

Massive Resources International Corporation Limited

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 31 December 2001

1. BASIS OF PREPARATION

The condensed interim financial statements have been prepared in accordance with the Statement of Standard Accounting Practice ("SSAP") 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants and Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules").

2. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies and method of computation adopted in the preparation of these condensed interim financial statements are consistent with those used in the Group's annual financial statements for the year ended 30 June 2001.

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3. SEGMENTAL INFORMATION

The principal activity of the Company is investment holding. The principal activities of its subsidiaries are the manufacturing and trading of electrical equipment, the trading of listed securities and the provision of electrical engineering and contracting services. An analysis of the Group's turnover and contribution to profit/(loss) from operations by principal activities and geographical locations during the period is shown as follows:

	Turnover		Contribution to profit/(loss) from operations	
	Six months ended 31 December		Six months ended 31 December	
	2001	2000	2001	2000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
By principal activities:				
Continuing operations				
Manufacturing and trading of electrical equipment	48,907	40,565	3,909	7,490
Trading of listed securities	—	13,886	—	(8,754)
Provision of electrical engineering and contracting services	5,814	17,525	2,398	2,492
Discontinued operations				
Manufacturing and trading of building materials	—	5	—	(806)
	54,721	71,981	6,307	422
Other revenue			332	—
Gain on disposal of property, plant and equipment			—	9,389
Unallocated corporate expenses			(18,432)	(7,225)
(Loss)/profit from operations			(11,793)	2,586

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	Turnover		Contribution to profit/(loss) from operations	
	Six months ended 31 December		Six months ended 31 December	
	2001	2000	2001	2000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
By geographical locations:				
Hong Kong	54,721	71,976	6,307	1,228
PRC	—	5	—	(806)
	54,721	71,981	6,307	422
Other revenue			332	—
Gain on disposal of property, plant and equipment			—	9,389
Unallocated corporate expenses			(18,432)	(7,225)
(Loss)/profit from operations			(11,793)	2,586

4. DEPRECIATION AND AMORTISATION

During the period, depreciation of HK\$629,000 (2000: HK\$213,000) was charged in respect of the Group's tangible fixed assets. Amortisation of HK\$730,000 (2000: HK\$1,187,000) was charged in respect of the Group's intangible fixed assets.

5. TAXATION

Hong Kong profits tax has been provided at the rate of 16% (2000: 16%) on the estimated assessable profit for the period.

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6. INTERIM DIVIDEND

The Board of Directors does not recommend the payment of an interim dividend for the period under review (corresponding period in 2000: nil).

7. LOSS PER SHARE

The calculation of the basic loss per share is based on the net loss for the period of HK\$12,271,000 (2000: HK\$3,315,000) and on the weighted average of 1,028,894,348 (2000: 884,200,000) ordinary shares in issue during the period.

No diluted loss per share is presented for the period ended 31 December 2000 as there were no dilutive potential ordinary shares in issue during the period. Deemed ordinary shares were identified for the purpose of calculating diluted loss per share during the period ended 31 December 2001. The effect is anti-dilutive and accordingly the diluted loss per share was not shown for the period.

8. TANGIBLE FIXED ASSETS

The net book value of fixed assets includes an amount of HK\$366,000 (at 30 June 2001: HK\$439,000) in respect of assets held under hire purchases contracts.

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9. GOODWILL

	HK\$'000
The Group	
At cost:	
At 1 July 2001	36,697
A subsidiary not consolidated	<u>(13,705)</u>
At 31 December 2001	<u>22,992</u>
Accumulated amortisation:	
At 1 July 2001	21,200
Written back on a subsidiary not consolidated	(228)
Charge for the period	<u>713</u>
At 31 December 2001	<u>21,685</u>
Net book value:	
At 31 December 2001	<u>1,307</u>
At 30 June 2001	<u>15,497</u>

10. SUBSIDIARIES NOT CONSOLIDATED

	31 December 2001 (Unaudited) HK\$'000	30 June 2001 (Audited) HK\$'000
Unlisted shares at cost, net of provision	<u>33,215</u>	<u>17,172</u>

The following subsidiaries were not consolidated

- Hebei Dezhi Industry Co., Ltd. (Note (a))
- M-Star Limited (Note (b))

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Notes:

