

## NOTES TO THE CONDENSED INTERIM ACCOUNTS

**1. BASIS OF PREPARATION AND ACCOUNTING POLICIES**

These unaudited condensed consolidated interim accounts are prepared in accordance with the requirements of Appendix 16 of the Listing Rules of The Stock Exchange of Hong Kong Limited, and Hong Kong Statement of Standard Accounting Practice ("SSAP") No. 25, "Interim Financial Reporting", issued by the Hong Kong Society of Accountants ("HKSA").

These condensed accounts should be read in conjunction with the 2001 annual financial statements.

The accounting policies and methods of computation used in the preparation of these condensed accounts are consistent with those used in the audited accounts for the year ended 31st December 2001 ("Last Audited Accounts"), except that the Group has changed certain of its accounting policies following its adoption of the following SSAPs issued by the HKSA which are effective for accounting periods commencing on or after 1st January, 2002:

SSAP 1 (revised): Presentation of financial statements

SSAP 15 (revised): Cash flow statements

SSAP 25 (revised): Interim financial reporting

SSAP 34: Employee benefits

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

**SSAP 34: Employee benefits****(1) Employee leave entitlements**

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long-service leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity or paternity leave are not recognised until the time of leave.

In prior periods, no provision was made for employee annual and long service leave entitlements. No prior period adjustment on provision for employee annual and long service leave entitlements has been made following the adoption of SSAP 34 as the amount is not material.

**(2) Pension obligations**

The Group contributes to a mandatory provident fund which is available to all employees. Contributions to the fund by the Group and its employees are calculated as a percentage of the employees' basic salaries. The cost charged to the profit and loss account represents contributions payable by the Group to the fund.

The Group's contributions to the fund are expensed as incurred and the assets of the fund are held separately from those of the Group in an independently administered fund.

(3) Equity compensation benefits

Share options are granted to directors and to employees with more than six months of service. If the options are granted at the market price of the shares on the date of the grant and are exercisable at that price, no compensation cost is recognised. If the options are granted at a discount on the market price, a compensation cost is recognised in the profit and loss account based on that discount. When the options are exercised, the proceeds received net of any transaction costs are credited to share capital (nominal value) and share premium.

## 2. REVENUES AND TURNOVER

The Group principally invests in securities listed on The Stock Exchange of Hong Kong Limited and unlisted securities, including equity securities, convertible bonds, issued by corporate entities. Total revenues recognised during the period are as follows:

	<b>Six months ended 30th June</b>	
	<b>2002 (Unaudited) HK\$</b>	2001 (Unaudited) HK\$
Turnover		
Interest income from		
– bank deposits	<b>55,079</b>	424,245
– investment securities	<b>120,812</b>	2,247,640
– others	<b>4,296</b>	–
Dividend income from		
– listed investments	<b>197,313</b>	142,267
– unlisted investments	<b>625,000</b>	3,343,300
	<b>1,002,500</b>	6,157,452
Other revenues		
Realised loss on sale of		
– other investments	<b>(3,384,717)</b>	(297,136)
– investment securities	<b>(313,451)</b>	–
Other income	–	27,000
	<b>(3,698,168)</b>	(270,136)
Total revenues	<b>(2,695,668)</b>	5,887,316

No geographical analysis is provided as all operations are conducted in Hong Kong.

**3. OPERATING (LOSS)/PROFIT**

Operating (loss)/profit is stated after charging the following:

	<b>Six months ended 30th June</b>	
	<b>2002</b> <b>(Unaudited)</b> <b>HK\$</b>	2001 (Unaudited) HK\$
Management fees (Note 16)	<b>1,262,568</b>	1,222,370
Mandatory provident fund contributions	<b>47,960</b>	61,436
Operating lease in respect of land and buildings	<b>116,640</b>	116,640
Provision for bad and doubtful debts	<b>650,000</b>	–

**4. FINANCE COSTS**

Amount represents interest on convertible bonds issued by the Group which will either be wholly repayable or converted into shares of a subsidiary.

**5. TAXATION CHARGE**

Hong Kong profits tax has not been provided as the Group does not have estimated assessable profit for the period. The amount of taxation charged to the consolidated profit and loss account in the previous period represents:

	<b>Six months ended 30th June</b>	
	<b>2002</b> <b>(Unaudited)</b> <b>HK\$</b>	2001 (Unaudited) HK\$
Hong Kong profits tax at 16% (2001: 16%)	–	68,000

**6. (LOSS)/EARNINGS PER SHARE**

The calculation of basic (loss)/earnings per share is based on the Group's loss attributable to shareholders of HK\$13,125,952 (2001: profit of HK\$9,945,621) and on the weighted average of 973,226,340 (2001: 973,226,010) ordinary shares in issue during the period. The diluted (loss)/earnings per share for 2002 and 2001 are also based on weighted average of 973,226,340 (2001: 973,226,010) ordinary shares in issue which has not been adjusted to account for the effect of deemed issue of ordinary shares if all outstanding warrants and options had been exercised as the effects arising from such issue would be anti-dilutive.

