CHINA ASSETS (HOLDINGS) LIMITED

INTERIM REPORT 2005

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Lao Yuan Yi *(Chairman)*
Mr. Wang Jun Yan
Ms. Lao Yuan Yuan

Non-executive Directors

Mr. Jiang Wei
Mr. Yeung Wai Kin
Mr. Zhao Yu Qiao

Independent Non-executive Directors

Mr. Peter Duncan Neil Robertson
Mr. Fan Jia Yan
Mr. Wu Ming Yu

COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

Mr. Lau On Kwok

REGISTERED OFFICE

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SOLICITORS

Victor Chu & Co.

AUDITORS

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong

BANKERS

Bank of China (Hong Kong) Limited
CITIC Ka Wah Bank Limited
The Hongkong and Shanghai Banking Corporation Limited
Standard Chartered Bank

REGISTRARS

Computershare Hong Kong Investor Services Limited
46th Floor, Hopewell Centre
183 Queen's Road East
Hong Kong

STOCK CODE

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INTERIM RESULTS

The Board of Directors of China Assets (Holdings) Limited (the "Company") has pleasure in reporting the following unaudited consolidated financial results of the Company and its subsidiaries (the "Group") for the six months ended 30th June 2005:

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the six months ended 30th June 2005

		Unaudited Six months ended 30th June	
		2005	2004
	Note	***US$***	*US$*
			(As restated)
Turnover	*4*	**137,996**	658,627
Administrative expenses		**(988,405)**	(645,707)
Other operating expenses		**(1,739,134)**	(401,318)
Other operating income		**122,441**	78,541
Operating loss	*5*	**(2,467,102)**	(309,857)
Share of profit of associates	*4*	**783,946**	580,089
(Loss)/profit before taxation		**(1,683,156)**	270,232
Taxation	*6*	**(52,582)**	(21,869)
(Loss)/profit attributable to shareholders		**(1,735,738)**	248,363
(Loss)/earnings per share	*7*		
Basic		**(0.0233)**	0.0033
Diluted		**N/A**	N/A

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30th June 2005

	Note	**Unaudited 30th June 2005 US$**	Audited 31st December 2004 US$ (As restated)
Non-current assets			
Interest in associates		**41,799,223**	28,275,563
Available-for-sale financial assets		**16,997,532**	—
Investments		**—**	19,619,298
		58,796,755	47,894,861
Current assets			
Financial assets at fair value through profit or loss		**30,380,292**	—
Loans receivables and prepayments		**5,899,621**	581,036
Prepaid tax		**19,135**	19,120
Other investments		**—**	30,538,646
Cash and cash equivalents		**13,099,276**	33,495,303
		49,398,324	64,634,105
Current liabilities			
Accounts payable		**116,340**	107,599
Accrued expenses		**7,000**	94,639
Amount due to a related company	9(b)	**350**	73
Taxation payable		**67,251**	41,696
		190,941	244,007
Net current assets		**49,207,383**	64,390,098
Total assets less current liabilities		**108,004,138**	112,284,959
Capital and reserves attributable to the Company's equity holders			
Share capital		**7,439,816**	7,438,316
Reserves		**100,564,322**	104,846,643
		108,004,138	112,284,959

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30th June 2005

	Unaudited Six months ended 30th June	
	2005	2004
	US$	*US$*
Net cash (outflow)/inflow from operating activities	**(1,276,575)**	922,083
Net cash outflow from investing activities	**(19,123,037)**	(1,395,291)
Net cash inflow from financing activities	**5,115**	—
Decrease in cash and cash equivalents	**(20,394,497)**	(473,208)
Exchange translation	**(1,530)**	—
Cash and cash equivalents at 1st January	**33,495,303**	28,971,909
Cash and cash equivalents at 30th June	**13,099,276**	28,498,701
Analysis of the balances of cash and cash equivalents:		
Cash and cash equivalents *(Note)*	**13,099,276**	28,498,701

Note: Included in the cash and cash equivalents of the Group are Renminbi deposits and cash in Chinese Mainland of US$8,927,188 (31st December 2004: US$19,133,368). Renminbi is not a freely convertible currency.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th June 2005

