

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

1. Basis of Preparation and Accounting Policies

The unaudited condensed consolidated interim financial statements have been prepared in accordance with Hong Kong Statement of Standard Accounting Practice ("SSAP") 25 "Interim Financial Reporting". 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 financial statements for the nine months ended 31 December 2000 except that the Group has changed certain of its accounting policies following its adoption of the following SSAPs issued by the Hong Kong Society of Accountants which are effective for accounting periods commencing on or after 1 January 2001.

(a) Goodwill

Negative goodwill represents the excess of the fair value ascribed to the identifiable net assets of a subsidiary or associate at the date of acquisition over the cost of acquisition.

In prior periods, negative goodwill was credited to reserves in the year in which it arose. Effective 1 January 2001, the Group adopted the transitional provisions prescribed in SSAP 30 "Business Combination". All negative goodwill arising from acquisitions prior to 1 January 2001 continues to be included in reserves and no reinstatement has been made. During the period, no negative goodwill has arisen from acquisitions of subsidiaries.

Goodwill on acquisitions at 31 December 2000 has been reclassified to intangible assets to conform with the current period's presentation.

(b) Intangible assets

In prior periods, the Group's trading rights in The Stock Exchange of Hong Kong Limited included in other long term assets were stated at cost less provision for permanent diminution in value. Effective 1 January 2001, the Group adopted SSAP 29 "Intangible Assets". The trading rights are stated at cost less amortisation. Amortisation is calculated on the straight line basis to write off the cost of the trading rights over a period of ten years. This change in accounting policy has not been applied retrospectively as the financial effect on prior periods is immaterial. Accordingly, the trading rights are amortised over the remaining nine years commencing from 1 January 2001.

The trading rights at 31 December 2000 have been reclassified to intangible assets to conform with the current period's presentation.

(c) Segment reporting

Effective 1 January 2001, the Group adopted SSAP 26 "Segment Reporting" which has established principles for reporting the segmental analysis of financial information. The adoption of this standard has resulted in the following changes in the basis for allocation of expenses to segments.

Operating expenses paid or payable to other segments resulting from the operating activities of a segment that are directly attributable to the segment are included as expenses of the segment. Corporate expenses previously included in the business segment of investment holding are reclassified as unallocated corporate expenses. Finance cost, which is attributable to the business segment of provision of brokerage and financial services, is included as expense of the segment.

The comparative figures of the income statement and segmental information for the six months ended 30 September 2000 have been restated to conform with the current period's presentation.

The Company and its subsidiaries changed their financial year end date from 31 March to 31 December effective for the accounting period ended 31 December 2000. Accordingly, the comparative figures in the current period's income statement, cash flow statement and statement of recognised gains and losses were derived from the unaudited condensed consolidated interim financial statements for the six months ended 30 September 2000.

2. Segment Information

The Group's turnover and operating results analysed by business segment, all of which are substantially carried out in Hong Kong, are as follows:

For the six months ended 30 June 2001

(Unaudited)	Investment in trading securities <i>HK\$'000</i>	Provision of brokerage and financial services <i>HK\$'000</i> (Note)	Property investment <i>HK\$'000</i>	Internet and internet related business <i>HK\$'000</i>	Investment holding <i>HK\$'000</i>	Elimination <i>HK\$'000</i>	Consolidated total <i>HK\$'000</i>
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>119,312</u>
Other revenues	–	4,086	–	680	639	–	5,405
	<u>–</u>	<u>4,086</u>	<u>–</u>	<u>680</u>	<u>639</u>	<u>–</u>	<u>5,405</u>
Segment revenue	<u>81,896</u>	<u>39,551</u>	<u>5,249</u>	<u>680</u>	<u>639</u>	<u>(3,298)</u>	<u>124,717</u>
Segment (loss)/profit	<u>(17,225)</u>	<u>2,732</u>	<u>1,517</u>	<u>(18,828)</u>	<u>(4,465)</u>	<u>–</u>	<u>(36,269)</u>
Unallocated corporate expenses							<u>(18,802)</u>
Loss from operations							<u>(55,071)</u>

