THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Zhong Hua International Holdings Limited (the "Company"), you should at once hand this circular and the accompanying form of proxy to the purchaser or transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

ZHONG HUA INTERNATIONAL HOLDINGS LIMITED

中華國際控股有限公司*

(Incorporated in Bermuda with limited liability)

(Stock code: 1064)

VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION IN RELATION TO THE PROPOSED ACQUISITION OF THE REMAINING 19.1% EQUITY INTEREST IN A SUBSIDIARY AND REFRESHMENT OF THE GENERAL MANDATE TO ALLOT AND ISSUE SHARES

Financial adviser to Zhong Hua International Holdings Limited

SOMERLEY LIMITED

Independent financial adviser to the independent board committee and the shareholders or the independent shareholders (as the case may be) of Zhong Hua International Holdings Limited

Guangdong Securities Limited

A letter from the board of directors of the Company is set out on pages 5 to 21 of this circular. A letter from the independent board committee of the Company containing its advice to the shareholders or the independent shareholders (as the case may be) of the Company in relation to the Acquisition (as defined herein) and the New General Mandate (as defined herein) is set out on pages 22 to 23 of this circular. A letter from Guangdong Securities Limited, the independent financial adviser to the independent board committee and the shareholders or the independent shareholders (as the case may be) of the Company, containing its advice in relation to the Acquisition (as defined herein) and the New General Mandate (as defined herein) is set out on pages 24 to 41 of this circular.

A notice convening a special general meeting of the Company to be held at Unit 6307, 63rd Floor, The Center, 99 Queen's Road Central, Hong Kong at 11:00 a.m. on 7th February, 2005, is set out on pages 154 to 156 of this circular. If you are not able to attend the special general meeting of the Company, you are requested to complete and sign the enclosed form of proxy in accordance with the instructions printed thereon and return it to the principal place of business of the Company at Unit 6307, 63rd Floor, The Center, 99 Queen's Road Central, Hong Kong as soon as possible and in any event no later than 48 hours before the time appointed for holding the meeting of the Company. Completion and return of the form of proxy will not preclude you from attending and voting in person at the special general meeting of the Company or any adjournment of it, should you so wish.

* *For identification only*

21st January, 2005

CONTENTS

In this circular, the following terms have the meanings as follows:

"Acquisition"	the acquisition of the Sale Equity pursuant to the Agreement
"Agreement"	the agreement dated 14th December, 2004 entered into between the Vendor and the Purchaser in relation to the Acquisition
"Annual General Meeting"	the annual general meeting of the Company held on 16th June, 2004
"associates"	has the meaning given to it in the Listing Rules
"Board"	the board of Directors
"Chesterton"	Chesterton Petty Limited, an independent firm of professional valuers
"China Land"	China Land Realty Investment (BVI) Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of the Company
"Company"	Zhong Hua International Holdings Limited, a company incorporated in Bermuda with limited liability, the issued Shares of which are listed on the Main Board of the Stock Exchange
"Completion"	completion of the Agreement
"Consideration"	HK$60,000,000, being the consideration payable for the Acquisition pursuant to the Agreement
"Current General Mandate"	the general mandate approved and granted to the Directors to allot and issue not exceeding 20% of the issued share capital of the Company as at the date of passing the resolution at the Annual General Meeting
"Deposit"	HK$36,000,000, being the deposit which was paid in cash by the Purchaser to the Vendor upon signing of the Agreement
"Directors"	directors of the Company

"Enlarged Group"	the Group as enlarged by the Acquisition
"First Acquisition"	the acquisition of the indirect equity interest of 80.9% in Sky City by the Purchaser which was completed in June 2004, details of which are set out in the announcement of the Company dated 1st April, 2004 and the Previous Circular
"First Vendor"	Mr. Man O Fu, the vendor of the First Acquisition
"Group"	the Company and its subsidiaries
"GD Securities"	Guangdong Securities Limited, the independent financial adviser to the Independent Board Committee and the Shareholders or the Independent Shareholders (as the case may be) in relation to the Acquisition and the New General Mandate; and a licensed corporation under the SFO to conduct types 1 (dealing in securities), 4 (advising on securities), 6 (advising on corporate finance) and 9 (asset management) regulated activities
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Independent Board Committee"	the independent board committee of the Company constituted by the three independent non-executive Directors comprising Messrs. Zhang Jie, Young Kwok Sui and Ng Kin Sun to advise the Shareholders or the Independent Shareholders (as the case may be) in relation to the Acquisition and the New General Mandate
"Independent Shareholders"	Shareholders other than High Rank Enterprises Limited, Morgan Estate Assets Limited, On Tai Profits Limited, Morcambe Corporation and their respective associates
"Internet Café"	a café providing a variety of refreshments, snacks, personal computers with internet access and a selection of online games
"Latest Practicable Date"	19th January, 2005, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information for inclusion in this circular

