

NOTES TO THE CONDENSED FINANCIAL STATEMENTS**For the six months ended 30 June 2003****1. BASIS OF PREPARATION OF FINANCIAL STATEMENTS**

The condensed financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 of the Rules Governing The Listing of Securities on The Stock Exchange of Hong Kong Limited and Statement of Standard Accounting Practice ("SSAP") No. 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants ("HKSA").

2. PRINCIPAL ACCOUNTING POLICIES

The condensed financial statements have been prepared under the historical cost convention as modified for the revaluation of investment properties and investments in securities. The accounting policies adopted are consistent with those followed in the preparation of the Group's financial statements for the year ended 31 December 2002 except the Group has adopted SSAP12 (Revised) "Income Taxes" for the current period.

The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. In previous years, partial provision was made for deferred tax using the income statement liability method, i.e. a liability was recognised in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amounts of assets and liabilities in the condensed financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. The retrospective adoption of this new standard has not resulted in any significant effect on the financial statements in the prior periods, and accordingly, no prior period adjustment has been made.

3. TURNOVER AND SEGMENT INFORMATION

The Group's turnover and contribution to (loss) profit before taxation analysed by business segment are as follows:

Business Segments

	Investment holding HK\$'000	Property investment HK\$'000	Trading of handbags HK\$'000	Consolidated HK\$'000
For the six months ended 30 June 2003				
Segment revenue	<u>13,476</u>	<u>3,651</u>	<u>-</u>	<u>17,127</u>
Segment results	(40,041)	(25,535)	-	(65,576)
Unallocated corporate overheads				<u>(4,612)</u>
Loss from operations				(70,188)
Finance costs				<u>(6,686)</u>
Loss before taxation				<u>(76,874)</u>
For the six months ended 30 June 2002				
Segment revenue	<u>7,893</u>	<u>-</u>	<u>23,640</u>	<u>31,533</u>
Segment results	47,576	-	(3,513)	44,063
Unallocated corporate overheads				<u>(7,386)</u>
Profit from operations				36,677
Finance costs				<u>(8)</u>
Profit before taxation				<u>36,669</u>

The Group's operations are principally located in Hong Kong.

4. (LOSS) PROFIT FROM OPERATIONS

(Loss) profit from operations has been arrived at after charging depreciation of the Group's property, plant and equipment of HK\$80,000 (six months ended 30 June 2002: HK\$45,000).

5. FINANCE COSTS

	Six months ended	
	30.6.2003 <i>HK\$'000</i>	30.6.2002 <i>HK\$'000</i>
Interest on:		
Bank borrowings	2,323	–
Finance lease	4	8
Other loans wholly repayable within five years	4,359	–
	<u>6,686</u>	<u>8</u>

6. TAXATION

	Six months ended	
	30.6.2003 <i>HK\$'000</i>	30.6.2002 <i>HK\$'000</i>
The tax credit (charge) for the period comprises:		
Deferred tax		
Current period	6,548	–
Attributable to change in tax rate in Hong Kong	(810)	–
	<u>5,738</u>	<u>–</u>

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No provision for Hong Kong Profits Tax has been made as the companies comprising the Group do not have any assessable profit for both periods.

In the current period, the Hong Kong Profits Tax rate was increased from 16% to 17.5% with effect from the year of assessment 2003/04. The effect of this increase has been reflected in the calculation of deferred tax balance at 30 June 2003.

7. (LOSS) EARNINGS PER SHARE

The calculation of basic and diluted (loss) earnings per share is based on the following data:

	Six months ended	
	30.6.2003	30.6.2002
	HK\$'000	HK\$'000
Earnings		
(Loss) earnings for the purposes of basis and diluted (loss) earnings per share		
(Loss) profit for the period	<u>(71,136)</u>	<u>36,669</u>
	'000	'000
Number of shares		
Weighted average number of shares	<u>137,991</u>	<u>104,113</u>

The computation of diluted loss per share for the current period does not assume the exercise of the outstanding warrants since their exercises would not increase the loss per share.

As described in note 13, the weighted average number of shares for the prior period has been adjusted for the consolidation of the Company's shares in March 2003.

The computation of diluted earnings per share for the prior period did not assume the exercise of the Company's share options because the exercise prices of the Company's share options were higher than the average market prices of the Company's share.

8. INVESTMENT PROPERTIES

The Group's investment properties were revalued by the directors at 30 June 2003. The resulting revaluation deficit of HK\$28,000,000 has been charged to income statement.

9. INVESTMENTS IN SECURITIES

	Other investments	
	2003	2002
	HK\$'000	HK\$'000
Equity securities:		
Listed in Hong Kong, at market value	<u>61,921</u>	<u>113,065</u>

Included in the other investments at 30 June 2003 is an investment, with a carrying value of HK\$60,689,000 (31 December 2002: HK\$111,831,000), in 6.76% (31 December 2002: 8.9%) interest in China Gas, which is principally engaged in investing in natural gas/energy projects, property investment, financing and securities investment.

10. TRADE AND OTHER RECEIVABLES

Rentals receivable from tenants are payable on presentation of invoices.

The following is an aged analysis of trade and other receivables of the Group at the balance sheet date:

	30.6.2003 <i>HK\$'000</i>	31.12.2002 <i>HK\$'000</i>
0 – 60 days	4,199	176
61 – 90 days	79	67
Over 90 days	47	556
	<u>4,325</u>	<u>799</u>

11. TRADE AND OTHER PAYABLES

The following is an aged analysis of trade and other payables of the Group at the balance sheet date:

	30.6.2003 <i>HK\$'000</i>	31.12.2002 <i>HK\$'000</i>
0 – 60 days	1,971	1,180
61 – 90 days	996	222
Over 90 days	13,182	13,169
	<u>16,149</u>	<u>14,571</u>

12. BANK AND OTHER BORROWINGS

In the current period, the Group obtained new secured short-term borrowings of HK\$8,000,000 and repaid bank and other borrowings of HK\$9,658,000.

