



China United International Holdings Limited

(Incorporated in Hong Kong with limited liability)

Interim Report
2004

RESULTS

The Board of directors of China United International Holdings Limited (the "Company") is pleased to announce that the unaudited consolidated results of the Company and its subsidiaries (collectively the "Group") for the six months ended 30 June 2004, together with comparative figures for the six months ended 30 June 2003, are as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2004

		For the six months ended 30 June	
	Notes	2004 HK\$'000 (Unaudited)	2003 HK\$'000 (Unaudited)
Turnover		44,471	57,765
Other revenue		799	5,681
Cost of trading securities sold		(43,181)	(18,598)
Depreciation and amortisation expenses		(906)	(3,585)
Staff costs		(4,676)	(12,935)
Finance costs for provision of financial services		—	(4,667)
Other operating expenses		(18,881)	(61,807)
		<hr/>	<hr/>
Loss from operations		(22,374)	(38,146)
Impairment losses on:			
– Property, plant and equipment		—	(19,974)
– Interest in an associate		—	(1,485)
Profit on disposal of interest in a subsidiary		—	1,884
Profit on deemed disposal of interest in an associate		1,800	—
Loss on deemed disposal of interest in a subsidiary		—	(1,068)
Loss on disposal of other securities		—	(11,455)
Share of loss of an associate	8	(77,601)	—
Other finance costs		(7,024)	(19,882)
		<hr/>	<hr/>
Loss from ordinary activities before taxation	4	(105,199)	(90,126)
Taxation	5	—	2,900
		<hr/>	<hr/>
Loss from ordinary activities		(105,199)	(87,226)
Minority interests		—	894
		<hr/>	<hr/>
Loss attributable to shareholders		(105,199)	(86,332)
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Dividends	6	—	17,201
		<hr/>	<hr/>
Loss per share – Basic	7	HK\$(0.10)	HK\$(0.09)
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CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2004

	For the six months ended 30 June	
	2004 HK\$'000	2003 HK\$'000
Opening balance – Total equity at 1 January (Audited)	303,782	345,510
Investment revaluation deficit realised on disposal of other securities	—	10,341
Issue of new shares, net of expenses	73,600	—
Issue of shares on exercise of warrants	16,047	—
Issue of shares on conversion of convertible notes	5,040	—
Special dividends paid	—	(17,201)
Loss for the period	(105,199)	(86,332)
Closing balance – Total equity at 30 June (Unaudited)	293,270	252,318

CONDENSED CONSOLIDATED BALANCE SHEET

At 30 June 2004

		At 30 June 2004	At 31 December 2003
	Notes	HK\$'000 (Unaudited)	HK\$'000 (Audited)
ASSETS AND LIABILITIES			
Non-current assets			
Investment properties		15,371	20,530
Property, plant and equipment		29,765	30,716
Interest in an associate	8	399,808	320,624
Loans receivable	9	20,213	—
		<u>465,157</u>	<u>371,870</u>
Current assets			
Loans receivable	9	25,557	83,456
Other receivables		1,625	24,675
Investments in securities		406	—
Bank balances and cash		569	25,173
		<u>28,157</u>	<u>133,304</u>
Current liabilities			
Other payables		12,320	14,118
Current portion of interest-bearing borrowings		103,201	93,262
Convertible notes	10	58,800	63,840
		<u>174,321</u>	<u>171,220</u>
Net current liabilities		<u>(146,164)</u>	<u>(37,916)</u>
Total assets less current liabilities		<u>318,993</u>	<u>333,954</u>
Non-current liabilities			
Long-term interest-bearing borrowings		25,723	30,172
NET ASSETS		<u>293,270</u>	<u>303,782</u>
CAPITAL AND RESERVES			
Issued capital	11	113,634	36,887
Reserves	14	179,636	266,895
		<u>293,270</u>	<u>303,782</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2004

	For the six months ended 30 June	
	2004 HK\$'000 (Unaudited)	2003 HK\$'000 (Unaudited)
Net cash from (used in) operating activities	24,957	(254,172)
Net cash (used in) from investing activities	(68,260)	53,613
Net cash from financing activities	18,699	223,512
Net (decrease) increase in cash and cash equivalents	(24,604)	22,953
Cash and cash equivalents at beginning of period	25,173	26,554
Cash and cash equivalents at end of period, represented by bank balances and cash	<u>569</u>	<u>49,507</u>

