

## **NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS**

### **1. Basis of preparation and accounting policies**

The unaudited condensed consolidated interim 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 (the “Listing Rules”) and with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

The unaudited condensed interim financial statements as of 30 June 2006 and for the six months period then ended comprise the consolidated balance sheet, consolidated income statement, consolidated cash flow statement and consolidated statement of changes in equity together with the notes thereto, all of which are in condensed format.

These condensed interim financial statements should be read in conjunction with the Group annual financial statements for the year ended 31 December 2005 (“2005 annual financial statements”). The accounting policies and basis of preparation used in the preparation of the condensed interim financial statements are consistent with those used in the 2005 annual financial statements, except that the Group has adopted, for the first time, a number of new or amended Hong Kong Financial Reporting Standards (“HKFRSs”), HKAS and Interpretations (hereinafter collectively referred to as “new HKFRSs”) issued by the HKICPA which are either effective for accounting periods beginning on or after 1 December 2005 or 1 January 2006. The application of these new HKFRSs has had no material effect on how the results for the current and prior accounting periods are prepared and presented. Accordingly, no prior period adjustment has been required.

HKAS 19 (Amendment)	Actuarial gains and losses, group loans and disclosures
HKAS 21 (Amendment)	Net investment in a foreign operation
HKAS 39 (Amendment)	Cash flow hedge accounting of forecast intragroup transactions
HKAS 39 (Amendment)	The fair value option
HKAS 39 & HKFRS 4 (Amendments)	Financial guarantee contracts
HKFRS 6	Exploration for and evaluation of mineral resources
HK(IFRIC) – Int 4	Determining whether an arrangement contains a lease
HK(IFRIC) – Int 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds
HK(IFRIC) – Int 6	Liabilities arising from participating in a specific market-waste electrical and electronic equipment

## 1. Basis of preparation and accounting policies (continued)

The Group has not early applied the following new HKFRSs that have been issued but are not yet effective for the period ended 30 June 2006. The directors of the Company anticipate the application of these new HKFRSs will have no material impact on the financial statements of the Group.

HKAS 1 (Amendment)	Capital Disclosures <sup>1</sup>
HKFRS 7	Financial Instruments: Disclosures <sup>1</sup>
HK(IFRIC) – INT 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies <sup>2</sup>
HK(IFRIC) – INT 8	Scope of HKFRS 2 <sup>3</sup>
HK(IFRIC) – INT 9	Reassessment of Embedded Derivatives <sup>4</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2007.

<sup>2</sup> Effective for annual periods beginning on or after 1 March 2006.

<sup>3</sup> Effective for annual periods beginning on or after 1 May 2006.

<sup>4</sup> Effective for annual periods beginning on or after 1 June 2006.

**2. Turnover and other revenue**

The amount of each significant category of revenue recognised in turnover during the period is as follows:

	<b>Six months ended</b>	
	<b>30/6/2006 (unaudited) HK\$'000</b>	30/6/2005 (unaudited) HK\$'000
Turnover		
Proceeds on disposal of properties	–	8,380
Rental income	<b>457</b>	77
Manufacture, retail and distribution of consumer products	<b>9,570</b>	1,452
Media management services	<b>8,000</b>	–
	<b>18,027</b>	9,909
Other revenue		
Interest income	<b>65</b>	3
Other income	–	84
	<b>65</b>	87
	<b>18,092</b>	9,996

**3. Segment information**

During the period, the Group had re-aligned its business activities and the new classification of business segments was as follows:

- Property investment – property holding, investment and re-development
- PRC retail and distribution – manufacture, retail and distribution of consumer products as well as the provision of media management services in the PRC

There are no sales nor other transactions between the business segments and between the geographical segments for both periods ended 30 June 2006 and 30 June 2005.

**3. Segment information (continued)**

Information about these business segments and geographical analysis of the turnover is as follows.

