MANAGEMENT DISCUSSION AND OUTLOOK

INTERIM RESULTS

For the six months period ended 30th June, 2005, the Group recorded a loss of HK$13,384,000 compared with the profit of HK$1,160,000 for the corresponding period in 2004. Loss per share was HK1.1 cents (2004: earnings per share of HK0.1 cent).

BUSINESS REVIEW

Principal Operations

For the first half year, the Group continued to engage in the businesses of power generation, trading of iron ore, provision of finance, property investment and management as well as brokerage and securities investment. The overall loss incurred by the Group was primarily attributable to the allowance made against certain loans and other receivable, the unrealized holding loss on listed securities investments and the loss on revaluation of investment properties totalling HK$12,249,000. The turnover of the Group amounted to HK$223,747,000, increased by HK$135,798,000 or about 1.5 times compared to HK$87,949,000 of the previous period, principally due to increases in turnover of the power generation and trading operations.

The Group's power generation operation currently comprises two coal-fired power plants in Sanmenxia City, Henan Province, the People's Republic of China. One of the power plants is in production (the "First Power Plant") and the other one has commenced its full-scale commercial production since the third quarter of 2005 (the "Second Power Plant", together with the First Power Plant the "Power Plants"). For the first six months in 2005, the First Power Plant generated on-grid electricity sale of about 179 million kilowatt-hours (2004: 159 million kilowatt-hours) and contributed revenue of HK$43,532,000 (2004: HK$37,068,000). The increases in on-grid electricity sale and revenue by about 13% and 17% respectively were chiefly due to the success of management in raising the production efficiency and utilization rate of the First Power Plant. When compared with the previous period, the operation reported a lowered profit of HK$667,000 (2004: HK$5,357,000), mainly because coal prices were hovering at high level throughout the review period. Management expects the results of the operation to improve in the second half year as the Power Plants are subject to an increase in electricity tariff rates effective since May 2005, and there will also be benefits deriving from economies of scale following the commencement of full-scale operation of the Second Power Plant.

The iron ore trading operation delivered impressive results for the review period. Turnover and operating profit of the operation were HK$175,101,000 (2004: HK$46,760,000) and HK$4,848,000 (2004: HK$558,000) respectively, representing an increase of about 2.7 times and 7.7 times as compared to the previous period. Such impressive performance mainly resulted from the rather stable conditions of the iron ore market in the first half year which created a more advantageous position for management in settling deals. The outlook for iron ore market in China is positive and management expects the operation will continue to perform well for the remainder of the year.

BUSINESS REVIEW *(Continued)*

Principal Operations *(Continued)*

Interest income generated by the financing operation was HK$1,711,000 (2004: HK$1,262,000) for the review period, increased by about 36% compared to the same period last year. The increase was principally due to the higher average balance of loans advanced to customers during the review period as against the previous period. The operation incurred a loss of HK$434,000 as an allowance of HK$2,077,000 was made against certain long outstanding loans receivable.

For the first six months, turnover of the property operation increased by about 33% to HK$1,587,000 (2004: HK$1,196,000) when compared with the previous period. The increase was mainly due to improvement in occupancy rate of the Group's investment properties which is now standing at about 70%. Loss of this operation was HK$3,967,000, resulted mainly from the loss on revaluation of investment properties of HK$5,000,000 at the period end date. If the effect of the revaluation loss is excluded, the operation would have reported a profit of HK$1,033,000 for the review period.

The turnover of the brokerage and securities investment operations, comprising mainly of brokerage income, amounted to HK$1,816,000 (2004: HK$1,663,000) and showing an increase of about 9% when compared to the prior period. The operation incurred a loss of HK$6,355,000 which included an unrealized holding loss of listed securities of HK$3,980,000.

Jointly Controlled Entity

The Group's 30% owned jointly controlled entity, Shanghai Hong Qiao Friendship Shopping Center Co., Ltd. ("Shanghai Hong Qiao"), continued to perform well during the review period. For the first half in 2005, the turnover of Shanghai Hong Qiao was approximately HK$243 million, representing an increase of about 6% from HK$229 million in same period last year. The Group's share of profit of Shanghai Hong Qiao (after-tax), as a result of its strong sales growth and profitability, also rose by about 31% to HK$2,392,000 (2004: HK$1,828,000).

Associate

The Group's share of profit of the associate, Xi'an Gaoxin Hospital Co. Ltd. ("Xi'an Gaoxin Hospital"), was HK$1,337,000 for the review period (2004: HK$3,871,000). Management of the hospital has adopted various measures in recent months, including an active marketing campaign of the hospital services, aiming to improve its financial performance. Xi'an Gaoxin Hospital is effectively about 37% owned by the Group.

FINANCIAL REVIEW

Liquidity, Financial Resources and Capital Structure

At 30th June, 2005, the Group had current assets of HK$243,188,000 (31st December, 2004: HK$183,375,000) and liquid assets comprising bank balances and marketable Hong Kong listed securities totalling HK$92,355,000 (31st December, 2004: HK$94,694,000).

