MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

The unaudited revenue from continuing operations of the Group amounted to approximately HK$31,226,000 for the six months ended 30 June 2006, increased for approximately 144 per cent as compared with the corresponding period of the year 2005. The Group reported an unaudited profit attributable to equity holders of the parent of approximately HK$8,553,000 for the six months ended 30 June 2006, while a loss of approximately HK$176,972,000 was recorded for the corresponding period of the year 2005.

Revenue from property investment and management was approximate to that of the corresponding period of the year 2005. Due to that the Group's strategy of diversifying business was gradually carried out and won initial success, the revenue from each of the Group's cultural recreation content provision and computer graphic ("**CG**") training businesses has grew for more than one hundred per cent. For this reason, the aggregate revenue of the Group recorded significant growth.

Due to that one of the Group's subsidiaries, Global Digital Creations Holdings Limited ("**GDC**"), was under restructuring after it was acquired by the Group and started a new business as a contractor for CG creation and production during the corresponding period of the year 2005, the new business did not generate gross profit after deducting certain starting up costs at that time. It resulted in a gross loss for the Group being recorded during the corresponding period of the year 2005. During the six months ended 30 June 2006, as the CG creation and production contractor business started contributing gross profit, while other businesses maintained contributing gross profits, the Group as a whole recorded a gross profit.

During the six months ended 30 June 2006, other income amounted to approximately HK$8,147,000, increased for approximately 424% comparing with the corresponding period of the year 2005. The other income mainly consisted of investment income generated by the Group's asset management division, which started normal operation in the second half of the year 2005 and therefore started contributing income during the six months ended 30 June 2006. The remaining balance of other income mainly consists of interest income and gain on disposal of investments held for trading, being approximate to the corresponding period of the year 2005.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Financial Review (continued)

During the six months ended 30 June 2006, distribution costs amounted to approximately HK$4,079,000, increased for approximately 247% comparing with the corresponding period of the year 2005. The main reason of the increase of distribution costs was that the Group was continuing to explore the business of sales of digital cinema equipment; and, at the same time, the Group incurred non-recurring promotion expenses for the release of an animation movie during this period.

During the six months ended 30 June 2006, administrative expenses amounted to approximately HK$31,480,000, decreased for approximately 15% comparing with the corresponding period of the year 2005. During the corresponding period of the year 2005, the Group incurred professional fee expenses of acquiring subsidiaries and expenses related to restructuring the subsidiaries because of carrying out its strategy of diversifying business. During the six months ended 30 June 2006, as the Group was focused at improving business of each of its divisions, to carrying out its strategy of diversifying business, the non-recurring expenses of acquisition and restructuring were saved.

During the six months ended 30 June 2006, gain on increase in fair value of investment properties amounted to approximately HK$5,800,000, decreased for approximately 44% comparing with the corresponding period of the year 2005, mainly because of that appreciation of property market as a whole in Hong Kong had been slowed down.

During the six months ended 30 June 2006, gain on decrease in fair value of derivative financial instruments amounted to approximately HK$4,715,000. The Group placed 58,000,000 shares of GDC it held to independent third parties, to maintain the minimum public float of 25% as specified by the GEM Listing Rules. To increase interest of investors, the Group has granted the placees put options. The fair value of the options has been reflected as expense in the income statement for the year 2005. As at 30 June 2006, as the fair value of the options had been decreased, the amount decreased was reflected as a write-back of expense in the income statement. During the corresponding period of the year 2005, there was no transaction of similar nature.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Financial Review (continued)

During the six months ended 30 June 2006, finance costs amounted to approximately HK$5,059,000, increased for approximately 54% comparing with the corresponding period of the year 2005. The increase in finance costs was mainly because of that the Group was still in the investment stage of carrying out its strategy of diversifying its business, that most of the divisions required investment of funding and some of them were yet to contribute cash return. For this reason, the Group needed increment of external financing to support its daily operation and investment.

During the six months ended 30 June 2005, the Group incurred an impairment loss of goodwill amounted to approximately HK$129,950,000. During the six months ended 30 June 2006, there was no transaction of similar nature.

During the six months ended 30 June 2006, although the financial results of the Group had had significant improvement, taxable profits were not increased to a great extent, therefore income tax expense was approximate to the corresponding period of the year 2005.

