

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

30 June 2002

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The unaudited condensed consolidated interim financial statements have been prepared in accordance with Statement of Standard Accounting Practice ("SSAP") No. 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants ("HKSA") and with the applicable disclosure requirements of Appendix 16 to the Rules Governing The Listing of Securities on The Stock Exchange of Hong Kong Limited. The basis of preparation and accounting policies used in the preparation of these condensed consolidated interim financial statements are consistent with those disclosed in the Group's audited financial statements for the year ended 31 December 2001 except as described below.

In the current period, the Group has adopted, for the first time, a number of new and revised SSAPs issued by the HKSA which has led to the following changes in the Group's accounting policies and the presentation of the financial statements:

SSAP 1 (Revised) "Presentation of Financial Statements" has introduced new format of presentation in reporting changes in equity. The presentation in the prior period's condensed financial statements has been restated in order to achieve a consistent presentation.

SSAP 15 (Revised) "Cash Flow Statements" has changed the classifications of cash flows in the cash flow statement and the definition of cash equivalents. The presentation in the prior period's condensed cash flow statement has been restated in accordance with the new format.

SSAP 34 "Employee Benefits" has introduced a formal framework for the recognition of liabilities and expenses in respect of employee benefits. The adoption of this new accounting standard has not resulted in any material effects on the financial statements of the current or prior period and accordingly, no prior period adjustment is required.

2. SEGMENT INFORMATION

The Group's turnover and operating results are substantially derived from Hong Kong. The analysis of the Group's revenue and results by business segments is as follows:

Six months ended 30 June 2002							
(Unaudited)	Investment in trading securities <i>HK\$'000</i>	Brokerage and financial services <i>HK\$'000</i> <i>Note</i>	Property investment <i>HK\$'000</i>	Investment holding <i>HK\$'000</i>	Inter- segment eliminations <i>HK\$'000</i>	Unallocated <i>HK\$'000</i>	Consolidated total <i>HK\$'000</i>
Revenue							
Turnover							
External	86,092	33,612	3,626	—	—	—	123,330
Inter-segment	—	—	1,569	—	(1,569)	—	—
	86,092	33,612	5,195	—	(1,569)	—	123,330
Other revenue	—	2,258	—	—	—	526	2,784
Total revenue	<u>86,092</u>	<u>35,870</u>	<u>5,195</u>	<u>—</u>	<u>(1,569)</u>	<u>526</u>	<u>126,114</u>
Result							
Segment							
profit/(loss)	<u>87,845</u>	<u>4,105</u>	<u>(1,875)</u>	<u>—</u>	<u>—</u>	<u>(13,138)</u>	76,937
Other finance costs	—	—	—	—	—	(13,324)	<u>(13,324)</u>
Profit before taxation							63,613
Taxation							<u>(12,910)</u>
Profit after taxation							<u>50,703</u>

Note: Included in turnover are interest income from loans receivable and advances amounting to HK\$24,434,000.

(Unaudited)	Six months ended 30 June 2001							
	Investment in trading securities	Brokerage and financial services	Property investment	Internet and internet related business	Investment holding	Inter- segment eliminations	Unallocated	Consolidated total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
		Note						
Revenue								
Turnover								
External	81,896	34,029	3,387	—	—	—	—	119,312
Inter-segment	—	1,436	1,862	—	—	(3,298)	—	—
	<u>81,896</u>	<u>35,465</u>	<u>5,249</u>	<u>—</u>	<u>—</u>	<u>(3,298)</u>	<u>—</u>	<u>119,312</u>
Other revenue	—	4,086	—	680	639	—	—	5,405
	<u>—</u>	<u>4,086</u>	<u>—</u>	<u>680</u>	<u>639</u>	<u>—</u>	<u>—</u>	<u>5,405</u>
Total revenue	<u>81,896</u>	<u>39,551</u>	<u>5,249</u>	<u>680</u>	<u>639</u>	<u>(3,298)</u>	<u>—</u>	<u>124,717</u>
Result								
Segment profit/(loss)	<u>(17,225)</u>	<u>2,732</u>	<u>1,517</u>	<u>(18,828)</u>	<u>(4,465)</u>	<u>—</u>	<u>(18,802)</u>	<u>(55,071)</u>
Forfeiture of sale deposit received from disposal of interest in a subsidiary	—	—	33,000	—	—	—	—	33,000
Gain on disposal of partial interest in an associate	—	—	—	2,391	—	—	—	2,391
Loss on disposal of other securities	—	—	—	—	(21,619)	—	—	(21,619)
Impairment loss on interest in an associate	—	—	—	(5,500)	—	—	—	(5,500)
Gain on dilution of interest in a subsidiary	—	1,269	—	—	—	—	—	1,269
Other finance costs	—	—	—	—	—	—	(17,421)	(17,421)
Share of results of associates	—	—	(4,466)	—	—	—	—	(4,466)
Loss before taxation								(67,417)
Taxation								(200)
Loss after taxation								<u>(67,617)</u>