**7. INVESTMENTS IN ASSOCIATED COMPANIES**

	<b>30th June 2002 (Unaudited) HK\$</b>	31st December 2001 (Audited) HK\$
Share of net assets other than goodwill	<b>4,315,611</b>	400,753
Goodwill on acquisition of an associated company	<b>764,824</b>	885,586
	<b>5,080,435</b>	1,286,339
Loans to associated companies	<b>2,214,643</b>	420,000
	<b>7,295,078</b>	1,706,339

## 8. INVESTMENT SECURITIES

	<b>30th June 2002 (Unaudited) HK\$</b>	31st December 2001 (Audited) HK\$
Investment securities, at cost:		
Convertible bonds, unlisted	<b>4,700,000</b>	6,800,000
Equity securities, unlisted	<b>75,314,988</b>	75,468,388
Loan to investee companies, unlisted	<b>75,175,881</b>	46,759,330
	<b>155,190,869</b>	129,027,718
Less: Provision for impairment losses on investment securities	<b>(18,685,340)</b>	(17,368,250)
	<b>136,505,529</b>	111,659,468
Equity securities, listed in Hong Kong	<b>7,306,919</b>	9,963,981
Less: Provision	<b>(4,253,333)</b>	(5,800,000)
	<b>3,053,586</b>	4,163,981
	<b>139,559,115</b>	115,823,449
Market value of listed equity securities	<b>1,980,000</b>	3,600,000

**9. ACCOUNTS RECEIVABLE AND PREPAYMENTS**

	<b>30th June 2002 (Unaudited) HK\$</b>	31st December 2001 (Audited) HK\$
Accounts receivable	<b>1,166,635</b>	5,244,393
Prepayments, deposits and other receivables	<b>541,657</b>	474,257
	<b>1,708,292</b>	5,718,650

Ageing analysis for accounts receivable is as follows:

	<b>30th June 2002 (Unaudited) HK\$</b>	31st December 2001 (Unaudited) HK\$
Within 30 days	<b>582,330</b>	4,919,086
30-60 days	<b>84,305</b>	-
Over 60 days	<b>500,000</b>	325,307
	<b>1,166,635</b>	5,244,393

**10. OTHER INVESTMENTS**

	<b>30th June 2002 (Unaudited) HK\$</b>	31st December 2001 (Audited) HK\$
Equity securities, at fair value		
– Listed in Hong Kong	<b>29,014,175</b>	49,384,161
– Listed outside Hong Kong	<b>4,543,500</b>	4,056,150
	<b>33,557,675</b>	53,440,311
Market value of listed securities	<b>33,557,675</b>	53,440,311

**11. CREDITORS AND ACCRUALS**

Included in creditors and accruals are payables with the following ageing analysis:

	<b>30th June 2002 (Unaudited) HK\$</b>	31st December 2001 (Unaudited) HK\$
Within 30 days	<b>241,344</b>	49,900
30 - 60 days	-	-
Over 60 days	<b>400,000</b>	-
	<b>641,344</b>	49,900
Accrued expenses and other payables	<b>374,437</b>	2,229,899
	<b>1,015,781</b>	2,279,799

**12 SHARE CAPITAL**

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	<b>Authorised ordinary shares of HK\$0.01 each</b>	
	<i>No. of shares</i>	<i>HK\$</i>
At 1st January, 2002 and 30th June, 2002	<u>10,000,000,000</u>	<u>100,000,000</u>
	<b>Issued and fully paid ordinary shares of HK\$0.01 each</b>	
	<i>No. of shares</i>	<i>HK\$</i>
At 1st January, 2002	973,226,010	9,732,259
Exercise of 2002 warrants ( <i>Note (a)</i> )	<u>1,568</u>	<u>16</u>
At 30th June, 2002	<u>973,227,578</u>	<u>9,732,275</u>

*Notes***(a) Warrants**

Prior to the expiration of the 2002 warrants on 31st May, 2002, 1,568 of 2002 warrants were exercised and 1,568 ordinary shares were issued at a cash consideration of HK\$0.39 per ordinary share. These new shares rank pari passu with the existing shares of the Company.

