



Interim report 2005



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The English text of this Interim Report shall prevail the Chinese text.

CORPORATE INFORMATION

PLACE OF INCORPORATION

Hong Kong

BOARD OF DIRECTORS

Executive Directors:

Deacon Te Ken Chiu, J.P. (*Chairman*)

Duncan Chiu, B.Sc.

(*Managing Director and
Chief Executive Officer*)

Dennis Chiu, B.A.

Non-executive Directors:

Dato' David Chiu, B.Sc.

Daniel Tat Jung Chiu

Derek Chiu, B.A.

Desmond Chiu, B.A.

Margaret Chiu, LL.B.

Independent Non-executive Directors:

Chi Man Ma

Dr. Lee G. Lam

Ryan Yen Hwung Fong

REMUNERATION COMMITTEE

Duncan Chiu, B.Sc.

Dr. Lee G. Lam

Ryan Yen Hwung Fong

COMPANY SECRETARY

Hung Kwong Lui, FCPA, FCCA, CGA

QUALIFIED ACCOUNTANT

Hung Kwong Lui, FCPA, FCCA, CGA

SOLICITOR

Woo, Kwan, Lee & Lo

AUDITORS

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited

The Hongkong and Shanghai Banking
Corporation Limited

The Bank of East Asia Limited

Hang Seng Bank Limited

REGISTERED OFFICE

16th Floor Far East Consortium Building

121 Des Voeux Road Central

Hong Kong

PRINCIPAL OFFICE

Room 1802-1804 18th Floor

Far East Consortium Building

121 Des Voeux Road Central

Hong Kong

SHARE REGISTRARS

Computershare Hong Kong Investor

Services Limited

Shops 1712-1716

17th Floor Hopewell Centre

183 Queen's Road East

Hong Kong

LISTING INFORMATION

Stock Exchange of Hong Kong Limited

Stock Code: 036

Board Lot Size: 3000

WEBSITE

<http://www.fet.com.hk>

MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER'S STATEMENT

1. CORPORATE RESULTS

For the six months ended 30th June, 2005 (the "Period") the Company and its subsidiaries (the "Group") achieved a turnover of HK\$30.3 million (2004: HK\$35.8 million), which represented a decrease of 15% compared with corresponding period in 2004. The Group reported a profit attributable to equity holders of the parent of HK\$4 million (2004: HK\$5.5 million) representing a decline of 27% over that of last period.

2. FINANCIAL REVIEW

Liquidity and Financial Resources

As at 30th June, 2005, the Group had cash and bank balances of HK\$15 million (2004: HK\$14.5 million). Basically, the Group's funding policy is to finance the business operations with internally generated cash and bank facilities. As at 30th June, 2005, the Group had total borrowings of HK\$13.1 million (2004: HK\$6.5 million) which was payable within one year and was fully secured. The Group's borrowings were denominated in Hong Kong dollar, Japanese Yen and United States dollar.

Interest rates were in line with the best lending rates either at prime or based on the Hong Kong Inter-bank Offer Rate. The Group did not have any financial instruments used for hedging purpose.

Gearing Ratio and Current Ratio

The Group's gearing ratio (total bank and other loans to shareholders' equity) as at 30th June, 2005 increased to 10.56% (2004: 5.59%). The Group's current ratio (current assets to current liabilities) as at 30th June, 2005 has increased to 1.71 (2004: 1.64). On the whole, the financial position and liquidity of the Group is healthy and stable.

Capital Structure

In March 2005, the Company completed a capital reorganisation which comprised a share of consolidation every 5 issued and unissued shares of HK\$1.00 each into one consolidated share of HK\$5.00 each and the paid up capital of the issued consolidated shares was reduced from HK\$5.00 each to HK\$0.01 each by cancelling the paid up capital to the extent of HK\$4.99 on each issued consolidated share. Each of the authorized consolidated shares are subdivided into 500 shares of HK\$0.01 each.

After the completion of capital reorganisation, the authorized share capital of the Company will be HK\$700 million comprising 70 billion adjusted shares and the issued share capital of the Company will be HK\$0.66 million divided into 66.33 million adjusted shares.

MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER'S STATEMENT (Continued)

2. FINANCIAL REVIEW (Continued)

Pledge of Assets

As at 30th June, 2005 certain assets of the Group with an aggregate carrying value of approximately HK\$59.5 million (2004: HK\$44.2 million) were pledged to secure loans facilities utilized by the Group.

Exposure on Foreign Exchange Fluctuations

The Group had no significant exposure to foreign exchange fluctuation during the period.

Contingent Liabilities

As at 30th June, 2005, the Group and the Company had no contingent liabilities (2004: Nil).

Capital Commitments

As at 30th June, 2005, the Group and the Company had no capital commitments (2004: Nil).

Material Acquisitions and Disposals of Subsidiaries and Associated Companies

During the period, the Company had no material acquisition and disposals of subsidiaries except that the Company had a disposal of partial interest 7 million shares in an associated company, Chinasoft International Limited (the "Chinasoft") with recognition a gain of HK\$2.9 million (2004: Nil). As a result, the Company's equity interests in Chinasoft further reduced to 24.36%.

3. BUSINESS REVIEW

For information technology segment, in the Group's share of profit of an associated company, relating to 24.36% equity interests in Chinasoft International Limited, amounted to HK\$4.35 million (2004: HK\$3.29 million), representing a rise of 32.22% over that of last period. It reflected Chinasoft's continuous endeavors in the market penetration and development into new market has been successful. It has also seen the establishment of Chinasoft's good quality, branding and reliability in China software industry. With the possible joining of strategic foreign business partners in the second half of 2005, it is anticipated that Chinasoft will continue to grow in both software and hardware segment.

MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER'S STATEMENT (Continued)

3. BUSINESS REVIEW (Continued)

For industrial segment, Jiangsu Bang Bang Silky Fashion Manufacturer Company Limited (the "Jiangsu Bang Bang") reported turnover of HK\$15 million, a drop of 14% compared with the same period of last year. With the abolishment of the textile quota control amongst the World Trade Organisation member countries on 1st January, 2005 consolidations is expected amongst manufacturers of PRC's garment industry. Furthermore, the announcement of new textile export duty imposition by the PRC government at the end of 2004 created further uncertainties in the outlook of garment manufacturing industry exporting out of China. Under such circumstances, Jiangsu Bang Bang's sales and production strategies are inevitably adversely affected. Therefore, the business prospects for this segment is not quite optimistic in the coming year.

For property segment, gross rental income for the period, declined by 64% to HK\$0.5 million over that of last period. It was attributable to disposal of two investment properties in Hong Kong in 2004 and Tang City Properties Group in Singapore which would go for lease. With the opening of the Hong Kong Disneyland theme park in September 2005 and broader recovery in local economy, the Group believed that there would be more demand for retail space. Besides, Kwai Chung Fa Yuen in Kwai Chung has been left vacant since 24th July, 2005 for refurbishment, it is expected to be completed in April 2006.

PROSPECTS

Overall business environment is likely to grow steadily in second half of 2005, though the surge of oil price and rising interest rate do cast shadows over longer term economy. Looking ahead, the Group is actively exploring the forming of strategic partnerships to diversify its investments and broaden its source of income. It is expected that external acquisitions will strengthen the Group's earning base and improve revenue inflow to the Group.

MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER'S STATEMENT (Continued)

EMPLOYEE

As at 30th June, 2005, the Group had approximately 600 employees in Hong Kong and PRC (2004: 600 employees) with majority of these employees employed in PRC. Employees are remunerated in accordance with nature of the job and market conditions. Staff incentive bonus and discretionary employee share options would be granted to reward and motivate those well performed employees.

On behalf of the Board

DUNCAN CHIU

*Managing Director and
Chief Executive Officer*

Hong Kong, 22nd September, 2005

ADDITIONAL INFORMATION REQUIRED UNDER THE LISTING RULES

DIRECTORS' INTERESTS IN SHARES

At 30th June, 2005, the interests of the Directors and their associates in the shares of the Company or any of its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance (the "SFO"), or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

Name of director	Number of ordinary shares of the Company held				Percentage of issued share capital of the Company
	Personal interests	Family interests	Corporate Interests	Total interests	
Mr. Deacon Te Ken Chiu	1,509,600	1,222,000 ⁽¹⁾	1,245,720	3,977,320	6.00%
Dato' David Chiu	1,700,000	–	5,608,000 ⁽²⁾	7,308,000	11.02%
Miss Margaret Chiu	1,000,000	–	–	1,000,000	1.51%
Mr. Dennis Chiu	3,322,040	–	6,080,000 ⁽³⁾	9,402,040	14.17%
Mr. Daniel Tat Jung Chiu	2,200,000	–	14,480,040 ⁽⁴⁾	16,680,040	25.15%
Mr. Derek Chiu	40,200	–	–	40,200	0.06%
Mr. Desmond Chiu	1,000,000	–	–	1,000,000	1.51%
Mr. Duncan Chiu	6,441,242	–	–	6,441,242	9.71%

Notes:

- (1) These shares are held by Madam Ching Lan Ju Chiu, wife of Mr. Deacon Te Ken Chiu.
- (2) These shares are held by Rocket High Investments Limited, a company wholly-owned by Dato' David Chiu.
- (3) These shares are held by Cape York Investments Limited ("Cape York"), a company owned by Mr. Dennis Chiu and Mr. Daniel Tat Jung Chiu equally.
- (4) Of the 14,480,040 shares, 6,080,000 shares are held by Cape York, and the remaining 8,400,040 shares are held by Gorich Holdings Limited, a company wholly-owned by Mr. Daniel Tat Jung Chiu.
- (5) All interests disclosed above represent long positions in the ordinary shares of the Company.

ADDITIONAL INFORMATION REQUIRED UNDER THE LISTING RULES (Continued)

DIRECTORS' INTERESTS IN SHARES (Continued)

Save as disclosed above, none of the Directors nor their associates had any interests or short positions in any shares or debentures or underlying shares of the Company or any of its associated corporations at 30th June, 2005.

SUBSTANTIAL SHAREHOLDERS

At 30th June, 2005, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that, other than the interests disclosed above in respect of certain Directors under the section headed "Directors' Interests in Shares", the following shareholders had notified the Company of any interest, directly or indirectly, in 5% or more of the issued share capital of the Company:

Name of Substantial Shareholder	Number of ordinary shares held	Percentage of issued share capital of the Company
Gorich Holdings Limited ("Gorich") ⁽¹⁾	8,400,040	12.66%
Cape York Investments Limited ("Cape York") ⁽²⁾	6,080,000	9.17%
Rocket High Investments Limited ("Rocket") ⁽³⁾	5,608,000	8.45%
Virtual Dragon International Limited ("Virtual Dragon") ⁽⁴⁾	5,101,600	7.69%
Tricom Cyberworld Holdings Limited	3,856,400	5.81%

Notes:

- (1) Gorich is wholly-owned by Mr. Daniel Tat Jung Chiu. The interests of Mr. Daniel Tat Jung Chiu in the Company is stated under the section headed "Directors' Interests in Shares" above.
- (2) Cape York is owned equally by Mr. Dennis Chiu and Mr. Daniel Tat Jung Chiu. The interests of Mr. Dennis Chiu and Mr. Daniel Tat Jung Chiu in the Company are stated under the section headed "Directors' Interests in Shares" above.
- (3) Rocket is wholly-owned by Dato' David Chiu. The interests of Dato' David Chiu in the Company is stated under the section headed "Directors' Interests in Shares" above.
- (4) These shares are held by Peace View Company Limited ("Peace View"), a wholly-owned subsidiary of Far East Consortium Limited ("FEC"). On 28th March 2001, FEC had entered into a Sale of Shares Agreement with Virtual Dragon International Limited ("Virtual Dragon") to dispose of its entire equity interests in Peace View to Virtual Dragon.
- (5) All interests disclosed above represent long positions in the ordinary shares of the Company.

ADDITIONAL INFORMATION REQUIRED UNDER THE LISTING RULES (Continued)

SUBSTANTIAL SHAREHOLDERS (Continued)

Save as disclosed above, the Company has not been notified of any other interests or short positions representing 5% or more of the Company's issued share capital at 30th June, 2005.

SHARE OPTION SCHEME

At the annual general meeting of the Company held on 23rd May, 2005, the Company adopted a share option scheme ("Scheme") which is in compliance with the requirements as set out in Chapter 17 to the Listing Rules. No option had been granted under the Scheme during the six months ended 30th June, 2005.

POST BALANCE SHEET EVENT

On 21st July, 2005, 6.6 million share options at a subscription price of HK\$1.35 per share with an exercisable period from 21st July, 2005 to 20th July, 2015 (both days inclusive) were granted to directors and employees of the Company. It represented 9.95% of the shares of the Company in issue at that date.

INTERIM DIVIDEND

The directors do not recommend the payment of any interim dividend for the six months ended 30th June, 2005 (2004: Nil).

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

During the period, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

AUDIT COMMITTEE

The Audit Committee has reviewed with management the accounting principles and policies adopted by the Group and the unaudited interim financial statements for the six months ended 30th June, 2005.

ADDITIONAL INFORMATION REQUIRED UNDER THE LISTING RULES (Continued)

CORPORATE GOVERNANCE

The Company has complied with Code on Corporate Governance Practices (the “Code”) as set out in Appendix 14 of the Listing Rules throughout the six months ended 30th June, 2005, with deviations from code provision A.4.1 and A.4.2 of the Code in respect of the service term and rotation of Directors.

None of the existing Non-executive Directors of the Company is appointed for a specific term and Managing Director is not subject to re-election by rotation by the Company's Articles of Association (the “Articles”) 76. This constitutes a deviation from code provision A.4.1 and A.4.2 of the Code. However, all Directors of the Company excluding Managing Director are subject to the retirement by rotation at each annual general meeting under Articles 79 and 80 of the Company. In view of good Corporate Governance Practices, Managing Director voluntarily retires from his office at the forthcoming annual general meeting of the Company notwithstanding that he is not required to do so by the Company's Article 76. As such, the Company considers that sufficient measures have been taken to ensure that the Company's Corporate Governance Practices are no less exacting than those in the Code.

REMUNERATION COMMITTEE

The Company had established a Remuneration Committee with written terms of reference pursuant to the provisions set out in the Code. The committee comprised two independent Non-executive Directors, namely Dr. Lee G. Lam and Ryan Yen Hwung Fong and the Managing Director, Mr. Duncan Chiu of the Company. The Remuneration Committee is principally responsible for formulation and making recommendation to the Board on the Group's policy and structure for all remuneration of Directors and senior management.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) set out in Appendix 10 of the Listing Rules. Upon enquiry by the Company, all Directors of the Company have confirmed that they have complied with the required standards set out in the Model Code throughout the six months ended 30th June, 2005.

INTERIM RESULTS

The Board of Directors (the “Board”) of Far East Technology International Limited (the “Company”) herein present their unaudited condensed consolidated interim results of the Company and its subsidiaries (the “Group”) for the six months ended 30th June, 2005 together with comparative amounts. The interim financial report has not been audited, but has been reviewed by the Company’s Audit Committee.

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30th June, 2005

		Unaudited six months ended 30th June,	
	<i>Notes</i>	2005 HK\$'000	2004 HK\$'000 (restated)
Turnover	3	30,336	35,837
Cost of sales		(28,863)	(32,349)
Gross profit		1,473	3,488
Other operating income		829	199
Distribution costs		(383)	(173)
Administrative expenses		(5,264)	(4,831)
Other operating expenses		(67)	(133)
Gain on disposal of available-for-sale investments/investments in securities		1,046	1,118
Impairment loss on investment securities recognised		-	(241)
Fair value change on financial assets at fair value		(1,600)	3,557
Fair value change on investment properties		1,500	-
(Loss)/profit from operations	4	(2,466)	2,984
Finance costs		(112)	(1,295)
Gain on disposal of discontinued operations	5	-	301
Gain on disposal of an investment property	6	-	1,032
Gain on disposal of partial interest in an associate	10	2,924	-
Share of results of associates	10	4,330	3,291
Share of results of a jointly-controlled entity		(582)	(17)
Profit before tax		4,094	6,296
Tax	7	(22)	(393)
Net profit for the period		4,072	5,903