"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"New General Mandate"	the proposed general mandate to be granted to the Directors to allot and issue not exceeding 20% of the issued share capital of the Company as at the date of passing the resolution at the Special General Meeting
"PRC"	the People's Republic of China and, for the purpose of this circular, excluding Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
"Previous Circular"	the circular of the Company dated 31st May, 2004 in relation to the First Acquisition
"Purchaser"	Telesuccess International Limited, an indirect wholly-owned subsidiary of the Company which held 80.9% equity interest in Sky City as at the Latest Practicable Date
"Sale Equity"	the remaining 19.1% equity interest and rights of the Vendor in Sky City, to be sold by the Vendor to the Purchaser pursuant to the Agreement
"SFO"	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Share(s)"	ordinary share(s) of HK$0.02 each in the capital of the Company
"Shareholders"	holders of the Shares
"Sky City"	廣州天城網絡通訊有限公司 (GuangZhou Sky City Network Communication Ltd.), a sino-foreign co-operative joint venture as at the Latest Practicable Date established in the PRC on 9th May, 1997
"Somerley"	Somerley Limited, the financial adviser to the Company in relation to the Acquisition; and a deemed licensed corporation under the SFO to conduct types 1 (dealing in securities), 4 (advising on securities), 6 (advising on corporate finance) and 9 (asset management) regulated activities

"Special General Meeting"	special general meeting of the Company to be held at Unit 6307, 63rd Floor, The Center, 99 Queen's Road Central, Hong Kong at 11:00 a.m. on 7th February, 2005 for the purpose of considering, and if thought fit, approving the Agreement, the Acquisition contemplated thereunder and the New General Mandate, notice of which is set out herein
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Subscription Agreement"	the agreement dated 16th July, 2004 entered into between the Company and CNC Broadband Entertainment Corporation Limited (the subscriber) in relation to the issue of a convertible bond by the Company amounting to HK$30,000,000, details of which are set out in the announcement of the Company dated 19th July, 2004
"Vendor"	廣東中訊科技有限公司 ("GuangDong Zhong Xun Technology Limited"), an enterprise incorporated under the Company Laws of the PRC and the vendor to the Agreement
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"RMB"	Renminbi, the lawful currency of the PRC
"%"	per cent. or percentage

In this circular, amounts denominated in RMB have been, for illustration purposes, converted into HK$ at the rate of RMB1.06 = HK$1.0.

ZHONG HUA INTERNATIONAL HOLDINGS LIMITED
中華國際控股有限公司*

(Incorporated in Bermuda with limited liability)
(Stock code: 1064)

Executive Directors:
Mr. Ho Tsam Hung *(Chairman)*
Mr. Ho Pak Hung *(Deputy Chairman)*
Mr. Ho Kam Hung *(Managing Director)*

Independent non-executive Directors:
Mr. Zhang Jie
Mr. Young Kwok Sui
Mr. Ng Kin Sun

Registered office:
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Head office and principal place of business in Hong Kong:
Unit 6307, 63rd Floor
The Center
99 Queen's Road Central
Hong Kong

21st January, 2005

To the Shareholders

Dear Sirs,

VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION IN RELATION TO THE PROPOSED ACQUISITION OF THE REMAINING 19.1% EQUITY INTEREST IN A SUBSIDIARY AND REFRESHMENT OF THE GENERAL MANDATE TO ALLOT AND ISSUE SHARES

INTRODUCTION

On 16th December, 2004, the Directors announced that the Purchaser and the Vendor entered into the Agreement pursuant to which the Purchaser conditionally agreed to acquire from the Vendor the remaining 19.1% interest in Sky City for a consideration of HK$60,000,000.

