

NOTES TO CONDENSED INTERIM ACCOUNTS

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

These unaudited consolidated condensed interim accounts are prepared in accordance with Hong Kong Statement of Standard Accounting Practice ("SSAP") 25, Interim Financial Reporting, issued by the Hong Kong Society of Accountants.

These condensed interim accounts should be read in conjunction with the 2000 annual financial statements.

The accounting policies and methods of computation used in the preparation of these condensed interim accounts are consistent with those used in the annual accounts for the year ended 31st December, 2000 except that the Group has changed certain of its accounting policies following its adoption of the following Statements of Standard Accounting Practice (SSAPs) issued by the Hong Kong Society of Accountants which are effective for accounting periods commencing on or after 1st January, 2001:

SSAP 9 (revised):	Events after the balance sheet date
SSAP 29:	Intangible assets

The changes to the Group's accounting policies and the effect of adopting these new policies is set out below:

(a) SSAP 9 (revised): Events after balance sheet date

In accordance with the revised SSAP 9, the Group no longer recognised dividends proposed or declared after the balance sheet date as a liability at the balance sheet date. This change in accounting policy has been applied retrospectively so that the comparatives presented have been restated to conform to the changed policy.

As detailed in note 11, opening retained earnings at 1st January, 2000 have increased by HK\$33,823,440 which is the reversal of the provision for the 1999 proposed final dividend previously recorded as a liability as at 31st December, 1999 although not declared until after balance sheet date. Opening retained earnings at 1st January, 2001 have increased by HK\$33,823,440 which is the reversal of the provision for 2000 proposed final dividend previously recorded as a liability as at 31st December, 2000 although not declared until after the balance sheet date.

This adjustment has resulted in a decrease in current liabilities at 30th June, 2001 by HK\$33,823,440 (31st December, 2000: HK\$33,823,440) for provision for proposed dividends that is no longer required.

Changes to headings used in the previously reported 31st December, 2000 balance sheet and profit and loss account relating to dividends and profit for the year retained have also been made to reflect the changes resulting from SSAP 9 (revised).

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES (Continued)

(b) SSAP 29: Intangible assets

Computer software

Expenditure on the development phase of computer software is capitalised and amortised using the straight-line method over their useful lives, but not exceeding 20 years from the date when the intangible asset is available for use. No amortisation has been charged as no economic benefit has been generated yet.

Expenditure capitalised on 31st December, 2000 totalling HK\$1,600,000 has been reclassified from trade and other receivables and reflected in the comparative 31st December, 2000 balance sheet.

2. TURNOVER

The principal activity of the Company and its subsidiaries is the holding of listed and unlisted securities in Hong Kong.

	Unaudited	
	Six months ended 30th June,	
	2001	2000
	HK\$	HK\$
Income from debt securities		
– amortisation of discount on purchase	11,284,893	25,415,572
– interest	3,559,111	2,919,082
Bank interest income	6,197,522	15,159,388
Dividend income from listed investments	177,090	190,823
	21,218,616	43,684,865

No geographical analysis is provided as less than 10% of the consolidated turnover and less than 10% of the consolidated trading results of the Group are attributable to markets outside Hong Kong.

3. OPERATING PROFIT

	Unaudited Six months ended 30th June,	
	2001	2000
	HK\$	HK\$
Operating profit is stated after (crediting)/charging the following:		
Technical consultancy fee	9,898,126	–
Staff cost (excluding directors' emoluments)	255,767	261,800
Depreciation	84,020	79,278
Net exchange gain	(7,477)	(1,334,895)
	<u> </u>	<u> </u>

4. TAXATION

Hong Kong profits tax has been provided at the rate of 16% on the estimated assessable profits for the period (2000: Nil).

No deferred taxation has been provided as there are no significant timing differences arising between profit as computed for taxation purposes and profit as stated in the accounts.

5. DIVIDENDS

	Unaudited Six months ended 30th June,	
	2001	2000
	HK\$	HK\$
2000 final dividend, paid, of HK\$0.02 (1999 final paid: HK\$0.02) per ordinary share (Note (i))	33,823,440	33,823,440
2001 interim, proposed on 19th September, 2001, of HK\$0.02 (2000: HK\$0.02) per ordinary share (Note (ii))	33,823,440	33,823,440
	<u> </u>	<u> </u>
	67,646,880	67,646,880
	<u> </u>	<u> </u>

Note (i): The previously recorded final dividends proposed and declared after the balance sheet date but accrued in the accounts for the years ended 31st December, 1999 and 2000 were HK\$33,823,440 and HK\$33,823,440 respectively. Under the Group's new accounting policy as described in Note 1(a), these have been written back against opening reserves as at 1st January, 2000 and 2001 in Note 11 and are now charged in the period in which they were proposed.

Note (ii): At a meeting held on 19th September, 2001 the directors declared an interim dividend of HK\$0.02 per ordinary share. This proposed dividend is not reflected as a dividend payable in these interim accounts, but will be reflected as an appropriation of retained earnings for the year ending 31st December, 2001.

6. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share are based on the Group's profit attributable to shareholders of HK\$8,906,676 (2000: HK\$39,347,600).