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30 June 2004

1. BASIS OF PREPARATION

Pursuant to a group reorganisation under a scheme of arrangement ("the Group Reorganisation") sanctioned by the Supreme Court of Bermuda, which became effective on 3 January 2003, the Company issued its shares to the shareholders of China United Holdings Limited ("CU Bermuda"), the then ultimate holding company of the Group, in exchange for the entire issued share capital of CU Bermuda. Following the Group Reorganisation, the Group undertook certain transactions (the "Restructuring") to restructure different functions and roles within the Group involving the re-grouping of shareholdings in subsidiaries, elimination of inter-company balances and the ultimate disposal of CU Bermuda together with the subsidiaries remaining under it (together the "Old CU Group"). Details of the Group Reorganisation and the Restructuring have been set out in the Company's 2003 annual report.

Before the approval of the Company's 2003 annual report, the directors noted that a creditor (the "Creditor") of the Old CU Group filed a petition to the High Court of Hong Kong to appoint provisional liquidators for CU Bermuda. The potential effect of the petition and the view of the directors thereof have been fully disclosed in the Company's 2003 annual report. The petition was dismissed by the court subsequent to the approval and issue of the 2003 annual report. In July 2004, the Creditor submitted another claim to the court, naming the Company and CU Bermuda as co-defendants, on the following grounds: (i) the Company and the Old CU Group has not complied with the Transfer of Business (Creditors' Protection) Ordinance because the Company has not published any notice of transfer in respect of certain transactions of the Restructuring and the Group Reorganisation and the Restructuring were intended to defraud creditors of the Old CU Group; and (ii) the Old CU Group is in continuing breach of its contractual obligations to settle the debts owed to the Creditor. The Creditor is claiming (i) the Company should pay the debts owed by the Old CU Group to the Creditor amounting to HK\$154 million with interest thereon; and (ii) certain transactions of the Restructuring should be declared void and the original position be restored as if the transactions had not occurred.

1. BASIS OF PREPARATION – *Continued*

In preparing the interim financial statements for the six months ended 30 June 2004, the directors adopted a going concern basis for the following reasons:

- (a) The Group has adopted measures to improve its liquidity, including ongoing negotiation with creditors to reschedule loans repayment terms and to obtain continuing support from its banks and creditors. Subsequent to 30 June 2004, the Company has successfully issued new convertible notes amounting to HK\$55 million, which proceeds was applied to repay the old convertible notes which matured in July 2004. The new convertible notes have a maturity date of 19 August 2009. The directors are confident that the Group is able to obtain adequate finance for its operations as and when required.
- (b) Based on legal advice, the directors consider that (i) the Group has no obligations to assume the liabilities, whether actual or contingent, of the Old CU Group and (ii) challenge by any interested party as to the validity of the restructuring and /or to possible claims for compensation for any loss suffered as a result of the Group Reorganisation and the Restructuring would have no merit.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed financial statements have been prepared in accordance with Statement of Standard Accounting Practice 25 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants and with the applicable disclosure requirements of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The accounting policies adopted are consistent with those followed by the Group’s audited financial statements for the year ended 31 December 2003.

3. SEGMENT INFORMATION

The analysis of the Group's revenue and results by business segments are as follows:

Six months ended 30 June 2004 (Unaudited)

	Investment in trading securities HK\$'000	Brokerage and financial services HK\$'000	Property investment HK\$'000	Investment holding HK\$'000	Unallocated HK\$'000	Total HK\$'000
Segment revenue						
Turnover						
External customers	36,400	7,862	209	—	—	44,471
Other revenue	—	—	121	—	678	799
Total revenue	<u>36,400</u>	<u>7,862</u>	<u>330</u>	<u>—</u>	<u>678</u>	<u>45,270</u>
Segment results	(6,855)	(7,220)	102	(2,072)	(6,329)	(22,374)
Profit on deemed disposal of interest in an associate						1,800
Share of profit (loss) of an associate	5,826	(1,517)	—	(59,381)	(22,529)	(77,601)
Other finance costs						<u>(7,024)</u>
Loss attributable to shareholders						<u><u>(105,199)</u></u>

Note: Following the partial disposal of Hennabun Management Inc. ("HMI"), HMI has become an associate of the Company effectively on 31 December 2003 and, as a result, portion of the segment revenue and segment results attributable to HMI were included in share of results of an associate from 1 January 2004 onwards.

