NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars)

1) Basis of preparation

This interim financial report is unaudited, but has been reviewed by KPMG in accordance with Statement of Auditing Standards 700 "Engagements to review interim financial reports", issued by the Hong Kong Society of Accountants (the "HKSA"). KPMG's independent review report to the board of directors is included on page 19.

The interim financial report has been prepared in accordance with the requirements of the Main Board Listing Rules of The Stock Exchange of Hong Kong Limited (the "Exchange"), including compliance with Statement of Standard Accounting Practice ("SSAP") 25 "Interim financial reporting" issued by the HKSA.

The financial information relating to the financial year ended 31 March 2003 included in the interim financial report does not constitute the Company's statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the financial year ended 31 March 2003, on which the previous auditors, Louis Leung & Partners CPA Limited, have expressed an unqualified opinion in their report dated 28 July 2003, are available from the Company's registered office.

The notes on the interim financial report include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the annual financial statements for the year ended 31 March 2003.

The same accounting policies adopted in the financial statements for the year ended 31 March 2003 have been applied to the interim financial report, except the adoption of new policies as disclosed in notes 1(a) to note 1(e) below.

(a) Income taxes

In prior years, deferred tax liabilities were provided using the liability method in respect of the taxation effect arising from all material timing differences between the accounting and tax treatment of income and expenses, which were expected with reasonable probability to crystallise in the foreseeable future. Deferred tax assets were not recognised unless their realisation was assured beyond reasonable doubt.

With effect from 1 April 2003, in order to comply with SSAP 12 (revised) issued by the HKSA, deferred tax has been calculated by the Group using the balance sheet method in respect of all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, using the appropriate current rates of taxation ruling in countries in which the Group operates.

The new accounting policy has been adopted prospectively as the effect of this change in accounting policy is not material and, therefore, the opening balances have not been restated.

(b) *Revenue recognition*

Commission and brokerage on dealing in securities and futures contracts is recognised when the relevant contract is executed.

Realised profits and losses arising from trading in futures contracts are accounted for in the year in which the positions are closed as the difference between the net sales proceeds and the carrying amount of the contracts. Open positions are valued at market rate with unrealised profits and losses included in the consolidated income statement.

Revenue from sales of listed securities is recognised when the relevant contract is executed.

(c) *Negative goodwill*

Negative goodwill arising on acquisitions of controlled subsidiaries and associates represents the excess of the Group's share of the fair value of the identifiable assets and liabilities acquired over the cost of the acquisition. Negative goodwill is accounted for as follows:

– for acquisition before 1 April 2001, negative goodwill is credited to a capital reserve; and

– for acquisitions on or after 1 April 2001, to the extent that negative goodwill relates to an expectation of future losses and expenses that are identified in the plan of acquisition and can be measured reliably, but which have not yet been recognised, it is recognised in the consolidated income statement when the future losses and expenses are recognised. Any remaining negative goodwill, but not exceeding the fair values of the non-monetary assets acquired, is recognised in the consolidated income statement over the weighted average useful life of those non-monetary assets that are depreciable/amortisable. Negative goodwill in excess of the fair values of the non-monetary assets acquired is recognised immediately in the consolidated income statement.

In respect of any negative goodwill not yet recognised in the consolidated income statement:

– for controlled subsidiaries, such negative goodwill is shown in the consolidated balance sheet as a deduction from assets in the same balance sheet classification as positive goodwill; and

– for associates, such negative goodwill is included in the carrying amount of the interests in associates.

On disposal of a controlled subsidiary or an associate during the half year period, any attributable amount of purchased goodwill not previously amortised through the consolidated income statement or which has previously been dealt with as a movement on Group reserves is included in the calculation of the profit or loss on disposal.

(d) Derivative financial instruments

The Group's policies for investments in securities other than investments in subsidiaries and associates are as follows:

(i) Investments in securities are stated in the balance sheet at fair value. Changes in fair value are recognised in the income statement as they arise. Securities are presented as trading securities when they were acquired principally for the purpose of generating a profit from short term fluctuations in price or dealer's margin.

