

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. Basis of preparation

The unaudited condensed consolidated interim financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and should be read in conjunction with the 2005 annual financial statements.

2. Application of Hong Kong Financial Reporting Standards / changes in accounting policies

The accounting policies used in the unaudited condensed consolidated interim financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31st December, 2005 except as described below:

In current period, the Group and the Company have applied, for the first time, a number of new Hong Kong Financial Reporting Standards (“HKFRSs”), Hong Kong Accounting Standards (“HKASs”) and Interpretations (“INTs”) (hereinafter collectively referred to as “new HKFRSs”) issued by the HKICPA that are effective for accounting periods beginning on or after 1st January, 2006.

HKAS 19 (Amendment)	Actuarial gains and losses, group plans 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
HK(IFRIC) – INT 7	Applying the restatement approach under HKAS 29 “Financial Reporting in Hyperinflationary Economies”

The adoption of the new HKFRSs have no material impact on the unaudited condensed consolidated interim financial statements of the Group and the Company. Certain comparative figures for prior accounting period have been restated to conform with the current period’s presentation.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

3. Business and geographical segments

Business segments

	Continuing operations							
	Securities investment and trading		Property development and investment		Industrial		Consolidated	
	2006	2005	Unaudited six months ended 30th June,				2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
TURNOVER								
External sales	<u>15,750</u>	<u>5,572</u>	<u>441</u>	<u>506</u>	<u>25,890</u>	<u>24,258</u>	<u>42,081</u>	<u>30,336</u>
RESULTS								
Segment results	<u>(2,690)</u>	<u>(3,749)</u>	<u>1,921</u>	<u>1,562</u>	<u>(2,814)</u>	<u>(1,108)</u>	<u>(3,583)</u>	<u>(3,295)</u>
Other income	600	829	3	–	69	–	672	829
Finance costs							(277)	(112)
Gain on disposal of an associate							–	2,924
Loss on deemed disposal of an associate							(3,149)	–
Share of results of associates							4,978	4,330
Share of results of a jointly – controlled entity	–	–	–	(582)	–	–	–	(582)
(Loss) profit before taxation							(1,359)	4,094
Taxation							(38)	(22)
(Loss) profit for the period							(1,397)	4,072

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

3. Business and geographical segments (Continued)

Geographical segments

	Sales revenue by geographical market Unaudited six months ended 30th June,	
	2006 HK\$'000	2005 HK\$'000
Hong Kong	18,870	9,633
PRC	11,503	9,117
Japan	11,708	11,586
	42,081	30,336

4. (Loss) profit before taxation

	Unaudited six months ended 30th June,	
	2006 HK\$'000	2005 HK\$'000 (restated)

(Loss) profit before taxation has been arrived at after charging:

Amortisation of prepaid lease payments	102	87
Auditors' remuneration	348	290
Cost of inventories recognised as expense	26,281	23,711
Depreciation	2,006	2,305
Directors' remuneration and other staff costs, including retirement benefits schemes contributions of HK\$515,243 (2005: HK\$641,943)	7,214	6,427
Net exchange loss	50	57
Loss on disposal of property, plant and equipment	3	—
Operating lease payment in respect of rented premises	156	111

and after crediting:

Rental income from investment properties, less outgoings of HK\$29,843 (2005: HK\$21,304)	411	506
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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

5. Taxation

	Unaudited six months ended 30th June,	
	2006	2005
	HK\$'000	HK\$'000
The charge comprises:		
PRC enterprise income tax:		
Current period	—	(22)
	—	(22)
Deferred taxation	(38)	—
	(38)	(22)

PRC enterprise income tax is calculated at the rates prevailing.

No provision for Hong Kong Profits Tax has been made in the financial statements as the Company and its subsidiaries operating in Hong Kong have no assessable profits for the both periods.

6. Dividend

The directors do not recommend the payment of any interim dividend for the six months ended 30th June, 2006 (six months ended 30th June, 2005: Nil).

7. (Loss) earnings per share

The calculation of basic (loss) earnings per share is based on the loss attributable to equity holders of the Company of HK\$1,348,000 (six months ended 30th June, 2005: profit of HK\$3,992,000) and on the weighted average number of 101,259,774 (six months ended 30th June, 2005: 66,333,781) ordinary shares in issue during the period, after taking into account the effect of the bonus issue during the period.