	Unaudited					
	Share capital US$	Share premium US$	Capital reserve US$	Investment revaluation reserve US$	Retained earnings US$	Total US$
At 1st January 2004, as previously reported	7,438,316	68,445,344	7,849,636	—	7,323,757	91,057,053
Effect of adoption of new HKFRS by an associate	—	—	(961,976)	—	154,295	(807,681)
At 1st January 2004, as restated	7,438,316	68,445,344	6,887,660	—	7,478,052	90,249,372
Exchange differences arising on translation of the accounts of associates and subsidiaries	—	—	(122,612)	—	—	(122,612)
Net losses not recognised in the profit and loss account	—	—	(122,612)	—	—	(122,612)
Profit attributable to shareholders	—	—	—	—	248,363	248,363
At 30th June 2004	7,438,316	68,445,344	6,765,048	—	7,726,415	90,375,123
At 1st January 2005, as previously reported	**7,438,316**	**68,445,344**	**7,808,835**	**–**	**29,382,782**	**113,075,277**
Effect of adoption of new HKFRS by an associate	**–**	**–**	**(961,976)**	**–**	**171,658**	**(790,318)**
Opening adjustments for the adoption of new HKFRS by an associate	**–**	**–**	**882,178**	**–**	**(692,749)**	**189,429**
At 1st January 2005, as restated	**7,438,316**	**68,445,344**	**7,729,037**	**–**	**28,861,691**	**112,474,388**
Exchange differences arising on translation of the accounts of associates and subsidiaries	**–**	**–**	**376,731**	**–**	**–**	**376,731**
Fair value loss of available-for-sale financial assets	**–**	**–**	**–**	**(2,621,766)**	**–**	**(2,621,766)**
Net gains/(losses) not recognised in the profit and loss account	**–**	**–**	**376,731**	**(2,621,766)**	**–**	**(2,245,035)**
Share of post-acquisition reserves of associates	**–**	**–**	**(494,592)**	**–**	**–**	**(494,592)**
Loss attributable to shareholders	**–**	**–**	**–**	**–**	**(1,735,738)**	**(1,735,738)**
Issue of new shares	**1,500**	**3,615**	**–**	**–**	**–**	**5,115**
At 30th June 2005	**7,439,816**	**68,448,959**	**7,611,176**	**(2,621,766)**	**27,125,953**	**108,004,138**

NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION

1 Basis of preparation and accounting policies

This unaudited condensed consolidated financial information has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants, which became effective on 1st January 2005.

This condensed consolidated financial information should be read in conjunction with the 2004 annual accounts.

The accounting policies and methods of computation used in the preparation of this condensed consolidated financial information are consistent with those used in the annual accounts for the year ended 31st December 2004 except that the Group has changed certain of its accounting policies following its adoption of new/revised Hong Kong Financial Reporting Standards and HKASs (collectively referred to as the "new HKFRS") which are effective for accounting periods commencing on or after 1st January 2005.

The changes to the Group's accounting policies and the effect of adopting these new policies are set out in note 2 below.

2 Changes in accounting policies

(a) Effect of adopting new HKFRS

In 2005, the Group adopted the new/revised HKFRSs below, which are relevant to its operations. The 2004 comparatives have been amended as required, in accordance with the relevant requirements.

HKAS 1	Presentation of Financial Statements
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 32	Financial Instruments: Disclosures and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKFRS 2	Share-based Payments
HKFRS 3	Business Combinations

The adoption of new/revised HKASs 1, 7, 8, 10, 21, 24, 27, 28, 33 and 36 did not result in substantial changes to the Group's accounting policies. In summary:

— HKAS 1 has affected the presentation of share of net after-tax results of associates and other disclosures.

— HKASs 7, 8, 10, 27, 28, 33 and 36 have no material effect on the Group's policies.

— HKAS 21 has no material effect on the Group's policy. The functional currency of each of the consolidated entities has been re-evaluated based on the guidance to the revised standard. All the Group entities have the same functional currency as the presentation currency for respective entity financial statements.

— HKAS 24 has affected the identification of related parties and some other related-party disclosures.

The adoption of HKASs 32 and 39 has resulted in a change in the accounting policy relating to the classification of financial assets at fair value through profit or loss and available-for-sale financial assets. It has also resulted in the recognition of derivative financial instruments at fair value and the change in the recognition and measurement of hedging activities.

The adoption of HKFRS 2 has resulted in a change in the accounting policy for share-based payments. Until 31st December 2004, the provision of share options to employees did not result in an expense in the condensed consolidated profit and loss account. Following the adoption of HKFRS 2, the cost of share options is charged to the condensed consolidated profit and loss account. As a transitional provision, the cost of share options granted after 7th November 2002 and had not yet vested on 1st January 2005 was expensed retrospectively in the profit and loss account of the respective periods.

All changes in the accounting policies have been made in accordance with the transition provisions in the respective standards. All standards adopted by the Group require retrospective application other than:

— HKAS 39 — does not permit to recognise, derecognise and measure financial assets and liabilities in accordance with this standard on a retrospective basis. The Group applied the previous Statement of Standard Accounting Practice ("SSAP") 24 "Accounting for investments in securities" to investments in securities and also to hedge relationships for the 2004 comparative information. The adjustments required for the accounting differences between SSAP 24 and HKAS 39 are determined and recognised at 1st January 2005.

— HKFRS 2 — only retrospective application for all equity instruments granted after 7th November 2002 and not vested at 1st January 2005; and

— HKFRS 3 — prospectively after the adoption date.

The adoption of HKAS 39 had no impact on opening reserves at 1st January 2005 and the details of the adjustments to the balance sheet at 30th June 2005 are as follows:

	As at 30th June 2005 ***US$***
Increase in available-for-sale financial assets	**16,997,532**
Decrease in investments	**(19,619,298)**
Increase in financial assets at fair value through profit or loss	**30,380,292**
Decrease in other investments	**(30,538,646)**
Decrease in investment revaluation reserve	**(2,621,766)**

There was no impact on basic and diluted earnings per share from the adoption of HKAS 39.

There was no impact on retained earnings at 1st January 2004, 31st December 2004 and 30th June 2005 from the adoption of HKFRS 2.

The adoption of the new HKFRS by an associate had impact on net asset values and certain reserves at 1st January 2004 and 2005 and 30th June 2005 in the accounts of the associate. Accordingly, the Group's interest in associates and the corresponding reserves have been restated.