Note: Included in turnover are interest income from loans receivable and advances amounting to HK\$25,112,000.

3. NET OTHER OPERATING INCOME/(EXPENSES)

Included in net other operating income/(expenses) are the following:

	For the six months ended 30 June	
	2002	2001
	HK\$'000	HK\$'000
	(Unaudited)	
Unrealised gain on trading securities	89,104	16,503
Provision for bad and doubtful debts	(6,896)	(8,324)
Loss on disposal of an investment property	—	(2,820)
Loss on disposal of property, plant and equipment	(34)	(347)
	<u><u> </u></u>	<u><u> </u></u>

4. PROFIT/(LOSS) FROM OPERATIONS

Profit/(loss) from operations is arrived at after (charging)/crediting:

	For the six months ended 30 June	
	2002	2001
	HK\$'000	HK\$'000
	(Unaudited)	
Loss on sale of trading securities	(1,448)	(32,433)
Dividend income	189	434
	<u><u> </u></u>	<u><u> </u></u>

5. TAXATION

	For the six months ended 30 June	
	2002 HK\$'000	2001 HK\$'000
	(Unaudited)	
The tax charge comprises:		
Hong Kong profits tax		
underprovided in prior periods	910	—
Taxation elsewhere		
underprovided in prior periods	—	200
Deferred taxation	12,000	—
	<u>12,910</u>	<u>200</u>
Share of tax on results of associates	—	—
	<u>12,910</u>	<u>200</u>

No provision for Hong Kong profits tax has been made for the six months ended 30 June 2002 and 30 June 2001 as the Group has no assessable profits for these periods.

6. EARNINGS/(LOSS) PER SHARE

The calculation of basic and diluted earnings/(loss) per share for the six months ended 30 June 2002 and 30 June 2001 are based on the following data:

	For the six months ended 30 June	
	2002	2001
	HK\$'000	HK\$'000
	(Unaudited)	
Earnings/(loss)		
Net profit/(loss) attributable to shareholders for the period for the purpose of basic earnings/(loss) per share	34,510	(56,951)
Interest saved upon deemed conversion of all convertible notes at the beginning of the period	2,374	—
	<u>36,884</u>	<u>(56,951)</u>
		(Restated)
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings/(loss) per share	1,024,748,426	532,997,806
Effect of dilutive potential ordinary shares in respect of convertible notes issued in July 2001	1,002,985,075	—
	<u>2,027,733,501</u>	<u>532,997,806</u>

The weighted average number of ordinary shares for the purpose of calculation of basic and diluted earnings/(loss) per share has been adjusted for the effect of the share consolidation (note 19(b)) and rights issue (note 19(c)) subsequent to the balance sheet date.

Share options have not been taken into account in the calculation of diluted earnings per share for the six months ended 30 June 2002 as the exercise price per share is higher than the market price per share during the period.

No diluted loss per share is presented for the six months ended 30 June 2001 as the exercise of the Company's outstanding share options has an anti-dilutive effect on the basic loss per share for that period.

7. INTERESTS IN ASSOCIATES

During the period, certain properties to be distributed by an associate to the Group for repayment of its shareholder's loan made to the associate has been assigned to the Group's lender for settlement of part of the loan granted to the Group at a total agreed amount of approximately HK\$21 million.