CONDENSED CONSOLIDATED INCOME STATEMENT (Continued)

For the six months ended 30th June, 2005

		Unaudited six months ended 30th June,	
		2005	2004
		HK\$'000	HK\$'000
			(restated)
	<i>Notes</i>		
Attributable to:			
Equity holders of the parent		3,992	5,513
Minority interests		80	390
		4,072	5,903
Earnings per share			
Basic	8	6.0 cents	8.3 cents
Diluted		N/A	N/A

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30th June, 2005

		30/6/2005	31/12/2004
		(unaudited)	(audited)
			(restated)
	<i>Notes</i>	HK\$'000	<i>HK\$'000</i>
Assets			
Non-current Assets			
Property, plant and equipment		16,048	18,143
Investment properties	11	27,200	25,700
Lease premium for land	12	4,477	4,566
Interest in associates	10	48,133	47,583
Interest in a jointly-controlled entity		2,218	2,800
Available-for-sale investments/investments in securities		10,894	8,180
		108,970	106,972
Current Assets			
Financial assets at fair value/investments in securities		26,566	20,845
Inventories		5,685	5,275
Trade and other receivables	13	12,953	14,342
Lease premium for land	12	174	174
Amount due from minority shareholders		5,789	6,194
Amount due from associates		640	686
Pledged bank deposits		9,950	5,216
Bank balances and cash		14,962	14,467
		76,719	67,199
Total Assets		185,689	174,171

CONDENSED CONSOLIDATED BALANCE SHEET (Continued)

As at 30th June, 2005

		30/6/2005	31/12/2004
		(unaudited)	(audited)
			(restated)
	<i>Notes</i>	HK\$'000	<i>HK\$'000</i>
Equity and Liabilities			
Capital and Reserves			
Share capital	16	663	331,669
Reserves		123,675	(214,779)
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Equity attributable to equity holders of the parent		124,338	116,890
Minority interests		16,397	16,329
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Total Equity		140,735	133,219
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Current Liabilities			
Trade and other payables	14	23,755	25,614
Amounts due to directors		4,994	5,752
Amounts due to related companies		1,627	1,557
Amount due to a minority shareholder		912	983
Amount due to a jointly-controlled entity		508	508
Tax payable		22	6
Bank and other loans – due within one year	15	13,136	6,532
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		44,954	40,952
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Total Liabilities		44,954	40,952
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Total Equity and Liabilities		185,689	174,171
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CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th June, 2005 (unaudited)

	Attributable to equity holders of the parent								
	Share capital	Share premium	Investment property revaluation reserve	Exchange reserve	Revaluation reserve	(Accumulated losses)/ retained profits	Attributable to equity holders of the parent	Minority interests	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st January, 2005, as originally stated	331,669	282,892	1,950	606	-	(499,790)	117,327	16,329	133,656
Effect of change in accounting policies									
HKAS 17	-	-	-	-	-	(438)	(438)	-	(438)
HKAS 39	-	-	-	-	3,368	-	3,368	-	3,368
HKAS 40	-	-	(1,950)	-	-	1,950	-	-	-
As restated	331,669	282,892	-	606	3,368	(498,278)	120,257	16,329	136,586
Exchange differences arising on translation of overseas subsidiaries	-	-	-	1	-	-	1	(12)	(11)
Share of post-acquisition reserve movement of associates during the period	-	-	-	(57)	-	-	(57)	-	(57)
Unrealized holding gain on available-for-sale investments	-	-	-	-	145	-	145	-	145
Net income recognised directly in equity	331,669	282,892	-	550	3,513	(498,278)	120,346	16,317	136,663
Net profit for the period	-	-	-	-	-	3,992	3,992	80	4,072
Total recognised income for the period	331,669	282,892	-	550	3,513	(494,286)	124,338	16,397	140,735
Capital reorganisation during the period	(331,006)	(201,549)	-	-	-	532,555	-	-	-
At 30th June, 2005, as restated	663	81,343	-	550	3,513	38,269	124,338	16,397	140,735

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Continued)

For the six months ended 30th June, 2004 (unaudited)

	Attributable to equity holders of the parent								
	Share capital HK\$'000	Share premium HK\$'000	Investment property revaluation reserve HK\$'000	Exchange reserve HK\$'000	Revaluation reserve HK\$'000	(Accumulated losses)/ retained profits HK\$'000	Attributable to equity holders of the parent HK\$'000	Minority interests HK\$'000	Total HK\$'000
At 1st January, 2004, as originally stated	331,669	282,892	-	10,683	-	(552,067)	73,177	16,411	89,588
Effect of change in accounting policies HKAS 17	-	-	-	-	-	(383)	(383)	-	(383)
As restated	331,669	282,892	-	10,683	-	(552,450)	72,794	16,411	89,205
Exchange differences arising on translation of overseas subsidiaries	-	-	-	370	-	-	370	90	460
Share of post-acquisition reserve movement of associates during the period	-	-	-	184	-	-	184	-	184
Net income recognised directly in equity	331,669	282,892	-	11,237	-	(552,450)	73,348	16,501	89,849
Net profit for the period	-	-	-	-	-	5,540	5,540	390	5,930
Effect of change in accounting policies during the period HKAS17	-	-	-	-	-	(27)	(27)	-	(27)
Total recognised income for the period	331,669	282,892	-	11,237	-	(546,937)	78,861	16,891	95,752
Realised on disposal of subsidiaries during the period	-	-	-	5,695	-	-	5,695	-	5,695
At 30th June, 2004, as restated	331,669	282,892	-	16,932	-	(546,937)	84,556	16,891	101,447

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30th June, 2005

	Unaudited six months ended 30th June,	
	2005	2004
	HK\$'000	HK\$'000
Net cash (used in)/from operating activities	(9,583)	5,220
Net cash from investing activities	3,563	29,875
Net cash from/(used in) financing activities	6,525	(26,711)
Net increase in cash and cash equivalents	505	8,384
Cash and cash equivalents at beginning of period	14,467	7,083
Effect of foreign exchange rate changes	(10)	33
Cash and cash equivalents at end of period represented by bank balances and cash	14,962	15,500

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of preparation

The unaudited condensed consolidated 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 2004 annual financial statements.