(ii) Profits or losses on disposal of investments in securities are accounted for in the income statement as they arise.

(e) Trust accounts

Trust accounts maintained by subsidiaries of the Group to hold clients' monies are not recognised in the financial statements.

2) Turnover and segment reporting

The Group is principally engaged in property development and investment, securities broking and investments and general trading.

Segment information is prepared in respect of the Group's business and geographical segments. Business segment information is chosen as the primary reporting format because this is more relevant to the Group's internal financial reporting.

Business segments

The Group comprises the following main business segments:

Property development and investment	:	Development of properties and leasing of properties
Securities broking and investments	:	Stockbroking business and dealing in futures contracts and options
General trading	:	Trading of household and electric appliance products

	Securities broking and investments (Note)		Property development and investment		General trading		Sale of computer-aided-design-systems and machinery (Note 5)		Consolidated	
	2003	2002	**2003**	2002	**2003**	2002	**2003**	2002	**2003**	2002
	$'000	*$'000*	***$'000***	*$'000*	***$'000***	*$'000*	***$'000***	*$'000*	***$'000***	*$'000*
Revenue from external customers	**2,244**	–	**33**	1,010	**–**	2,631	**6**	450	**2,283**	4,091
Segment result	**(576)**	–	**33**	665	**–**	179	**(2,700)**	(2,340)	**(3,243)**	(1,496)
Unallocated expenses									**(5,172)**	(8,739)
Loss from operations									**(8,415)**	(10,235)
Finance costs									**(540)**	(504)
Share of profits less losses of associates									**1**	(19)
Minority interests									**29**	–
Net loss attributable to shareholders									**(8,925)**	(10,758)

Geographical segments

No geographical analysis is presented as all of the Group's revenue and results are derived from activities in Hong Kong.

Note: On 3 September 2002, China Eagle Capital Co. Limited, an indirect subsidiary, entered into a conditional agreement with independent third parties regarding the acquisition of 95% of the issued share capital of each of Eagle Legend Securities Limited and Eagle Legend Futures Limited. The acquisitions were completed on 23 May 2003 and 20 May 2003 at considerations of $14,516,000 and $8,211,000 respectively.

The principal activities of Eagle Legend Securities Limited and Eagle Legend Futures Limited are stockbroking business in Hong Kong and dealing in futures contracts and options on the Hong Kong Futures Exchange Limited respectively.

3) Loss from ordinary activities before taxation

Loss from ordinary activities before taxation is arrived at after charging/(crediting):

	Six months ended 30 September 2003 $'000 (Unaudited)	2002 $'000 (Unaudited)
(a) Finance costs:		
Interest on bank advances and other borrowings repayable within five years	–	3
Interest on convertible notes	**540**	501
(b) Staff costs:		
Contributions to defined contribution retirement plan	**76**	61
Salaries, wages and other benefits	**3,237**	3,342
	3,313	3,403
(c) Other items:		
Operating lease charges in respect of land and buildings	**1,086**	801
Depreciation	**431**	482
Cost of inventories sold	**2,674**	5,446
(Gain)/loss on disposal of fixed assets	**(510)**	372
Net realised and unrealised loss on derivative financial instruments	**1,084**	–
Provision of inventories	**1,980**	–
Rental income	**(33)**	(1,010)
Amortisation of negative goodwill	**(25)**	(25)
Amortisation of positive goodwill	**37**	–

4) Taxation

(i) No provision has been made for Hong Kong Profits Tax as the Group sustained losses for taxation purposes during the period (2002: Nil).

(ii) No provision has been made for the PRC income tax as the associates of the Group sustained losses for taxation purposes during the period (2002: Nil).