8. INVESTMENTS IN SECURITIES

	Trading securities		Other securities	
	30 June 2002 HK\$'000 (Unaudited)	31 December 2001 HK\$'000 (Audited)	30 June 2002 HK\$'000 (Unaudited)	31 December 2001 HK\$'000 (Audited)
Equity securities				
Listed investments	171,100	56,458	—	—
Unlisted investments	—	—	3,899	3,899
Unlisted investment fund	—	—	48,917	40,447
Unlisted debt securities	—	—	3,899	3,899
	<u>171,100</u>	<u>56,458</u>	<u>56,715</u>	<u>48,245</u>

Included in listed investments as at 30 June 2002 is the Group's investment in Radford Capital Investment Limited ("Radford Capital"), a company incorporated in Cayman Islands with limited liability, whose shares are listed on The Stock Exchange of Hong Kong Limited. The Group's investment with a carrying amount of HK\$139,200,000 represents approximately 28.4% holding of the issued ordinary shares of Radford Capital. Radford Capital is not regarded as an associate of the Group because the Group intends to hold the investment in Radford Capital temporarily.

9. DEPOSIT PAID FOR ACQUISITION OF INTERESTS IN SUBSIDIARIES

The Group has entered into an agreement for acquisition of interests in certain subsidiaries principally engaged in operations of restaurants and sales agency for motor vehicles. In this connection, a total consideration of HK\$30 million has been paid by the Group to the vendor.

10. LOANS RECEIVABLE

Loans granted to borrowers are repayable by instalments or according to set maturity dates. The aging analysis of loans receivable balances as at the balance sheet date is set out below.

	30 June 2002 HK\$'000 (Unaudited)	31 December 2001 HK\$'000 (Audited)
Within maturity dates	373,408	260,811
Balance overdue for repayment		
Within :		
1 - 3 months	17,746	197,456
4 - 6 months	120	1,970
7 - 12 months	5,323	17,439
Over 12 months	30,170	21,350
Total loans receivable	426,767	499,026
Provision for bad and doubtful debts	(130,920)	(128,687)
	295,847	370,339
Less: Loans due after one year included in non-current assets	(4,147)	(20,344)
Loans receivable due within one year	291,700	349,995

11. TRADE AND OTHER RECEIVABLES

The Group maintains a credit policy. Included in trade and other receivables are trade receivables of approximately HK\$185,904,000 (31 December 2001: HK\$184,067,000). The aging analysis of trade receivable, after provision for bad and doubtful debts, as at the balance sheet date is as follows:

	30 June 2002 HK\$'000 (Unaudited)	31 December 2001 HK\$'000 (Audited)
Current	185,706	184,067
Within :		
1- 3 months	106	—
4 - 6 months	92	—
	<u>185,904</u>	<u>184,067</u>

12. TRADE AND OTHER PAYABLES

The trade and other payables include trade payables of approximately HK\$12,348,000 (31 December 2001: HK\$6,394,000). At the balance sheet date, all trade payables are current.

13. SHARE CAPITAL

	30 June 2002 HK\$'000 (Unaudited)	31 December 2001 HK\$'000 (Audited)
Authorised		
200,000,000,000 ordinary shares of HK\$0.01 each	<u>2,000,000</u>	<u>2,000,000</u>
Issued and fully paid		
27,924,394,622 ordinary shares of HK\$0.01 each	<u>279,244</u>	<u>279,244</u>

There are no changes in share capital during the period. The details of changes in share capital subsequent to 30 June 2002 are set out in notes 19(a), (b) and (c) to the financial statements.

At 30 June 2002, the Company has the following outstanding options granted in prior periods to subscribe for its shares of HK\$0.01 each.

Exercisable period	Exercise price per share HK\$	Number of options outstanding at 30 June 2002
9 October 1997 - 8 October 2007	1.693	6,000,000
25 August 2000 - 24 August 2010	0.02048	2,400,000

Pursuant to an ordinary resolution passed on 30 May 2002, the termination of the existing executive share option scheme of the Company adopted on 15 December 1995 and adoption of a new share option scheme were approved by the shareholders of the Company at the same date. No option was granted under the new share option scheme during the period.

