

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

1. Accounting Policies

The unaudited condensed consolidated financial statements have been prepared under the historical cost convention, except for the remeasurement of investment properties and certain equity investments.

The unaudited condensed consolidated financial statements have been prepared in accordance with Statement of Standard Accounting Practice No. 25 "Interim financial report" ("SSAP 25") issued by the Hong Kong Society of Accountants, except that comparative figures are not presented either for the condensed consolidated statement of recognised gains and losses or for the condensed consolidated cash flow statement, being the first cash flow statement to be included in the interim financial report relating to accounting period ended on or after 1 July 2000. Such departures from SSAP 25 are permitted under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. The accounting policies adopted are consistent with those followed in the Group's annual financial statements for the year ended 31 December 2000.

Comparative figures in the unaudited condensed consolidated income statements have been restated to conform with current period's presentation as required under Hong Kong SSAP 1 (revised) "Presentation of Financial Statements".

2. Segment Information

An analysis of the Group's turnover and contribution to profit from operating activities for the period by principal activities and geographical area is as follow:

	For the six months ended 30 June 2001		For the six months ended 30 June 2000	
	Turnover (Unaudited) HK\$'000	Contribution to profit from operating activities (Unaudited) HK\$'000	Turnover (Unaudited) HK\$'000	Contribution to profit from operating activities (Unaudited) HK\$'000
<i>By principal activities</i>				
Property holding	7,482	2,345	3,529	631
Securities brokerage	2,675	(114)	5,801	912
Investment activities	-	-	668	4,707
Trading of computer	4,495	(789)	-	-
Provision of loan finance	190	154	894	202
Provision of IT training and software development services	3,273	(1,186)	3,080	(808)
Service commission and consultancy	7,729	4,462	-	-
	<u>25,844</u>	<u>4,872</u>	<u>13,972</u>	<u>5,644</u>

2. Segment Information *(Continued)*

	For the six months ended 30 June 2001		For the six months ended 30 June 2000	
	Contribution to profit from operating activities		Contribution to profit from operating activities	
	Turnover (Unaudited)	(Unaudited)	Turnover (Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	<i>HK\$'000</i>	<i>HK\$'000</i>
<i>By geographical area</i>				
The People's Republic of China				
Hong Kong	17,066	3,717	7,797	5,228
Mainland	499	335	673	449
Singapore	1,582	(1,459)	2,931	(484)
Malaysia	6,697	2,279	2,571	451
	25,844	4,872	13,972	5,644

3. Profit from operating activities

The Group's profit from operating activities is arrived at after charging/(crediting):

	For the six months ended 30 June	
	2001	2000
	(Unaudited)	(Unaudited)
	HK\$'000	<i>HK\$'000</i>
Depreciation	1,911	790
Amortisation of intangible assets	1,562	1,132
Gain on disposal of short term listed investments	–	(264)
Provision for impairment in fair value of short term listed investments	(19)	(91)
Unrealised profit on short term listed investments	–	(5,223)
Bank Interest income	(319)	(137)

4. Tax

	For the six months ended 30 June	
	2001	2000
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Tax charge for the period	121	399

Hong Kong profits tax has been provided at the rate of 16% (2000: 16%) on the estimated assessable profits arising from Hong Kong for the period. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

5. Earnings per Share

The calculation of basic earnings per share is based on the net profit attributable to shareholders for the period of HK\$1,846,000 (2000: HK\$1,555,000) and on the weighted average of 657,329,000 (2000: 474,064,000) shares in issue during the period.

The diluted earnings per share for the current and corresponding periods have not been calculated as the exercise price of the Company's warrants was higher than the average market price of the ordinary shares for the period.

6. Interim Dividend

The Board resolved that no interim dividend was declared for the period ended 30 June 2001 (2000: Nil).

7. Trade Receivables

The ageing analysis of trade receivables is as follows:

	30 June 2001		31 December 2000	
	Balance (Unaudited) <i>HK\$'000</i>	Percentage (Unaudited)	Balance (Audited) <i>HK\$'000</i>	Percentage (Audited)
Current	5,265	36	363	52
1-3 months	9,268	63	263	37
3-6 months	75	1	26	4
6-12 months	–	–	49	7
Over 1 year	3,734	–	3,734	–
	18,342	100	4,435	100
Provision	(3,734)		(3,734)	
	14,608		701	

Invoices are normally payable within 30 days of issuance. The Group seeks to maintain strict control over its outstanding receivables; overdue balances are regularly reviewed by senior management.