* *For identification only*

On 1st April, 2004, the Directors announced that China Land entered into a sale and purchase agreement dated 26th March, 2004 with the First Vendor to acquire through the Purchaser an 80.9% indirect equity interest in Sky City. The consideration for the First Acquisition of HK$200 million was satisfied as to HK$140 million by cash and as to HK$60 million by the issue and allotment of 464,396,284 Shares at an issue price of HK$0.1292 per Share by the Company to the First Vendor. Details of the First Acquisition are set out in the announcement of the Company dated 1st April, 2004 and the Previous Circular. The First Acquisition was completed in June 2004.

In aggregating the First Acquisition, the transactions under the Agreement constitute a very substantial acquisition for the Company in accordance with Rule 14.22 of the Listing Rules. As at the Latest Practicable Date, Sky City was held as to 80.9% by the Purchaser and 19.1% by the Vendor. The Vendor is a substantial shareholder of Sky City which is a non wholly-owned subsidiary of the Company. By virtue of the Vendor's interest in Sky City, the Acquisition constitutes a connected transaction of the Company under the Listing Rules. As none of the Shareholders has a material interest in the Acquisition, no Shareholders are required to abstain from voting. Accordingly, the Agreement is subject to approval of the Shareholders at the Special General Meeting.

The Directors propose to refresh the Current General Mandate. As at the Latest Practicable Date, the Company had an aggregate of 3,919,413,009 Shares in issue. Upon passing of the resolution at the Special General Meeting and on the basis that no further Shares will be issued and/or repurchased by the Company between the Latest Practicable Date and the date of the Special General Meeting, the Company would be allowed pursuant to the New General Mandate to allot and issue not exceeding 783,882,601 new Shares, being 20% of 3,919,413,009 Shares in issue as at the Latest Practicable Date. In compliance with Rule 13.36(4), approval of the Independent Shareholders at the Special General Meeting is required for the refreshment of the Current General Mandate. Accordingly, High Rank Enterprises Limited, Morgan Estate Assets Limited, On Tai Profits Limited, Morcambe Corporation and their respective associates, collectively being the controlling Shareholders (as defined in the Listing Rules), are required to abstain from voting in favour of the resolution to be proposed at the Special General Meeting in respect of the New General Mandate.

A Special General Meeting will be convened by the Company at which resolutions will be proposed to seek approval of (i) the Shareholders for the Agreement and the Acquisition contemplated thereunder; and (ii) the Independent Shareholders for the New General Mandate. At such meeting, the votes of the Shareholders or the Independent Shareholders (as the case may be) will be taken on a poll.

The Independent Board Committee has been constituted to advise the Shareholders in relation to the Acquisition as well as the Independent Shareholders in relation to the New General Mandate. GD Securities has been appointed to advise the Independent Board Committee and the Shareholders or the Independent Shareholders (as the case may be) in this regard.

The purpose of this circular is to provide you with, among others, (i) details of the Agreement and the New General Mandate; (ii) a letter of recommendation from the Independent Board Committee to the Shareholders or the Independent Shareholders (as the case may be); (iii) a letter of advice from GD Securities to the Independent Board Committee and the Shareholders or the Independent Shareholders (as the case may be); (iv) an accountants' report on Sky City; (v) the pro forma financial information of the Enlarged Group; (vi) a property valuation report on the properties of the Enlarged Group; and (vii) the notice convening the Special General Meeting.

THE AGREEMENT DATED 14TH DECEMBER, 2004

Parties to the Agreement

Vendor: 廣東中訊科技有限公司 ("GuangDong Zhong Xun Technology Limited"), the legal and beneficial owner of the Sale Equity

Purchaser: Telesuccess International Limited, an indirect wholly-owned subsidiary of the Company

To the best knowledge of the Directors, the Vendor is principally engaged in the provision of telecommunication and information technology products, computer information system and network integration services; including communication equipments, telecommunication terminal equipments, office automation equipments; computer hardware and software, system integration; communication and technology information inquiry technical services, computer information businesses.

Subject matter of sale and purchase

Pursuant to the Agreement, the Purchaser agreed to acquire and the Vendor agreed to sell the Sale Equity, representing the remaining 19.1% equity interest and rights of the Vendor in Sky City. As at the Latest Practicable Date, Sky City was held as to 80.9% by the Purchaser and 19.1% by the Vendor. Upon Completion, Sky City will become an indirect wholly-owned subsidiary of the Company and a wholly foreign owned enterprise in the PRC.