For the six months ended 30 September 2000

(Unaudited)	Investment in trading securities <i>HK\$'000</i>	Provision of brokerage and financial services <i>HK\$'000</i> (Note)	Property investment <i>HK\$'000</i>	Internet and internet related business <i>HK\$'000</i>	Investment holding <i>HK\$'000</i>	Elimination <i>HK\$'000</i>	Consolidated total <i>HK\$'000</i>
Turnover							
External	199,555	28,507	3,225	–	–	–	231,287
Inter-segment	–	–	960	–	–	(960)	–
	<u>199,555</u>	<u>28,507</u>	<u>4,185</u>	<u>–</u>	<u>–</u>	<u>(960)</u>	<u>231,287</u>
Other revenues	–	3,388	–	3,400	645	–	7,433
	<u>–</u>	<u>3,388</u>	<u>–</u>	<u>3,400</u>	<u>645</u>	<u>–</u>	<u>7,433</u>
Segment revenue	<u>199,555</u>	<u>31,895</u>	<u>4,185</u>	<u>3,400</u>	<u>645</u>	<u>(960)</u>	<u>238,720</u>
Segment (loss)/profit	<u>(82,323)</u>	<u>(9,139)</u>	<u>2,775</u>	<u>(12,718)</u>	<u>(425)</u>	<u>–</u>	<u>(101,830)</u>
Unallocated corporate expenses							<u>(21,347)</u>
Loss from operations							<u>(123,177)</u>

Note: Included in turnover from provision of brokerage and financial services are interest income from loans receivable and advances amounting to HK\$25,112,000 (30 September 2000: HK\$18,557,000).

3. Other Operating Expenses

Included in other operating expenses are the following:

	For the six months ended	
	30 June	30 September
	2001	2000
	HK\$'000	HK\$'000
	(Unaudited)	
Unrealised gain/(loss) on trading securities	16,503	(87,479)
Provision for bad and doubtful debts	8,324	16,000
Loss on disposal of an investment property	2,820	–
Loss on disposal of property, plant and equipment	347	174
	<u>347</u>	<u>174</u>

4. Loss from Operations

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

	For the six months ended	
	30 June	30 September
	2001	2000
	HK\$'000	HK\$'000
	(Unaudited)	
(Loss)/gain on sale of trading securities	(32,433)	4,015
Dividend income	434	1,049
	<u>434</u>	<u>1,049</u>

5. Taxation

For the six months ended
 30 June 2001 30 September 2000
 HK\$'000 HK\$'000
 (Unaudited)

The tax (charge)/credit comprises:

Hong Kong profits tax

Over-provision in prior periods	–	80
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Current period	–	–
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Taxation elsewhere underprovided

in prior periods	(200)	–
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	(200)	80
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Share of tax on results of associates

	–	–
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	(200)	80
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No provision for Hong Kong profits tax has been provided for the periods ended 30 June 2001 and 30 September 2000 as the Group has no assessable profit for these periods. Tax on profits assessable elsewhere has been calculated at the rates of tax prevailing in the countries in which the Group operates.

6. Loss Per Share

The calculation of the loss per share is based on the loss for the period of HK\$56,951,000 (30 September 2000: HK\$168,946,000) and on the weighted average number of 14,524,190,202 shares (30 September 2000: 8,333,628,911) in issue during the period. The weighted average number of shares in issue used in the basic loss per share calculation in respect of the six months ended 30 September 2000 has been adjusted to reflect the effect of the rights issue and share consolidation during that period.

No diluted loss per share is presented as the exercise of the Company's outstanding share options has an anti-dilutive effect on the basic loss per share for both periods.

7. Investment Properties, Property, Plant and Equipment

During the period, the Group has acquired certain subsidiaries which hold investment properties and other properties with the then fair value of HK\$28,596,000. The consideration was satisfied by the exchange of certain of the Group's trading securities with the vendor.

In addition, the Group has disposed of an investment property with the then carrying value of HK\$12,000,000 at a consideration of HK\$9,180,000.

8. Intangible Assets

	30 June 2001 HK\$'000 (Unaudited)	31 December 2000 HK\$'000 (Audited)
Goodwill at cost less accumulated amortisation and provision for impairment loss (Note a)	4,916	92,570
Two trading rights in The Stock Exchange of Hong Kong Limited at cost less accumulated amortisation (Note b)	5,676	6,000
	<u>10,592</u>	<u>98,570</u>

Notes:

- (a) During the period, a subsidiary of the Company, Cupac Technology Limited has been reclassified to interest in an associate as the Group no longer controls the subsidiary. In this connection, goodwill, net of accumulated amortisation and provision for impairment loss, amounting to approximately HK\$81,836,000 carried by the subsidiary has been excluded from consolidation.
- (b) As mentioned in note 1 (b), the trading rights in The Stock Exchange of Hong Kong Limited at 31 December 2000 are stated at cost.