8. Trade Receivables in Respect of Securities Transactions

	30 June 2001 (Unaudited) <i>HK\$'000</i>	31 December 2000 (Audited) <i>HK\$'000</i>
Trade receivables in respect of securities transactions	9,136	7,172
Provision	(224)	(1,265)
	8,912	5,907

8. Trade Receivables in Respect of Securities Transactions *(Continued)*

Trade receivables in respect of securities transactions are due for settlement two days after the transaction date. Except for the balances which have been provided for, all the remaining balances are current.

9. Other Receivables

	30 June 2001 (Unaudited) HK\$'000	31 December 2000 (Audited) HK\$'000
Other receivables, prepayments and deposits	46,105	2,789
Short term loan receivable	20,000	5,299
	<u>66,105</u>	<u>8,088</u>

10. Trade Payables in Respect of Securities Transactions

The ageing analysis of trade payables in respect of securities transactions is as follows:

	30 June 2001		31 December 2000	
	Balance (Unaudited) HK\$'000	Percentage (Unaudited)	Balance (Audited) HK\$'000	Percentage (Audited)
Current	<u>5,975</u>	<u>100</u>	<u>3,690</u>	<u>100</u>

11. Share Capital

	Number of ordinary shares of HK\$0.10 each	Nominal value HK\$'000
<i>Authorised:</i>		
At 1 January 2001	1,000,000,000	100,000
Increase on 30 May 2001	1,000,000,000	100,000
	<u>2,000,000,000</u>	<u>200,000</u>
At 30 June 2001	2,000,000,000	200,000
<i>Issued and fully paid:</i>		
At 1 January 2001	588,003,571	58,800
Issue of shares for acquisitions of subsidiaries	56,500,000	5,650
Subscription of shares	303,858,720	30,386
	<u>948,362,291</u>	<u>94,836</u>
At 30 June 2001	948,362,291	94,836

Pursuant to an ordinary resolution passed on 30 May 2001, the Company increased its authorised share capital from HK\$100,000,000 to HK\$200,000,000, by the creation of an additional 1,000,000,000 shares of HK\$0.10 each which rank pari passu in all respects with the existing shares.

During the period, the following movements in share capital were recorded:

- (a) During the period, the Group acquired all the issued shares in Healthy Profit Enterprises Limited ("Healthy Profit") and Genesis Strategic (Holdings) Limited ("Genesis") with independent third parties at an aggregate consideration of HK\$5,111,000. HK\$2,671,000 of the consideration was paid in cash. Part of the consideration of HK\$2,340,000 was settled by the issue of 6,500,000 new ordinary shares of the Company at HK\$0.36 each and the remaining consideration of HK\$100,000 was settled in fixed assets. The acquisition was completed during the period.

11. Share Capital *(Continued)*

- (b) On 24 April 2001, Freedom Call Assets Limited, a wholly-owned subsidiary of the Company, entered into a purchase and sale agreement with Easternet Limited, an independent vendor, to acquire a 60% interest in Xswim (Holding) Limited, which holds a 100% equity interest in Xswim Technology Limited, at an aggregate consideration of HK\$16,000,000, which was satisfied by the allotment and issue of a total of 50,000,000 new ordinary shares of HK\$0.10 each by the Company at a price of HK\$0.28 per share. The remaining consideration of HK\$2,000,000 was settled in cash. The acquisition was completed on 1 June 2001.
- (c) On 3 May 2001, the Company entered into a placing and subscription agreement that Kong Fa Holding Limited ("Kong Fa"), a substantial shareholder of the Company, placed 60,000,000 shares to independent professional and institutional investors at a price of HK\$0.22 per share. On the same day, the Company issued and allotted 303,858,720 shares at the same price to Kong Fa. The placement and subscription was approved by the Company's independent shareholders at an Extraordinary General Meeting held on 30 May 2001 and was completed on 1 June 2001.

During the period, no warrants were exercised. At the balance sheet date, the Company had 117,600,714 warrants outstanding. The exercise in full of outstanding warrants would, under the present capital structure of the Company, result in the issue of 117,600,714 additional ordinary shares of HK\$0.10 each for aggregate proceeds of HK\$70,560,428 before the related share issue expenses.