The Sale Equity shall be acquired by the Purchaser free from all liens, rights of pre-emption, charges, encumbrances, equities and third party's rights of any kind and together with all dividends, interest, bonuses, distributions or other rights now or hereafter attaching thereto.

Consideration

The consideration for the Sale Equity of HK$60,000,000 was arrived at after arm's length negotiations between the Company and the Vendor with reference to the growth potential of Sky City in respect of its business of provision of online game infrastructure platform and distribution channels.

As referred to in the section headed "Information on Sky City" in this letter, Sky City made an audited operating loss of approximately HK$2.2 million for the year ended 31st December, 2003 in view of certain exceptional business environments. However, after having transformed itself into an integrated service provider providing integrated service to online game developers and other broadband media providers in the PRC, Sky City has turned around in 2004 and recorded an audited operating profit of approximately HK$6.6 million for the nine months ended 30th September, 2004. Given the aforesaid, the Directors consider Sky City has demonstrated that it has tapped into the rapidly growing market of online game business in the PRC and are positive about the prospect of the future growth of Sky City. At the time of the First Acquisition, Sky City had just passed a difficult time in transforming its business model to become an integrated service provider, the results of which were yet to be proved. However, the growth potential and results of such transformation have been recently proved by its promising results achieved in the first nine months in 2004. Accordingly, the Acquisition being currently contemplated by the Group could demand a higher valuation as compared with that for the First Acquisition.

The Consideration has been/will be satisfied as follows:

(i) HK$36,000,000, being the Deposit (as defined herein) which was paid in cash upon signing of the Agreement; and

(ii) HK$24,000,000, being the balance of the Consideration which will be paid in cash on Completion.

The Group intends to satisfy the Consideration by the internal resources of the Group. As set out in the 2004 interim report of the Company, the Group had a cash and bank balance of approximately HK$102 million as at 30th June, 2004. The Directors have confirmed that the Group has sufficient internal resources, taking into account the Group's existing cash balance and the net proceeds of approximately HK$42.5 million from the placing of Shares completed in November 2004, to finance the Acquisition and the operation of Sky City.

Conditions of the Agreement

The Agreement is conditional upon:

(i) the passing of ordinary resolution(s) by the Shareholders at the Special General Meeting to be convened to approve the Agreement and the Acquisition contemplated thereunder;

(ii) the Purchaser's satisfaction in form and content of a legal opinion regarding, amongst other things, the sale of the Sale Equity and any other matters to complete and perfect the right, title and interest of the Purchaser and any other matters the Purchaser must be aware of for the Acquisition;

(iii) the Vendor has by board resolutions resolved to:

(a) approve the transfer of the Sale Equity to the Purchaser and/or its nominee;

(b) cause all the existing directors of the Vendor's appointment in Sky City to resign without compensation or other payment for loss of office;

(c) accept the resignation of the directors of the Vendor's appointment in Sky City;

(d) appoint new directors nominated by the Purchaser to the board of directors of Sky City; and

(e) obtain a confirmation document issued by the relevant local authority endorsing the changes in Sky City's ownership and directorship as stated above, if necessary and all necessary approval and consent by relevant PRC government authorities or departments on the Agreement, the Acquisition and any other matter in relation to the Acquisition in respect of which approval or consent is necessary in order to complete and perfect the right, title and interest of the Purchaser to and in the Sale Equity.

If there is any compensation or other payment for loss of office payable to the existing directors of the Vendor's appointment in Sky City as referred to in condition (iii)(b) above, such compensation or other payment would have to be all settled by Sky City by the time of resignation of such directors (i.e. on or before Completion). It is expected that no such compensation or payment for loss of office will be required.

In the event that the conditions set out above not being fulfilled or waived by the Purchaser (as regards condition (ii) only) on or before the long stop date of 28th February, 2005, save and except for the Vendor's obligation to return the Deposit to the Purchaser in full in the manner as mentioned below, the Agreement shall be null and void and all obligations and liabilities of the parties shall cease and terminate and no party shall have any claim against the other in respect thereof or the Acquisition contemplated thereunder.