No diluted (loss) earnings per share has been presented because the exercise price of the Company's options was higher than the average market price for shares for the period, and the effect of dilutive potential ordinary shares of an associate is considered to be insignificant.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

8. Investment properties

	THE GROUP	
	30/6/2006	31/12/2005
	(unaudited)	(audited)
	HK\$'000	HK\$'000
AT FAIR VALUE		
At beginning of period/year	36,040	32,640
Addition	3,578	–
Increase in fair value recognised in income	1,422	3,400
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At end of period/year	41,040	36,040
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All of the Group's and the Company's investment properties are situated in the Hong Kong and outside Hong Kong held under medium-term leases and are rented out under operating leases.

The investment properties were fair valued at 30th June, 2006 and 31st December, 2005 in existing state on an open market value basis by DTZ Debenham Tie Leung Limited, an independent firm of valuers not connected with the Group. DTZ Debenham Tie Leung Limited is member of the Institute of Valuers, and have appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations. The valuation, which confirms to International Valuation Standards, was arrived at by reference to market evidence of the transaction prices for similar properties.

The investment properties of the Group and the Company include amounts of HK\$6,940,000 and HK\$4,640,000 at 30th June, 2006 (31st December, 2005: HK\$6,940,000 and HK\$4,640,000) respectively, the title of which has not been transferred to the Group and the Company and is still registered in the name of the vendor companies which are controlled by certain directors as trustee for the Company.

9. Prepaid lease payments

The prepaid lease payments represent leasehold land outside Hong Kong held under medium term leases and are analysed for the reporting purposes as:

	THE GROUP	
	30/6/2006	31/12/2005
	(unaudited)	(audited)
	HK\$'000	HK\$'000
Current assets	204	204
Non-current assets	3,364	3,467
	<hr/>	<hr/>
	3,568	3,671
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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

10. Interests in associates

	THE GROUP		THE COMPANY	
	30/6/2006 (unaudited) HK\$'000	31/12/2005 (audited) HK\$'000	30/6/2006 (unaudited) HK\$'000	31/12/2005 (audited) HK\$'000
Listed shares, at cost	15,581	15,386	15,581	15,386
Unlisted shares, at cost	—	—	—	—
Share of post-acquisition profits, net of dividends received	46,566	48,753	—	—
	62,147	64,139	15,581	15,386
Market value of listed shares	181,996	144,406	181,996	144,406

Particulars of associates of the Group at 30th June, 2006 are as follows:

Name of associates	Place of incorporation/ operation	Proportion of nominal value of issued share capital held by the Group	Principal activities
Chinasoft International Limited ("Chinasoft")	Cayman Islands/ PRC	22.51%	Provision of information technology services
Fortex Investments Limited ("Fortex")	British Virgin Islands/Hong Kong	41.67%	Inactive

In May, 2006, Chinasoft allotted and issued second portion 23,248,302 consideration shares at an issue price of HK\$1.16 each to China National Computer Software & Technology Service Corporation (Hong Kong) Limited (the "CS&S (HK)") for acquisition of 51% equity interest in Chinasoft Resources Information Technology Services Limited ("Chinsoft Resources") who had achieved the required profit hurdle in 2005 accounts. Accordingly, the Group's shareholding in Chinasoft had decreased from 23.20% to 22.48%, resulting in a loss on deemed disposal of HK\$3,149,000 during the period (Six months ended 30th June, 2005: Nil). However, it raised to 22.51% after the Group had acquired 200,000 Chinasoft shares in open market at a consideration of approximately at HK\$195,000.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

10. Interests in associates (Continued)

The summarised financial information in respect of the Group's associates is set out below:

	30/6/2006 (unaudited) HK\$'000	31/12/2005 (audited) HK\$'000
Total assets	585,739	421,697
Total liabilities	138,688	124,684
Net assets	447,051	297,013
Group's share of net assets of associates	62,147	64,139
	Unaudited six months ended 30th June	
	2006	2005
	HK\$'000	HK\$'000
Revenue	130,123	154,191
Profit for the period	28,454	18,403
Group's share of results of associates for the period	4,978	4,330

11. Trade and other receivables

For sales of goods, the Group has a policy of allowing a credit period of 30 days to 90 days to its trade customers. Rentals receivable from tenants and service income from customers are payable on presentation of invoices. The aged analysis of trade receivable is as follows:

	THE GROUP	
	30/6/2006 (unaudited) HK\$'000	31/12/2005 (audited) HK\$'000
0 – 30 days	1,304	2,270
31 – 60 days	2,478	1,023
61 – 90 days	1,568	2,111
Over 90 days	4,610	5,707
Total trade receivables	9,960	11,111
Other receivables	10,801	4,134
	20,761	15,245

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

12. Trade and other payables

The aged analysis of trade payables is as follows:

	THE GROUP	
	30/6/2006	31/12/2005
	(unaudited)	(audited)
	HK\$'000	HK\$'000
0 – 30 days	1,707	3,106
31 – 60 days	4,116	832
61 – 90 days	2,195	880
Over 90 days	6,145	9,771
Total trade payables	14,163	14,589
Other payables	12,070	11,478
	26,233	26,067

13. Obligations under a finance lease

	Minimum lease payments		Present value of minimum lease payments	
	30/6/2006	31/12/2005	30/6/2006	31/12/2005
	(unaudited)	(audited)	(unaudited)	(audited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Amount payable under finance lease:				
Within one year	160	160	113	102
In the second to fifth year inclusive	360	453	311	375
	520	613	424	477
Less: Future finance charges	(96)	(136)	–	–
Present value of lease obligations	424	477	424	477
Less: Amount due within one year shown under current liabilities			(113)	(102)
Amount due after one year			311	375

The obligations under a finance lease are secured by a motor vehicle of the Group and the Company. The term of the lease is four years. Interest rates are fixed at 7% per annum. No arrangements have been entered into for contingent rental payments.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

14. Bank and other loans

	THE GROUP	
	30/6/2006	31/12/2005
	(unaudited)	(audited)
	HK\$'000	HK\$'000
Bank and other loans comprise:		
Bank loans	1,814	3,882
Other loans	15,092	11,391
	16,906	15,273

The above loans bear interests at Hong Kong Prime Lending Rate plus 1% per annum or HIBOR plus 1% per annum and are repayable within one year. Total undrawn bank loan facilities at 30th June, 2006 amounting to HK\$38.6 million (31st December, 2005: HK\$36.6 million).

The Group's loans that are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

Denominated in:	USD	YEN
Functional currency:	HK\$'000	HK\$'000
At 30th June, 2006	8,164	8,742
At 31st December, 2005	3,882	10,284

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

15. Share capital

	Number of Shares		Share Capital	
	30/6/2006 (in thousand)	31/12/2005 (in thousand)	30/6/2006 HK\$'000	31/12/2005 HK\$'000
Authorised:				
At beginning of period/year	70,000,000	700,000	700,000	700,000
Reduction upon capital reorganisation	–	(560,000)	–	(698,600)
Shares subdivision	–	69,860,000	–	698,600
At end of period/year	70,000,000	70,000,000	700,000	700,000
Issued and fully paid:				
At beginning of period/year	99,501	331,669	995	331,669
Reduction upon capital reorganisation	–	(265,335)	–	(331,006)
Issue of shares upon rights issue	–	33,167	–	332
Bonus issue	9,950	–	100	–
At end of period/year	109,451	99,501	1,095	995

Pursuant to an ordinary resolution passed at annual general meeting on 23rd May, 2006, 9,949,924 ordinary shares were issued and allotted on 30th May, 2006 as fully paid up by way of one for ten bonus issue ("Bonus Issue") in respect of which an amount of HK\$99,499.24 standing to the credit of the share premium account was applied. The new ordinary shares rank pari passu with the existing shares in all respect.

Details of the Company's bonus issue of shares is set out in a circular of the Company dated 28th April, 2006.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

16. Share option scheme

The Company's share option scheme(the "Scheme"), was adopted pursuant to a resolution passed on 23rd May, 2005 by the shareholders of the Company. As at 30th June, 2006, the total number of shares in respect of which options had been granted and remained outstanding under the Scheme was 13,326,000 (31st December, 2005: 7,025,200) of the shares of the Company in issue at that date.

Pursuant to the bonus issue during the period, the exercised price and number of the share options outstanding balance as at 1st January, 2006 were adjusted accordingly from HK\$1.2683 to HK\$1.1540 and from 7,025,200 to 7,721,000 respectively.

On 21st April, 2006, 5,100,000 share options were granted at an initial exercise price of HK\$1.34, 50% of 5,100,000 share options granted with exercisable period from 23rd May, 2006 to 22nd May, 2016 and the remaining 50% of 5,100,000 share options granted with exercisable period from 23rd May, 2007 to 22nd May, 2017 respectively. Pursuant to the bonus issue during the period, the exercised price and number of the share options granted were adjusted accordingly from HK\$1.34 to HK\$1.2193 and from 5,100,000 to 5,605,000 respectively.