12. Reserves

	Share premium account	General reserve	Exchange fluctuation reserve	Retained profits	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 January 2001	57,536	18,000	419	54,495	130,450
Exchange adjustments	–	–	(419)	–	(419)
Issue of shares	47,153	–	–	–	47,153
Share issue expenses	(553)	–	–	–	(553)
Net profit for the period	–	–	–	1,846	1,846
At 30 June 2001	104,136	18,000	–	56,341	178,477

13. Related Parties Transactions

The Group had the following material transactions with related parties during the period:

		For the six months ended 30 June	
		2001	2000
	<i>Notes</i>	(Unaudited)	(Unaudited)
		HK\$'000	HK\$'000
Proceeds received from Kong Fa for subscription of shares	<i>(i)</i>	86,775	–
Rental subsidy received from Mr. and Mrs. Kong Look Sen	<i>(ii)</i>	236	220
Management fees received from Equal Gain Sdn. Bhd. (“Equal Gain”) in which Kong Sun Enterprise Sdn. Bhd. (“KSE”) has a controlling equity interest	<i>(iii)</i>	177	223
Acquisition of 55% interest in Pioneer Heritage Sdn. Bhd. (“Pioneer”) from KSE	<i>(iv)</i>	–	56,925
Management fees payable to Equal Gain	<i>(v)</i>	–	101

Notes:

- (i) On 3 May 2001, Kong Fa placed 60,000,000 shares to the independent professional and institutional investors at a price of HK\$0.22 per share. In return, the Company issued and allotted 303,858,720 shares at the same price to Kong Fa. The placing and subscription was completed on 1 June 2001. Details of the transaction were contained in note 11(c).

On 7 June 2001, Kong Fa through Coin Fall Limited (“Coin Fall”), a subsidiary of the Company, placed 100,000,000 shares to more than six independent professional and institutional investors at a price of HK\$0.20 per share. In return, the Company issued and allotted 321,750,322 shares at the same price to Kong Fa. The partial proceeds of HK\$19,926,000 was received in advance from Kong Fa. The placing and subscription was completed on 18 July 2001. Details of the transaction were contained in note 18(a).

13. Related Parties Transactions *(Continued)*

- (ii) In 1999, pursuant to sale and purchase agreement which was approved by the shareholders, the Group acquired all the issued shares in, and the benefits of a director's loan to a subsidiary from Mr. and Mrs. Kong Look Sen (Mr. Kong Look Sen is the chairman and managing director of the Company) for a total consideration of HK\$16,843,000 (S\$3,763,297). In addition, Mr. and Mrs. Kong Look Sen guaranteed the Group that the annual rental yield deriving from the property held by the subsidiary would not be less than 8% per annum for two years commencing from the date of the completion of the acquisition. As such, a rental subsidy of HK\$236,000 (2000: HK\$220,000) has been received from Mr. and Mrs. Kong Look Sen for the period.
- (iii) Certain employees of the Group provided management services to KSE and Equal Gain, and management fees were received based on their costs plus a mark-up.
- (iv) The Group acquired from KSE, a Malaysia company beneficially owned as to 70% by Mr. Kong Look Sen and his immediate family, a 55% interest in Pioneer at a consideration of HK\$56,925,000, which was satisfied by the allotment and issue of a total of 203,303,571 new ordinary shares of HK\$0.10 each by the Company at a price of HK\$0.28 per share.
- (v) Monthly management service fee of MYR20,000 was paid to Equal Gain for the marketing and management services provided to a subsidiary of the Group in Malaysia.

14. Contingent Liabilities

The Group did not have any significant contingent liabilities at the balance sheet date.

15. Commitments

(a) Capital commitments

At 30 June 2001, the Group had contracted capital commitments amounting to HK\$76,284,000 (2000: HK\$5,924,000). Included in the contracted commitments is an amount of HK\$20,000,000 payable to Tipmax Limited ("Tipmax") and Grandy Environmental Holdings Limited ("Grandy") (formerly known as Lotus Sea Holdings Limited ("Lotus Sea")), for the acquisition of 22.5% interest in Grandy. In addition, included in the contracted commitments are amounts of HK\$30,000,000 payable to Beachfield Holdings Limited ("Beachfield") for the acquisition of 50% of the issued shares in China Anti-Flooding System Monitor Limited ("China Anti-Flooding") and of HK\$26,000,000 payable to Green Earth Group Limited ("Green Earth") for the acquisition of 50% of the issued shares in China Environmental System Monitor Limited ("China Environmental") (2000: included in the contracted commitments was an amount of HK\$2,840,000 for the acquisition of the shares in Healthy Profit). Details of the transactions were contained in note 18(b) & 18(c).

