CONDENSED FINANCIAL STATEMENTS** (Continued)

For the six months ended 30 September 2004

**7. LOSS PER SHARE**

The loss per share is calculated based on the loss for the period amounting approximately HK\$24,708,000 (For the six months ended 30 September 2003: loss of approximately HK\$7,692,000) and 322,272,000 shares (For the six months ended 30 September 2003: the weighted average of 223,800,000 shares) in issue.

No diluted loss per share for the six months ended 30 September 2003 and 2004 has been presented as the exercise of the Company's outstanding share options would result in a decrease in the loss per share for both periods.

**8. ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT**

During the period, the Group spent approximately HK\$863,000 on property, plant and equipment (approximately HK\$338,000 for the six months ended 30 September 2003).

**9. GOODWILL**

	<b>The Group</b> HK\$'000
<b>Cost</b>	
At 1 April 2004	27,488
Arising on acquisition of subsidiaries during the period	653
	<hr/>
At 30 September 2004	28,141
	<hr/>
<b>Amortisation and impairment</b>	
At 1 April 2004	25,690
Charge for the period	78
Impairment losses recognised for the period	2,373
	<hr/>
At 30 September 2004	28,141
	<hr/>
<b>Net book values</b>	
At 30 September 2004	–
	<hr/> <hr/>
At 31 March 2004	1,798
	<hr/> <hr/>

The amortisation period adopted for goodwill is 20 years.

As at 30 September 2004, the Group performed an assessment of the fair value of its goodwill. The assessment was based on value in use of the assets as determined at the cash generating unit based on the present value of estimated future cash flows. As a result of this assessment, the Group has recognised impairment losses for goodwill of approximately HK\$2,373,000 in the income statement for the six months ended 30 September 2004.

**NOTES TO THE CONDENSED FINANCIAL STATEMENTS** (Continued)

For the six months ended 30 September 2004

**10. INVESTMENT DEPOSITS**

	<b>30 September 2004 HK\$'000</b>	31 March 2004 HK\$'000
Investment deposits comprise of:		
Deposit for acquisition of interests in a People's Republic of China ("PRC") company which is licensed to operate internet cafe chain (Note)	<b>20,000</b>	–
Deposit for acquisition of an investment engaged in technology development for application in waste incineration and process	–	10,000
Deposit for investment engaged in operating container depots and provision of logistics management services business	–	21,231
Deposit for formation of a joint venture	<b>10,000</b>	10,000
Deposit for acquisition of other investments	–	4,000
	<b><u>30,000</u></b>	<b><u>45,231</u></b>
Carrying amount analysed for reporting purposes as:		
Current assets	<b>30,000</b>	24,000
Non-current assets	–	21,231
	<b><u>30,000</u></b>	<b><u>45,231</u></b>

Note: On 23 April 2004, the Group entered into a letter of intent with an independent third party in relation to the proposed acquisition of not more than 50% equity interest in a PRC company which is licensed to operate internet cafe chain in the PRC. Pursuant to the letter of intent, the Group was required to pay earnest money in the amount of HK\$20 million. The Group further entered into a supplemental letter of intent with the independent third party on 24 November 2004 to extend the exclusivity period for conducting due diligence review on the affairs of the PRC company to 22 December 2004.



**NOTES TO THE CONDENSED FINANCIAL STATEMENTS** (Continued)

For the six months ended 30 September 2004

**11. PROGRESS PAYMENTS RECEIVABLE**

The aged analysis of progress payments receivable is as follows:

	<b>30 September 2004 HK\$'000</b>	31 March 2004 HK\$'000
0 to 30 days	<b>4,163</b>	9,162
31 to 60 days	<b>66</b>	428
61 to 90 days	<b>72</b>	–
91 to 180 days	<b>1,300</b>	–
More than 180 days	–	1,876
	<b>5,601</b>	11,466

**12. LOANS RECEIVABLE**

	<b>30 September 2004 HK\$'000</b>	31 March 2004 HK\$'000
Loans receivable, interest bearing	<b>37,138</b>	38,795
Margin receivables (Note)	<b>16,696</b>	16,950
	<b>53,834</b>	55,745

Note: Margin receivables represent loans to securities margin clients which are secured by clients' pledged securities. These are repayable on demand and bear interest at prevailing market rates. In the opinion of the directors of the Company, no aged analysis is disclosed as the aged analysis does not give additional value.

**13. ACCOUNTS RECEIVABLE**

The credit period allowed by the Group to its customers is normally 90 days.

The aged analysis of accounts receivable is as follows:

	<b>30 September 2004 HK\$'000</b>	31 March 2004 HK\$'000
0 to 30 days	<b>7,657</b>	12,513
31 to 60 days	<b>219</b>	1,226
61 to 90 days	<b>99</b>	5,864
91 to 180 days	<b>4</b>	305
More than 180 days	<b>3</b>	248
	<b>7,982</b>	20,156

**NOTES TO THE CONDENSED FINANCIAL STATEMENTS** (Continued)

For the six months ended 30 September 2004

**14. ACCOUNTS PAYABLE, OTHER PAYABLES AND ACCRUED CHARGES**

Included in accounts payable, other payables and accrued charges are trade creditors amounting to approximately HK\$9,339,000 (At 31 March 2004: approximately HK\$14,548,000). The aged analysis of trade creditors is as follows:

	<b>30 September 2004 HK\$'000</b>	31 March 2004 HK\$'000
0 to 30 days	<b>2,425</b>	4,474
31 to 60 days	<b>1,493</b>	2,466
61 to 90 days	<b>913</b>	2,765
91 to 180 days	<b>3,653</b>	1,264
More than 180 days	<b>855</b>	3,579
	<b><u>9,339</u></b>	<u>14,548</u>

