



RADFORD CAPITAL INVESTMENT LIMITED
(incorporated in the Cayman Islands with limited liability)

INTERIM REPORT

2002

The board of Directors (the “Board”) of Radford Capital Investment Limited (the “Company”) announces the unaudited consolidated interim results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2002 (the “Period”).

REVIEW

The Group is an investment company with principal investment objective of achieving earnings through short to medium term capital appreciation by investing in a diversified portfolio of investments in listed or unlisted enterprises established and/or conducting business in Hong Kong and/or the People’s Republic of China (“PRC”). The Group’s investment objective and policies have remained the same as stated in the prospectus of the Company dated 15 February 2002 (“Prospectus”). The Company was listed on the Stock Exchange of Hong Kong Limited (“Stock Exchange”) on 28 February 2002.

The recent United States’ accounting scandals have reduced the credibility of listed companies in the United States. The scandals have dented investor confidence in the stock markets worldwide including Hong Kong. As at 30 June 2002, the Group suffered net unrealised holding loss on other listed investments of approximately HK\$20 million.

The portfolio of the Group consists primarily of small market capitalization stocks for which the Board believe that their prices were undervalued. However, those small market capitalization stocks usually have very low trading volume. The Company must take strategic decision in acquiring and disposing of such stock position through various market arrangements. Moreover, the Company may package its investments into equity and or equity related products to hedge against unfavourable conditions.

The Group has established an execution committee to act on behalf of the Board to effect any investments or divestments proposed by the investment manager of the Company for which the Board has approved.

The Board proposed to the shareholders of the Company to appoint Sinox Fund Management Limited (“Sinox”) as its additional investment manager on 20 March 2002. The Board was of the view that the Group would be able to increase its potential source of investment opportunities by the appointment of an additional investment manager so as to maximize return to the Company without incurring any additional costs. Such appointment was approved at the extraordinary general meeting of the Company held on 29 April 2002.

On 30 April 2002, the Company received notice of termination from Asia Investment Management Limited, one of its investment managers, to terminate the investment management agreement with the Company on 1 May 2002. The Company believed that there was no material change to the ordinary course of business of the Company by such termination. As a result, Sinox has become the only investment manager of the Company.

The Company appointed Mr. Chung Yuk Lun as the executive director and designated as managing director on 25 April 2002. Mr. Chu Kam Ming, Jeff resigned as executive director of the Company with effect from 30 April 2002.

Prof. Chiang Chiu Ping, Raymond, the independent non-executive director of the Company, passed away on 12 August 2002.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2002, the cash and bank balance of the Group was approximately HK\$11 million. Most of the investments made during the period from 28 February 2002 (Date of listing of the Company on the Stock Exchange and commencement of operation) to 30 June 2002 were substantially financed through internal cash resources.

FOREIGN CURRENCY FLUCTUATION

All of the underlying investments and business transactions of the Group are denominated in Hong Kong dollars. The Board believes the foreign exchange risk is minimal.

STAFF

As at 30 June 2002, the Group employed 6 employees, including 3 executive directors. Total staff costs for the Period under review amounted to approximately HK\$640,000. The Group remuneration packages are generally structured by reference to market terms and individual merits. Salaries are normally reviewed on an annual basis based on performance appraisals and other relevant factors.

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the Period.

PROSPECT

The Group's portfolio is primarily consisted of listed companies in Hong Kong which principally engage in different business sectors in Hong Kong and/or the PRC such as professional management of infrastructure, hotel operation and investment, property development and investment, packaging business and retail business in the PRC. The Board believes such portfolio is well diversified.

The Group may utilize its borrowing power to make investments since its borrowings as at 30 June 2002 was only approximately HK\$2.5 million. In addition, the Group may find other means of fund raisings in addition to margin financing and/or bank borrowings.

The Group will continue to focus on investing in undervalue companies with high growth potential in the future.