15. Commitments *(Continued)**(b) Operating lease commitments*

At 30 June 2001, the Group had commitments under non-cancellable operating leases as follows:

	30 June 2001 (Unaudited) HK\$'000	31 December 2000 (Audited) HK\$'000
Land and buildings expiring:		
Within one year	1,881	1,411
In the second to fifth years, inclusive	626	844
	<u>2,507</u>	<u>2,255</u>

(c) Other commitments

At 30 June 2001, the Group had consultancy fees of HK\$870,000 (2000: HK\$1,750,000) payable under non-cancellable consultancy agreements expiring within one year.

16. Pledge of Assets

At 30 June 2001, the following assets of the Group were pledged to secure the Group's credit facilities:

- (a) The Group's bank deposits approximately HK\$3,960,000 (2000: HK\$3,869,000) were pledged to a bank to secure banking facilities.
- (b) The Group's has pledged its land and buildings and investment properties situated in Hong Kong and the PRC in an aggregate carrying value of approximately HK\$66,796,000 (2000: HK\$68,313,000) to secure its general banking facilities.
- (c) The Group's investment properties situated in Malaysia which had an aggregate carrying value of approximately HK\$139,191,000 (2000: HK\$139,191,000) had pledged to secure other borrowings.

17. Acquisition of Subsidiaries

During the period, the Group acquired all the ordinary shares of Healthy Profit, which holds a 100% equity interest in Genesis at an aggregate consideration of HK\$5,132,000 (including other incidental expenses). The balance was settled for cash of HK\$2,692,000, share consideration of HK\$2,340,000 and fixed assets of HK\$100,000. Goodwill of approximately HK\$1,102,000 has arisen upon acquisition. In addition, the Group acquired 60% of the issued share capital of Xswim (Holding) Limited for cash consideration of HK\$2,086,000 (including other incidental expenses) and share consideration of HK\$14,000,000.

The following summaries the effect of acquisitions of subsidiaries:

	<i>HK\$'000</i>
Net assets acquired	4,888
Goodwill arising on acquisition	16,330
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	21,218
Satisfied by:	
Cash paid	4,778
Issue of share capital	16,340
Fixed assets	100
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	21,218
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The analysis of the net inflow of cash and cash equivalents in respect of the acquisition of subsidiaries is as follow:

Cash paid	(4,778)
Cash and bank balances acquired	6,496
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Net inflow of cash and cash equivalents in respect of the acquisition of subsidiaries	1,718
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The subsidiaries acquired during the period contributed HK\$4,724,000 turnover and HK\$39,000 profit from operating activities to the Group.

18. Post Balance Sheet Events

- (a) On 7 June 2001, a conditional placing and subscription agreement was entered into between Kong Fa, Coin Fall and the Company. Under this agreement, Coin Fall, a subsidiary of the Company, agreed to place 100,000,000 existing ordinary shares of the Company at a price of HK\$0.20 per share for and on behalf of Kong Fa, a substantial shareholder of the Company, on a best-effort basis, to more than six independent professional and institutional investors. Kong Fa would also subscribe for 321,750,322 new ordinary shares of the Company at the same placing price. The issue of the new ordinary shares of the Company under the subscription was approved at an Extraordinary General Meeting held on 14 July 2001. Details of the transaction were contained in a circular of the Company dated 22 June 2001. The placing and subscription was completed on 18 July 2001.
- (b) As further explained in note 15(a) to the financial statements, on 27 June 2001, the Group entered into a conditional sale and purchase agreement with Tipmax, Star Wave Limited, Tsui Tai Hoi Raymond, Lam Oi Kwan Sandy, George Tan Van Hoang, Leung Chi Kin, Yeung Kam Yan, Chan Hon Chiu, Mio Kwok Man, To Hang Ming and Grandy (formerly known as Lotus Sea), independent third parties, to acquire a 22.5% interest in Grandy at an aggregate consideration of HK\$20,000,000, which is to be satisfied by the allotment and issue of a total of 85,000,000 ordinary shares of HK\$0.10 each by the Company at a price of HK\$0.20 per share. The remaining consideration of HK\$3,000,000 will be settled in cash. Details of the transactions were announced by the Company on 27 June 2001. This acquisition was completed on 24 July 2001.
- (c) As further explained in note 15(a) to the financial statements, on 29 June 2001, the Group entered into a conditional sale and purchase agreement with Beachfield, an independent party, to acquire 50% interest in China Anti-Flooding at an aggregate consideration of HK\$30,000,000, which is to be satisfied by cash in amount of HK\$2,000,000 and the allotment and issue of 140,000,000 new ordinary shares at HK\$0.10 each by the Company at a price of HK\$0.20 per share. In addition, on 29 June 2001, the Group entered into a conditional sale and purchase agreement with Green Earth, an independent party, to acquire 50% interest in China Environmental for a total consideration of HK\$26,000,000 which will be settled in cash of HK\$2,000,000 and the allotment and issue of a total of 120,000,000 new ordinary shares of HK\$0.10 each by the Company at a price of HK\$0.20 per share. Details of the transactions were contained in a circular of the Company dated 21 July 2001. Both of acquisitions were completed on 16 August 2001.