**15. BORROWINGS**

	<b>30 September 2004 HK\$'000</b>	31 March 2004 HK\$'000
Bank overdrafts (secured)	<b><u>4,705</u></b>	<u>4,466</u>

**16. SHARE CAPITAL**

	<b>Number of shares</b>	<b>Amount HK\$'000</b>
Shares of HK\$0.10 each		
Authorised:		
Balance as at 30 September 2004 and 31 March 2004	<b><u>1,000,000,000</u></b>	<u>100,000</u>
Issued and fully paid:		
Balance as at 30 September 2004 and 31 March 2004	<b><u>322,272,000</u></b>	<u>32,227</u>

**NOTES TO THE CONDENSED FINANCIAL STATEMENTS** (Continued)

For the six months ended 30 September 2004

**17. ACQUISITION AND DISPOSAL OF SUBSIDIARIES****Acquisition**

On 2 June 2004, the Group further acquired the remaining 49% of the issued share capital of a subsidiary, namely, Topeast Engineering Limited, for a cash consideration of HK\$49,000. On 9 September 2004, the Group further acquired the remaining 49% of the issued share capital of another subsidiary, namely Country Super Limited, for a cash consideration of HK\$490,000. These transactions have been accounted for using the purchase method of accounting.

The aggregate effect of these acquisitions is summarised as follows:

	<i>HK\$'000</i>
Net liabilities acquired	(114)
Goodwill arising on acquisition	653
	<hr/>
Cash consideration	539
	<hr/> <hr/>
Net cash outflow arising on acquisition	
Cash consideration	539
	<hr/> <hr/>

The above subsidiaries did not make any significant contribution to the results of the Group during the interim period.

**Disposal**

On 22 April 2004, the Group disposed 51% equity interest in China Ace Enterprises Limited for cash consideration of HK\$51. This transaction gave rise to a gain of approximately HK\$569,000 and a net cash inflow of HK\$51. China Ace Enterprises Limited did not make any significant contribution to the results and cash flows of the Group during the interim period.

**18. CONTINGENT LIABILITIES**

At 30 September 2004, the Group had no material contingent liabilities. The Company has executed guarantees of an unlimited amount in favour of a bank in respect of credit facilities granted to a subsidiary.

**19. PLEDGE OF ASSETS**

At 30 September 2004, the Group had pledged bank deposits of approximately HK\$8 million (At 31 March 2004: approximately HK\$4 million) to secure certain bank facilities available to the Group.

In addition, the Group's overdrafts as at the balance sheet date were secured on the securities held by the Group on behalf of its customers.

**NOTES TO THE CONDENSED FINANCIAL STATEMENTS** (Continued)

For the six months ended 30 September 2004

**20. CAPITAL COMMITMENTS**

	<b>30 September 2004 HK\$'000</b>	31 March 2004 HK\$'000
Contracted for but not provided in the financial statements in respect of:		
– the acquisition of a 40% interest in a company operating the container depots	–	6,769
– the capital contribution for a 51% interest in a joint venture to be established for the waste incineration and processing business in Dongguan, the PRC	<u>48,450</u>	<u>48,450</u>
	<u><b>48,450</b></u>	<u>55,219</u>

**21. OPERATING LEASE COMMITMENTS**

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	<b>30 September 2004 HK\$'000</b>	31 March 2004 HK\$'000
Land and buildings:		
Operating leases which expire:		
– within one year	<u>2,499</u>	4,066
– in the second to fifth year inclusive	<u>153</u>	455
	<u><b>2,652</b></u>	<u>4,521</u>

**NOTES TO THE CONDENSED FINANCIAL STATEMENTS** *(Continued)**For the six months ended 30 September 2004***22. POST BALANCE SHEET EVENTS**

Subsequent to the balance sheet date, the Group had the following material events:

- (a) On 5 November 2004, the Company has conditionally agreed to place, through the placing agent, Kingston Securities Limited, on best effort basis in relation to the placing of 64,454,000 new shares of the Company to not fewer than six independent investors at a price of HK\$0.23 per placing shares, further details of which are set out in the announcement of the Company dated 5 November 2004.
- (b) The formation of joint venture company in the PRC has been formally established on 5 November 2004 for a term of 25 years to 4 November 2029. The registered capital in the amount of RMB110 million, equivalent to approximately HK\$103.77 million, has been fully paid up by the parties in proportion to their respective equity interest by 24 November 2004 in cash. The contribution by the Group is RMB56.1 million, equivalent to approximately HK\$52.93 million. Further details of the aforesaid transaction are set out in the announcement of the Company dated 6 December 2004.
- (c) In December 2004, the Group entered into a legally-binding letter of intent with an independent third party relating to the right of acquisition up to 49% of the equity interest of a pharmaceutical products distribution and investment company in the PRC (the "Proposed Investment"). Under the letter of intent, the Group is entitled to carry out a due diligence review of the Proposed Investment for a four-month period commencing from the date of the letter of intent up to 5 April 2005 and the due diligence review period may be extended by agreement between the parties. The Proposed Investment is subject to the completion of due diligence review and negotiation and finalisation of the terms and conditions in relation thereof. Further details of the aforesaid transaction are set out in the announcement of the Company dated 6 December 2004.
- (d) On 13 December 2004, the Group disposed of two development rights in respect of two pieces of land under a medium term lease in the New Territories, Hong Kong, at a consideration of HK\$3,100,000 to a third party.