During the six months ended 30 June 2006, profit from discontinued operation amounted to approximately HK$20,352,000. The operation means the finance leasing business the Group operated through South China International Leasing Co., Ltd. ("South China Leasing"). During the six months ended 30 June 2006, due to that the Group had induced a new investor to South China Leasing to strengthen its capital structure in order to speed up its development, the Group's interest in South China Leasing, direct and indirect, has been diluted to 50%. South China Leasing was therefore changed from a subsidiary to an associate of the Group. Its net result of operation is disclosed as the discontinued operation. However, the Group will not only continue to operate finance leasing business through South China Leasing, but also speed up the development of the business. The profit was mainly come from profit on disposal arisen from dilution of the Group's interest in South China Leasing.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Financial Review (continued)

During the six months ended 30 June 2006, net cash used in operating activities of the Group amounted to approximately HK$743,535,000 which included an aggregate amount of approximately HK$767,515,000 representing advances granted to customers which were financed by bank borrowings of approximately HK$794,672,000 in aggregate raised during the period. If the advances granted to customers not being taken into consideration, there was net cash from operating activities of the Group amounted to approximately HK$23,980,000. During the corresponding period of the year 2005, a net cash used in operating activities amounted to approximately HK$68,760,000 was recorded. The significant improvement of operating cash flow was mainly due to that the Group's strategy of diversifying business has won initial success; and operating cash flow was improved to different extent in different business divisions.

Liquidity, Financial Resources and Capital Structure

The equity attributable to equity holders of the Company amounted to approximately HK$222.4 million as at 30 June 2006 (31 December 2005: HK$210.5 million). The increase was mainly arisen from profit for the period.

The Group had bank balances and cash and pledged bank deposits amounted to approximately HK$48.2 million as at 30 June 2006 (31 December 2005: HK$36.3 million) which were mainly denominated in Hong Kong dollars and Renminbi. The increase was mainly the combined result of that (a)the Group had reserved approximately HK$14.4 million at 31 December 2005 to restructure/renew bank borrowings and paid the reserve after 31 December 2005; (b)the Group has generated net cash inflow during the period; and, (c)the Group has raised fund from a fellow subsidiary to finance the Group's development.

The Group's borrowings amounted to approximately HK$121.9 million as at 30 June 2006 (31 December 2005: HK$119.8 million) which comprised approximately HK$31.9 million and HK$90.0 million repayable within and after twelve months after 30 June 2006 respectively. All bank loans bear interest at market rates and are repayable over a period of five years.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Liquidity, Financial Resources and Capital Structure (continued)

Gearing ratio (calculated as bank and other borrowings less bank balances and cash and pledged bank deposits divided by equity attributable to equity holders of the Company) as at 30 June 2006 was approximately 33.1% (31 December 2005: 26.1%). The Group's leverage increased was mainly due to that the Group needed additional funds to be invested into its businesses which were developing.

The bank borrowings amounted to HK$50.0 million outstanding at 30 June 2006 were secured by investment properties and land and buildings with carrying value of approximately HK$70.0 million in aggregate.

The normal operations and investments of the Group are in Hong Kong and the PRC (which for the purpose of this report, does not include Hong Kong, Macau and Taiwan), with revenue and expenditure denominated in Renminbi, Hong Kong dollars and United States dollars. The Renminbi income from the PRC and United States dollar incomes from areas outside the PRC and Hong Kong are mainly remitted to Hong Kong at the prevailing official exchange rate. Given the stability of the official exchange rates among Hong Kong dollars, Renminbi and United States dollars, the Directors believe that the Group will not be subject to any significant exposure associated with fluctuation in exchange rates under foreseeable circumstances. The Group has not hedged against any foreign currency fluctuations.

Business Review

The Group continued actualising its strategy of diversifying its core business into businesses other than property investment and management, namely financial service provision and cultural recreation content provision. Such strategy of diversifying business has won initial success.

Cultural Recreation Content Provision

During the six months ended 30 June 2006, the Group has launched several television series and movies, among which a movie invested and produced jointly with independent third parties, *Crazy Stone*, became the one of the highest box office income among all movies released in the year 2006 in the PRC. The television series produced by the Group have been broadcasted on major television channels including China Central Television.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Cultural Recreation Content Provision (continued)

The Group's strategy of entering into the business of contractor of CG creation and production has been proved to be suitable for the Group. During the six months ended 30 June 2006, GDC's revenue grew significantly. At the same time, the Group has successfully turned gross loss of the related business in the corresponding period in the year 2005 into gross profit for the six months ended 30 June 2006. Further, the Group's capability of CG creation and production not only recognised by its clients, but also the industry in general. During the six months ended 30 June 2006, the Group's short film *Peach Blossom Garden* won the Golden Awards of "Digital Conference 6+2", a well-known award of digital content in Asia created by TBS of Japan. It is the first time ever a Chinese studio had won this prestigious reward.