2. Significant accounting policies and changes in accounting policies

The unaudited condensed consolidated financial statements have been prepared under the historical cost basis except for investment properties and available-for-sale investments, which are measured at fair values or revalued amounts, as appropriate.

The accounting policies used in the unaudited condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31st December, 2004 except as described below:

In current period, the Group applied, for the first time, a number of new Hong Kong Financial Reporting Standards (“HKFRSs”), Hong Kong Accounting Standards (“HKASs”) and Interpretations (hereinafter collectively referred to as the “new HKFRSs”) issued by the HKICPA that are effective for accounting periods beginning on or after 1st January, 2005. The adoption of the new HKFRSs has resulted in changes of the Group’s accounting policies in the following areas that have an effect on how the results for the current or prior accounting periods are prepared and presented:

a) *Presentation of Financial Statements*

HKAS 1 “Presentation of Financial Statements” affects certain presentation in the consolidated balance sheet, consolidated income statement and consolidated statement of changes in equity, including the following:

- i) tax of jointly-controlled entity and associates attributable to the Group, which were previously included in the tax charge on the consolidated income statement, are now included in the share of profits and losses of jointly controlled entity and associates, respectively; and
- ii) minority interests are now included in the equity section of the balance sheet.

The changes in presentation have been applied retrospectively.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Significant accounting policies and changes in accounting policies (Continued)

b) *Lease Premium for Land*

The adoption of HKAS 17 "Leases" has resulted in a change in accounting policy relating to leasehold land. Leasehold land and buildings were previously carried at cost less accumulated depreciation and any accumulated impairment losses. In accordance with the provisions of HKAS 17, a lease of land and building should be split into a lease of land and a lease of building in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease. The lease premium for land is stated at cost and amortised over the period of the lease whereas the leasehold building is stated at cost less accumulated depreciation and any accumulated impairment losses.

Pursuant to HKAS 17, up-front payment made for leasehold land with a carrying value of approximately HK\$2,734,000 as at 30th June, 2005 (31st December, 2004: HK\$2,734,000) are reclassified as lease premium for land instead of land held for development (fixed assets) which are expensed in the consolidated income statement on straight-line basis over the period of the leases. Opening retained profits at 1st January, 2004 and 1st January, 2005 have been decreased by approximately HK\$383,000 and HK\$438,000 respectively. Profit for the six months ended 30th June, 2004 and 30th June, 2005 have been decreased by approximately HK\$27,000 and HK\$27,000 respectively.

c) *Interests in Joint Ventures*

The adoption of HKAS 31 "Interests in Joint Ventures", allows a venturer to recognise its interest in a jointly controlled entity using either proportionate consolidation or the equity method. While there is no change, the Group recognises its interest in a jointly controlled entity using the equity method. The applied HKAS 31 does not have any material effect on the financial statements for the current period. Comparative figures have not been restated.

d) *Financial Assets and Liabilities*

The adoption of HKAS 32 "Financial Instruments: Disclosure and Presentation" and HKAS 39 "Financial Instruments: Recognition and Measurement" has resulted in a change in the accounting policy relating to the classification of financial assets and liabilities and their measurement.

In accordance with the provisions of HKAS 39, the investments have been classified into available-for-sale investments and financial assets at fair value. The classification depends on the purpose for which the investments were held. As a result of the adoption of HKAS 39, all the investments are now stated at fair value in balance sheet, except for certain available-for-sale investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, when they are measured at cost less any accumulated impairment losses. In addition, all the investments as at 31st December, 2004 that should be measured at fair value on adoption of HKAS 39 should be remeasured at 1st January, 2005 and any adjustment of the previous carrying value amount should be recognised as an adjustment of the balance of revaluation reserves at 1st January, 2005. The revaluation reserves at 1st January, 2005 and 30th June, 2005 have been increased by approximately HK\$3,368,000 and HK\$145,000 respectively. Comparative figures have not been restated.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Significant accounting policies and changes in accounting policies (Continued)

d) *Financial Assets and Liabilities (Continued)*

Available-for-sale investments are carried at fair value with any unrealised gains and losses recognised in equity. Financial assets at fair value with any fair value change are included in the income statement. Available-for-sale investments and financial assets at fair value were previously classified as investments in securities (non-current assets) and investments in securities (current assets).