(b) New accounting policies

The accounting policies used for the condensed consolidated financial information for the six months ended 30th June 2005 are the same as those set out in note 1 to the 2004 annual accounts except for the following:

2.1 Acquisition of subsidiaries and associates

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the condensed consolidated profit and loss account.

An investment in an associate is accounted for using the equity method from the date on which it becomes an associate. On acquisition of the investment, the measurement and recognition of goodwill is same as that of goodwill arising from the acquisition of subsidiaries. Goodwill relating to an associate is included in the carrying amount of the investment. Appropriate adjustments to the investor's share of the profits or losses after acquisition are made to account based on their fair values at the date of acquisition.

2.2 Foreign currency translation

(a) Functional and presentation currency

Items included in the accounts of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The condensed consolidated financial information are presented in US dollars, which is the Company's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the condensed consolidated profit and loss account, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

Translation differences on non-monetary items, such as equity instruments held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation difference on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the investment revaluation reserve in equity.

(c) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each profit and loss account are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognised in the condensed consolidated profit and loss account as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

2.3 Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation, which are at least tested annually for impairment and reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

2.4 Investments

From 1st January 2004 to 31st December 2004:

The Group classified its investments in securities, other than subsidiaries and associates, as investments and other investments.

(a) Investments

Investments which were held for non-trading purpose were stated at cost less provision for impairment losses. The carrying amounts of individual investments were reviewed at each balance sheet date to assess whether the fair values had declined below the carrying amounts. When a decline other than temporary had occurred, the carrying amount of these investments would be reduced to its fair value. The impairment loss was recognised as an expense in the profit and loss account. This impairment loss was written back to the profit and loss account when the circumstances and events that led to the write-downs or write-offs ceased to exist and there was persuasive evidence that the new circumstances and events would persist for the foreseeable future.

(b) Other investments

Other investments were carried at fair value. At each balance sheet date, the net unrealised gains or losses arising from the changes in fair value of other investments were recognised in the profit and loss account. Profits or losses on disposal of other investments, representing the difference between the net sales proceeds and the carrying amounts, were recognised in the profit and loss account as they arose.

From 1st January 2005 onwards:

The Group classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

(a) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are included in trade and other receivables in the balance sheet.

(c) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. During the period, the Group did not hold any investments in this category.

(d) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Purchases and sales of investments are recognised on trade-date — the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Realised and unrealised gains and losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category are included in the condensed consolidated profit and loss account in the period in which they arise. Unrealised gains and losses arising from changes in the fair value of non-monetary securities classified as available-for-sale are recognised in equity. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the condensed consolidated profit and loss account as gains or losses from investment securities.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer's specific circumstances.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the condensed consolidated profit and loss account — is removed from equity and recognised in the condensed consolidated profit and loss account. Impairment losses recognised in the condensed consolidated profit and loss account on equity instruments are not reversed through the condensed consolidated profit and loss account.

2.5 Share-based compensation

The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the condensed consolidated profit and loss account, and a corresponding adjustment to equity over the remaining vesting period.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

2.6 Interest income

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised either as cash is collected or on a cost—recovery basis as conditions warrant.

3 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Estimate of fair value of available-for-sale financial assets

Fair value for non-tradable equity investment is estimated using current bid price of the tradable equity adjusted to reflect the specific circumstances of the issuer.

4 Turnover and segment information

The principal activity of the Group is investment holding in Hong Kong and Chinese Mainland. Revenues recognised during the period are as follows:

	Unaudited	
	Six months ended 30th June	
	2005	2004
	US$	*US$*
Turnover		
Interest income	**137,996**	195,401
Dividend income from unlisted investments	**—**	463,226
	137,996	658,627

Primary Reporting Format — Business segments

The principal activity of the Group is investment holding carried out in Hong Kong and the Chinese Mainland with its associates/investee companies operating in four main business segments during the year:

- Investment holding;
- Manufacturing and distribution of pharmaceutical products;

- Property investment; and
- Manufacturing and distribution of steel products.

Secondary Reporting Format — Geographical segments

The Group's four business segments operate in two main geographical areas:

- Hong Kong — investment holding; and
- Chinese Mainland — manufacturing and distribution of pharmaceutical products and steel products and property investment.

Primary Reporting Format — Business segments

The segment revenue and results for the six months ended 30th June 2005 by business segments are as follows:

	Investment holding *(Unaudited)* *US$*	Manufacturing and distribution of pharmaceutical products *(Unaudited)* *US$*	Property investment *(Unaudited)* *US$*	Manufacturing and distribution of steel products *(Unaudited)* *US$*	Others *(Unaudited)* *US$*	Total *(Unaudited)* *US$*
Segment revenue	137,996	–	–	–	–	137,996
Segment results	(1,478,697)	–	–	–	–	(1,478,697)
Unallocated expenses*						(988,405)
Operating loss						(2,467,102)
Share of profits/(losses) of associates	680,805	–	144,000	–	(40,859)	783,946
Taxation	(52,582)	–	–	–	–	(52,582)
Loss attributable to shareholders						(1,735,738)

The segment assets and liabilities at 30th June 2005 are as follows:

	Investment holding *(Unaudited)* ***US$***	**Manufacturing and distribution of pharmaceutical products** *(Unaudited)* ***US$***	**Property investment** *(Unaudited)* ***US$***	**Manufacturing and distribution of steel products** *(Unaudited)* ***US$***	**Others** *(Unaudited)* ***US$***	**Total** *(Unaudited)* ***US$***
Segment assets	**49,398,324**	**16,997,532**	**–**	**–**	**–**	**66,395,856**
Interest in associates	**28,460,122**	**–**	**13,644,000**	**–**	**(304,899)**	**41,799,223**
Total assets						**108,195,079**
Segment liabilities	**183,941**	**–**	**–**	**–**	**–**	**183,941**
Unallocated liabilities						**7,000**
Total liabilities						**190,941**

The segment revenue and results for the six months ended 30th June 2004 by business segments are as follows:

	Investment holding *(Unaudited and restated)* *US$*	Manufacturing and distribution of pharmaceutical products *(Unaudited)* *US$*	Property investment *(Unaudited)* *US$*	Manufacturing and distribution of steel products *(Unaudited)* *US$*	Others *(Unaudited)* *US$*	Total *(Unaudited and restated)* *US$*
Segment revenue	658,627	—	—	—	—	658,627
Segment results	335,850	—	—	—	—	335,850
Unallocated expenses*						(645,707)
Operating loss						(309,857)
Share of profits/(losses) of associates	675,206	—	—	(95,117)	—	580,089
Taxation	(21,869)	—	—	—	—	(21,869)
Profit attributable to shareholders						248,363

The segment assets and liabilities at 31st December 2004 are as follows:

	Investment holding *(Audited and restated)* US$	Manufacturing and distribution of pharmaceutical products *(Audited)* US$	Property investment *(Audited)* US$	Manufacturing and distribution of steel products *(Audited)* US$	Others *(Audited)* US$	Total *(Audited and restated)* US$
Segment assets	64,634,105	19,619,298	—	—	—	84,253,403
Interest in associates	28,381,057	—	—	199,405	(304,899)	28,275,563
Total assets						112,528,966
Segment liabilities	149,368	—	—	—	—	149,368
Unallocated liabilities						94,639
Total liabilities						244,007

* Included in the unallocated expenses is the management fees of US$589,277 (2004: US$512,730) paid to a related company *(note 9(a))* and US$50,625 (2004: US$Nil) paid to an associate *(note 9(c))* respectively.

There are no sales or other transactions between the business segments.

Secondary Reporting Format — Geographical segments

	For the six months ended 30th June 2005		**As at 30th June 2005**
	Turnover ***(Unaudited)*** ***US$***	**Segment results** ***(Unaudited)*** ***US$***	**Total assets** ***(Unaudited)*** ***US$***
Hong Kong	**137,996**	**(1,478,697)**	**8,710,062**
Chinese Mainland	**—**	**—**	**57,685,794**
	137,996	**(1,478,697)**	**66,395,856**
Unallocated expenses		**(988,405)**	
Operating loss		**(2,467,102)**	
Share of profit of associates		**783,946**	
Taxation		**(52,582)**	
Loss attributable to shareholders		**(1,735,738)**	
Interest in associates			**41,799,223**
Total assets			**108,195,079**

	For the six months ended 30th June 2004		As at 31st December 2004
	Turnover	Segment results	Total assets
	(Unaudited)	*(Unaudited and restated)*	*(Audited and restated)*
	US$	*US$*	*US$*
Hong Kong	658,627	335,850	15,012,804
Chinese Mainland	—	—	69,240,599
	658,627	335,850	84,253,403
Unallocated expenses		(645,707)	
Operating loss		(309,857)	
Share of profit of associates		580,089	
Taxation		(21,869)	
Profit attributable to shareholders		248,363	
Interest in associates			28,275,563
Total assets			112,528,966

There are no sales or other transactions between the geographical segments.

5 Operating loss

Operating loss is stated after crediting and charging the following:

	Unaudited Six months ended 30th June	
	2005	2004
	US$	*US$*
Crediting		
Included in other operating income		
Profit on disposal of interests in an associate	**28,581**	—
Gains on disposal of financial assets at fair value through profit or loss	**61,261**	11,800
Loan interest income	**1,340**	—
Net exchange gain	**—**	58,250

	Unaudited Six months ended 30th June	
	2005	2004
	US$	*US$*
Charging		
Included in administrative expenses		
Management fee paid to a related company *(Note 9(a))*	**589,277**	512,730
Management fee paid to an associate *(Note 9(c))*	**50,625**	—
Net exchange loss	**93,440**	—
Included in other operating expenses		
Changes in fair value of call options purchased	**336,109**	—
Write-off of accounts receivable	**—**	400,000
Fair value losses on financial assets at fair value through profit or loss	**1,403,025**	1,318

6 Taxation

Hong Kong profits tax has been provided for at the rate of 17.5% (2004: 17.5%) on the estimated assessable profit for the period. Taxation on overseas profits has been calculated on the estimated assessable profit for the period at the rates of taxation prevailing in the countries in which the Group operates.

The amount of taxation charged to the condensed consolidated profit and loss account represents:

	Unaudited Six months ended 30th June	
	2005	2004
	US$	*US$*
Current taxation:		
— Hong Kong profits tax	**—**	—
— Overseas taxation	**52,582**	21,869
Taxation	**52,582**	21,869

There was no material unprovided deferred taxation for the period.