The basic earnings per share is based on the number of ordinary shares in issue during the period amounting to 1,691,171,989 (2000: 1,691,171,989). The diluted earnings per share during the period is not disclosed as the exercise of the share options outstanding at 30th June, 2001 would have no dilutive effect. The diluted earnings per share for the six months ended 30th June, 2000 is based on 1,698,641,553 ordinary shares which was the number of ordinary shares in issue during the period plus the weighted average of 7,469,564 ordinary shares deemed to be issued at no consideration if all outstanding share options had been exercised.

7. INVESTMENT SECURITIES

	Unaudited 30th June, 2001 HK\$	Audited 31st December, 2000 HK\$
Shares listed in Hong Kong	170,675,499	147,501,932
Unlisted shares	46,516,658	36,806,016
Unlisted investment	30,391,284	41,066,217
	<u>247,583,441</u>	<u>225,374,165</u>

8. DEBT SECURITIES

	Unaudited 30th June, 2001 HK\$	Audited 31st December, 2000 HK\$
Convertibles notes	34,310,483	50,549,398
Bonds	32,020,246	33,623,086
	<u>66,330,729</u>	<u>84,172,484</u>

9. TRADE AND OTHER RECEIVABLES

	Unaudited 30th June, 2001 HK\$	Audited 31st December, 2000 HK\$
Trade receivables (Note)	62,100,000	4,270,646
Other receivables	19,908,534	17,768,580
	<u>82,008,534</u>	<u>22,039,226</u>

Note:

At 30th June, 2001 and 31st December, 2000, the ageing analysis of the trade receivables were as follows:

	Unaudited 30th June, 2001 HK\$	Audited 31st December, 2000 HK\$
0-3 months	—	4,270,646
4-6 months	62,100,000	—
	<u>62,100,000</u>	<u>4,270,646</u>

10. TRADE AND OTHER PAYABLES

	Unaudited 30th June, 2001 HK\$	Audited 31st December, 2000 HK\$
Trade payables (Note)	20,000,000	—
Other payables	54,233,392	56,093,614
	<u>74,233,392</u>	<u>56,093,614</u>

Note:

At 30th June, 2001 and 31st December, 2000, the ageing analysis of the trade payables were as follows:

	Unaudited 30th June, 2001 HK\$	Audited 31st December, 2000 HK\$
4-6 months	20,000,000	—

11. RETAINED EARNINGS

		Unaudited HK\$
At 1st January, 2000 as previously reported		695,725,143
Effect of adopting SSAP 9 (Revised)	1(a)	33,823,440
At 1st January, 2000 as restated		729,548,583
1999 final dividend paid		(33,823,440)
Loss for the year		(351,516,174)
2000 interim dividend paid	5	(33,823,440)
		<u>310,385,529</u>
Retained earnings		276,562,089
2000 final dividend proposed	5	33,823,440
		<u>310,385,529</u>
Company and subsidiaries		353,112,038
Associated companies		(42,726,509)
At 31st December, 2000		<u>310,385,529</u>
At 1st January, 2001 as previously reported		276,562,089
Effect of adopting SSAP 9 (Revised)	1(a)	33,823,440
At 1st January, 2001 as restated		310,385,529
2000 final dividend paid	5	(33,823,440)
Profit for the period		8,906,676
		<u>285,468,765</u>
Retained earnings		251,645,325
2001 interim dividend proposed	5	33,823,440
		<u>285,468,765</u>
Company and subsidiaries		336,294,301
Associated companies		(50,825,536)
At 30th June, 2001		<u>285,468,765</u>

12. GUARANTEE

- (a) The Company has given a guarantee to a bank to secure 33 $\frac{1}{3}$ % of the outstanding indebtedness due by associated companies, of which the Group controlled 33 $\frac{1}{3}$ % interest each. The amount of outstanding indebtedness due by the associated companies to this bank as at 30th June, 2001 was approximately HK\$461 million (at 31st December, 2000: approximately HK\$468 million).
- (b) The Company has given a guarantee to a financial institution to secure borrowing facilities available to a subsidiary in the amount not exceeding US\$3.5 million. The amount of outstanding indebtedness due by the subsidiary to this financial institution as at 30th June, 2001 was approximately US\$570,000. (at 31st December, 2000: approximately US\$554,000).

13. COMMITMENTS

Capital commitments for investments in investment securities

	Unaudited 30th June, 2001 HK\$	Audited 31st December, 2000 HK\$
Authorised but not contracted for	<u>21,750,000</u>	<u>21,750,000</u>

14. RELATED PARTY TRANSACTIONS

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

	Unaudited Six months ended 30th June, 2001 HK\$	2000 HK\$
Management fee expenses to a related company	<u>7,451,888</u>	<u>11,296,833</u>

Pursuant to the management agreement dated 5th March, 1997 between the Group and Yu Ming Investment Management Limited ("YMIM"), in which Fung Wing Cheung, Tony and Fung Yiu Fai, Peter, jointly own 100% of the shares, YMIM agreed to assist the board of directors with the day-to-day management of the Group for a period of five years commencing 27th March, 1997. YMIM will be entitled to a management fee equal to 0.375% of the net asset value on each quarter date and an incentive fee equal to 20 per cent. of such amount (if any) by which the profit before tax for each financial year completed exceeds such amount as is equal to 6% of average monthly net asset value of the Group as shown by the audited accounts of the companies within the Group for each such financial year but adjusted so that the associated companies of the Group will not be equity accounted for the purpose of calculating such average monthly net asset value and consolidated profit before tax.

Save as disclosed above and in note 12, no other contracts with its related companies were entered into or existed during the period.