3. SEGMENT INFORMATION – *Continued*

Six months ended 30 June 2003 (Unaudited)

	Investment in trading securities HK\$'000	Brokerage and financial services HK\$'000	Property investment HK\$'000	Investment holding HK\$'000	Elimination HK\$'000	Unallocated HK\$'000	Total HK\$'000
Segment revenue							
Turnover							
External customers	19,168	34,879	3,718	—	—	—	57,765
Inter-segments	—	—	1,294	—	(1,294)	—	—
	19,168	34,879	5,012	—	(1,294)	—	57,765
Other revenue	—	5,047	3	46	—	585	5,681
Total revenue	<u>19,168</u>	<u>39,926</u>	<u>5,015</u>	<u>46</u>	<u>(1,294)</u>	<u>585</u>	<u>63,446</u>
Segment results	(22,366)	17,492	(28,493)	11	—	(4,790)	(38,146)
Profit on disposal of interest in a subsidiary							1,884
Impairment losses							(21,459)
Loss on deemed disposal of interest in a subsidiary							(1,068)
Loss on disposal of other securities							(11,455)
Other finance costs							(19,882)
Taxation							2,900
Minority interests							894
Loss attributable to shareholders							<u>(86,332)</u>

4. LOSS FROM ORDINARY ACTIVITIES BEFORE TAXATION

This is stated after charging (crediting):

	For the six months ended 30 June	
	2004 HK\$'000 (Unaudited)	2003 HK\$'000 (Unaudited)
Deficit on revaluation of investment properties	—	31,172
Net provision for bad and doubtful debts	14,705	—
Profit on disposal of investment properties	(121)	—
Profit on disposal of property, plant and equipment	(678)	—
Release of negative goodwill to income		
– included in other operating expenses	—	(1,433)
– included in share of loss of an associate	(1,347)	—
Impairment loss on goodwill arising from acquisition of additional interest in an associate (included in share of loss of an associate)	23,721	—
Dividend income	—	(80)
Net unrealised holding loss on trading securities	—	22,366
	<u> </u>	<u> </u>

5. TAXATION

Hong Kong Profits Tax has not been provided as the Group incurred a loss for taxation purposes for the six months ended 30 June 2004. Hong Kong Profits Tax has been provided at the rate of 17.5% on the Group's estimated assessable profits for the six months ended 30 June 2003.

	For the six months ended 30 June	
	2004 HK\$'000 (Unaudited)	2003 HK\$'000 (Unaudited)
The (credit) charge comprises:		
Current tax		
Hong Kong Profits Tax:		
Provision for the period	—	100
Deferred taxation	—	(3,000)
	<u> </u>	<u> </u>
	—	(2,900)
	<u> </u>	<u> </u>

Deferred tax credited for the six months ended 30 June 2003 was in respect of unrealised holding loss on trading securities, which was a reversal of temporary difference.

6. DIVIDENDS

	For the six months ended 30 June	
	2004 HK\$'000 (Unaudited)	2003 HK\$'000 (Unaudited)
HK\$Nil per share		
(2003: Special dividend of HK7 cents per share)	—	17,201

The directors do not recommend the payment of a dividend for the six months ended 30 June 2004. The special dividends were paid out of the contributed surplus of CU Bermuda in January 2003.

7. LOSS PER SHARE

The calculation of the loss per share is based on the loss for the period of HK\$105,199,000 (2003: HK\$86,332,000) and on the weighted average number of 1,038,348,610 shares (2003: 921,505,020 shares) in issue during the period. The weighted average number of shares in issue used in the basic loss per share calculation for the six months 30 June 2003 has been adjusted to reflect the effect of the bonus issues during the current period and during the year ended 31 December 2003, which is treated as had been completed on 1 January 2003.

No diluted loss per share is presented for the periods as conversion of the Company's and HMI's outstanding convertible notes have an anti-dilutive effect.

8. INTEREST IN AN ASSOCIATE

	Notes	At 30 June 2004 HK\$'000 (Unaudited)	At 31 December 2003 HK\$'000 (Audited)
Share of net assets		192,287	196,223
Negative goodwill		(20,885)	(22,620)
	(a)	<u>171,402</u>	<u>173,603</u>
Due from an associate	(b)	<u>228,406</u>	<u>147,021</u>
		<u><u>399,808</u></u>	<u><u>320,624</u></u>

Interest in an associate represented the Group's 45.15% interest in HMI.