9. Interests in Associates

As mentioned in note 8(a), a subsidiary has been reclassified to interest in an associate during the period. The carrying value of the interest in this associate as at 30 June 2001 amounted to approximately HK\$54,553,000.

10. Investments in Securities

	Other securities	
	30 June	31 December
	2001	2000
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
Equity securities		
Listed investments	–	23,960
Unlisted investments	3,899	44,699
Unlisted investment fund	27,955	35,539
Unlisted debt securities	3,899	3,899
	<u>35,753</u>	<u>108,097</u>

11. Short Term Loans Receivable

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

	30 June	31 December
	2001	2000
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
Within maturity dates	203,246	134,580
Balance overdue for repayment		
Within :		
1- 3 months	91,285	87,234
4 - 6 months	10,653	–
7 - 12 months	4,200	–
Over 12 months	2,934	791
Total loans receivable	<u>312,318</u>	<u>222,605</u>
Provision for bad and doubtful debts	<u>(29,115)</u>	<u>(20,791)</u>
	283,203	201,814
Less: Balance matures after one year	<u>(21,147)</u>	<u>–</u>
Short term loans receivable	<u>262,056</u>	<u>201,814</u>

12. Trade and Other Receivables

The Group maintains a credit policy. Included in trade and other receivables are trade receivables of approximately HK\$137,851,000 (31 December 2000: HK\$48,873,000) which include advances to securities margin clients. These advances are secured by clients' securities and are repayable on demand. Advances which have not yet been demanded by the Group for repayment are classified under current trade receivables.

The aged analysis of trade receivables, net of provision for bad and doubtful debts, as at the balance sheet date is as follows:

	30 June 2001 HK\$'000 (Unaudited)	31 December 2000 HK\$'000 (Audited)
Current	136,552	48,685
Within :		
1- 3 months	1,148	128
4 - 6 months	77	–
7 - 12 months	42	–
Over 12 months	32	60
	<u>137,851</u>	<u>48,873</u>

13. Trade and Other Payables

The trade and other payables include trade payables of approximately HK\$31,521,000 (31 December 2000 : HK\$8,363,000). At the balance sheet date, all trade payables are current.

Included in trade and other payables as at 31 December 2000 was a sale deposit of HK\$33,000,000 received by the Group pursuant to an agreement dated 4 August 2000 for the disposal of its entire equity interest and shareholder's loan in a wholly-owned subsidiary principally engaging in property investment. The disposal had not been completed on the scheduled completion date of 5 February 2001. The directors consider that the non-completion of the disposal was a breach of the agreement by the purchaser. The Group and the purchaser have agreed in principle that the sale deposit will be forfeited. Accordingly, the sale deposit has been recognised as income during the period.

14. Amount due to an Associate

The amount due to an associate is unsecured with an amount of HK\$55,000,000 carrying interest at prime rate plus 2% per annum.

15. Convertible Note

The convertible note issued by a subsidiary has been excluded from consolidation upon it becoming an associate during the period.

16. Share Capital

Movements in issued share capital of the Company during the six months ended 30 June 2001 are as follows:

	Number of ordinary shares of HK\$0.01 each	Amount HK\$'000
Issued and fully paid:		
As at 1 January 2001 (Audited)	9,973,894,622	99,739
New share placements to private investors	7,347,500,000	73,475
Exercise of share options	735,000,000	7,350
	<u>18,056,394,622</u>	<u>180,564</u>
As at 30 June 2001 (Unaudited)	<u>18,056,394,622</u>	<u>180,564</u>

During the period, pursuant to the Share Option Scheme of the Company which became effective on 15 December 1995, the Company has granted 439,000,000 options and 296,000,000 options to employees at nominal consideration for subscription of the Company's shares at an exercise price of HK\$0.01104 and HK\$0.01 per share respectively. These options have been exercised during the period.

At 30 June 2001, 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 2001
9 October 1997 - 8 October 2007	1.693	6,000,000
25 August 2000 - 24 August 2010	0.02048	2,400,000

17. Commitments

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

	30 June 2001 HK\$'000 (Unaudited)	31 December 2000 HK\$'000 (Audited)
Acquisition of a trading right in the Hong Kong Futures Exchange	1,120	1,120
Capital injection to an associate	4,680	4,680
Acquisition of property, plant and equipment	—	1,630
	<u>5,800</u>	<u>7,430</u>

The Group has no significant lease commitments at the balance sheet date.