The Group is in compliance with its investment objective and policies as stated in the Prospectus. The Group and its investment manager will work prudently to identify investment opportunities with attractive returns under the prevailing market circumstances and will continue to seek investment(s) with certain degree of synergy effect with the existing investments.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the Period, the Company did not purchase, sell or redeem any of the Company's own securities.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2002, the register of substantial shareholders maintained under Section 16(1) of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance") shows that the Company had been notified of the following substantial shareholders' interests, being 10% or more of the Company's issued share capital:

Name of shareholder	Number of ordinary shares	Percentage
Hennabun Management Inc. (<i>Notes</i>)	290,000,000	28.43 %
Sunfull Resources Limited	112,880,000	11.07 %

Notes: The entire issued share capital of Hennabun Management Inc. ("Hennabun") is beneficially owned as to 81.08% by China United Holdings Limited, 17.20% by Hansom Eastern (Holdings) Limited and 1.72% by Hong Kong Pharmaceutical Holdings Limited, all of which are companies listed on the Stock Exchange. Radford Developments Limited is the substantial shareholder of China United Holdings Limited holding about 13.85% of its issued share capital and is controlled by a trust with the son of Mr. Chuang Yueheng Henry, the chairman of the Company, currently named as the beneficiary.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURE

At no time during the period from 28 February 2002 (Date of listing of the Company on the Stock Exchange) to 30 June 2002 was the Company or any of its subsidiaries a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate. The Company did not grant any right to subscribe for the shares in the Company to any directors or chief executive of the Company or their respective spouse or children under the age of 18 during the Period.

SHARE OPTION

The fair value of the options granted in the Period measured as at the date of grant on 29 April 2002 was HK\$0.37 per option. The following significant assumptions were used to derive the fair value, using the Black-Scholes option pricing model:

1. an expected volatility of 50.47%;
2. expected annual dividend yield of 0%; and
3. the estimated expected life of the options granted during the Period is 10 years. The quoted interest rate for the Exchange Fund Notes with maturity in 2011 was 5.92% which was adopted to calculate the fair value of options granted on 29 April 2002.

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

As at 30 June 2002 all share options granted were fully exercised during the Period.

DIRECTORS' INTERESTS IN SHARE CAPITAL

None of the Company's director and chief executives, or their associates had any interests in the securities of the Company or any of its associates as defined in the SDI Ordinance as at 30 June 2002.

CODE OF BEST PRACTICE

None of the directors of the Company is aware of any information that would reasonably indicate that the Company is not, or was not, during the Period in compliance with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

AUDIT COMMITTEE

The Audit Committee, comprising two independent Non-executive Directors, has reviewed with management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters of the Company including the review of the unaudited interim financial statements and the interim report for the Period. At the request of the Directors, the Company's external auditors, Messrs HLM & Co., have carried out a review of the unaudited interim financial statements in accordance with the Statement of Auditing Standards 700 "Engagement to review interim financial reports" issued by the Hong Kong Society of Accountants.

CONDENSED CONSOLIDATED INCOME STATEMENT

		(Unaudited) For the six months ended 30 June 2002 <i>HK\$</i>
	<i>Notes</i>	
Turnover	(4)	2,808,459
Purchase costs of listed securities		(2,117,855)
Net unrealised holding loss		
on other listed investments		(20,191,742)
Other revenue		188,901
Administrative and other operating expenses		<u>(3,569,980)</u>
Loss from operations	(6)	(22,882,217)
Finance costs		<u>(81,055)</u>
Loss before taxation		(22,963,272)
Taxation	(7)	<u>–</u>
Net loss attributable to shareholders		<u><u>(22,963,272)</u></u>
Dividend	(8)	<u>–</u>
Basic loss per share	(9)	<u>HK cents 3.27</u>

Note: The Company was incorporated on 14 August 2001 and did not conduct any business transaction up to 28 February 2002. Therefore, there is no comparative figures presented.