13. SHARE CAPITAL

	Number of shares <i>'000</i>	Nominal amount <i>HK\$'000</i>
Authorised		
Ordinary shares of HK\$0.10 each at 1 January 2003	20,000,000	2,000,000
Reduction of the nominal value of authorised share capital of HK\$0.10 each to HK\$0.0001 each	–	(1,998,000)
Consolidation of every 50 shares of HK\$0.0001 each to one share of HK\$0.005 each	(19,600,000)	–
Increase in authorised share capital of HK\$0.005 each	<u>421,578,000</u>	<u>2,107,890</u>
Ordinary shares of HK\$0.005 each at 30 June 2003	<u>421,978,000</u>	<u>2,109,890</u>
Preference shares of HK\$0.10 each at 1 January 2003	1,100,000	110,000
Reduction of the nominal value of authorised share capital of HK\$0.10 each to HK\$0.0001 each	–	(109,890)
Consolidation of every 50 shares of HK\$0.0001 each to one share of HK\$0.005 each	<u>(1,078,000)</u>	<u>–</u>
Preference shares of HK\$0.005 each at 30 June 2003	<u>22,000</u>	<u>110</u>
	Number of shares <i>'000</i>	Nominal amount <i>HK\$'000</i>
Issued and fully paid		
Ordinary shares of HK\$0.10 each at 1 January 2003	6,899,557	689,956
Reduction of the nominal value of issued shares of HK\$0.10 each to HK\$0.0001 each	–	(689,266)
Consolidation of every 50 shares of HK\$0.0001 each to one share of HK\$0.005 each	<u>(6,761,566)</u>	<u>–</u>
Ordinary shares of HK\$0.005 each at 30 June 2003	<u>137,991</u>	<u>690</u>
Pursuant to a special resolution passed at a special general meeting of the shareholders of the Company on 19 March 2003,		
(i)	The nominal value of each issued ordinary share of the Company is reduced from HK\$0.10 to HK\$0.0001 each by cancelling paid-up capital of HK\$0.0999 per share and the nominal value of the authorised share capital is reduced from HK\$0.10 to HK\$0.0001 each such that the authorised share capital is reduced from HK\$2,110,000,000 to HK\$2,110,000 (the "Capital Reduction").	
(ii)	Every 50 ordinary shares of HK\$0.0001 each are consolidated into one ordinary share of HK\$0.005 each (the "Share Consolidation").	

13. SHARE CAPITAL (Continued)

- (iii) The authorised share capital of the Company, after the Capital Reduction and Share Consolidation, is restored back to HK\$2,110,000,000 by the creation of additional 421,578,000 shares of HK\$0.005 each.
- (iv) The credit of HK\$689,266,000 arising from the Capital Reduction is transferred to the contributed surplus of the Company to eliminate the accumulated losses of the Company as at 31 December 2001.

Share option scheme

In the current period, no options to subscribe for ordinary shares were granted under the Company's share option scheme.

Warrants

The 500,000,000 warrants outstanding at 31 December 2002 with an exercise price of HK\$0.10 each were replaced by 10,000,000 warrants with an exercise price of HK\$5.00 each as a result of the Capital Reduction and Share Consolidation.

14. RESERVES

	Share premium <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2002	347,998	–	(726,609)	(378,611)
Issue of ordinary shares in exchange of shares in China Gas	–	(10,000)	–	(10,000)
Net profit for the period	–	–	36,669	36,669
	<hr/>	<hr/>	<hr/>	<hr/>
At 30 June 2002	347,998	(10,000)	(689,940)	(351,942)
Issue of preference shares and ordinary shares for the acquisition of China Faith Limited	13,344	(28,000)	–	(14,656)
Transfer	(38,000)	38,000	–	–
Net loss for the period	–	–	(120,018)	(120,018)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2002	323,342	–	(809,958)	(486,616)
Arising from the Capital Reduction	–	–	689,266	689,266
Net loss for the period	–	–	(71,136)	(71,136)
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At 30 June 2003	<u>323,342</u>	<u>–</u>	<u>(191,828)</u>	<u>131,514</u>

15. PLEDGED ASSETS

- (a) All the Group's investment properties and the issued shares of China Faith Limited, a subsidiary of the Company, are pledged and the rental income in respect of the investment properties under operating leases are assigned to a bank against a bank loan granted to the Group at 30 June 2003 and 31 December 2002.
- (b) Other investments of HK\$45,889,000 (31 December 2002: HK\$80,631,000) are pledged against margin facilities granted to the Group. Further, upon execution of the share mortgage, other investments with a carrying value of HK\$14,800,000 (31 December 2002: HK\$20,800,000) and pledged against a borrowing of HK\$4,400,000 (31 December 2002: HK\$5,000,000) are registered in the name of the lender. Upon settlement of the borrowing, the pledged investments will be released and reassigned to the Group.

16. POST BALANCE SHEET EVENTS

On 4 September 2003, the Company entered into a conditional subscription agreement with an independent party who has agreed to subscribe for 27,598,000 new shares of the Company in cash for a price of HK\$0.221 per share. Net proceeds of about HK\$6,090,000 will be used to repay the borrowings of the Group.