Details of the share options granted on 21st April, 2006 and outstanding at 30th June, 2006, as adjusted for the effect of the bonus issue, are as follows:

Capacity of grantee	Grant date	Exercise price HK\$	Exercisable period (both days inclusive)	Number of Share Options				
				Balance at 1.1.2006	Grant during the period	Balance before Bonus Issue	Adjustment for Bonus Issue	Balance at 30.6.2006
Directors	21/7/2005	1.1540	21st July, 2005 to 20th July, 2015	6,599,430	–	6,599,430	653,572	7,253,002
	21/4/2006	1.2193	23rd May, 2006 to 22nd May, 2016	–	1,800,000	1,800,000	178,235	1,978,235
	21/4/2006	1.2193	23rd May, 2007 to 22nd May, 2017	–	1,800,000	1,800,000	178,235	1,978,235
Employees	21/7/2005	1.1540	21st July, 2005 to 20th July, 2015	425,770	–	425,770	42,228	467,998
	21/4/2006	1.2193	23rd May, 2006 to 22nd May, 2016	–	750,000	750,000	74,265	824,265
	21/4/2006	1.2193	23rd May, 2007 to 22nd May, 2017	–	750,000	750,000	74,265	824,265
				<u>7,025,200</u>	<u>5,100,000</u>	<u>12,125,200</u>	<u>1,200,800</u>	<u>13,326,000</u>

Note:

No share options were exercised, forfeited or expired during the period.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

16. Share option scheme (Continued)

The estimated fair values of the options granted on 21st April, 2006 are HK\$0.4964 and HK\$0.5613 (21st July, 2005: HK\$0.6439) respectively. These fair values were calculated using the Black-Scholes pricing model. The inputs into the model were as follows:

	30/6/2006 (unaudited)	31/12/2005 (audited)
Weighted average share price	HK\$1.218 & HK\$1.218	HK\$1.388
Exercise price	HK\$1.34 & HK\$1.34	HK\$1.35
Expected volatility	49.74% & 49.74%	55%
Expected life	4 years & 5 years	4 years
Risk-free rate	4.51% & 4.60%	3.26%
Expected dividend yield	- & -	-

Expected volatility was determined by using the historical volatility of the Company's share price from 2002 to 2005 (21st July, 2005: 2002 to 2005). The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non transferability, exercise restrictions and considerations.

The group recognised the total expense of HK\$1,521,155 during the period (31st December, 2005: HK\$4,249,740) in relation to equity-settled share-based payment transactions.

17. Pledge of assets

At the reporting date:

- (a) margin trading facilities in respect of securities transactions to the extent of approximately HK\$15 million (31st December, 2005: HK\$10.9 million), of which HK\$15 million (31st December, 2005: HK\$10.9 million) were utilised, were secured by the listed investments of the Group and the Company of approximately HK\$37.4 million (31st December, 2005: HK\$31.8 million) and HK\$36.6 million (31st December, 2005: HK\$31.2 million), respectively; and
- (b) overdraft and revolving loan facilities to the extent of approximately HK\$40.4 million (31st December, 2005: HK\$40.5 million), of which HK\$1.8 million (31st December, 2005: HK\$3.9 million) were utilised, were secured by time deposits held by the Company of approximately HK\$17.9 million (31st December, 2005: HK\$4.9 million) and by a floating charge over the asset of the Company.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

18. Operating lease arrangements

The Group as lessor

Property rental income earned during the period was HK\$441,000 (six months ended 30th June, 2005: HK\$506,000). The properties held have committed tenants for the next two years.

At the reporting date, the Group had contracted with tenants for the future minimum lease payments under non-cancellable operating leases which fall due as follows:

	30/6/2006 (unaudited) HK\$'000	31/12/2005 (audited) HK\$'000
Within one year	642	660
In the second to fifth year inclusive	–	193
	642	853

The Group and the Company as lessee

At the reporting date, the Group and the Company had commitments for the future minimum lease payments under non-cancellable operating leases which fall due as follows:

	30/6/2006 (unaudited) HK\$'000	31/12/2005 (audited) HK\$'000
Within one year	247	235
In the second to fifth year inclusive	172	18
	419	253

Operating lease payments represent rentals payable by the Group and the Company to a company controlled by certain Directors of the Company for the use of its office premises. Leases are negotiation for a term of two years.

19. Post balance sheet events

On 28th May, 2006, the China Entertainment (Jiangsu) Development Limited (a wholly-owned subsidiary of the Company) entered into the share transfer agreement with the 無錫市新業建設發展公司 for the disposal of 65% equity interest in Wuxi Cheerman Property Company Limited. The consideration for the disposal is at RMB15.5 million.

The Company acquired of HK\$8.3 million principal amount of the Convertible Notes of Satellite Devices Corporation from First Vantage Limited on 25th August, 2006 at a consideration of HK\$4.98 million.

Details of the above disposal and acquisition are set out in the circular and announcement of the Company dated 3rd July, 2006 and 5th September, 2006 respectively.