14. RESERVES

	Share premium account HK\$'000	Capital redemption reserve HK\$'000	Special reserve HK\$'000	Capital reserve HK\$'000	Investment revaluation deficit HK\$'000	Contributed Surplus HK\$'000	Deficit HK\$'000	Total HK\$'000
At 1 January 2001 (Audited)	1,543,346	99	33,455	19,330	(33,921)	842,136	(1,960,554)	443,891
Issue of new shares, net of expenses	21,591	—	—	—	—	—	—	21,591
Deficit on revaluation of other securities	—	—	—	—	(7,460)	—	—	(7,460)
Realised on disposal of other securities	—	—	—	—	9,627	—	—	9,627
Loss for the period	—	—	—	—	—	—	(56,951)	(56,951)
At 30 June 2001 (Unaudited)	<u>1,564,937</u>	<u>99</u>	<u>33,455</u>	<u>19,330</u>	<u>(31,754)</u>	<u>842,136</u>	<u>(2,017,505)</u>	<u>410,698</u>
At 1 January 2002 (Audited)	1,566,354	99	33,455	19,330	(20,150)	842,136	(2,292,114)	149,110
Surplus on revaluation of other securities	—	—	—	—	7,869	—	—	7,869
Profit for the year	—	—	—	—	—	—	34,510	34,510
At 30 June 2002 (Unaudited)	<u>1,566,354</u>	<u>99</u>	<u>33,455</u>	<u>19,330</u>	<u>(12,281)</u>	<u>842,136</u>	<u>(2,257,604)</u>	<u>191,489</u>

15. COMMITMENTS

(a) Capital commitments

Commitments contracted for but not provided in the financial statements are as follows:

	30 June 2002 HK\$'000 (Unaudited)	31 December 2001 HK\$'000 (Audited)
Capital injection to an associate	<u>4,680</u>	<u>4,680</u>

(b) Operating lease commitments

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of office premises and equipment fall due as follows:

	30 June 2002 HK\$'000 (Unaudited)	31 December 2001 HK\$'000 (Audited)
Within one year	156	182
In the second to fifth year inclusive	39	196
	<u>195</u>	<u>378</u>

16. CONTINGENCIES

In connection with a convertible note of HK\$53,000,000 issued to a noteholder by a former subsidiary, the Group has given a guarantee to the noteholder to the extent of HK\$53,000,000. At 30 June 2002, the outstanding amount of the convertible note is HK\$10,000,000. The Company has also executed a guarantee for the due observance and performance of the former subsidiary under a shareholders' agreement entered into among the Company, the former subsidiary and other third parties.

17. PLEDGE OF ASSETS

At the balance sheet date, certain assets of the Group with the following net book values have been pledged to banks and other financial institutions to secure credit facilities granted to the Group.

	30 June 2002 HK\$'000 (Unaudited)	31 December 2001 HK\$'000 (Audited)
Land and buildings	234,949	239,738
Investment properties	191,080	191,360
Trading securities	139,200	—
Bank deposits	15,000	15,254
	<u>580,229</u>	<u>446,352</u>

The Group's interests in two associates with an aggregate carrying value of approximately HK\$1,485,000 (31 December 2001: HK\$22,285,000) as at 30 June 2002 were pledged to secure a loan and interest repayments of approximately HK\$43,000,000 (31 December 2001: HK\$65,000,000) payable to a lender.

18. RELATED PARTY TRANSACTIONS

During the period, the Group has the following material transactions with related parties.

- (a) The Group has granted unsecured loans of approximately HK\$1,390,000 (31 December 2001: HK\$1,556,000) to certain directors of the Company. The loans bear interest ranging from prime rate plus 2.5% per annum to 11.5% per annum.
- (b) A property of the Group with net book value of approximately HK\$18,456,000 (31 December 2001: HK\$18,794,000) is occupied by a director of certain non wholly-owned subsidiaries rent-free.
- (c) The Group's credit facilities to the extent of HK\$110,000,000 (31 December 2001: HK\$60,000,000) are guaranteed by a director of certain non wholly-owned subsidiaries.
- (d) The Group has granted loans to certain companies. A director of certain non wholly-owned subsidiaries of the Group is also a director of these companies. At the balance sheet date, the outstanding loans amounted to HK\$53,000,000 which carry interest at prime rate plus 3% per annum.
- (e) The Group has granted securities margin loans to a substantial shareholder and certain directors of the Company. At the balance sheet date, the loans amounted to HK\$6,955,000 (31 December 2001: HK\$26,811,000) and HK\$1,021,000 (31 December 2001 : HK\$2,077,000) respectively which carry interest at prime rate plus 3% per annum.
- (f) A subsidiary of the Group has received management fees of HK\$561,000 from Radford Capital in respect of the period.