5 Discontinued operation

In November 2000, the Group closed its only computer-aided-design-systems and machinery manufacturing plant located in the PRC which was sold in November 2000 for cash consideration of $3,519,000. A loss on disposal of the plant of $799,000 was recognised in the consolidated income statement for the year ended 31 March 2001.

Subsequent to the cessation of production in 2000, the Group sold the remaining stock of computer-aided-design-systems and machineries through June 2003. The results have been included in the segment of sale of computer-aided-design-systems and machinery in note 2. As at 30 September 2003, cost of computer-aided-design systems and machinery amounted to $5,149,000 (March 2003: $5,867,000). Full provision on the inventories of computer-aided-design systems and machinery amounting to $5,149,000 has been made in the period ended 30 September 2003 (March 2003: $3,169,000).

The net liabilities of the discontinued operation as at 30 September 2003 were as follows:

	30 September 2003 ***$'000***	**31 March** 2003 *$'000*
Total assets	**391**	586
Total liabilities	**(8,652)**	(8,660)
Net liabilities	**(8,261)**	(8,074)

6 Loss per share

(a) Basic loss per share

The calculation of basic loss per share is based on the loss attributable to shareholders of $8,925,000 (2002: restated $10,758,000) on the weighted average of 1,928,390,932 (2002: 1,618,303,500) shares in issue during the period.

(b) Diluted loss per share

Diluted earnings per share is not shown as all the potential ordinary shares are anti-dilutive.

7 Prior year adjustment

On 10 April 2002, the Company acquired the entire issued share capital of Artway Development Limited ("Artway") for a consideration of $195,000,000 and recorded a positive goodwill of $195,011,000 based on the historic net book value of Artway, without adjusting the fair value of the respective identifiable assets and liabilities. Pursuant to the valuation report prepared by Vigers Hong Kong Limited on 10 April 2002, the fair market value of Artway as at 10 April 2002 was $196,000,000. Accordingly, as required by SSAP 30 "Business combinations", a prior year adjustment was made to recognise the negative goodwill of $1,000,000 instead of the positive goodwill of $195,011,000 at the acquisition date. The negative goodwill is being amortised over its weighted average useful life of twenty years. This adjustment had the following effect for the year ended 31 March 2003:

	$
Increase in interest in an associate	196,011,000
Decrease in positive goodwill	(195,011,000)
Increase in negative goodwill	(950,000)
Decrease in administrative expenses	(50,000)

8 Fixed assets

On 9 April 2003, Capital Realty Development Limited, an indirect subsidiary, disposed of certain of its land and building situated in PRC with carrying amount of $3,530,376 for a consideration of RMB4,500,000 to an independent third party.

9 Interest in associates

(a)

	30 September 2003	31 March 2003
	$'000	*$'000*
	(Unaudited)	(Audited)
Share of net assets	**203,247**	203,246

The following list contains the particulars of significant associates, all of which are unlisted corporate entities, which principally effected the results or assets of the Group:

				Proportion of ownership interest			
Name of associate	**Form of business structure**	**Place of incorporation and operation**	**Particulars of issued and paid up capital**	**Group's effective interest**	**Held by the Company**	**Held by the associate**	**Principal activity**
Beijing Jin Zun Technology Development Ltd ("Beijing Jin Zun Technology")	Incorporated	People's Republic of China ("PRC")	Registered capital RMB 16,000,000	49%	49%	–	Property management, research and development of computing software and investment holding
Beijing Jin Zun Property Development Ltd ("Beijing Jin Zun Property")*	Incorporated	PRC	Registered capital RMB 10,000,000	39.2%	–	80%	Property investment

* Beijing Jin Zun Property is engaged in the development and sale of properties as well as the management of properties. Beijing Jin Zun Property was incorporated on 1 February 2002 in the PRC for a term of 20 years. On 1 February 2002, Beijing Jin Zun Property entered into a contract ("the transfer contract") of acquisition of a site located at "Area No. 7, Xi Ba He Bei Lane, Chaoyang District, Beijing, the PRC (the "Property")" at a consideration of RMB250,000,000 with Beijing Bus Company Limited ("Beijing Bus"). Beijing Jin Zun Property intends to construct a multi-purpose complex.

