

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2006

1. Principal accounting policies

The unaudited condensed interim financial statements (“interim financial statements”) have been prepared in accordance with the requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and in compliance with the Hong Kong Accounting Standard No. 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants.

These interim financial statements should be read, where relevant, in conjunction with the 2005 annual financial statements of the Group.

The accounting policies and methods of computation used in the preparation of the interim financial statements are consistent with those used in the annual financial statements for the year ended 31 December 2005.

2. Turnover and segmental information

An analysis of the Group’s consolidated turnover and contribution to profit/(loss) from operations by principal activity and geographical location for the six months ended 30 June 2006 and 2005 is as follows:

	Turnover		Contribution to profit/ (loss) from operations	
	Six months ended 30 June		Six months ended 30 June	
	2006	2005	2006	2005
	Unaudited	Unaudited	Unaudited	Unaudited
	HK\$’000	HK\$’000	HK\$’000	HK\$’000
By principal activity:				
Trading and manufacturing	616,017	681,737	(37,582)	(29,340)
Property investment and development	7,734	5,890	7,284	44,938
Travel business	917,963	766,087	11,308	5,162
Information technology	39,985	30,588	(4,364)	(3,750)
Agriculture	883	562	(2,372)	(4,355)
Investment holding	–	–	205,322	8,909
	<u>1,582,582</u>	<u>1,484,864</u>	<u>179,596</u>	<u>21,564</u>
By geographical location*:				
The People’s Republic of China (the “PRC”) including Hong Kong and Macau	1,029,454	879,428	223,521	62,775
United States of America	337,724	383,814	(17,279)	(17,416)
Europe	148,165	147,821	(17,799)	(16,410)
Japan	7,402	6,780	(2,408)	(805)
Others	59,837	67,021	(6,439)	(6,580)
	<u>1,582,582</u>	<u>1,484,864</u>	<u>179,596</u>	<u>21,564</u>

* Turnover by geographical location is determined on the basis of the location where merchandise is delivered and/or service is rendered.

3. Depreciation

Profit from operations for the period is arrived at after charging depreciation of approximately HK\$22,881,000 (six months ended 30 June 2005: HK\$19,479,000) in respect of the Group's property, plant and equipment.

4. Income tax expense

Hong Kong profits tax was provided at the rate of 17.5% (six months ended 30 June 2005: 17.5%) on the estimated assessable profit arising in or derived from Hong Kong. Taxes on profits assessable elsewhere have been calculated on the estimated assessable profit at rates of taxation prevailing in the countries in which the Group operates.

5. Interim dividend

The Board resolved not to declare the payment of an interim dividend for the six months ended 30 June 2006 (six months ended 30 June 2005: Nil).

6. Basic earnings per share attributable to ordinary equity holders of the Company

The calculation of basic earnings per share is based on the profit attributable to equity holders of the Company of approximately HK\$181,502,000 (six months ended 30 June 2005: HK\$44,390,000) and on 530,335,000 shares (six months ended 30 June 2005: 530,335,000 shares) in issue during the period.

Diluted earnings per share is not shown as no diluting event existed for both periods.

7. Interests in associates

The amounts included advances to an associate indirectly held by the Company and details are as follows:

Name of associate	Proportion of issued capital held indirectly by the Company	Advances from the Group as at 30 June 2006 HK\$'000	Guarantee given by the Group HK\$'000
Firm Wise Investment Limited ("FWIL") (note)	30%	213,880	210,000

Note: The advances and guarantee given were used to finance a property development project in Hong Kong. The advances are unsecured, interest bearing at 0.5% per annum, repayable on demand and subordinated to the bank loans of the associate. The guarantee given is to be matured in November 2010 of which approximately HK\$207,450,000 was utilized as at 30 June 2006.

The following details have been extracted from the unaudited financial statements of the Group's significant associate, FWIL:

	As at 30 June 2006 HK\$'000
Assets	<u>1,562,863</u>
Liabilities	<u>(1,485,258)</u>

8. Trade and other receivables

Trade receivables of approximately HK\$372,361,000 (31 December 2005: HK\$245,112,000), substantially with an aging within 6 months, are stated net of provision for impairment.

A provision is made when there is objective evidence that the Group will not be able to collect the amounts due according to the original terms of the receivables.

Other receivables include the attributable net assets to be injected into a property project.

9. Bank balances and cash

Approximately HK\$10,380,000 (31 December 2005: HK\$15,230,000) of bank deposits were pledged for the banking facilities granted to the Group.

10. Trade and other payables

Trade payables of approximately HK\$356,689,000 (31 December 2005: HK\$386,797,000) are substantially with an aging within 6 months.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group recorded turnover of HK\$1.58 billion and profit attributable to the equity holders of the Company of HK\$181.5 million for the six months ended 30 June 2006, representing an increase of 7% in turnover and 3 times in profit as compared to the same period last year. During the period, the Group recognised excess over the cost of business combinations of HK\$228 million arising from privatisation of Wah Shing International Holdings Limited (“Wah Shing”) and increase in controlling stake in a joint venture in the PRC.

Trading and Manufacturing

The trading and manufacturing business continued to be affected by the factors facing manufacturers with production plants in the PRC, i.e. increase in the minimum wages of local workers due to the worker shortage in Southern China, surging raw material prices, and the appreciation of renminbi. Coupled with these factors, the normal seasonal factor of a slow first-half affected our toys manufacturing operations. Overseas clients also delayed their orders more than usual which further concentrated the busy season into a severely short shipping window in the second half of the year.

During the period, the Group successfully privatised Wah Shing, a principal subsidiary previously listed on the Singapore Exchange Securities Trading Limited; and acquired additional interest of 52.8% of Nority International Group Limited (“Nority”), a principal associate listed on The Stock Exchange of Hong Kong Limited, which then became a subsidiary of the Group. We are now in the process of consolidating and restructuring our manufacturing operations to strengthen our expanded industrial capacity and profitability.

The segment recorded a loss of HK\$37.6 million for the first half of 2006, a 28% rise in operating loss as compared to the corresponding period last year, which also accounted for the consolidation of the loss attributable to Nority. Overall our manufacturing operations were under-performing, except the footwear manufacturing operation in Tianjin, the award winning best supplier honoured by Wal-Mart that continued to generate steady profit for the period.