Financial Service Provision

Finance Leasing

During the six months ended 30 June 2006, the Group operated finance leasing business through South China Leasing. During the six months ended 30 June 2006, to strengthen South China Leasing's capital structure in order to speed up its development, the Group induced a new investor to South China Leasing. The Group's interest in South China Leasing, direct and indirect, has been diluted to 50%. South China Leasing was therefore changed from a subsidiary to an associate of the Group. However, the Group will not only continue to operate finance leasing business through South China Leasing but also speed up the development of the business. During the six months ended 30 June 2006, South China Leasing's amount of contract signed grew significantly.

Financial Investment

The Group continued operating the business of financial service through 首方投資管理(深圳)有限公司 ("**Capital Steel**"). The return of Capital Steel's direct financial investment has been booked during the six months ended 30 June 2006 while the principal of the investment has been collected before the date of this report. Capital Steel continued to look for investment opportunities, and simultaneously provide financial services; several project were being negotiated, including one of assisting a bank in the PRC to restructure debts of the bank's client.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Property Investment and Management

Hong Kong and the PRC Investment Properties

Both rental income and resalable value of the Group's investment properties have been improving slightly comparing with 2005. The Group was still receiving stable cash flow from rental income.

Beijing Dongzhimen International Apartment Co., Limited ("Beijing Dongzhimen")

The Group continually holds 44% interests in Beijing Dongzhimen. Despite competition in Beijing service apartment market is severe, the performance of Beijing Dongzhimen was continuously improved.

Business Outlook

Cultural Recreation Content Provision

The Group will focus at producing television series to gain relatively reliable return. The Group will also invest and produce quality movie projects.

The Group's business of contractor of CG creation and production has been becoming mature. GDC has developed from purely contract and process to animation television series and movies co-production with producers. According to amount of contracts signed and being negotiated, the Directors expect the business will continue to grow significantly.

The Group continued to be engaged in the business of distribution and exhibition of digital content through its subsidiary, GDC Technology Limited ("GDC Technology"), especially in respect of developing products fully complied with the specifications issued by Digital Cinema Initiative, LLC. ("DCI") which is adopted as an industrial specifications (the "DCI Specifications"). During the six months ended 30 June 2006, deployment of digital cinema was increasing and several projects of roll-out of digital cinema theatres have successfully raised funds. The full scale roll-out of digital cinema around the world is nearly realised in the foreseeable future. Such digitalisation of cinema will bring huge business opportunity to GDC Technology. GDC Technology expects a significant increase in revenue when GDC Technology's server completely complying with the DCI Specifications is fully developed. GDC Technology is also developing the upgrade kit for GDC Technology's servers already installed to enable them to fully comply with the DCI Specifications. Both the server and upgrade kit complying with the DCI Specification are planned to be launched by the end of the year 2006. To capture the benefit of the enormous growth in digital cinema equipment business, the Group has completed the first stage of business restructuring GDC Technology by inducing GDC Technoloy's management becoming its shareholders, and now is considering to introduce more strategic partners.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Financial Service Provision

Finance Leasing

During the six months ended 30 June 2006, finance leasing business of South China Leasing increased significantly. After 30 June 2006, new finance lease contracts have been signed. The Group is speeding up the realisation of its target set in the beginning of the year that to be profitable for the year 2006.

Financial Investment

Since the direct financial investment project was successful, Capital Steel is negotiating further cooperation with the partner, including being assumed its financial consultant. At the same time, Capital Steel is completing the project of assisting a bank to restructure debts of the bank's client.

Property Investment and Management

The Directors expect investment properties in Hong Kong and the PRC and Beijing Dongzhimen will continue to contribute stable cash return in the foreseeable future.

Contingent Liabilities

Save as disclosed in Note 22 to the condensed consolidated financial statements about litigation proceeding, the Group had no contingent liabilities as at 30 June 2006.

Employees

As at 30 June 2006, the Group employed 403 (31 December 2005: 410) full time employees (excluding those under the payroll of the associates and the jointly-controlled entity of the Group). The Group remunerated its employees mainly with reference to the prevailing market practice, individual performance and experience. Other benefits such as medical coverage, insurance plan, mandatory provident fund, discretionary bonus and employee share option scheme are also available to the employees of the Group. Remuneration packages are reviewed either annually or by special increment.

During the six months ended 30 June 2006, the Company and its subsidiaries has not paid or committed to pay any amount as an inducement to join or upon joining the Company and/or its subsidiaries to any individual.

INTERIM DIVIDEND

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

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities (whether on the Stock Exchange or otherwise) during the period under review.