CONDENSED CONSOLIDATED BALANCE SHEET

		(Unaudited) At 30 June 2002 HK\$	(Unaudited) At 31 December 2001 HK\$ (Note)
Non-current assets			
Property, plant and equipment	(10)	<u>63,459</u>	<u>–</u>
Current assets			
Investments in securities		152,286,358	–
Cash and bank balances		<u>10,730,500</u>	<u>18,000</u>
		<u>163,016,858</u>	<u>18,000</u>
Current liabilities			
Other payables and accrued expenses		261,846	–
Short term borrowings		<u>2,449,753</u>	<u>–</u>
		<u>2,711,599</u>	<u>–</u>
Net current assets		<u>160,305,259</u>	<u>18,000</u>
Total assets less current liabilities		<u><u>160,368,718</u></u>	<u><u>18,000</u></u>
Capital and reserves			
Share capital	(11)	20,400,000	2,000
Reserves		<u>139,968,718</u>	<u>16,000</u>
		<u><u>160,368,718</u></u>	<u><u>18,000</u></u>

Note: The figures presented for the period from 14 August 2001 (Date of Incorporation) to 31 December 2001 were unaudited because the Company did not conduct any business transactions during that period and the Company had not made up any accounts for that period, the comparative figures are presented for reference only.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	(Unaudited) For the six months ended 30 June 2002 <i>HK\$</i>
Net cash used in operating activities	(174,981,123)
Net cash used in investing activities	<u>(70,120)</u>
Net cash received from financing activities	<u>185,763,743</u>
Net increase in cash and cash equivalents	10,712,500
Cash and cash equivalents at beginning of the Period	<u>18,000</u>
Cash and cash equivalents at end of the Period	<u><u>10,730,500</u></u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

		Share capital	Share Accumulated premium	losses	Total
<i>Notes</i>		<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
At 14 August 2001					
(Date of Incorporation)	<i>(a)</i>	–	–	–	–
Issue of ordinary shares (“Shares”) to Hennabun and Mr. Wong Man Hung, Patrick (“Mr. Wong”) for cash	<i>(b)</i>	2,000	16,000	–	18,000
At 31 December 2001		2,000	16,000	–	18,000
Issue of Shares to Hennabun and Mr. Wong for cash	<i>(c)</i>	5,958,000	47,664,000	–	53,622,000
Issue of Shares by placing and public offer	<i>(d)</i>	14,040,000	112,320,000	–	126,360,000
Issue of Shares by exercising of share options	<i>(e)</i>	400,000	10,200,000	–	10,600,000
Expenses of placing and public offer		–	(7,268,010)	–	(7,268,010)
Net loss for the Period		–	–	(22,963,272)	(22,963,272)
At 30 June 2002		<u>20,400,000</u>	<u>162,931,990</u>	<u>(22,963,272)</u>	<u>160,368,718</u>

Since incorporation, the movements in share capital were as follows:

- (a) On incorporation, the authorised share capital of the Company was HK\$1,000,000,000 divided into 5,000,000,000 Shares of HK\$0.02 each, of which one subscriber share was issued at par. On 24 August 2001, the one subscriber share was transferred to Hennabun for cash at par.
- (b) On 24 August 2001, Hennabun and Mr. Wong subscribed for 9,999 and 90,000 Shares for cash at HK\$0.18 respectively.
- (c) On 11 February 2002, the Company entered into two subscription agreements whereby Hennabun and Mr. Wong respectively subscribed for 289,990,000 Shares and 7,910,000 Shares at HK\$0.18 per Share.
- (d) On 28 February 2002, the Company issued 702,000,000 new Shares at HK\$0.18 each, by way of placing and public offer, which were then listed in the Stock Exchange.
- (e) On 21 June 2002, 20,000,000 Shares were issued to two employees equally at HK\$0.53 per Share by exercising the share options granted under share option scheme approved and adopted by the Company on 7 February 2002.

1. GENERAL

The Company was incorporated on 14 August 2001 in the Cayman Islands under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands as an exempted company.

Shares of the Company have been listed on the Stock Exchange on 28 February 2002.

The Group principally engage in investment holding and security trading.

2. BASIS OF PREPARATION

The unaudited condensed consolidated 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 (“HKSA”) and with the applicable disclosure requirements of Appendix 16 to the Listing Rules.

3. PRINCIPAL ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention, as modified for the revaluation of certain investments in securities.

The financial statements have been prepared in accordance with the generally accepted accounting principles in Hong Kong (“HKGAAP”). The principal accounting policies adopted are as follows:

Basis of consolidation

The condensed consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 30 June 2002.