**Six months ended 30 June 2006**

	<b>Unaudited</b>		
	<b>Property investment 2006 HK\$'000</b>	<b>PRC retail and distribution 2006 HK\$'000</b>	<b>Group 2006 HK\$'000</b>
Geographical analysis of the turnover:			
Hong Kong	457	–	457
The PRC	–	17,570	17,570
Turnover	<u>457</u>	<u>17,570</u>	<u>18,027</u>
Segment results	<u>52</u>	<u>10,543</u>	10,595
Unallocated revenue			65
Gain on disposal of a subsidiary			6,200
Unallocated expenses			<u>(4,079)</u>
Operating profit			12,781
Finance costs			<u>(396)</u>
Profit before taxation			12,385
Taxation			<u>(2,385)</u>
Profit for the period			10,000
Minority interests			<u>20</u>
Profit attributable to equity holders of the Company			<u>10,020</u>

**3. Segment information (continued)**

Six months ended 30 June 2005

	Unaudited		
	Property investment HK\$'000	PRC retail and distribution HK\$'000	Group HK\$'000
Geographical analysis of the turnover:			
Hong Kong	8,457	–	8,457
The PRC	–	1,452	1,452
Turnover	<u>8,457</u>	<u>1,452</u>	<u>9,909</u>
Segment results	<u>(322)</u>	<u>(1,416)</u>	(1,738)
Unallocated revenue			58
Unallocated expenses			<u>(6,624)</u>
Operating loss			(8,304)
Finance costs			<u>(38)</u>
Loss before taxation			(8,342)
Taxation			<u>–</u>
Loss for the period			(8,342)
Minority interests			<u>398</u>
Loss attributable to equity holders of the Company			<u>(7,944)</u>

**4. Fixed assets**

During the period, the Group spent HK\$364,000 (six months ended 30 June 2005: HK\$6,600) on additions to fixed assets.

## 5. Properties under development

During the period, the Group incurred HK\$738,000 (six months ended 30 June 2005: HK\$937,000) on additions to the properties under development project before its disposal.

## 6. Trade and other receivables

	<b>30/6/2006</b> <b>(unaudited)</b> <b>HK\$'000</b>	31/12/2005 (audited) HK\$'000
Trade receivables ( <i>Note</i> )	<b>17,282</b>	11,324
Less: Provision for doubtful debt	<b>(76)</b>	—
Net trade receivables	<b>17,206</b>	11,324
Other receivables	<b>21,768</b>	20,367
Less: Provision for other receivables	<b>(17,852)</b>	(17,641)
	<b>3,916</b>	2,726
Deposits, prepayments and trade advance	<b>2,365</b>	4,239
	<b>23,487</b>	18,289

*Note:*

The Group's turnover included rental income and invoiced amounts of products sold or services rendered. Rental income is paid in accordance with the terms of the agreement and is normally due on the first day of the month. The payment terms of the sales of consumer products in the PRC retail and distribution segment is normally from 30 to 90 days while the payment terms of services provided are normally at 180 days.

At 30 June 2006, the ageing analysis of the trade receivables was as follows:

	<b>30/6/2006</b> <b>(unaudited)</b> <b>HK\$'000</b>	31/12/2005 (audited) HK\$'000
0 — 60 days	<b>13,242</b>	8,915
61 — 90 days	—	75
> 90 days	<b>4,040</b>	2,334
	<b>17,282</b>	11,324

**7. Share capital**

	<b>Number of shares</b>	HK\$'000
	'000	
Authorised:		
Ordinary shares of HK\$0.10 (2005: HK\$0.10 each)		
As at 1 January and 30 June 2005, and		
1 January and 30 June 2006	<u>16,000,000</u>	<u>1,600,000</u>
Issued and fully paid:		
Ordinary shares of HK\$0.10 (2005: HK\$0.10 each)		
As at 1 January and 30 June 2005, and		
1 January 2006	3,722,792	372,279
Issuance of shares (Note)	<u>508,250</u>	<u>50,825</u>
As at 30 June 2006	<u>4,231,042</u>	<u>423,104</u>

Note:

Details of the issuance of shares during the period are as follows:

On 26 April 2006, the Company allotted a total of 438,250,000 ordinary shares to certain private and professional institutional investors at HK\$0.118 per share. The net proceeds of approximately HK\$50 million is used as general working capital of the Group.

On 10 May 2006 and 16 May 2006 respectively, the Company allotted 35,000,000 ordinary shares to each of the two option holders upon exercise of their share options at an exercise price of HK\$0.113 each. The proceeds were used for general working capital purpose.