Share of associates' taxation for the six months ended 30th June 2005 of US$53,456 (2004: US$322,171) are included in the condensed consolidated profit and loss account as share of profits of associates.

7 (Loss)/earnings per share

The calculation of basic and diluted (loss)/earnings per share are based on the Group's loss attributable to shareholders of US$1,735,738 (2004: Profit attributable to shareholders of US$248,363). The basic (loss)/earnings per share is based on the weighted average number of 74,385,066 (2004: 74,383,160) ordinary shares in issue during the period.

Diluted earnings per share for the six months ended 30th June 2004 were not presented as there were no dilutive potential ordinary shares in existence during the six months ended 30th June 2004.

Diluted loss per share for the six months ended 30th June 2005 have not been disclosed as the share options outstanding have an anti-dilutive effect on the basic loss per share during the six months ended 30th June 2005.

8 Commitments

As at 30th June 2005 and 31st December 2004, the Group's share of capital commitments of associate are as follows:

	30th June 2005 *(Unaudited)* *US$*	31st December 2004 *(Audited)* *US$*
Contracted but not provided for	**2,679,196**	1,288,205

The Group and the Company did not have any other material commitments at 30th June 2005 (2004: Nil).

9 Related party transactions

Significant related party transaction, which was carried out in the normal course of business is as follows:

(a) During the period, the Company paid management fee totalling US$589,277 (2004: US$512,730) to China Assets Investment Management Limited ("CAIML"), a related company under the management agreement signed between the Company and CAIML.

CAIML is a subsidiary of First Shanghai Investments Limited ("FSIL"), an associate of the Company. Mr. Lao Yuan Yi, the Chairman and an executive director of the Company, Mr. Wang Jun Yan, an executive director of the Company and Mr. Yeung Wai Kin, a non-executive director of the Company, are also directors of CAIML. Both Mr. Lao and Mr. Yeung are the directors of FSIL.

(b) As at 30th June 2005, management fee payable to CAIML amounted to US$350 (31st December 2004: US$73). The balance was unsecured, interest-free and will be settled in the third quarter of 2005.

(c) During the period, the Company paid management fee totalling US$50,625 (2004: US$Nil) to CITIC Capital China Property Partners, Ltd., an associate of the Company.

10 Subsequent event

(a) On 13th July 2005, Sino Manufacturing Limited, a wholly-owned subsidiary of the Company, exercised the call options to acquire 14,000,000 B shares in Konka Group Company Limited, a company with its A and B shares listed on the Shenzhen Stock Exchange at a cash consideration of HK$45 million (approximately US$5.7 million).

(b) On 1st September 2005, the Group has entered into an agreement with an independent third party amounting to HK$6,200,000 (approximately US$794,000) to acquire 0.2326% effective interests in Shenzhen Mindray Bio-Medical Electronics Co., Ltd..

DIVIDEND

The Directors do not recommend the payment of an interim dividend (2004: US$Nil).

NET ASSET VALUE

The consolidated net asset value per share of the Group at 30th June 2005 was US$1.4517 (31st December 2004: US$1.5202).

CONTINUING CONNECTED TRANSACTIONS

The related party transactions disclosed in note 9(a) to the condensed consolidated financial information constituted continuing connected transactions under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The Company entered into a management agreement (the "Management Agreement") with China Assets Investment Management Limited ("CAIML") on 28th March 1991 (with amendments made on 8th April 1992 and 11th October 2004) whereby CAIML was appointed to act as investment manager of the Company and agreed to provide management services to the Company. CAIML is a subsidiary of First Shanghai Investments Limited ("FSIL") which is a substantial shareholder of the Company holding approximately 33.82% of the issued share capital of the Company. The Company is a substantial shareholder of FSIL holding approximately 21.15% of the issued share capital of FSIL.

Details of the transactions have been made in the 2004 annual report of the Company.

SHARE OPTIONS

Options in respect of shares in the Company

At the Annual General Meeting of the Company held on 19th May 2004, the shareholders of the Company approved adoption of a share option scheme (the "Scheme"). The purpose of the Scheme is to enable the Company to grant options for the subscription of shares in the Company to selected participants as incentives or rewards for their contribution to the Group. Pursuant to the terms of the Scheme, the Directors may at their discretion offer any employee, proposed employee or director of the Company, any of its subsidiaries, its investment manager (the "Manager") or any invested entity in which the Group holds not less than 20% of its equity interest to take up options to subscribe for the shares in the Company.