The results of subsidiaries acquired or disposed of during the Period are included in the condensed consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances between group companies are eliminated on consolidation.

Revenue recognition

Sales proceeds of investments in securities are recognised on a trade date basis.

Interest income is accrued on a time basis by reference to the principal outstanding and at the interest rates applicable.

Dividend income from investments is recognised when the Group’s rights to receive payment have been established.

Borrowing costs

All other borrowing costs are recognised as expenses in the period in which they are incurred.

Retirement benefit schemes

The retirement benefit costs charged to the income statement represent the Group's contributions payable in respect of the current period to the retirement funds scheme.

Taxation

The charge for taxation is based on the results for the Period as adjusted for items which are non-assessable or disallowed. Timing differences arise from the recognition for tax purposes of certain items of income and expense in a different accounting period from that in which they are recognised in the financial statements. The tax effect of the resulting timing differences, computed using the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or an asset will crystallise in the foreseeable future.

Property, plant and equipment

Property, plant and equipment are stated at cost less depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of other items of property, plant and equipment over their estimated useful lives and after taking into account their estimated residual values, using the straight line method, at the following rates:

Property, plant and equipment	20%
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The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined as no impairment loss had been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Investments in securities

Investments in securities are recognised on a trade-date basis and are initially measured at cost.

All investment other than held-to-maturity debt securities are measured at subsequent reporting dates at fair value.

Where securities are held for trading purposes, unrealised gains and losses are included in net profit or loss for the period. For non-trading securities, unrealised gains and losses are recognised directly in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in net profit or loss for the period.

4. TURNOVER

(Unaudited)
For the six months
ended 30 June
2002
HK\$

The analysis of turnover for the Period is as follows:

Proceeds from sale of investments in securities	2,343,339
Dividend income from investments in securities	465,120
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	2,808,459

5. SEGMENT INFORMATION

The Group is principally engaged in investment holding and securities trading solely in Hong Kong for the Period. No segment information is presented accordingly.

6. LOSS FROM OPERATIONS

(Unaudited)
For the six months
ended 30 June
2002
HK\$

Loss from operations has been arrived at after charging:

Depreciation on property, plant and equipment	6,661
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7. TAXATION

No provision for Hong Kong profits tax has been made as the Group had no estimated assessable profit for the Period.

Deferred tax asset has not been recognised in the financial statements in respect of tax losses available to offset future assessable profits as it is not certain that the tax losses will be crystallised in the foreseeable future.

8. DIVIDEND

The Board does not recommend the payment of an interim dividend for the Period.

9. BASIC LOSS PER SHARE

The calculation of basic loss per share for the Period is based on the loss for the Period of HK\$22,963,272 and on the weighted average number of 703,039,778 Shares during the Period.

10. PROPERTY, PLANT AND EQUIPMENT

During the Period, the Company had acquired property, plant and equipment amounting to HK\$70,120 (period ended 31 December 2001: Nil).

11. SHARE CAPITAL

Issued and fully paid:

	(Unaudited) At 30 June 2002 HK\$	(Unaudited) At 31 December 2001 HK\$
1,020,000,000 (at 31 December 2001: 100,000) Shares of HK\$0.02 each	<u>20,400,000</u>	<u>2,000</u>

12. RELATED PARTY TRANSACTIONS

The Group had the following significant related party transactions during the Period which were carried out in the normal course of the Group's business:

Name of related party	Nature of transaction	(Unaudited) For the six months ended 30 June 2002 HK\$
Chung Nam Securities Limited (<i>Note a</i>)	Interest expenses	81,055
Chung Nam Securities Limited (<i>Note a</i>)	brokerage fee	440,829
CU Corporate Finance Limited (<i>Note a</i>)	Sponsor fee	200,000
CU Investment (Holdings) Limited (<i>Note a</i>)	Administrator expenses (<i>Note c</i>)	560,800
Pacific Kingdom Investments Limited (<i>Note b</i>)	Rental expenses	<u>168,930</u>

Note:

- (a) These companies are direct/in-direct wholly owned subsidiaries of Hennabun, the substantial shareholder of the Company.
- (b) This Company is an in-direct wholly owned subsidiary of China United Holdings Limited, a company of which Mr. Chuang Yueheng, Henry is the Chairman.
- (c) Pursuant to the administrative services agreement made between CU Investment (Holdings) Limited (“the Service Limited”) and the Company on 11 February 2002, the Service Limited agreed to provide general administrative services including accounting, secretarial, personnel and administrative services to the Company for a term from the date of commencement of trading of the Shares on the Stock Exchange up to and including 31 December 2004 at an initial monthly fee of HK\$140,200, subject to adjustment in the event there is an increase in personnel and/or administrative services required by the Company.