8. INTEREST IN AN ASSOCIATE – *Continued*

Notes:

- (a) On 10 March 2004, the Company entered into an agreement with a shareholder of HMI, being an independent third party, to acquire 37.5 million shares of HMI at a consideration satisfied by the issuance of 40 million shares of the Company, representing approximately 8.85% of the Company's enlarged issued share capital. Positive goodwill arising from the acquisition amounted to approximately HK\$23,721,000 which was fully impaired during the period.

The directors have given due consideration of the financial position of HMI and its subsidiaries (collectively the "HMI Group") in determining whether the positive goodwill have suffered an impairment loss. Following the deemed disposal of HMI Group effectively on 31 December 2003, HMI Group is no longer consolidated into the financial statements of the Company. The Company was informed by the management of HMI that one of its shareholders intended to dispose of its interests in HMI. The directors considered that the acquisition could further consolidate the interest in HMI and to avoid the shareholdings being transferred to other party who is unfamiliar with the business of HMI. Further, the directors considered the increase in shareholding in HMI could enhance the profitability of the Group in future in view of the blooming of the financial market in Hong Kong. However, for prudence, the directors have written off the goodwill arising from the acquisition of additional interest in HMI.

In addition to the above acquisition of additional shareholdings in HMI, the Group's interests in HMI were reduced because of conversion of convertible note by a convertible note holder and issue of shares to a third party. As a result, the interest in HMI was reduced from 47.6% at 1 January 2004 to 45.15% at 30 June 2004.

- (b) Details of the amount due from an associate are as follows:

	<i>Notes</i>	HK\$'000 (Unaudited)
Advances:		
At 1 January 2004		147,021
Net advances		101,789
Interest accrued		6,070
Setting-off against subscription payable of convertible note		<u>(150,000)</u>
At 30 June 2004	<i>(ii)</i>	<u>104,880</u>
Convertible note receivables:		
At 1 January 2004		—
Subscription with settlement through set-off of advances due		150,000
Interest accrued		3,226
Disposal to a third party		<u>(29,700)</u>
At 30 June 2004	<i>(i)</i>	<u>123,526</u>
Total amounts due from an associate		<u><u>228,406</u></u>

8. INTEREST IN AN ASSOCIATE – *Continued*

Notes: (b) – *Continued*

Notes:

- (i) Of the amounts due, HK\$120,300,000 is principal amount of a convertible note issued by HMI on 15 January 2004. Related interest receivable amounted to HK\$3,226,000 at the balance sheet date. The note, which will mature in three years from the date of issue, bears interest at 6% per annum and can be converted into shares of HMI at a conversion price of HK\$1.50 per ordinary share at any time after the date of issue of the convertible notes and before its maturity date. During the period, the Company and HMI agreed to revise the conversion price to HK\$1.0 per ordinary share. On 25 February 2004, the Company agreed to subordinate the amounts due from HMI Group in respect of the convertible note to HMI Group's banks up to an amount of HK\$150 million, if so requested by HMI Group's banks.
- (ii) The remaining amounts due represent cash advances which are unsecured, interest-bearing at prime rate plus 1% per annum and have no fixed repayment term.

Details of the consolidated operating results and financial position of HMI based on unaudited financial statements, after adjusting the fair value of assets acquired at the date of acquisition, are as follows:

	For the six months ended 30 June 2004 HK\$'000 (Unaudited)
Operating results for the six months ended 30 June 2004	
Turnover	68,869
Loss from ordinary activities before taxation	116,024
Loss from ordinary activities before taxation attributable to the Group	55,227
Release of negative goodwill to income	(1,347)
Impairment loss on goodwill arising from acquisition of additional interest in an associate	23,721
Share of loss of an associate	77,601
Financial position at the balance sheet date	
Total non-current assets	11,458
Total current assets	727,870
Total current liabilities	(183,143)
Total non-current liabilities	(130,300)
Shareholders' funds	425,885
Amount attributable to the Group	192,287

9. LOANS RECEIVABLE

Loans granted to borrowers are repayable according to set maturity dates. The balance comprises loans receivable from:

		At 30 June 2004 HK\$'000 (Unaudited)	At 31 December 2003 HK\$'000 (Audited)
	<i>Notes</i>		
Third parties		139,224	161,233
A related company	17(b)	20,460	20,460
Directors of the Company	17(c)	—	972
		<u>159,684</u>	<u>182,665</u>
Provision for bad and doubtful debts		(113,914)	(99,209)
		<u>45,770</u>	<u>83,456</u>
Less: Balances due within one year included in current assets		(25,557)	(83,456)
		<u>20,213</u>	<u>—</u>