Borrowings are now recognised initially at fair value, net of transaction costs incurred. They are subsequently stated at amortised cost with any difference between the proceeds (net of transaction costs) and the redemption value recognised in the income statement over the period of the borrowing using the effective interest method or at fair value through profit and loss. Borrowings were previously carried at cost.

e) *Investment Properties*

Following the adoption of HKAS 40 "Investment Property", changes in the fair values of investment properties are included in the income statement. Previously the Group had recorded such fair value changes in the property valuation reserve. The adoption of new HKAS 40 has been applied retrospectively and comparative figures presented have been restated to conform to the changed policy. Opening retained profits at 1st January, 2005 has been increased by approximately HK\$1,950,000. Profit for the six months ended 30th June, 2005 has been increased by approximately HK\$1,500,000.

f) *Deferred Taxes Related to Investment Properties*

In addition, Hong Kong Accounting Standard Interpretation ("HKAS-Int") 21 now requires deferred tax to be calculated using profits tax rates on these surpluses and deficits. The deferred tax liabilities arising from revaluation of investment properties have been recognised at 1st January, 2005 and 30th June, 2005 approximately HK\$341,000 and HK\$263,000. The deferred tax assets and liabilities have been offset for the current period. The applied HKAS-Int 21 does not have any material effect on the financial statements for the current period. Comparative figures have not been restated.

g) *Share-based Payment*

In the current period, the Group has applied HKFRS 2 "Share-based Payment" which requires an expense to be recognised where the Group buys goods or obtains service in exchange for shares or rights over shares ("equity-settled transactions"), or in exchange for other assets equivalent in value a given number of shares or rights over shares ("cash-settled transactions"). The principal impact of HKFRS 2 on the Group is in relation to the expensing of the fair value of directors' and employees' share options of the Company determined at the date of grant of the share options over the vesting period. As at 30th June, 2005, no option has been granted pursuant to the adoptions of share option scheme on 23rd May, 2005. The applied HKFRS 2 does not have any material effect on the financial statements for the current period. Comparative figures have not been restated.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. Business and geographical segments

Business segments

	Continuing operations						Discontinued operation		Consolidated	
	Securities investment and trading		Property development and investment		Industrial		Entertainment and leisure			
	Unaudited (restated) six months ended 30th June,									
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
TURNOVER										
External sales	5,572	1,870	506	1,411	24,258	32,476	-	80	30,336	35,837
RESULTS										
Segment results	(3,749)	1,742	1,562*	307	(1,108)	967	-	(231)	(3,295)	2,785
Other operating income	829	78	-	7	-	114	-	-	829	199
(Loss)/profit from operations									(2,466)	2,984
Gain on disposal of discontinued operations									-	301
Gain on disposal of an investment property									-	1,032
Finance costs									(112)	(1,295)
Gain on disposal of partial interest in an associate									2,924	-
Share of results of associates									4,330	3,291
Share of results of a jointly controlled entity									(582)	(17)
Profit before tax									4,094	6,296
Tax									(22)	(393)
Net profit for the period									4,072	5,903

* The segment result of property development and investment for 2005 had been included a fair value change on investment properties of HK\$1,500,000.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. Business and geographical segments (Continued)

Geographical segments

	Sales revenue by geographical market Unaudited six months ended 30th June,	
	2005 HK\$'000	2004 HK\$'000
Hong Kong	9,633	8,107
Singapore	–	828
PRC	9,117	15,046
Japan	11,586	11,856
	<u>30,336</u>	<u>35,837</u>

4. (Loss)/profit from operations

	Unaudited six months ended 30th June,	
	2005 HK\$'000	2004 HK\$'000 (restated)
(Loss)/profit from operations has been arrived at after charging:		
Auditors' remuneration	290	405
Depreciation	2,305	2,099
Directors' remuneration and other staff costs, including retirement benefits schemes contributions of HK\$641,943 (2004: HK\$623,680)	6,427	5,615
Minimum lease payments for operating lease in respect of rented premium	111	–
Lease premium for land amortisation	87	87
and after crediting:		
Profit on disposal of listed other investments	–	217
Rental income from investment properties, less outgoings of HK\$506,367 (2004: HK\$734,074)	506	717
	<u>506</u>	<u>717</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. Gain on disposal of discontinued operations

During the period, there was no gain recognised on the disposal of discontinued operations (six months ended 30th June, 2004: HK\$301,000).

6. Gain on disposal of an investment property

During the period, there was no gain recognised on the disposal of an investment property (six months ended 30th June, 2004: HK\$1,032,000).

7. Tax

	Unaudited six months ended 30th June,	
	2005	2004
	HK\$'000	<i>HK\$'000</i> (restated)
Current tax:		
Profits Tax for the period		
PRC	(22)	(393)
Tax attributable to the Company and its subsidiaries	(22)	(393)

Tax arising in PRC is calculated at the rates prevailing in the relevant jurisdictions.

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.

Deferred tax has been provided for at the rate that is expected to apply in the period when the liability is settled or the asset is realised. The effect of deferred tax for the both period is considered to be insignificant to the Group.

8. Earnings per share

The calculation of basic earnings per share is based on the profit attributable to equity holders of the parent of HK\$3,992,000 (six months ended 30th June, 2004 (restated): HK\$5,513,000) and on the weighted average number of 66,333,781 (six months ended 30th June, 2004 (restated): 66,333,781) ordinary shares in issue during the period.

The basic earning per share for the six months ended 30th June, 2004 has been restated to reflect the reduction in number of ordinary shares in issue to 66,333,781 shares as a result of the capital reorganisation (as detailed in note 16).

The effect of dilutive potential ordinary shares of an associate is considered to be insignificant to the Group.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

9. Interim dividend

The directors do not recommend the payment of any interim dividend for the six months ended 30th June, 2005 (six months ended 30th June, 2004: Nil).