**8. Trade and other payables**

	<b>30/6/2006</b> <b>(unaudited)</b> <b>HK\$'000</b>	31/12/2005 (audited) HK\$'000
Trade payables (Note)	<b>3,679</b>	6,491
Other payables and accruals	<b>10,573</b>	32,368
Rental or trade deposits received	<b>383</b>	189
Due to directors	<b>-</b>	1,574
	<b>14,635</b>	40,622

Note:

At 30 June 2006, the ageing analysis of the trade payables was as follows:

	<b>30/6/2006</b> <b>(unaudited)</b> <b>HK\$'000</b>	31/12/2005 (audited) HK\$'000
0 — 60 days	<b>514</b>	871
61 — 90 days	<b>-</b>	36
> 90 days	<b>3,165</b>	5,584
	<b>3,679</b>	6,491



**9. Profit/(Loss) before tax**

Profit/(Loss) before tax was determined after (crediting)/charging the following:

	<b>Six months ended</b>	
	<b>30/6/2006</b> <b>(unaudited)</b> <b>HK\$'000</b>	30/6/2005 (unaudited) HK\$'000
<b>Crediting</b>		
Gross rental income	(457)	(77)
Less: Direct operating expenses that generated rental income	303 (154)	378 301
<b>Charging</b>		
Bad debt written off	2	–
Cost of inventory	3,766	–
Depreciation	391	34
Employee benefit expenses (including directors' emoluments)	3,091	5,287
Loss on disposal of fixed assets	28	–
Written-off of fixed assets	130	–
Operating lease on land and buildings	483	215

**10. Taxation**

Taxation in the condensed consolidated income statement represents:

	<b>Six months ended</b>	
	<b>30/6/2006</b> <b>(unaudited)</b> <b>HK\$'000</b>	30/6/2005 (audited) HK\$'000
<b>Current income tax</b>		
– PRC taxation	2,385	–

**10. Taxation (continued)**

No provision for Hong Kong profits tax is required for both periods ended 30 June 2006 and 30 June 2005 since each individual Hong Kong company sustained losses for taxation purposes in each respective period.

Taxes on profits assessable in the PRC have been provided at the applicable rates of tax in the PRC in which the subsidiaries operate, based on existing legislation, interpretations and practices in respect thereof.

A subsidiary operating in the PRC is currently subject to enterprise income tax calculated at the rate determined by the local tax authority at 0.6% on the invoiced amount of the sales and 5.6% on the service income. Such locally determined tax rate may in certain area inconsistent with the national tax law and may subject to a subsequent review when new interpretation of tax law or guidance note is being released or executed. On prudent measure, the taxable profit of such subsidiary upon consolidation is provided at the standard enterprise income tax rate of 33% in accordance with Provisional Regulations of the People's Republic of China on Enterprise Income Tax (中華人民共和國企業所得稅暫行條例). The provision of tax as at 30 June 2006 in the amount of HK\$7,332,000 would be reassessed at each balance sheet date and would be written back if consider excessive in future.

No provision for deferred taxation has been made for both periods ended 30 June 2006 and 30 June 2005 as the effect of all temporary difference is not material.

**11. Earnings/(Loss) per share**

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

	<b>Six months ended</b>	
	<b>30/6/2006</b>	30/6/2005
	<b>(unaudited)</b>	(unaudited)
	<b>HK\$'000</b>	HK\$'000
Earnings/(Loss) for the purpose of basic and diluted earnings per share	<b>10,020</b>	(7,944)

**11. Earnings/(Loss) per share (continued)**

	<b>30/6/2006</b>	30/6/2005
	<b>Number of ordinary shares '000</b>	Number of ordinary shares '000
Weighted average number of ordinary shares for the purposes of basic earnings/(loss) per share	<b>3,901,546</b>	3,722,792
Effect of dilutive potential ordinary shares:		
Share options	<b>12,740</b>	11,528
Consideration shares issuable for the acquisition of Top Pro Limited	<b>74,260</b>	–
Weighted average number of ordinary shares for the purposes of diluted earnings/(loss) per share	<b>3,988,546</b>	3,734,320

Diluted loss per share has not been presented for the six months period ended 30 June 2005 as the dilutive potential ordinary shares has an anti-dilutive effect.

**12. Dividends**

The Directors have resolved not to declare any interim dividend in respect of the six months ended 30 June 2006 (six months ended 30 June 2005: HK\$Nil).