Details of the share options under the Scheme remain outstanding as at 30th June 2005 are as follows:

	Options held at 1st January 2005	Options Exercised during the period	Options held at 30th June 2005	Exercise Price *HK$*	Closing Price before the Date of Grant *HK$*	Date of Grant	Exercise Period
Directors:							
Lao Yuan Yi	740,000	(15,000)	725,000	2.65	2.50	21/05/2004	25/05/2004 — 23/05/2014
Wang Jun Yan	700,000	—	700,000	2.65	2.50	21/05/2004	25/05/2004 — 23/05/2014
Jiang Wei	50,000	—	50,000	2.65	2.50	21/05/2004	25/05/2004 — 23/05/2014
Yeung Wai Kin	700,000	—	700,000	2.65	2.50	21/05/2004	25/05/2004 — 23/05/2014
Zhao Yu Qiao	700,000	—	700,000	2.65	2.50	21/05/2004	25/05/2004 — 23/05/2014
Peter Duncan Neil Robertson	70,000	—	70,000	2.65	2.50	21/05/2004	25/05/2004 — 23/05/2014
Fan Jia Yan	70,000	—	70,000	2.65	2.50	21/05/2004	25/05/2004 — 23/05/2014
Wu Ming Yu	70,000	—	70,000	2.65	2.50	21/05/2004	25/05/2004 — 23/05/2014
Employees of the Manager	700,000	—	700,000	2.65	2.50	21/05/2004	25/05/2004 — 23/05/2014
	3,800,000	(15,000)	3,785,000				

Options in respect of shares in associated corporations

	Associated corporation	Date of grant	Total options lapsed	Balance of options not exercised as at 30th June 2005	Exercise price *HK$*	Exercise period
Directors:						
Lao Yuan Yi	First Shanghai Investments Limited	26/09/1995	—	7,338,100	0.342	26/03/1996 — 07/10/2005
		11/07/1996	—	5,503,900	0.318	11/01/1997 — 15/07/2006
		01/11/1997	—	10,000,000	0.816	01/05/1998 — 12/11/2007
				22,842,000		
Wang Jun Yan	First Shanghai Investments Limited	08/07/1998	—	1,000,000	0.283	08/01/1999 — 15/07/2008
Yeung Wai Kin	First Shanghai Investments Limited	26/01/1995	(2,401,560)	—	0.453	26/07/1995 — 09/02/2005
		11/07/1996	—	1,494,304	0.318	11/01/1997 — 15/07/2006
		01/11/1997	—	2,500,000	0.816	01/05/1998 — 12/11/2007
		08/07/1998	—	6,980,000	0.283	08/01/1999 — 15/07/2008
			(2,401,560)	10,974,304		

The above share options were granted under the share option scheme of First Shanghai Investments Limited adopted on 24th May 2002.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN THE SHARES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 30th June 2005, the interests and short positions of the directors and chief executives of the Company in the shares of the Company or its associated corporations (within the meaning of the Securities and Futures Ordinance (Cap. 571) ("SFO") recorded in the register maintained by the Company under section 352 of the SFO or notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules, were as follows:

Shares in the Company

The directors' interests in the shares of the Company are set out in the section headed "Share Options" above and all such interests were personal interests.

Shares in associated corporations

Associated corporation	Name	Type of interest	Number of ordinary shares held (percentage of issued share capital)
First Shanghai Investments Limited	Lao Yuan Yi	Personal	44,532,000
		Corporate	72,952,000
			117,484,000 (10.01%)

Apart from the Management Agreement and the interests stated above, at no time during the period had the Company, its subsidiaries, its associates, its fellow subsidiaries or its holding company a party to any arrangement to enable the directors and chief executives of the Company to hold any interests or short positions in the shares or underlying shares in, or debentures of, the Company or its associated corporation.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

The register of substantial shareholders' interests maintained under section 336 of the SFO reveals that as at 30th June 2005, the Company had been notified of the following interests of the substantial shareholders of the Company, being 5% or more of the Company's issued shares that carry a right to vote at general meetings of the Company.

Name	Type of interest	Capacity	Number of ordinary shares held	Percentage of Issued share capital
First Shanghai Investments Limited ("FSIL") *(Note 1)*	Corporate	Interest of Controlled Corporation	25,162,866	33.82%
First Shanghai Direct Investments Limited ("FSDI") *(Note 1)*	Corporate	Interest of Controlled Corporation	25,162,866	33.82%
Golad Resources Limited *(Note 1)*	Corporate	Beneficial Owner	25,162,866	33.82%
Chen Dayou	Personal	Beneficial Owner	8,405,000	11.30%
QVT Financial LP (Note 2)	Corporate	Investment Manager	10,465,000	14.07%
QVT Financial GP LLC *(Note 2)*	Corporate	Interest of Controlled Corporation	10,465,000	14.07%
Deutsche Bank Aktiengesellschaft	Corporate	Security Interest	9,670,000	13.00%
QVT Associates GP LLC *(Note 3)*	Corporate	Interest of Controlled Corporation	8,260,756	11.10%
QVT Fund LP *(Note 3)*	Corporate	Beneficial Owner	8,260,756	11.10%

Notes

1. Both FSIL and FSDI had corporate interests in the issued share capital of the Company through their indirect or direct share interests in Golad Resources Limited. Golad Resources Limited is wholly-owned by FSDI, which is, in turn, wholly-owned by FSIL.

2. QVT Financial GP LLC had an interest in QVT Financial LP which is deemed to have interest in the issued share capital of the Company since QVT Financial LP acts in the capacity of an investment manager to QVT Fund LP.

3. QVT Associates GP LLC had an interest in the issued share capital of the Company through its interest in QVT Fund LP.

Save as disclosed above, no other shareholders of the Company had any beneficial or legal interests in 5% or more of the Company's issued shares that carry a right to vote in general meetings of the Company as recorded in the register maintained by the Company. All the interests described above represent long position in the shares of the Company and no short positions, deemed interests or derivative interests were recorded in the register maintained by the Company as at 30th June 2005.