An aging analysis of loans receivable (before provision for bad and doubtful debts) as at the balance sheet date is set out below:

	At 30 June 2004 HK\$'000 (Unaudited)	At 31 December 2003 HK\$'000 (Audited)
Within maturity dates	61,131	110,629
Balances overdue for repayment:		
1-3 months	—	28,159
4-6 months	26,518	38,404
7-12 months	66,562	5,473
Over 12 months	5,473	—
	<u>159,684</u>	<u>182,665</u>

10. CONVERTIBLE NOTES

	At 30 June 2004 HK\$'000 (Unaudited)	At 31 December 2003 HK\$'000 (Audited)
At balance sheet date	<u>58,800</u>	<u>63,840</u>

Note:

The convertible notes bear interest at 7.5% per annum and can be converted into shares of the Company in the amount or integral multiples of HK\$168,000 at any time from the date of issue of the new convertible notes up to 14 days before and excluding the maturity date on 4 July 2004. During the period, principal amounting to HK\$5,040,000 was converted into 3,405,405 ordinary shares of HK\$0.1 each of the Company at a conversion price of HK\$1.48 per share.

The Company may redeem in whole or in part the notes in the amount or integral multiples of HK\$168,000 at any time from the date of issue up to 14 days before and excluding the maturity date on 4 July 2004. The amount to be paid by the Company upon redemption of the notes shall be 105% of the outstanding amount of the notes. No notes were redeemed by the Company during the period.

The conversion prices applicable to the relevant period are as follows:

Conversion price per share	Period
HK\$1.91	Date of issue to 4 July 2003
HK\$2.22	5 July 2003 to 11 November 2003
HK\$1.48	12 November 2003 to 13 June 2004
HK\$0.592	14 June 2004 to 14 days before and excluding the maturity date on 4 July 2004

11. ISSUED CAPITAL

	Notes	Number of ordinary shares	Nominal value HK\$
Authorised:			
At balance sheet date		20,000,000,000	2,000,000,000
Issued and fully paid:			
At beginning of period (Audited)		368,868,495	36,886,850
Exercise of warrants	(i)	45,733,510	4,573,351
Conversion of convertible notes	(ii)	3,405,405	340,541
Issuance of shares	(iii)	40,000,000	4,000,000
Bonus issue	(iv)	678,328,503	67,832,850
At balance sheet date (Unaudited)		<u>1,136,335,913</u>	<u>113,633,592</u>

- (i) During the period, an aggregate of 45,733,510 new shares of HK\$0.1 each of the Company were issued to certain warrant holders upon exercise of warrants at the cash subscription price of HK\$0.38 per share for 39,945,103 shares and of HK\$0.15 per share for 5,788,407 shares respectively.
- (ii) During the period, an aggregate of 3,405,405 ordinary shares of HK\$0.1 each of the Company were issued to a convertible note holder upon the conversion of convertible notes as set out in note 10.
- (iii) Pursuant to the sales and purchase agreement dated 10 March 2004, 40,000,000 ordinary shares of HK\$0.1 each of the Company were issued to acquire 37.5 million shares of HMI as set out in note 8.
- (iv) By an ordinary resolution passed on 14 June 2004, 678,328,503 ordinary shares of HK\$0.1 each were issued to shareholders on the basis of three bonus shares for every two existing shares.

All these shares issued during the period rank *pari passu* in all respects with the then existing shares.

12. SHARE OPTION SCHEME

No options have been granted under the Company's share option scheme during the period.

13. WARRANTS

At the balance sheet date, the Company had outstanding 3,146,937 warrants. Exercise in full of such warrants would result in the issue of 3,146,937 additional shares of HK\$0.1 each. The exercise price of the warrants is adjusted from HK\$0.38 to HK\$0.15 with effect from 1 June 2004 as a result of the bonus issue during the period.