- (a) Since 1 July 1998, the Company has not been able to participate in the management of the subsidiary and the directors have been unable to obtain any financial information in respect of any period subsequent to that date. Against this background, in the opinion of the directors, the Group has been unable to exercise effective control over Hebei Dezhi Industry Co., Ltd. since 1 July 1998 and accordingly its results, assets and liabilities have not been consolidated in these financial statements. The investment in Hebei Dezhi Industry Co., Ltd. is stated at the Group's attributable share of net assets amounting to HK\$17,172,000 as at that date in the consolidated balance sheet. Moreover, in the absence of any financial information regarding the current financial position of Hebei Dezhi Industry Co., Ltd., the directors have been unable to determine whether there has been any diminution in value of that company since 1 July 1998.
- (b) In February 2001, Goalstar Holdings Limited ("Goalstar"), a wholly-owned subsidiary of the Company, purportedly entered into an agreement whereby Goalstar would purchase 60% of the issued shares and the shareholders' loan of M-Star Limited. Having obtained legal advice, Goalstar duly rescinded the purported agreement during the period under review. Senior Counsel engaged by Goalstar is of the opinion that Goalstar has an arguable claim for rescission, and accordingly a Writ of Summons will be issued therefor as soon as Senior Counsel has settled the Statement of Claim endorsed with the Writ of Summons. Goalstar will be seeking the return of a loan of HK\$750,000 made to M-Star Limited and is also seeking the return of its investment together with damages from the vendors of the shares in M-Star Limited purportedly purchased by Goalstar. The Board of Directors has taken the view that in the circumstances, the Company's investments in M-Star Limited should not be incorporated into these financial statements. The investment in M-Star Limited is stated at HK\$16,043,000 and in the opinion of the Board of Directors, no provision should be made in respect thereof pending the conclusion of or further developments in the impending court litigation.

11. INVESTMENT IN SECURITIES

Included in unlisted investment in securities is the Group's investment in Maxview Enterprises Limited, a company incorporated in the United States of America engaged in property investment. At 31 December 2001, the Group's unlisted investment represented a holding of 50% of the ordinary shares of Maxview Enterprises Limited.

Since 1 January 1999, in the opinion of the directors, the Group has been unable to exercise any significant influence over Maxview Enterprises Limited and thus equity accounting has been discontinued from that date. Accordingly, Maxview Enterprises Limited is stated in the consolidated balance sheet at its equity carrying value as at 31 December 1998 of HK\$5,999,000. However, the

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directors have been unable to obtain any financial statements for any period subsequent to 1 January 1999 in order to assess whether there has been a diminution in value of Maxview Enterprises Limited since that date.

12. TRADE AND OTHER RECEIVABLES

The Group allows an average credit period of 30 days to 60 days to its trade customers. Included in trade and other receivables are trade debtors of HK\$31,148,000 (at 30 June 2001: HK\$32,349,000) with the following aging analysis:

	31 December 2001 (Unaudited) HK\$'000	30 June 2001 (Audited) HK\$'000
Within 60 days	20,326	24,062
Over 60 days	2,807	6,470
Over 90 days	8,015	1,817
	31,148	32,349

13. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables of HK\$11,290,000 (at 30 June 2001: HK\$13,098,000) with the following aging analysis:

	31 December 2001 (Unaudited) HK\$'000	30 June 2001 (Audited) HK\$'000
Within 90 days	11,290	12,443
Over 90 days	—	655
	11,290	13,098

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14. SHARE CAPITAL

	31 December 2001 (Unaudited) HK\$'000	30 June 2001 (Audited) HK\$'000
Authorised:		
10,000,000,000 ordinary shares of HK\$0.02 each	200,000	200,000
Issued and fully paid:		
1,271,340,000 (at 30 June 2001 : 900,340,000) ordinary shares of HK\$0.02 each	25,427	18,007

During the period, the following movements in the Company's issued share capital were recorded:

- (a) on 6 September 2001, the Company entered into an unconditional placing agreement and a conditional subscription agreement with 369 Holdings Limited, the substantial shareholder of the Company. On completion, the Company issued 160,000,000 new ordinary shares of HK\$0.05 each. The premium on the issue of the shares of HK\$4,800,000 was credited to the share premium account; and
- (b) on 8 November 2001, the Company entered into an unconditional placing agreement and a conditional subscription agreement with 369 Holdings Limited, the substantial shareholder of the Company. On completion, the Company issued 211,000,000 new ordinary shares of HK\$0.06 each. The premium on the issue of the shares of HK\$8,440,000 was credited to the share premium account.

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15. RESERVES

	Share premium (Unaudited) HK\$'000	Non- distributable reserve (Unaudited) HK\$'000	Exchange reserve (Unaudited) HK\$'000	Retained profits (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
The Group:					
At 1 July 2001	12,675	2,264	(1,488)	42,998	56,449
Net loss for the period	—	—	—	(12,271)	(12,271)
Share premium	13,240	—	—	—	13,240
At 31 December 2001	25,915	2,264	(1,488)	30,727	57,418

16. PLEDGE OF ASSETS

At 31 December 2001, certain subsidiaries within the Group had pledged bank deposits of approximately HK\$3.5 million (at 30 June 2001: HK\$5.1 million) to secure general banking facilities granted to these subsidiaries of the Group.