PURCHASE, SALE OR REDEMPTION OF SHARES

The Company has not redeemed any of its shares during the period. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the period.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules (the "CG Code") throughout the six months ended 30th June 2005, except for the following deviations:

Code provision A.4.2

Under the code provision A.4.2 of the CG Code, every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

According to Article 98 of the Articles of Association of the Company, not all the directors are subject to retirement by rotation. In order to comply with the code provision A.4.2. of the CG Code, the Company intends to propose to make relevant amendments to the Articles of Association of the Company at the forthcoming annual general meeting of the Company.

Code provision B.1.1

Under the code provision B.1.1 of the CG Code, a remuneration committee should be established with specific written terms of reference which deal clearly with its authority and duties. A majority of the members of the remuneration committee should be independent non-executive directors.

In order to comply with the code provision B.1.1 of the CG Code, a remuneration committee comprising a majority of independent non-executive directors with specific written terms of reference has been established in June 2005.

The Board will continue to review the effectiveness of the corporate governance structure of the Company to assess whether changes are necessary.

AUDIT COMMITTEE

The Company has set up an Audit Committee with written terms of reference since December 1998. The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal control and financial reporting matters including a review of the unaudited interim accounts for the period. The committee comprises three independent non-executive directors and a non-executive director.

MODEL CODE FOR SECURITIES TRANSACTIONS BY THE DIRECTORS

The Company has adopted Appendix 10 of the Listing Rules "Model Code for Securities Transactions by Directors of Listed Issuers" as rules for securities transactions initiated by the directors of the Company. After specifically inquiring with all the directors of the Company, the Company confirms that its directors' securities transactions have been fully complied with the standard laid down in the said rules at any time during the period ended 30th June 2005.

INVESTMENT REVIEW

The Group reported a loss of US$1.7 million for the six months ended 30th June 2005, against a net profit of US$248,363 over the same period of 2004. The loss was mainly due to an unrealised loss on listed shares of approximately US$1.40 million.

In the first half of 2005, China continued to implement various macro-economic control policies to regulate growth in several overheated industries. Overall growth of the gross domestic product for the first half-year as a result declined year-on-year from 9.7% to 9.5% reaching RMB6,742 billion (approximately US$812 billion). Actually utilised foreign capital fell by 3.2% year-on year to US$28.6 billion. While the consumer price index for the period recorded a moderate increase of 2.3%, price for industrial products rose by 5.6% year-on-year. Purchase price for raw material, fuel and power continued to stay at a high level and rose by 9.9% compared to that of the same period of last year.

Suffered from rising raw material and fuel costs, performance of Shandong Lukang Pharmaceutical Co., Ltd. ("Lukang") was affected negatively. During the period, Lukang adjusted its products mix and sub-leased idle production capacity to external companies. With increased efforts and new strategies adopted in sales and marketing, Lukang successfully stopped further losses and recorded a small profit for the first half of 2005. The Company is now holding 63,658,870 foreign legal person shares in Lukang, which are non-tradable and may be subject to the China Share Reform initially released by the China Securities Regulatory Commission ("CSRC") in April 2005. More administration details and guidelines about the reform were released by CSRC subsequently. The Company will pay attention to the development of the reform and assess its impact once more details are available for Lukang's compensation plan. A fair value adjustment loss of US$2.62 million was provided against this investment in this period.

First Shanghai Investments Limited ("FSIL") reported a profit of HK$14.9 million (approximately US$1.9 million) for the first half of 2005, which dropped by more than 30% over that of the same period in prior year. Performance of its corporate finance and stock broking business was adversely affected by slowdown in fund raising activities in The Stock Exchange of Hong Kong Limited during the period.

On 14th March 2005, the shareholders of the Company approved at the extraordinary general meeting the investment of US$13.5 million in CITIC Capital China Property Investment Fund, L.P. (the "Fund"). Reacting quickly to an unstable property market under government macro-economic policies, the Fund successfully acquired a property complex at a discount in one of the prime location in Shanghai subsequently in April 2005.

A review of the Group's investments is set out below.

LONG-TERM INVESTMENTS

First Shanghai Investments Limited ("FSIL")

During the period under review, FSIL continued to increase investments in its logistic business and turnover rose significantly as a result. Performance of its corporate finance services was affected by the new policy announced in early 2005 by the State Administration of Foreign Exchange which might affect offshore reorganisation of Chinese enterprises. Stock broking business also dropped due to slowdown in fund raising activities in The Stock Exchange of Hong Kong Limited during the period.

Other divisions of FSIL remained stable except for its vehicle meters business which received severe blow from intense competition in the auto industry in China.

FSIL reported a profit of HK$14.9 million (approximately US$1.9 million) for the first half of 2005, which dropped by more than 30% over that of the same period in prior year.

Shandong Lukang Pharmaceutical Co., Ltd. ("Lukang")

During the period, competition in the antibiotics market remained intense and average products price of Lukang dropped continuously. In order to fully utilise its production capacity, Lukang adjusted its products mix and sub-leased part of its idle production departments to external companies. After putting strenuous efforts in cutting production costs and expanding new markets, Lukang successful curbed further losses and reported a profit of RMB2.1 million (approximately US$0.3 million) for the first half of 2005. In August 2005, the board of directors of Lukang resolved to appoint a new management team which would have a mission to bring Lukang back to profitable operation. A fair value adjustment loss of US$2.62 million was provided against this investment in this period.