As at 30 June 2002 and 31 December 2001, the Group had the following balances with related parties:

Name of related party	(Unaudited) At 30 June	(Unaudited) At 31 December
	2002	2001
	<i>HK\$</i>	<i>HK\$</i>
Chung Nam Securities Limited	<u>2,449,753</u>	<u>–</u>

13. COMMITMENTS

- (i) At 30 June 2002, the Group had the lease commitments for future minimum lease payments under non-cancellable operating lease in respect of land and buildings falling due as follows:

	(Unaudited) At 30 June	(Unaudited) At 31 December
	2002	2001
	<i>HK\$</i>	<i>HK\$</i>
Within one year	337,860	–
In more than one year and less than two years	<u>168,930</u>	<u>–</u>
	<u>506,790</u>	<u>–</u>

- (ii) Pursuant to the investment management agreement dated 20 March 2002 made between Sinox (the “Investment Manager”) and the Company, the Company will pay to the Investment Manager an investment management fee for three years payable monthly in HK Dollars in advance at 2.5% per annum of the net asset value of the Company as at the day immediately preceding the last dealing day of the Stock Exchange in each calendar month or such other dealing day as considered appropriate by the Board for the purpose of calculating the net asset value of the Company, on the basis of the actual number of days in the relevant calendar month over a year of 365 days. The investment management fee is payable on or before the fifth day in each calendar month.

14. PLEDGE OF ASSETS

At the balance sheet date, certain securities held by the Group with market values of HK\$115,944,158 (period ended 31 December 2001: Nil) were pledged to Chung Nam Securities Limited (“Chung Nam”), a wholly owned subsidiary of Hennabun, to secure margin financing provided to the Group. The transactions with Chung Nam (the “Margin Financing Facilities Arrangement”) were entered into and carried out in the normal course of business of the Group on normal or better commercial terms to the Group which are fair and reasonable. A conditional waiver has been obtained from the Stock Exchange from strict compliance with the disclosure and Shareholders’ approval requirements under Chapter 14 of the Listing Rules in respect of the Margin Financing Facilities Arrangement for the three years ending 31 December 2004.

15. POST BALANCE SHEET EVENT

An agreement was entered into between the Company, CU Investment Management Limited (“CUIM”) as its research consultant and Sinox as its investment manager on 19 August 2002 subject to approval by the independent shareholders of the Company. Since CUIM is the wholly owned subsidiary of Hennabun, the substantial shareholder of the Company, such transaction constituted a connected transaction under Chapter 14 of the Listing Rules. No additional cost will be incurred by the Company since the investment management fee and the performance fee will be shared equally among Sinox and CUIM. The existing investment management agreement shall be terminated upon the approval of the aforesaid transaction by the independent shareholders of the Company at the extraordinary general meeting of the Company.

INDEPENDENT REVIEW REPORT

HLM & Co.

何呂麥會計師行

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Hong Kong

To the Board of Directors of Radford Capital Investment Limited

Introduction

We have been instructed by the Company to review the interim financial report set out on pages 6 to 15.

Directors' responsibilities

The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with SSAP 25 "Interim financial reporting" issued by the Hong Kong Society of Accountants and the relevant provisions thereof. The interim financial report is the responsibility of, and has been approved by, the directors.

Review work performed

We conducted our review in accordance with SAS 700 "Engagement to review interim financial reports" issued by the Hong Kong Society of Accountants. A review consists principally of making enquiries of group management and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

Review conclusion

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30 June 2002.

HLM & Co.
Certified Public Accountants
Hong Kong, 13 September 2002