17. CONTINGENT LIABILITIES

At 31 December 2001, the purported unsecured debts of the Group included an amount due to an unconsolidated subsidiary of HK\$26 million, an amount due to an investee company of HK\$4 million, and an amount due to a director of an unconsolidated subsidiary of HK\$2.1 million. In addition, the Group had a finance lease of HK\$0.3 million.

18. OPERATING LEASE COMMITMENTS

At 31 December 2001, the Group had commitments in respect of operating leases of land and buildings as follows:

	31 December 2001 (Unaudited) HK\$'000	30 June 2001 (Audited) HK\$'000
Within one year	—	—
In the second to fifth year	6,598	8,345
	6,598	8,345

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19. CAPITAL COMMITMENTS

During the period, the Group committed an investment of HK\$5,770,000 for purchase of office-factory premises for the Group's own use. The said purchase was completed on 18 February 2002.

20. POST BALANCE SHEET EVENT

The following significant events occurred subsequent to the balance sheet date:

- (a) on 10 December 2001, the Company entered into an unconditional placing agreement with 369 Holdings Limited, the substantial shareholder of the Company, in which 369 Holdings Limited agreed to place an aggregate of 170,000,000 ordinary shares of the Company, representing approximately 13.37% of the existing issued share capital of the Company to no less than six independent institutional and/or professional investors at a price of HK\$0.066 per share. On the same date, the Company and 369 Holdings Limited entered into a conditional subscription agreement pursuant to which 369 Holdings Limited agreed to subscribe for 254,000,000 new ordinary shares to be issued under the subscription agreement, representing approximately 19.98% of the existing issued share capital of the Company and about 16.65% of the issued share capital of the Company as enlarged by the issue of the subscription shares. The subscription was completed on 12 January 2002 and total funds of HK\$16,764,000 were raised;
- (b) on 31 January 2002, the Company entered into an unconditional placing agreement with 369 Holdings Limited, the substantial shareholder of the Company, in which 369 Holdings Limited agreed to place an aggregate of 305,000,000 ordinary shares of the Company, representing 20% of the existing issued share capital of the Company to no less than six independent institutional and/or professional investors at a price of HK\$0.08 per share. On the same date, the Company and 369 Holdings Limited entered into a conditional subscription agreement pursuant to which 369 Holdings Limited agreed to subscribe for 305,000,000 new ordinary shares to be issued under the subscription agreement, representing approximately 20% of the

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existing issued share capital of the Company and about 16.66% of the issued share capital of the Company as enlarged by the issue of the subscription shares. The subscription was completed on 11 February 2002 and total funds of HK\$24,400,000 were raised; and

- (c) in February 2001, Goalstar Holdings Limited (“Goalstar”), a wholly-owned subsidiary of the Company, purportedly entered into an agreement whereby Goalstar would purchase 60% of the issued shares and the shareholders’ loan of M-Star Limited. Having obtained legal advice, Goalstar duly rescinded the purported agreement during the period under review. Senior Counsel engaged by Goalstar is of the opinion that Goalstar has an arguable claim for rescission, and accordingly a Writ of Summons will be issued therefor as soon as Senior Counsel has settled the Statement of Claim endorsed with the Writ of Summons. Goalstar will be seeking the return of a loan of HK\$750,000 made to M-Star Limited and is also seeking the return of its investment together with damages from the vendors of the shares in M-Star Limited purportedly purchased by Goalstar. The Board of Directors has taken the view that in the circumstances, the Company’s investments in M-Star Limited should not be incorporated into these financial statements. The investment in M-Star Limited is stated at HK\$16,043,000 and in the opinion of the Board of Directors, no provision should be made in respect thereof pending the conclusion of or further developments in the impending court litigation.

21. RELATED PARTY TRANSACTIONS

During the period, the Group entered into sales transactions of HK\$5,798,000 (2000: HK\$8,461,000) and paid management fees of HK\$383,000 (2000: HK\$400,000) to related companies, in which directors of subsidiaries have controlling interests.

22. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current period’s presentation.

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23. APPROVAL OF INTERIM FINANCIAL REPORT

The interim financial report was approved by the Board of Directors on 22 March 2002.

By Order of the Board

Chen Chak Man

Chairman

Hong Kong, 22 March 2002