At the period end date, total bank and other borrowings amounted to HK$245,162,000 (31st December, 2004: HK$243,252,000). Of the total bank and other borrowings, about 71% was due within one year, 15% was due after one year but not exceeding two years and the remaining 14% was due after two years but not exceeding five years. In terms of currency denomination, about 76% of the balance was denominated in Renminbi with the rest in Hong Kong dollars. In terms of interest rate, about 97% and 3% of the total balance were bearing floating and fixed interest rates respectively.

The Group was in net current liabilities of HK$122,614,000 at 30th June, 2005 (31st December, 2004: HK$125,674,000). For bank and other borrowings of HK$173,617,000 that were classified as current liabilities at period end, the Group have obtained consents from two banks that bank facilities concerned of approximately HK$83,000,000 will be renewed for another year and that the repayment date of the facilities will accordingly be due after one year.

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

In relation to the acquisitions of the Power Plants in October 2003, the Company issued two convertible bonds (the “Bonds”) both of the principal amount of HK$40,000,000 with maturity dates in October 2004 and April 2006 as part of the consideration for the acquisitions. A winding-up petition (the “Petition”) was presented against the Company by Asian Power Development Limited (“Asian Power”) in relation to the alleged default in payments by the Company under the Bonds. The Bonds are classified as current liabilities in the balance sheet of the Company. Further details in relation to the Petition are stated in the paragraph below headed “Material Litigations”.

There was no change in the issued share capital of the Company during the period. At 30th June, 2005, shareholders’ funds of the Group was HK$529,204,000 (31st December, 2004: HK$524,512,000), equivalent to a consolidated net asset value of about HK44 cents (31st December, 2004: HK43 cents) per share of the Company. As of the period end date, gearing ratio calculated on the basis of the Group’s net borrowings of HK$249,506,000 (ie. bank and other borrowings of HK$245,162,000 plus Bonds of HK$80,000,000 minus the sum of bank balances, deposit and cash of HK$75,656,000) over the shareholders’ funds of HK$529,204,000 was at the moderate level of about 47%.

FINANCIAL REVIEW *(Continued)*

Foreign Currency Management

The monetary assets and liabilities and business transactions of the Group are mainly carried and conducted in Hong Kong dollars, Renminbi and US dollars. The Group maintains a prudent strategy in its foreign currency risk management, to a large extent, foreign exchange risks are minimized via balancing the foreign currency monetary assets versus the corresponding currency liabilities, and foreign currency revenues versus the corresponding currency expenditures. In light of the above, it is considered that the exposure to foreign exchange risks is not significant and no hedging measure has been undertaken by the Group.

Charge on Assets

At 30th June, 2005, investment properties, property, plant and equipment and listed securities with an aggregate value of HK$178,028,000 (31st December, 2004: HK$159,225,000) were pledged to secure credit facilities granted to the Group.

At 30th June, 2005, the Group's equity interest in a subsidiary which in turn holds the interest in Shanghai Hong Qiao was pledged to secure a credit facility of HK$25,000,000 granted to the Group.

Pursuant to the terms of a long-term loan agreement entered into during the year ended 31st December, 2004, a subsidiary of the Group has pledged its rights in collection of electricity tariff to a bank to secure banking facilities granted to the Group.

Capital Commitments

At 30th June, 2005, the Group had a commitment of HK$11,355,000 in relation to construction work of the Second Power Plant; and a commitment of HK$18,350,000 representing the consideration payable for the acquisitions of additional 15% equity interests in two subsidiaries which hold the equity interests in the Power Plants.

Contingent Liability

Subsequent to the period end date, a subsidiary of the Company was named a respondent in a shipping dispute for an amount of approximately HK$4.5 million. The amount has not been accrued in the financial statements of the Group because the dispute is still at an early stage, and the parties have yet to exchange documents and evidence and therefore, it is not possible to predict the outcome of the matter at this stage.

EMPLOYEES AND REMUNERATION POLICY

At 30th June, 2005, the Company and its subsidiaries had about 420 employees in Hong Kong and the Mainland. Total staff costs incurred during the period, including director's remuneration, was HK$7,247,000 (2004: HK$7,300,000). There was no material change to the remuneration policy of the Group from those disclosed in the Company's 2004 Annual Report.

MATERIAL LITIGATIONS

On 13th December, 2004, the Petition was presented against the Company by Asian Power in relation to the alleged default in payments by the Company under the Bonds. The Company is vigorously opposing the Petition and pursuing its legal rights under the sale and purchase agreement in relation to the acquisitions of the Power Plants. The Petition is scheduled to be heard on 17-19th January, 2006. The Company will keep shareholders informed of the progress of the Petition and press announcements will be made as and when appropriate. Further details in relation to the Petition are disclosed in note 19 to the condensed financial statements.

BUSINESS PROSPECTS

The Group's investments continue to benefit from the positive developments in the Mainland economy and the broad-based economic recovery in Hong Kong. These have added momentum to the growth of the Group and management will continue to pursue the corporate goal of building a diversified business portfolio with strong recurrent earnings base and capability of significant growth.