10. Interest in associates

	THE GROUP		THE COMPANY	
	30/6/2005 (unaudited) HK\$'000	31/12/2004 (audited) HK\$'000	30/6/2005 (unaudited) HK\$'000	31/12/2004 (audited) HK\$'000
Listed share, at cost	–	–	15,386	16,020
Unlisted shares, at cost	–	–	–	–
Share of net assets	48,133	47,583	–	–
	48,133	47,583	15,386	16,020
Market value of listed shares	183,481	129,130	183,481	129,130

Particulars of associates of the Group at 30th June, 2005 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	24.36%	Provision of information technology services
Fortex Investments Limited ("Fortex")	British Virgin Islands/ Hong Kong	41.67%	Inactive

The shares of Chinasoft are listed on the Growth Enterprise Market of the Stock Exchange with effect from 20th June, 2003.

In August 2004, Chinasoft allotted and issued 57,500,000 new shares at an issue price of HK\$0.73 each to China National Computer Software & Technology Service Corporation as consideration for the acquisition of the remaining 15% of the registered capital of Beijing Chinasoft International Information Technology Limited. Accordingly, the Company's shareholding in Chinasoft decreased from 27.64% to 25.36%, resulting in a gain on deemed disposal of HK\$7,663,747 during 2004.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

10. Interest in associates (Continued)

In June 2005, the company disposed of partial interest 7,000,000 shares in Chinasoft. As a result, the company's interest in Chinasoft further decreased from 25.36% to 24.36%, such disposal with a gain of approximately HK\$2,924,000 (six months ended 30th June, 2004: Nil).

During the period, the Group's share of the result of associates were approximately HK\$4,330,000 (six months ended 30th June, 2004: HK\$3,291,000) which shared profit from an associate (Chinasoft) of approximately HK\$4,352,000 (six months ended 30th June, 2004: HK\$3,291,000) while loss from another associate (Fortex) of approximately HK\$22,000 (six months ended 30th June, 2004: Nil).

The following details have been extracted based on the unaudited interim results 2005 of Chinasoft:

	Unaudited six months ended 30th June,	
	2005 HK\$'000	2004 HK\$'000
Results for the period		
Turnover	154,191	109,490
Profit before tax	18,403	13,351
Profit before tax attributable to the Group	4,667	3,690
Share of tax attributable to an associate	(315)	(399)
Profit after tax attributable to the Group	4,352	3,291
	30/6/2005 (unaudited) HK\$'000	31/12/2004 (audited) HK\$'000
Financial position		
Non-current assets	58,023	52,202
Current assets	260,167	259,575
Current liabilities	(119,169)	(122,997)
Non-current liabilities	(1,430)	(1,149)
Net assets	197,591	187,631
Net assets attributable to the Group	48,133	47,583

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

11. Investment properties

	THE GROUP	
	30/6/2005 (unaudited) HK\$'000	31/12/2004 (audited) HK\$'000
AT VALUATION		
At beginning of period/year	25,700	168,812
Currency realignment	-	1,514
Expenditure incurred	-	3,290
Disposals	-	(27,800)
Disposals of subsidiaries	-	(122,526)
Revaluation increase	1,500	2,410
At end of period/year	27,200	25,700

The carrying amount of investment properties comprises:

	30/6/2005 (unaudited) HK\$'000	31/12/2004 (audited) HK\$'000
Properties in Hong Kong under medium-term leases	27,200	25,700

All of the Group's investment properties are rented out under operating leases.

The investment properties in Hong Kong were revalued at 30th June, 2005 and 31st December, 2004 by DTZ Debenham Tie Leung, an independent firm of valuers, in existing state on an open market value basis. The net revaluation increase arising on the revaluation, which had been charged to consolidated income statement and credited directly to the investment property revaluation reserves, amounting to HK\$1,500,000 and HK\$1,950,000 respectively.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

12. Lease premium for land

	THE GROUP	
	30/6/2005 (unaudited) HK\$'000	31/12/2004 (audited) HK\$'000
Cost:		
At beginning of period/year:		
As previously reported	–	–
Effect of adopting HKAS 17	6,309	6,333
At restated	6,309	6,333
Currency realignment	(3)	(24)
At end of period/year	6,306	6,309
Accumulated amortisation:		
At beginning of period/year:		
As previously reported	–	–
Effect of adopting HKAS 17	1,569	1,402
At restated	1,569	1,402
Currency realignment	(1)	(8)
Amortisation for the period/year	87	175
At end of period/year	1,655	1,569
Net book value:		
At end of period/year	4,651	4,740
Portion classified as current assets	(174)	(174)
Long term portion	4,477	4,566

The leasehold land of the Group as at 30th June, 2005 are held under medium term leases in Hong Kong and land use rights in PRC.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

13. 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 at the reporting date is as follows:

	THE GROUP	
	30/6/2005 (unaudited) HK\$'000	31/12/2004 (audited) HK\$'000
0 – 30 days	1,897	2,001
31 – 60 days	1,950	1,593
61 – 90 days	845	2,359
Over 90 days	6,829	6,626
	<hr/>	<hr/>
Total trade receivables	11,521	12,579
Other receivables	1,432	1,763
	<hr/>	<hr/>
	12,953	14,342

14. Trade and other payables

The aged analysis of trade payables at the reporting date is as follows:

	THE GROUP	
	30/6/2005 (unaudited) HK\$'000	31/12/2004 (audited) HK\$'000
0 – 30 days	2,527	2,010
31 – 60 days	1,657	693
61 – 90 days	1,516	1,651
Over 90 days	6,760	8,324
	<hr/>	<hr/>
Total trade payables	12,460	12,678
Other payables	11,295	12,936
	<hr/>	<hr/>
	23,755	25,614

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

15. Bank and other loans

	THE GROUP	
	30/6/2005 (unaudited) HK\$'000	31/12/2004 (audited) HK\$'000
Bank and other loans comprise:		
Bank loans	4,195	5,864
Other loans	8,941	668
	13,136	6,532

The above loans are secured and are repayable within one year.