According to the opinion of the Group's external PRC legal counsel in regarding of acquisition of the Property, the transfer contract is legally valid. Upon fulfillment of its obligations, Beijing Jin Zun Property shall obtain the right to conduct development on the Property and shall be entitled to be the developer of the Property in respect of applying for project recognition, planning and land utilization. Upon the full settlement of the land premium, completion of the above application procedures and the grant of the relevant approvals, Beijing Jin Zun Property has the right to engage in the development and sale and obtain the relevant interest.

The Property was valued by Vigers Hong Kong Limited at RMB530,000,000 in April 2002 based on the open market value basis after taken into account the consideration of RMB250,000,000 payable by Beijing Jin Zun Property to Beijing Bus.

(b) Unaudited additional financial information in respect of consolidated results of Beijing Jin Zun Technology and Beijing Jin Zun Property is given as follows:

	Six months ended 30 September	
	2003	2002
	$'000	*$'000*
Turnover	**–**	–
Profit/(loss) for the period	**2**	(39)
Company's directly share of profit/(losses)	**1**	(19)

	30 September 2003	31 March 2003
	$'000	*$'000*
Non-current assets	**730,037**	730,037
Current assets	**39**	39
Total assets	**730,076**	730,076
Current liabilities	**(215,283)**	(215,286)
Minority interest	**(100,004)**	(100,003)
Net assets	**414,789**	414,787
Company's share of net assets	**203,247**	203,246

10 Derivative financial instruments

At 30 September 2003, the Group had exposure to foreign currency contracts and futures contracts with principal amounts totalling $2,366,000 and $8,524,000 respectively.

11 Accounts receivable

	30 September 2003 ***$'000*** **(Unaudited)**	31 March 2003 *$'000* (Audited)
Amount receivable arising from the ordinary course of business of dealing in		
Securities and equity options transactions:		
– Cash clients	**24,759**	–

The settlement terms of accounts receivable arising from the ordinary course of business of dealing in securities and equity options transactions are two days after the trade date. The balances are all aged within 30 days.

12 Cash and cash equivalents

	30 September 2003 ***$'000*** **(Unaudited)**	31 March 2003 *$'000* (Audited)
Cash at bank and in hand	**17,500**	3,902
Deposits with banks maturing within three months	**47,044**	16,000
	64,544	19,902

13 Accounts payable

	30 September 2003 ***$'000*** **(Unaudited)**	31 March 2003 *$'000* (Audited)
Amounts payable arising in the ordinary course of business of dealing in		
Securities and equity options transactions:		
– Cash clients	**22,180**	–
– CCASS	**575**	–
	22,755	–

The settlement terms of accounts payable arising from the ordinary course of business of dealing in securities and equity options transactions in respect of cash clients are two days after the trade date.

Accounts payable to clients arising from the ordinary course of business of dealing in futures and options transactions represent margin deposits received from clients for their trading of futures and options respectively. The excesses of the outstanding amounts over the required margin deposit stipulated are repayable to clients on demand.

No aged analysis of cash clients is disclosed as, in the opinion of the directors, an aged analysis is not meaningful in view of the nature of the business of dealing in securities and options contracts.

14 Convertible notes

Pursuant to the acquisition agreement dated 10 April 2002 as part of the total consideration of $195,000,000 for the acquisition of Artway, first and second convertible notes (issued on 22 April and 10 July 2002 respectively) totalling $75,000,000 were issued to Link Zone International Limited.

These notes are due 2004 and convertible to shares of the Company of $0.10 each at a conversion price of the lower of (i) the price of $0.12 per share, subject to adjustment and (ii) 93% of the average closing price per share for the five trading days immediately prior to the date of the exercise date, at the option of the holders in the denomination of $500,000 each or integral multiples thereof.