18. Contingencies

- (a) In connection with a convertible note of HK\$53,000,000 issued to a noteholder by an associate, Cupac Technology Limited, which was previously a subsidiary, the Group has given a guarantee to the noteholder to the extent of HK\$53,000,000. The Company has also executed a guarantee for the due observance and performance of a subsidiary of the said associate under a shareholders' agreement.
- (b) Pursuant to a subscription agreement dated 27 March 2001 entered into among the Company, a non wholly-owned subsidiary, Hennabun Management Inc. ("HMI") and a third party who has subscribed for 10,000,000 new shares in HMI, the Company has given warranties on certain financial performance of HMI for the year ending 31 December 2001 to the third party whereby the Company agrees to make payment to HMI up to the maximum amount of HK\$50,000,000 if HMI fails to achieve the financial performance as stipulated in the said agreement. Should the Company be required to fulfill its warranties and make payment to HMI, HMI's minority shareholders will benefit from the said warranty payment proportionately according to their equity interests in HMI, the maximum benefit being HK\$9,460,000.

The aforesaid subscription of shares in HMI has resulted in a gain on dilution of interest in HMI of approximately HK\$10,729,000, of which HK\$9,460,000 has not yet been recognised in the financial statements for the current period as it is uncertain whether the Company has to make payment to HMI pursuant to the aforementioned warranties. The amount of HK\$9,460,000 has been included in minority interests as at 30 June 2001.

19. 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 2001 HK\$'000 (Unaudited)	31 December 2000 HK\$'000 (Audited)
Land and buildings	360,640	352,085
Investment properties	220,563	209,300
Trading securities	13,740	–
Bank deposits	15,151	15,072
	<u>610,094</u>	<u>576,457</u>

The Group's interests in two associates with an aggregate carrying value of approximately HK\$38,000,000 as at 30 June 2001 are assigned to a lender to secure an outstanding loan and interest payments of approximately HK\$79,000,000 payable to the lender.

20. Post Balance Sheet Events

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

- (a) Pursuant to a placement agreement dated 15 May 2001, the Company has issued convertible notes ("the Notes") with a total principal amount of HK\$75,600,000 to certain third parties. The Notes, which will mature three years from the date of issue, bear interest at 7.5% per annum and can be converted into shares of the Company in the amounts or integral

multiples of HK\$168,000 at any time from the date of issue of the Notes up to 14 days before (and excluding) the maturity date. The conversion price is HK\$0.01 subject to adjustment as provided in the terms and conditions of the Notes.

Subsequently, certain Notes with an aggregate principal amount of HK\$11,760,000 were converted into 1,176,000,000 shares of HK\$0.01 each of the Company at a subscription price of HK\$0.01 each.

- (b) On 26 July 2001, the Company terminated the Subscription Agreement No.3 to No.6 in relation to subscription of the Company's shares as detailed in its circular to shareholders dated 13 June 2001
- (c) On 27 July 2001 and 10 September 2001, the Company entered into agreements for private placements of its 8,264,000,000 new ordinary shares of HK\$0.01 each at a subscription price of HK\$0.01 per share with independent investors.
- (d) Pursuant to a subscription agreement dated 15 May 2001, the Group has subscribed for 25,000,000 shares in a non wholly-owned subsidiary, HMI at a subscription price of HK\$75,000,000. This resulted in an increase of the Group's equity interest in the subsidiary from 66.8% to 81.08%.
- (e) On 14 August 2001, the Company entered into an agreement with a third party for the disposal of the Company's entire shares in an associate, Cupac Technology Limited, at a consideration of HK\$55,000,000. In this connection, the Group has granted a short term loan of HK\$25,000,000, which is secured by the said shares, to the third party. The disposal has not resulted in a material gain or loss on disposal.
- (f) On 23 August 2001, the Company granted 428,000,000 options to an employee at an nominal consideration for subscription of the Company's shares at an exercise price of HK\$0.01 per share.
- (g) On 13 September 2001, the Group entered into an agreement for the disposal of its entire shares in and shareholder's loan to a subsidiary engaging in property investment at a consideration of HK\$9,278,002 which is equal to the then net asset value of the subsidiary.

21. 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\$1,575,000 to certain directors of the Company. The loans bear interest from 9% to 15% per annum.
- (b) A property of the Group with carrying value of approximately HK\$24,000,000 is occupied by a director of certain non wholly-owned subsidiaries.
- (c) The Group's banking facilities to the extent of HK\$40,000,000 are guaranteed by a director of certain non wholly-owned subsidiaries.

22. Approval of the Interim Financial Statements

These unaudited condensed consolidated interim financial statements were approved by the Board of directors on 21 September 2001.