14. RESERVES

	Share premium HK\$'000	Capital reserve HK\$'000	Merger reserve HK\$'000	Accumulated profits HK\$'000	Total HK\$'000
At 1 January 2004 (Audited)	—	18,273	88,128	160,494	266,895
Exercise of warrants	11,474	—	—	—	11,474
Shares issued at premium, net of issuing expenses	74,299	—	—	—	74,299
Capitalisation as bonus issue	(67,833)	—	—	—	(67,833)
Loss for the period	—	—	—	(105,199)	(105,199)
	<u>17,940</u>	<u>18,273</u>	<u>88,128</u>	<u>55,295</u>	<u>179,636</u>
At 30 June 2004 (Unaudited)	<u>17,940</u>	<u>18,273</u>	<u>88,128</u>	<u>55,295</u>	<u>179,636</u>

15. CONTINGENT LIABILITIES

(a) Guarantees for banking facilities

At the balance sheet date, the Company had contingent liabilities not provided for in the financial statements in respect of guarantee of HK\$36,120,000 (At 31 December 2003: HK\$38,000,000) and HK\$75,000,000 (At 31 December 2003: HK\$125,000,000) for banking facilities granted to subsidiaries and associates respectively, which were utilised by subsidiaries and associates to the extent of HK\$28,424,000 (At 31 December 2003: HK\$32,915,000) and HK\$53,462,000 (At 31 December 2003: HK\$60,915,000) respectively.

(b) Other guarantees

As set out in the Company's 2003 annual report, the Company guaranteed to CU Bermuda that the Company was obliged to pay to CU Bermuda HK\$13,000,000, should the interest of an unlisted investment held in trust on behalf of CU Bermuda by the Company be affected by any inappropriate manner. During the period, the title in the investment was transferred to a nominee under CU Bermuda's instruction at a nominal consideration of HK\$1. The abovementioned guarantee was released accordingly.

Except as aforesaid, there are no material changes on other guarantees as detailed in the Company's 2003 annual report during the period.

16. PLEDGE OF ASSETS

At the balance sheet date, certain assets of the Group with the following carrying values have been pledged to secure general banking facilities granted to the Group:

	At 30 June 2004 HK\$'000 (Unaudited)	At 31 December 2003 HK\$'000 (Audited)
Land and buildings	28,308	28,799
Investment properties	15,371	20,530
	<u>43,679</u>	<u>49,329</u>

17. RELATED PARTY TRANSACTIONS

During the period, the Group entered into the following transactions with related parties:

- (a) A property of the Group with net book value of HK\$17,009,000 (At 31 December 2003: HK\$17,294,000) is occupied by a brother of a director of the Company free of rental. The director's brother is a director of certain companies within the HMI Group.
- (b) The Group has granted unsecured loans to a related company, a director of which is also a director of certain companies within the HMI Group and is a brother of a director of the Company. At the balance sheet date, the outstanding loans amounted to HK\$20,460,000 (At 31 December 2003: HK\$20,460,000) and carried interest at prime rate plus 3% per annum. Provision of HK\$20,460,000 (At 31 December 2003: HK\$20,460,000) had been made for non-repayment of the loans and related interest.

HMI Group, former subsidiaries of the Company, becomes associates of the Group effectively 31 December 2003. During the year ended 31 December 2003, HMI Group (including HMI's associate) had granted unsecured loans to certain related companies in which the abovementioned related party is also a director and/or substantial shareholder. At 31 December 2003, the outstanding loans amounted to HK\$201,486,000 and carried interest at a range of 6%-7% per annum or at prime rate plus 1%-3% per annum. Provision of HK\$46,525,000 had been made for non-repayment of the loans and related interest.

- (c) During the year ended 31 December 2003, the Group and HMI Group granted unsecured loans to the executive directors of the Company with outstanding balances at 31 December 2003 amounted to HK\$972,000 and HK\$106,000 respectively. The loans carried interest at 8% per annum. All the amounts due have been settled during the period.

17. RELATED PARTY TRANSACTIONS – *Continued*

- (d) During the year ended 31 December 2003, the Group granted securities margin loans, through HMI Group, to a substantial shareholder, a related company, and directors of the Company with outstanding balances at 31 December 2003 amounting to HK\$16,663,000, HK\$1,466,000, and HK\$877,000 respectively. The loans carried interest at prime rate or prime rate plus 3% or 15% per annum and were repayable on demand. A director of certain companies within the HMI Group is a director of the said related company and is a brother of a director of the Company.
- (e) At 31 December 2003, HMI Group's credit facilities to the extent of HK\$50,000,000 was guaranteed by a director of certain companies within the HMI Group who is a brother of a director of the Company.
- (f) During the period, the Group acquired certain trading securities from HMI Group at a total consideration of HK\$24,000,000. All the trading securities acquired were disposed in the market during the period.