If any of the above conditions is not fulfilled or waived (as the case may be in respect of condition (ii)) on or before the long stop date of 28th February, 2005, or if for any reason, the Completion does not take place in accordance with the terms of the Agreement, the Vendor shall refund the Deposit to the Purchaser in full without interest within two business days from the date it receives notice from the Purchaser confirming the termination of the Agreement. As at the Latest Practicable Date, condition (ii) had been fulfilled.

Completion

Completion of the Agreement shall take place within three business days following fulfillment or waiver (as the case may be) of the conditions set out above or such other date (which must be a business day) as mutually agreed by the Vendor and the Purchaser in writing.

INFORMATION ON SKY CITY

廣州天城網絡通訊有限公司 (GuangZhou Sky City Network Communication Ltd.) or Sky City (as referred to herein) was established in the PRC on 9th May, 1997 as a sino-foreign co-operative joint venture. Upon Completion, Sky City will become an indirect wholly-owned subsidiary of the Company and a wholly foreign owned enterprise in the PRC.

As at the Latest Practicable Date, Sky City had a registered capital of RMB110,000,000 (or approximately HK$103.8 million). The total investment amount of Sky City is RMB200,000,000 (or approximately HK$188.7 million). According to the memorandum and articles of association of Sky City, the amount of total investment over the registered capital of RMB90,000,000 (or approximately HK$84.9 million), which is not a capital commitment, will only be funded by the Purchaser if the shareholders of Sky City consider that such funding is necessary for the business development of Sky City in the future. In the event that the Purchaser decides to provide further funding to Sky City after Completion, the Company intends to finance such funding by internal resources of the Group and/or debt financing and/or equity fund raising exercises.

The scope of business of Sky City involves the design and installation of communication technology system and related communication network, the provision of up-grading services, technology maintenance, consultation advice, and training of technicians services in relation to the said communication technology system, development of software computer products, integration of computer communication system, development of communication technology, the provision of agency services in relation to telecommunication business and sale of Sky City's products.

During previous years, Sky City has been focusing on the provision of internet data centre services, design and installation of communication technology system and related communication network in the PRC. Sky City has developed business partnership with various telecommunication service providers, technology equipment providers and other technique developers.

In 2003, leveraging on its expertise in providing internet data centre services and the business opportunities arisen from the increasing demand for broadband services and online games in the PRC, Sky City has transformed itself into an integrated service provider providing integrated service to online game developers and other broadband media providers in the PRC. The Directors confirm that there are no gambling activities involved in such online games. In addition, it started to be engaged in the provision of agency services in relation to telecommunication business. Through the delivery of game data and content to Internet Café, Sky City could establish a physical distribution channel for game contents owned by the game developers. By bundling its online game infrastructure platform and distribution channels to the game developers, Sky City could benefit from sharing the profits generated by the game developers. According to International Data Corporation ("IDC"), the market size of the PRC online games worthed approximately RMB310 million, RMB910 million and RMB1.32 billion in 2001, 2002 and 2003 respectively and is expected to grow to approximately RMB8.34

billion by 2006. Based on the statistics of IDC, the number of online gamers in the PRC was approximately 4 million, 8.1 million and 13.8 million in 2001, 2002 and 2003 respectively and is expected to reach approximately 40 million by 2006. In view of the increasing demand for online games in the PRC, Sky City is considering to operate Internet Café offering a variety of refreshments, snacks, personal computers with internet access and a selection of online games in the PRC, which could allow Sky City to achieve a vertical integration among its online game related business.

Set out below is (i) the financial information of Sky City for each of the three years ended 31st December, 2003 and each of the nine months ended 30th September, 2003 and 2004 extracted from the accountants' report on Sky City set out in Appendix II to this circular; and (ii) the management discussion and analysis for the respective years and periods:

(i) Results

	Year ended 31st December,			For the nine months ended 30th September,	
	2001	**2002**	**2003**	**2003**	**2004**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(audited)	(audited)	(audited)	(unaudited)	(audited)
Turnover	17,825	26,559	18,477	12,760	20,052
Cost of sales	(7,484)	(11,381)	(15,047)	(10,982)	(10,714)
Gross profit	10,341	15,178	3,430	1,778	9,338
Other revenue	40	31	37	19	20
Administrative expenses	(3,065)	(2,338)	(2,951)	(1,999)	(1,087)
Other operating expenses	(25,620)	(5,180)	(2,670)	(2,670)	(1,698)
Profit/(loss) from operating activities	(18,304)	7,691	(2,154)	(2,872)	6,573
Finance costs	–	(331)	(1,751)	(858)	(2,592)
Waiver of an amount due to the former ultimate holding company	–	–	15,710	15,710	–
Waiver of a loan from the former ultimate holding company	–	–	825	825	–
Profit/(loss) before tax	(18,304)	7,360	12,630	12,805	3,981
Tax	–	(1,665)	(2,383)	(2,399)	(857)
Net profit/(loss) for the year	(18,304)	5,695	10,247	10,406	3,124

(ii) Balance sheet

	As at 31st December, 2001 HK$'000 (audited)	As at 31st December, 2002 HK$'000 (audited)	As at 31st December, 2003 HK$'000 (audited)	As at 30th September, 2004 HK$'000 (audited)
Non-current assets				
Fixed assets	82,650	103,861	98,178	91,250
Intangible assets	7,769	5,742	3,715	2,195
Prepayment and deposits	–	18,866	44,515	71,127
	90,419	128,469	146,408	164,572
Current assets				
Trade receivables	2,805	12,425	22,349	27,891
Prepayments, deposits and other receivables	705	1,886	2,064	4,779
Cash and bank balances	5,269	2,119	3,155	3,349
	8,779	16,430	27,568	36,019
Current liabilities				
Loan from a former fellow subsidiary	–	–	2,434	–
Due to the former ultimate holding company	12,795	15,710	–	–
Loan from the former ultimate holding company	59,978	38,561	–	–
Loan from the immediate holding company	–	–	–	29,987
Interest-bearing bank borrowings, unsecured	–	18,868	56,604	51,887
Other payables and accruals	1,362	5,226	4,891	5,125
Finance lease payables	–	–	436	482
Tax payable	–	1,342	3,714	4,571
	74,135	79,707	68,079	92,052
Net current liabilities	(65,356)	(63,277)	(40,511)	(56,033)
Total assets less current liabilities	25,063	65,192	105,897	108,539
Non-current liabilities				
Loan from a former fellow subsidiary	–	8,019	–	–
Finance lease payables	–	–	741	259
	–	8,019	741	259
	25,063	57,173	105,156	108,280
Capital and reserve				
Paid-up capital	39,623	66,038	103,774	103,774
Retained profits/(accumulated losses)	(14,560)	(8,865)	1,382	4,506
	25,063	57,173	105,156	108,280

(iii) Management discussion and analysis

(a) For the year ended 31st December, 2001

The turnover of Sky City for the year ended 31st December, 2001 was generated from the provision of telecommunication and other related services and the software licensing services in the PRC. During the year under review, Sky City recorded approximately HK$18.3 million loss from its operating activities. The operating loss of Sky City for the year was mainly resulted from the inclusion of impairment provision of intangible assets of approximately HK$6.8 million and the provision for deposit paid for a broadband project of approximately HK$18.9 million.

Liquidity and financial resources

Sky City generally financed its businesses with internally generated cash flows and financial support from its then holding company. Its cash and bank balances as at 31st December, 2001 amounted to approximately HK$5,269,000 and there were no interest-bearing bank loans borrowed as at 31st December, 2001.

The gearing ratio of Sky City as at 31st December, 2001 was approximately 0.75 (total liabilities of approximately HK$74,135,000 divided by total assets of approximately HK$99,198,000).

Currency structure

Sky City had limited exposure to foreign exchange rate fluctuations as most of its transactions including borrowings were mainly conducted in RMB which was relatively stable throughout the year.

Employee and remuneration policy

Sky City employed approximately 27 full time staff in the PRC as at 31st December, 2001. Employees are remunerated according to the nature of their jobs and market trend with built-in merit components incorporated in the annual increment to reward and motivate individual performance. Sky City provides staff welfare and bonuses to its employees in accordance with the prevailing labour law.