16. Share capital

	Number of ordinary shares of		Share Capital	
	HK\$0.01 each	HK\$1 each	Nominal value	
	30/06/2005 (in thousand)	31/12/2004 (in thousand)	30/06/2005 HK\$'000	31/12/2004 HK\$'000
Authorised:	70,000,000	700,000	700,000	700,000
Issued and fully paid:				
At beginning of the period/year	331,669	331,669	331,669	331,669
Capital reorganisation	(265,335)	–	(331,006)	–
At ended of the period/year	66,334	331,669	663	331,669

During the period, the Group undertook a capital reorganisation resulting in reduction of capital, consolidation of shares, subdivision of shares and reduction of share premium:

- a) every 5 shares of HK\$1.00 each in the share capital of the Company (whether issued or unissued) will be consolidated into one consolidated share;
- b) upon the share consolidation taking effect, the issued share capital of the Company be reduced from HK\$331,668,905 to HK\$663,338 by cancelling paid up capital to the extent of HK\$4.99 on each consolidated share in issue arising from the share consolidation so as to form fully-paid up adjusted shares;
- c) upon the capital reduction taking effect, each authorised but unissued consolidated share of HK\$5.00 each be subdivided into 500 adjusted shares; and

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

16. Share capital (Continued)

- d) upon the capital reduction taking effect, the credit amount arising from the capital reduction together with the credit amount standing in the share premium account be applied by the directors to eliminate the accumulated losses of the Company as at 31st December, 2003 in accordance with the Articles of Association of the Company and all applicable laws.

Details of the transaction are set out in a circular and a supplemental circular of the Company dated 28th May, 2004 and 27th August, 2004 respectively.

17. Share option scheme

The Company's share option scheme was adopted pursuant to a resolution passed on 23rd May, 2005 (the "Share Option Scheme") for the purpose of providing incentives and rewards to employees or executive or officers of the Company or any its subsidiaries (including executive and non-executive directors) and business consultants, agents and legal or financial advisers who will contribute or have contributed to the Company or any of its subsidiaries. Under the Share Option Scheme, the board of directors of the Company may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company.

As at 30th June, 2005, the total number of shares in respect of which options may be granted under the share option scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders.

Options granted will be taken up upon payment of HK\$1 per option. Options may be exercised at any time not exceeding a period of 10 years from the date on which the share options is accepted. The exercise price is determined by the directors of the Company, and will not be less than the higher of (i) the closing price of the Company's shares on the date of grant, (ii) the average closing price of the shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's share.

As at 30th June, 2005, no option has been granted or agreed to be granted by the Company under the Share Option Scheme.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

18. Pledge of assets

At the reporting date:

- (a) bank loan facilities to the extent of approximately HK\$16.2 million (31st December, 2004: HK\$16.2 million) of which nil (31st December, 2004: nil) were utilised, were secured by the Group's investment properties in Hong Kong with an aggregate net book value of approximately HK\$27.2 million (31st December, 2004: HK\$25.7 million);
- (b) margin trading facilities in respect of securities transactions to the extent of approximately HK\$12.3 million (31st December, 2004: HK\$5.5 million), of which HK\$8.9 million (31st December, 2004: HK\$0.7 million) were utilised, were secured by the listed investments of the Group and the Company of approximately HK\$25 million (31st December, 2004: HK\$11 million) and HK\$24 million (31st December, 2004: HK\$10 million), respectively;
- (c) overdraft and revolving loan facilities to the extent of approximately HK\$40.6 million (31st December, 2004: HK\$40.6 million), of which HK\$3.8 million (31st December, 2004: HK\$5.3 million) were utilised, were secured by time deposits held by the Company of approximately HK\$5 million (31st December, 2004: HK\$5.2 million) and by a floating charge over the asset of the Company;
- (d) bank loan of approximately HK\$0.4 million (31st December, 2004: HK\$0.5 million) were secured by a blending machine held by a subsidiary with net book value of approximately HK\$2.3 million (31st December, 2004: HK\$2.3 million).

19. Contingent liabilities

At the reporting date, the Group and the Company had no contingent liabilities regarding guarantees to banks in respect of banking facilities utilised by subsidiaries (31st December, 2004: Nil).

20. Capital commitments

At the reporting date, the Group and the Company had no capital commitments in respect of capital contribution to a subsidiary contracted but not provided for in the financial statements (31st December, 2004: Nil).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

21. Operating lease arrangements

The Group as lessor

Property rental income earned during the period was HK\$506,000 (six months ended 30th June, 2004: HK\$765,000). 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:

	30/6/2005 (unaudited) HK\$'000	31/12/2004 (audited) HK\$'000
Within one year	660	660
In the second to fifth year inclusive	523	853
	1,183	1,513

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 a non-cancellable operating lease which fall due as follows:

	30/6/2005 (unaudited) HK\$'000	31/12/2004 (audited) HK\$'000
Within one year	313	155
In the second to fifth year inclusive	93	64
	406	219

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. Lease is negotiation for a term of two years.

22. Post balance sheet event

On 21st July, 2005, 6.6 million share options at a subscription price of HK\$1.35 per share with an exercisable period from 21st July, 2005 to 20th July, 2015 (both days inclusive) were granted to directors and employees of the Company. It represented 9.95% of the shares of the Company in issue at that date.