18. Post Balance Sheet Events *(Continued)*

- (d) In accordance with the Company's Employee Share Option Scheme for employees, which was adopted pursuant to a resolution passed at the Annual General Meeting held on 31 May 2001, the Board of the Company may grant options to eligible employees, including executive directors of the Company and its subsidiaries, to subscribe for shares in the Company at a price equal to the higher of the nominal value of the shares or not less than 80% of the average of the closing prices of the shares of the Company on the five trading days immediately preceding the date of offer of the option. The maximum number of shares in respect of which option may be granted shall not exceed 10% of the issued share capital of the Company as at the date of passing the resolution. Also, no option may be granted to any one person which if exercised in full would result in the total number of shares already issued and issuable to him under the Employee Share Option Scheme exceeding 25% of the aggregate number of shares for the time being issued and issuable under the Employee Share Option Scheme. The Employee Share Option Scheme will remain in force for a period of 5 years commencing 31 May 2001. Details of the transaction were contained in a circular of the Company dated 23 April 2001.

On 7 July 2001, 68,282,085 share options were equally granted to Mr. Kong Look Sen, Mr. Kong Li Jer and Mr. Kong Li Szu, executive directors of the Company, under the scheme to subscribe for a total of 68,282,085 ordinary shares at an exercise price of HK\$0.17984 per share and the exercisable period is six months from the Date of Acceptance to 31 May 2006.

- (e) Subsequent to the period end, the Group through Techseek Limited, a wholly-owned subsidiary of the Company, entered into a conditional sale and purchase agreement with Triple Ace Company Limited, an independent party, to acquire 30% interest in Human Online.com Limited at a cash consideration of HK\$35,000,000. HK\$10,000,000 was settled as initial deposit. Further deposit of HK\$20,000,000 will be settled within five days after signing of the agreement and the remaining consideration of HK\$5,000,000 will be settled upon completion. The acquisition was completed on 12 July 2001.

18. Post Balance Sheet Events *(Continued)*

- (f) On 31 July 2001, the Company through Hua Chiao Development Limited (“Hua Chiao”), a wholly-owned subsidiary of the Company, entered into an acquisition agreement with KSE, a company incorporated in Malaysia and wholly-owned by Mr. Kong Look Sen and Mr. Kong Li Jer, the executive director of the Company and their associates, to acquire an additional 15% of the issued share capital of Pioneer for a consideration of HK\$18,013,000. Upon completion, the Group’s shareholding in Pioneer will be increased from 55% to 70%. The consideration will be satisfied by the issue and allotment of 100,072,223 new ordinary shares of the Company at an issue price of HK\$0.18 per share. The acquisition is expected to be completed on or before 19 October 2001. Details of the transaction were contained in a circular of the Company on 20 September 2001.
- (g) On 31 July 2001, the Company through Hua Chiao entered into an acquisition agreement with KSE to acquire 100% of the issued share capital of Dual Aim Sdn. Bhd. for a consideration of HK\$16,200,000. The consideration will be satisfied by the issue and allotment of 90,000,000 new ordinary shares of the Company at an issue price of HK\$0.18 per share. The acquisition is expected to be completed on or before 19 October 2001. Details of the transaction were contained in a circular of the Company on 20 September 2001.
- (h) On 13 September 2001, the Company through Best Spot Investments Limited, a wholly-owned subsidiary, and Beijing XiCheng Housing Construction Development Company (“Beijing XiCheng”), an independent party, signed a joint venture agreement (the “JV agreement”) to form a Chinese-Foreign joint venture company (the “JV”) for a term of 30 years to engage in property development for both residential and commercial purpose in XiCheng District, Beijing, the PRC. The total investment in the JV will be RMB360,000,000, of which RMB120,000,000 will be the registered capital. The Group and Beijing XiCheng hold 90.1% and 9.9% of the JV respectively. Details of the transaction were announced by the Company on 17 September 2001.

19. Approval of the Interim Financial Statements

These condensed interim financial statements were approved by the Board on 18 September 2001.