(b) For the year ended 31st December, 2002

The turnover of Sky City for the year ended 31st December, 2002 generated from the provision of telecommunication and other related services and the software licensing services in the PRC recorded an increase of approximately 49% compared with that of the previous year. During the year under review, Sky City recorded an approximately HK$7.7 million profit from its operating activities. The improvement in the revenue and results of Sky City was mainly attributable to the increase in the client base in that year.

Liquidity and financial resources

Sky City generally financed its businesses with internally generated cash flows, banking facilities and financial support from its then holding company. Its cash and bank balances as at 31st December, 2002 amounted to approximately HK$2,119,000. Its unsecured interest-bearing bank loans and borrowings amounted to approximately HK$18,868,000 which were charged at fixed interest rates and were repayable within one year.

The gearing ratio of Sky City as at 31st December, 2002 was approximately 0.61 (total liabilities of approximately HK$87,726,000 divided by total assets of approximately HK$144,899,000).

Currency structure

Sky City had limited exposure to foreign exchange rate fluctuations as most of its transactions including borrowings were mainly conducted in RMB which was relatively stable throughout the year.

Pledge of assets

Sky City had utilised bank loan facilities amounting to approximately HK$18,868,000 as at 31st December, 2002. The bank loan was supported by a corporate guarantee provided by a third party.

Employee and remuneration policy

Sky City employed approximately 35 full time staff in the PRC as at 31st December, 2002. Employees are remunerated according to the nature of their jobs and market trend with built-in merit components incorporated in the annual increment to reward and motivate individual performance. Sky City provides staff welfare and bonuses to its employees in accordance with the prevailing labour law.

(c) For the year ended 31st December, 2003

The turnover of Sky City for the year ended 31st December, 2003 generated from the provision of telecommunication and other related services in the PRC recorded a decrease of approximately 30% compared with that of the previous year. During the year under review, Sky City recorded an approximately HK$2.2 million loss from its operating activities. The decrease in the operating result was mainly due to (i) the decrease in the profit margin of the provision of internet data centre services; (ii) Sky City being in a transitional period to transform itself into an integrated service provider providing integrated service to online game developers and other broadband media providers in the PRC; and (iii) the outbreak of severe acute respiratory syndrome epidemic, in particular, in the PRC. However, Sky City recorded a gain of approximately HK$16.5 million in relation to waivers of certain amount and loan due to the former ultimate holding company of Sky City which disposed of its interest in Sky City to the First Vendor in January 2004. The Directors consider such waivers, representing the PRC/Hong Kong generally accepted accounting principal adjustments while compiling the accountants' report on Sky City, are one-off in nature and will not happen in the future.

Liquidity and financial resources

Sky City generally financed its businesses with internally generated cash flows and banking facilities. Its cash and bank balances as at 31st December, 2003 amounted to approximately HK$3,155,000. Its unsecured interest-bearing bank loans and borrowings amounted to HK$56,604,000 which were charged at fixed interest rates and were repayable within one year.

The gearing ratio of Sky City as at 31st December, 2003 was approximately 0.4 (total liabilities of approximately HK$68,820,000 divided by total assets of approximately HK$173,976,000).

Currency structure

Sky City had limited exposure to foreign exchange rate fluctuations as most of its transactions including borrowings were mainly conducted in RMB which was relatively stable throughout the year.

Pledge of assets

Sky City had utilised bank loan facilities amounting to approximately HK$56,604,000 as at 31st December, 2003. The bank loans were supported by corporate guarantees provided by certain third parties.

Employee and remuneration policy

Sky City employed approximately 28 full time staff in the PRC as at 31st December, 2003. Employees are remunerated according to the nature of their jobs and market trend with built-in merit components incorporated in the annual increment to reward and motivate individual performance. Sky City provides staff welfare and bonuses to its employees in accordance with the prevailing labour law.

(d) For the nine months ended 30th September, 2004

The turnover of Sky City for the nine months ended 30th September, 2004 generated from the provision of telecommunication and other related services in the PRC recorded an increase of approximately 57.1% compared with that of the corresponding period in 2003. During the period under review, Sky City recorded an approximately HK$6.6 million profit from its operating activities which had turned around from a loss position in the corresponding period in 2003. After the exceptional business environment in 2003, Sky City has turned around and recorded a promising result in 2004.