At the extraordinary general meeting of the Company held on 18th June, 2002, the shareholders of the Company had approved the bonus issue made on the basis of one 2004 warrant for every five existing Shares held by the shareholders whose names appear on the register of members of the Company on 18th June, 2002. The 2004 warrants entitle the holders to subscribe HK\$15,571,641 in cash at any time until 30th June, 2004 for ordinary shares of the Company at a price of HK\$0.08 per shares. If the 2004 warrants are fully exercised, the Company will be required to issue a further 194,645,515 shares. During the period, no 2004 warrants have been exercised and 15,571,641 warrants were outstanding at period end.

**(b) Share Options**

At an annual general meeting of the Company held on 22nd May, 2000, the Share Option Scheme was approved by the shareholders. During the period, no options were granted nor exercised. As at 30th June, 2002, the Company had outstanding options for holders to subscribe for 36,000,000 and 37,000,000 ordinary shares of the Company at a price of HK\$0.24 and HK\$0.22 per share respectively. These options are exercisable at any time prior to 31st July, 2003.

**13. RESERVES**

	<b>Group</b>	
	<b>30th June 2002 (Unaudited) HK\$</b>	31st December 2001 (Audited) HK\$
Share premium		
At 1st January	<b>138,407,561</b>	138,407,561
Exercise of 2002 warrants	<b>596</b>	-
	<b>138,408,157</b>	138,407,561
At 30th June, 2002/31st December, 2001		
Retained earnings		
At 1st January	<b>25,458,795</b>	11,920,911
(Loss)/profit for the period/year	<b>(13,125,952)</b>	13,537,884
	<b>12,332,843</b>	25,458,795
At 30th June, 2002/31st December, 2001		
	<b>150,741,000</b>	163,866,356

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**14. CONVERTIBLE BONDS**

	<b>Group</b>	
	<b>30th June 2002 (Unaudited) HK\$</b>	31st December 2001 (Audited) HK\$
Convertible bonds		
Unsecured and wholly repayable within five years	<b>49,900,000</b>	49,900,000

The convertible bonds mature in the December, 2002, however, as at 30th June, 2002, all of the bond holders have agreed in principle to extend the maturity date of the convertible bonds to 8th December, 2003.

**15. ACQUISITION**

- (a) On 23rd May, 2002, one of the Group's subsidiary indirectly acquired 22% of share capital of Teddy Bear Kingdom Holdings Limited which is incorporated in British Virgin Islands ("BVI"). The committed investment amounts to HK\$11 million of which HK\$5.9 million was already paid in cash. The Group has participated in the management of the company and therefore it was classified as an investment in an associated company. The fair value of the associated company will amount to HK\$50 million when the participating amount is fully paid up by all of its shareholders.

The committed investment in the associated company is as follows:

	<i>HK\$</i>
Equity	4,400,000
Shareholders' loan	6,600,000
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Total consideration	11,000,000
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- (b) On 19th June, 2002, the Group indirectly acquired 100% of share capital of Goal Vision Limited, a BVI company, for holding the investment in a money lending company in Hong Kong. This company has issued share capital of US\$1.00 which was fully paid up by the Group.

**16. RELATED PARTY TRANSACTIONS**

Significant related party transactions, which were carried out in the normal course of the Group's business, are as follows:

	<b>Six months ended 30th June</b>	
	<b>2002</b> <b>(Unaudited)</b> <b>HK\$</b>	2001 (Unaudited) <i>HK\$</i>
Management fees		
– Harmony Asset Management Limited ( <i>Note (a)</i> )	<b>1,262,568</b>	1,222,370
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- (a) The nature and basis of the management fees are consistent with those disclosed in the last audited accounts.

In addition to the above, the Group disposed all shares (2001: 9,975,000 shares) of Haywood Investments Limited, a company listed on The Stock Exchange of Hong Kong Limited, of which Dr. Chow Pok Yu, Augustine was a director before 1st June, 2002.

**17. COMMITMENTS**

At 30th June, 2002, the Group had total future aggregate minimum lease payments under non-cancellable operating leases as follows:

**(a) Commitments under operating lease**

	<b>30th June 2002 (Unaudited) HK\$</b>	30th June 2001 (Restated) HK\$
Land and buildings		
Within one year	<b>235,200</b>	233,280
In the second to fifth years inclusive	<b>235,200</b>	–
	<b>470,400</b>	233,280

**(b) Commitments under subscription agreements for investment securities**

At 30th June, 2002, the Group had outstanding commitments amounting to HK\$1,000,000 (31st December, 2001: HK\$1,900,000) to subscribe for convertible bonds for investment purposes. The Group also had outstanding commitment amounting to HK\$5,105,357 to extend loan to an associated company (31st December, 2001: Nil).