In April 2005, the China Securities Regulatory Commission unveiled a pilot program on the China share reform which aimed at eliminating trading rights differences between non-tradable and tradable shares in listed companies. The non-tradable share holders including mainly the state-owned majority shareholders are required to negotiate with the tradable shares holders with a compensation proposal in exchange for the trading rights of their non-tradable shares. If the compensation proposal is approved, the non-tradable shares will become tradable subject to a lock-up period of 12 months. For the non-tradable shareholders with over 5% shareholdings in the listed company, the shares will be subject to further restrictions for the next 24 months after the lock-up period if the shares are to be sold in the open market. The Company is now holding a total of 63,658,870 foreign legal person shares (approximately 15.46%) of Lukang, which are non-tradable and may be subject to the share reform. Shandong Lukang Pharmaceutical Group Co. Ltd. which is the largest non-tradable shareholder of Lukang is yet to provide a compensation proposal for discussion. The Company will follow up closely the development of the reform and assess its impact once more detailed information of the proposal is available.

CITIC Capital China Property Investment Fund, L.P. (the "Fund")

In March 2005, the Company invested a total of US$13.5 million in the Fund, which was a newly set-up fund with an initial fund size of US$45 million. The objective of the Fund was to achieve long term capital appreciation by developing real estate and related investments in China. The Fund would be managed by CITIC Capital China Property Partners, Ltd. in which the Company acquired 25% equity interests. In April 2005, the Fund completed a purchase of a property investment which was located in Lu Wan District, one of the three Central Business Districts in Shanghai. The investment was a property complex including a 11-storey office tower and a 23-storey service apartment building and car parking spaces thereat. Occupancy rate of both the offices and service apartments was high at over 90% and total rental income achieved a return (gross) of more than 7% per annum based on the existing lease terms.

INVESTMENTS FOR WHICH FULL PROVISIONS HAD BEEN MADE

Dezhou Zhenhua Glass Co., Ltd. ("Zhenhua")

During the period under review, business of Zhenhua suffered from low products selling price and rising production cost. A substantial loss was incurred for the first half of 2005. As production facilities and technology of Zhenhua was outdated and inefficient, the board of directors of Zhenhua resolved to suspend production in the second half of 2005 in order to stop further losses. Different proposals including liquidation or injection of new funding for new production equipment are currently under discussion.

LISTED SHARES

During the period, the Company achieved a profit on disposal of US$61,261 for its listed portfolio. The shares held at 30th June 2005 had a carrying value of US$30,370,007. Fair value losses of US$1,403,025 were included in the consolidated profit and loss account for the period.

LIQUIDITY AND FINANCIAL RESOURCES

The Group maintained a healthy financial position for the period. As at 30th June 2005, the Group had cash and cash equivalents of US$13.10 million (31st December 2004: US$33.50 million), of which US$8.93 million (31st December 2004: US$19.13 million) were held in RMB equivalent in form of the PRC banks' deposit held in Chinese Mainland, and no debt. Most of the Group's investments are located in Chinese Mainland. RMB is not a freely convertible currency and the RMB exchange rate remained stable during the period.

EMPLOYEES

The Company is managed by China Assets Investment Management Limited. As at 30th June 2005, a qualified accountant was employed by the Company pursuant to the requirement of the Listing Rules. In addition to basic salary payments, other benefits include mandatory provident funds scheme and discretionary employee shares option scheme.

PROSPECTS

On 30th May 2005, the shareholders of the Company approved at the extraordinary general meeting the proposed disposal of up to 3,132,063 American Depositary Shares ("ADS") of KongZhong Corporation ("KongZhong") subject to certain conditions. In August 2005, KongZhong reported the second quarter result of US$6.6 million and its management believed KongZhong to maintain the leading position in providing 2.5G services in China. The Company will closely monitor the market situation and will execute the disposal when market conditions are favourable. The Company has not disposed of any ADS of KongZhong during the period under review.

Looking forward, the Company will continue to look for investment opportunities in different sectors which can provide a reasonable return. In July 2005, the Company acquired a total of 14.1 million B-shares, representing approximately 2.3% equity interests in Konka Group Company

Limited ("Konka") at a total cost of HK$47.8 million (approximately US$6.1 million). Konka is one of the largest TV manufacturers in China and its A and B shares are listed on the Shenzhen Stock Exchange. After years of fierce competition, the domestic TV market became more stable in China. While its major competitors encountered different difficulties such as substantial bad debts or litigation, Konka maintained a healthy financial position with positive growth potential in flat TVs and export markets. It was believed that the investment in Konka would provide a reasonable return in medium to long term.

In September 2005, the Company acquired approximately 0.2% effective interests in Shenzhen Mindray Bio-Medical Electronics Co., Ltd. ("Shenzhen Mindray") at a consideration of HK$6.2 million (approximately US$0.8 million) from one of its shareholders. Shenzhen Mindray is one of the largest medical equipment manufacturers in China and its business has experienced rapid growth in recent years.

By Order of the Board
Lao Yuan Yi
Chairman

Hong Kong, 20th September 2005