**13. Pending litigations**

At 30 June 2006, the pending litigations of the Group are as follows:

- (a) On 11 November 2004, an independent third party issued a writ of summons against the Company claiming a sum of HK\$2,483,000 together with interest and costs.
- (b) A subsidiary of the Group was involved in a District Court action as well as a High Court action in respect of certain allegedly outstanding management fees due to the plaintiffs in the amount of HK\$219,000 and HK\$1,821,000 respectively. The parties in both cases are currently attending to interlocutory matters and no hearing date has yet been fixed. The Group has fully accrued for the said outstanding fees as at 30 June 2006.

The Group is on one hand dealing with the pre-trial procedural matters on the litigations mentioned above and at the same time in active negotiation with the relevant parties for out of court settlement in order to resolve the pending litigations diligently. The directors believe that appropriate provisions have been made in the financial statements and consider that these would not have any material adverse impact on the Group.

**13. Pending litigations (continued)**

As previously announced, the Group is pursuing a legal proceeding against the vendor, a director of the vendor and two ex-directors of the Company in connection with the acquisition of a PRC hotel at a consideration of HK\$120 million undertaken by the Group in September 2000. The Group is claiming for the costs and expenses associated with the acquisition and as at the reporting date, the parties of the case are still attending to interlocutory matters and no hearing date has yet been fixed.

**14. Commitments under operating leases**

At the reporting dates, the future aggregate minimum lease payments under non-cancellable operating leases of the Group are as follows:

	<b>30/6/2006</b> <b>(unaudited)</b> <b>HK\$'000</b>	31/12/2005 (audited) HK\$'000
Operating leases payable for the office premises		
Within one year	<b>788</b>	324
In the second to fifth years inclusive	<b>513</b>	–
	<b>1,301</b>	324

**15. Operating lease arrangements**

At the reporting dates, the future aggregate minimum lease receipt by the Group under non-cancelable operating lease is as follows:

	<b>30/6/2006</b> <b>(unaudited)</b> <b>HK\$'000</b>	31/12/2005 (audited) HK\$'000
Within one year	<b>880</b>	–
In the second to fifth years inclusive	<b>2,186</b>	–
	<b>3,066</b>	–

**16. Related party transactions**

- (a) In the normal course of business, the Group has in May 2006 entered into a management agreement with a related company owned as to 60% by Mr. Ni Xinguang, a director and controlling shareholder of the Company, and 40% by Mr. Wang Zhiming, an ex-director and controlling shareholder of the Company (“Mr. Wang”), for taking over the operation and management control of a manufacturing plant in PRC of that related company from June onwards for two years. The Group will be responsible for the day-to-day operation of the manufacturing plant and in return has committed to pay a sub-contracting fee of HK\$500,000 per annum. The Group has utilised such manufacturing plant for the production of health products in supplying to the PRC retail and distribution segment and has recognised a sub-contracting fee of HK\$42,000 during the period.
- (b) At 30 June 2006, included in trade receivables of the financial statements is an amount due from a related company (in which Mr. Wang has 90% shareholding) of HK\$175,000 (six months ended 30 June 2005: HK\$Nil). The amount due from such related company is unsecured and under normal trading terms.

**17. Events after balance sheet date**

As described in more details in the announcement dated 7 September 2006, the Group has on 31 August 2006 executed a series of structured contracts with Shanghai Seven Star International Shopping Co., Ltd. (“Seven Star (Shanghai)”), a company incorporated in PRC and engaged in, amongst others, the business of television shopping. The effect of the structured contracts is to provide Seven Star (Shanghai) with an initial non-interest bearing working capital loan of RMB5.6 million to develop its television shopping business and to ensure that all future economic benefits derived by Seven star (Shanghai) from its business will flow to the Group by way of service fee income.

On the same date, the Group also entered into a trademark licensing agreement with a company controlled by the controlling shareholders whereby the Group will be granted with the right to use or to sub-license to use the trademark of “七星購物” at nil consideration for three years commencing from 1 September onwards plus another two years upon request. The Group further sub-licensed Seven Star (Shanghai) to use the trademark for its television shopping business.

**18. Comparative figures**

Certain comparative figures have been reclassified as a result of changes in accounting policies and to conform with the current period’s presentation.