18. POST BALANCE SHEET EVENTS

Other than disclosed elsewhere in the financial statements, there are other post balance sheet events, details of which are set out below:

Subsequent to the balance sheet date, the Company issued convertible notes with principal amounts of HK\$55 million. The convertible notes bear interest at 7.8% per annum and can be converted into the ordinary shares of the Company at a conversion price of HK\$0.5 per share in amounts or integral multiples of HK\$1,000,000 at any time from date of issue up to 7 days before (and excluding) the maturity of the convertible notes. The convertible notes will mature on 19 August 2009. The proceeds from the issue were applied to repay the original convertible notes which were due in July 2004.

Subsequent to the balance sheet date, certain investment properties with carrying value of HK\$6.79 million were disposed of at total consideration of HK\$7.4 million.

On 17 September 2004, the board of directors proposed to make the bonus issue of ordinary shares of the Company to the shareholders of the Company on the basis of one bonus share, credited as fully paid, for every ten existing shares subject to the approval of shareholders at an extraordinary general meeting to be held and the approval from the Stock Exchange granting the listing of and permission to deal in the bonus shares.

INTERIM DIVIDEND

The Board of directors does not recommend any interim dividend for the six months ended 30 June 2004 (2003:Nil). For the six months ended 30 June 2003, there was a special dividend of total HK\$17.2 million.

PROPOSED BONUS ISSUE OF SHARES

The Board of directors proposes to make a bonus issue of shares, on the basis of one new bonus share for every ten existing shares of the Company held by the shareholders of the Company on the record date by way of capitalization of the credit balance in the share premium account of the Company.

BUSINESS REVIEW AND PROSPECTS

Results

During the six months ended 30 June 2004, the Group recorded an unaudited loss attributable to shareholders of approximately HK\$105.2 million, as compared with a loss of approximately HK\$86.3 million for the corresponding six months ended 30 June 2003. The loss per share was HK\$0.10 for the current period as compared with a loss per share of HK\$0.09 for the corresponding period ended 30 June 2003. Turnover was approximately HK\$ 44.5 million, a decrease of approximately 23% from 2003's level of approximately HK\$57.8 million, which was mainly due to the decrease of approximately 77.4% in the income for brokerage and financial services (approximately HK\$7.9 million in this period versus approximately HK\$34.9 million in 2003) during the period despite an increase in investment in trading securities of 89.9% for this period (approximately HK\$36.4 million in this period versus approximately HK\$19.2 million in 2003).

Review

While the second half of 2003 saw a more positive recovery of the economy, there are many issues still clouding the world economy as well as the Hong Kong economy. The Group took a cautious view in investing in projects and continued streamlining its business activities.

Affected by the global war on terrorism and China's macro economic adjustment, the Hang Seng Index experienced a fluctuation of about 3,000 points and a major downward correction. During the period, the Group further acquired 37.5 million shares in Hennabun Management Inc. ("HMI") by the issuance of 40 million shares of the Company stock. The Group's shareholding in HMI then stood at 47.44%. The Group recorded a loss of HK\$77.6 million attributed from the HMI group. The loss resulted mainly from the provisions made for the margin and lending business and the loss relating to the subsequent disposal of HMI's associate.

While there are positive market sentiments, Hong Kong is still seeing persistent unemployment rate and deflation. Certain sectors of the economy, and especially the property market sector, however do show a strong recovery. The Group has taken the opportunity to reduce its real estate portfolio and corresponding liability.

Liquidity and Capital Resources

As at 30 June 2004, the Group's total shareholders' funds amounted to approximately HK\$293.3 million compared with HK\$303.8 million as at 31 December 2003. The gearing ratio (calculated by aggregated interest-bearing borrowings divided by shareholders' funds at the balance sheet date) and current ratio of the Group was approximately 64% and approximately 0.16 times as at 30 June 2004, compared to approximately 61.7% and approximately 0.78 times respectively as at 31 December 2003.

As at 30 June 2004, the Group has bank loans and other borrowings of approximately HK\$128.9 million (31 December 2003: approximately HK\$123.4 million) and convertible notes, with an aggregate principal amount of approximately HK\$58.8 million (31 December 2003: approximately HK\$63.8 million).

As most of the Group's transactions and bank deposits were denominated in Hong Kong dollars, the Group's exposure to foreign exchange risk was minimal.