19. POST BALANCE SHEET EVENTS

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

- (a) Pursuant to a special resolution passed on 10 July 2002, the Company adjusted the nominal value of all the issued shares of HK\$0.01 each in the Company by reducing the nominal value of all of the issued shares from HK\$0.01 each to HK\$0.0002 each by cancelling HK\$0.0098 of the paid up capital of each issued share by way of a reduction of share capital amounting to approximately HK\$273,659,000. The amount resulting from the capital reduction has been credited to the contributed surplus account of the Company. The issued share capital after the capital reduction decreased from approximately HK\$279,244,000 to HK\$5,585,000.
- (b) Pursuant to the same special resolution, every fifty issued shares of HK\$0.0002 each of the Company resulting from the capital reduction have been consolidated into one share of HK\$0.01 each ("Consolidated Share"). After the capital reduction and share consolidation, the Company's number of issued shares decreased from 27,924,394,622 to 558,487,892.
- (c) On 7 August 2002, the Company issued 5,584,878,920 rights shares of HK\$0.01 each at a subscription price of HK\$0.02 per rights share in the proportion of ten rights shares for every one Consolidated Share then held by qualifying shareholders. The details of the rights issue are set out in the Company's prospectus dated 19 July 2002 despatched to the shareholders. All new shares issued as a result of the rights issue rank *pari passu* with the then existing shares in all respects. After the rights issue, the Company's number of issued shares increased from 558,487,892 shares of HK\$0.01 each to 6,143,366,812 shares of HK\$0.01 each. The proceeds from the rights issue before related expenses amounted to approximately HK\$111,698,000.
- (d) As a result of the aforementioned capital reduction, share consolidation and rights issue, the conversion prices or exercise prices and/or the number of shares to be issued upon the exercise of the outstanding convertible notes and options have been adjusted in accordance with the respective terms of the instrument constituting the convertible notes and the options.
- (e) The Group has subscribed for 100 million shares in a non wholly-owned subsidiary, Hennabun Management Inc. at a consideration of HK\$130 million. This resulted in the increase in the Group's interest in Hennabun Management Inc. from 81.08% to 93.04%.
- (f) The Company's options outstanding at 30 June 2002 were cancelled on 27 August 2002.
- (g) The acquisition of the interests in subsidiaries at a total consideration of HK\$30 million as mentioned in note 9 to the financial statements was completed in August 2002.

- (h) The Company proposed a reorganisation which will involve a change of domicile of the Company by way of a scheme of arrangement (the "Scheme") under Section 99 of the Companies Act 1981 of Bermuda. Upon the Scheme approved by the shareholders and becoming effective, the Company will become a wholly-owned subsidiary of China United International Holdings Limited ("CU International"), a company incorporated in Hong Kong which will then be the holding company of the Company and its subsidiaries.

The shares in CU International will be listed on The Stock Exchange of Hong Kong Limited by way of introduction. At the same time, the listing of the shares in the Company on The Stock Exchange of Hong Kong Limited will be withdrawn.

Under the Scheme, each of the shareholders of the Company will receive one share in CU International for every 25 then existing issued shares (after the aforesaid share consolidation and rights issue) in the Company held by them as at the business day last preceding the date on which the Scheme becomes effective.

To facilitate the Scheme, it is proposed that a new share option scheme will be adopted and new convertible notes will be issued by CU International in replacement of the convertible notes of the Company with outstanding principal amount of HK\$63,840,000. It is also proposed that the share capital of the Company will be reduced by cancelling and extinguishing all its then 6,143,366,812 issued shares. The entire credit of approximately HK\$61,433,668 arising from the above will be credited to the contributed surplus account of the Company save that an amount of HK\$100,000 will be applied in paying up in full at par the 10,000,000 new shares in the Company to be allotted and issued nil paid to CU International on the date the Scheme becomes effective.

The details of the proposed Scheme are set out in the Company's announcements dated 27 August 2002 and 13 September 2002.

- (i) The directors proposed that upon the proposed Scheme becoming effective, a special dividend of Hong Kong 0.28 cents per then existing share of the Company (equivalent to Hong Kong 7 cents per new share in the new holding company of the Company) will be paid to those persons registered as shareholders of the Company on the effective date of the proposed Scheme.

20. APPROVAL OF THE INTERIM FINANCIAL STATEMENTS

These unaudited condensed consolidated interim financial statements were approved by the Board of directors on 20 September 2002.