The notes bear interest from the date of their issue at a fixed rate of 2% per annum, which is payable semi-annually in arrears.

At 30 September 2003, convertible notes of $24,000,000 were outstanding.

15 Share capital

	No. of shares *'000*	**Amount** *$'000*
Issued and fully paid:		
Ordinary shares of $0.1 each		
At 1 April 2003	1,618,304	161,830
Placing of shares *(Note (i))*	323,000	32,300
Shares issued upon conversion of convertible notes *(Note (ii))*	425,000	42,500
	2,366,304	236,630

Notes:

(i) On 26 June 2003, the Company made a placing arrangement with Ricofull Securities Limited as Placing Agent to place 323,000,000 ordinary shares of $0.10 each to 10 placees at a price of $0.12 per ordinary share. The net proceeds from the placing was $37,985,000 after deducted expenses of $775,000.

(ii) On 17 July 2003, convertible notes totalling $51,000,000 were converted, comprising full amount of the First Notes and partial amount of the Second Notes of amounts $37,500,000 and $13,500,000 respectively, into 425,000,000 ordinary shares of $0.1 each. The conversion price was $0.12 per ordinary share.

16 Reserves

	Share premium	Reserve on consolidation	Accumulated losses	Total
	$'000	*$'000*	*$'000*	*$'000*
At 1 April 2003	40,734	620	(17,274)	24,080
Prior year adjustment	–	–	50	50
As restated	40,734	620	(17,224)	24,130
Placing of shares	5,685	–	–	5,685
Shares issued upon conversion of convertible notes	8,500	–	–	8,500
Net loss for the period	–	–	(8,925)	(8,925)
At 30 September 2003	54,919	620	(26,149)	29,390

17 Deferred taxation

Deferred tax assets which represent the net tax effect of timing differences due to tax losses available to set off against future assessable profits have not been recognised in the financial statements as the Directors are not certain that these benefits will be realised in the foreseeable future. The major components of the unrecognised deferred tax assets of the Group at 30 September 2003 are:

	30 September 2003	31 March 2003
	$'000	*$'000*
	(Unaudited)	(Audited)
(i) Depreciation allowances in excess of related depreciation	**(399)**	(316)
Increment in Hong Kong Profits Tax rate	**(30)**	–
	(429)	(316)
(ii) Future benefit of tax losses	**8,586**	6,612
Increment in Hong Kong Profits Tax rate	**620**	–
	9,206	6,612
Unrecognised deferred tax assets	**8,777**	6,296

The unrecognised deferred tax assets is calculated at the Hong Kong Profits Tax rate of 17.5% (31 March 2003: 16%) on the temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit.

18 Material related party transactions

A subsidiary paid operating lease rentals in respect of the Group's office premises to Gome Home Appliances (Hong Kong) Limited, a related company of the Group totalling $437,333 (2002: $Nil) during the period. The amount had been fully settled by the period end (31 March 2003: $Nil).

Beijing Eagle Investment Co., Limited, a related company, received operating lease rentals on behalf of a subsidiary in the preceding year. At 30 September 2003, reimbursement payable to the subsidiary amounted to $185,000 (31 March 2003: $384,000).

A subsidiary made unsecured advancements to Mr Han Yuejun, a minority shareholder of an associate in the previous year. The amount was fully settled during the current period (31 March 2003: $19,979,000).

19 Post balance sheet event

At 30 September 2003, the Group had exposure to foreign currency contracts and futures contracts with principal amounts totalling $2,366,000 and $8,524,000 respectively. Subsequent to 30 September 2003, these contracts realised losses totalling $9,262,000.

20 Comparative figures

Certain comparative figures have been restated and reclassified as a result of the prior year adjustment as described in note 7.

In addition to the foregoing, certain comparative figures have been reclassified to conform with the current period's presentation.

21 Approval of interim financial report

The interim financial report was approved by the Board of Directors on 9 December 2003.