Pledge of Assets

As at 30 June 2004, certain assets of the Group with an aggregate net book value of approximately HK\$43.7 million (31 December 2003: approximately HK\$49.3 million) were pledged to banks and other financial institutions to secure credit facilities granted to the Group.

Contingent Liabilities

As at 30 June 2004, the Group did not have any material contingent liabilities other than as disclosed above.

Employees

As at 30 June 2004, the total number of employees of the Group was 23. The Group remunerates its employees based on their performance, working experience and prevailing market standards and reviews their remuneration annually. Staff benefits include a medical insurance coverage, provident fund and a share option scheme. As at 30 June 2004, there are no share options outstanding.

Prospects

The Hong Kong economy is showing a gradual improvement. Positive factors such as the expanded CEPA arrangement, the improving tourist figures as well as other released figures can be adversely affected by the historical high oil price, the sporadic terrorist attacks around the world and the continuing war on terrorism, the November US presidential election, and the workings of a newly elected Hong Kong Legislative Council. The Group takes a conservative approach in investing and continues to evaluate projects in Hong Kong, Macau, and China. The Group has identified and is currently evaluating certain projects of potential interests.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30 June 2004, the interests of the directors and chief executive of the Company in the share capital of the Company as recorded in the register maintained under section 352 of the Securities and Futures Ordinance (the "SFO") were as follows:

(i) Shares

Director	Number of ordinary shares held in the Company		Number of warrants held		Percentage of holding	
	Personal interest	Family interest	Personal interest	Family interest	Ordinary shares	Warrants
Chuang Yueheng, Henry	—	287,147,175 (Note)	—	—	25.27	—
Wong Ying Seung, Asiong	1,410,000	—	—	—	0.12	—

Note:

These shares were held by Radford Developments Limited, which is controlled by a trust with the son of Mr. Chuang Yueheng, Henry, the Chairman of the Company, currently named as the beneficiary.

Save as disclosed herein, as at 30 June 2004, none of the directors or chief executive of the Company had any interest or short position in any shares or underlying shares of the Company or its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register maintained under section 352 of the SFO.

(ii) Share Option Scheme

Pursuant to the Group Reorganisation, a share option scheme ("New Scheme") of the Company was approved on 20 November 2002 by the shareholders of the Company and became effective on 3 January 2003. The New Scheme is valid and effective for a period of ten years. The board of directors of the Company may grant options to eligible employees including directors of the Company and its subsidiaries and any other persons including consultants, advisors, agents, customers, suppliers, etc. to subscribe for shares in the Company.

No options have been granted during the period.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30 June 2004, the following shareholder had interests of 5% or more of the Company as recorded in the register maintained by the Company under section 336 of the SFO:

Name	Number of ordinary shares of HK\$0.10 each held in the Company	Number of warrants held	Principal amount of convertible notes held (HK\$)	Percentage of holding		Convertible notes
				Ordinary shares	Warrants	
Radford Developments Limited	287,147,175 (Note)	—	—	25.27	—	—
Golden Resources Development International Limited	100,000,000	—	—	8.80	—	—
Radford Capital Investment Limited	86,348,512	—	—	7.60	—	—

Note: These shares were held by Radford Developments Limited, which is controlled by a trust with the son of Mr. Chuang Yueheng, Henry, the Chairman of the Company, currently named as the beneficiary.

Save as disclosed herein, as at 30 June 2004, the Company was not notified of any interests in more than 5% of the issued share capital of the Company as recorded in the register maintained under section 336 of the SFO, and no person was interested in or had a short position in the shares or underlying shares which would fall to be disclosed to the Company under section 336 of the SFO.

CODE OF BEST PRACTICE

None of the directors is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the six months ended 30 June 2004 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, except that the independent non-executive directors of the Company are not appointed for any specific term of office but are subject to retirement by rotation in accordance with the Articles of Association of the Company.

AUDIT COMMITTEE

The Audit Committee comprises the three independent non-executive directors, Mr. Lam Ping Cheung, Mr. Ong Peter and Mr. Miu Frank H. The Audit Committee meets with the Group's senior management regularly to review the effectiveness of the internal control systems and the interim and annual reports of the Company. The Audit Committee has reviewed the Group's unaudited interim results for the six months ended 30 June 2004.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

There was no purchase, sale or redemption of the Company's listed securities by the Company or any of its subsidiaries during the six months ended 30 June 2004.

By Order of the Board

Chuang Yueheng, Henry

Chairman

Hong Kong, 17th September 2004