Liquidity and financial resources

Sky City generally financed its businesses with internally generated cash flows, banking facilities and financial support from the Group. Its cash and bank balances as at 30th September, 2004 amounted to HK$3,349,000. The loan advanced from the Group to Sky City amounted to HK$29,987,000 as at 30th September, 2004 which were interest free and repayable on demand. Its unsecured interest-bearing bank loans and borrowings amounted to HK$51,887,000 which were charged at fixed interest rates and were repayable within one year.

The gearing ratio of Sky City as at 30th September, 2004 was approximately 0.46 (total liabilities of approximately HK$92,311,000 divided by total assets of approximately HK$200,591,000).

Currency structure

Sky City had limited exposure to foreign exchange rate fluctuations as most of its transactions, including borrowings, were mainly conducted in RMB which was relatively stable throughout the nine months ended 30th September, 2004.

Pledge of assets

Sky City had utilised bank loan facilities amounting to approximately HK$51,887,000 as at 30th September, 2004. The bank loans were supported by corporate guarantees provided by certain third parties.

Employee and remuneration policy

Sky City employed approximately 22 full time staff in the PRC as at 30th September, 2004. Employees are remunerated according to the nature of their jobs and market trend with built-in merit components incorporated in the annual increment to reward and motivate individual performance. Sky City provides staff welfare and bonuses to its employees in accordance with the prevailing labour law.

Upon Completion, Sky City will become an indirect wholly-owned subsidiary of the Company and a wholly foreign owned enterprise in the PRC. Its accounts will remain to be consolidated into the accounts of the Company. The Directors believe that given the track record, earning ability and promising prospects of Sky City as outlined and discussed in this section, the Acquisition could further benefit the results of the Group in the future.

REASONS FOR THE ACQUISITION

The Group is principally engaged in property investment, the leasing of point-of-sale equipment and provision of telecommunication and other related services in the PRC.

On 26th March, 2004, the Company through China Land (a wholly-owned subsidiary of the Company) acquired through the Purchaser an 80.9% indirect equity interest in Sky City, which provides integrated telecommunication network services to online game developers and other broadband media providers in the PRC. According to the interim report of the Company for the six months ended 30th June, 2004, the turnover attributable to the provision of telecommunication and other related services and software licensing services of the Group amounted to approximately HK$2.2 million with a corresponding operating profit of approximately HK$0.69 million. These two business segments contribute approximately 30.8% to the Group's total turnover and have an operating profit margin of approximately 31.4%. As evidenced by its promising results in 2004, Sky City has demonstrated that it has tapped into the rapidly growing market of online game business in the PRC and the Group is very satisfied with its financial performance so far generated.

As at the Latest Practicable Date, Sky City was held as to 80.9% by the Purchaser and 19.1% by the Vendor. The board of directors of Sky City comprises three directors, two of whom were appointed by the Company. Upon Completion, Sky City will become an indirect wholly-owned subsidiary of the Company and a wholly foreign owned enterprise in the PRC. Its board of director will be entirely controlled by the Company. With such control, the Company will be able to integrate Sky City's operation fully with that of the Group providing a streamlined management and operational structure to more effectively operate the business of Sky City.

Taking into account the aforesaid, the Directors (including independent non-executive Directors) are of the view that the terms of the Agreement are fair and reasonable and the Acquisition contemplated thereunder is in the interest of the Company and the Shareholders as a whole.

FINANCIAL EFFECTS OF THE ACQUISITION

Upon Completion, Sky City will become an indirect wholly-owned subsidiary of the Company and its accounts will remain to be consolidated into accounts of the Company.

As set out in Appendix III to this circular, the unaudited pro forma consolidated net profit of the Enlarged Group would be approximately HK$73.9 million.

As set out in Appendix III to this circular, the unaudited pro forma consolidated net assets of the Enlarged Group as at 30th June, 2004 would be approximately HK$497.1 million.

FINANCIAL AND TRADING PROSPECTS OF THE ENLARGED GROUP

With the entire control of Sky City as a result of the Acquisition, the Directors believe that the Group's management of Sky City would become more effective. The Directors believe that the Enlarged Group is well positioned to tap into the rapidly growing market of online game business in the PRC and the operating results of Sky City would continue to provide a very positive contribution to the Group. It is expected that more resources would be put into the business of Sky City in order to further strengthen its market position.

The Directors will continue to build on the strength and expertise of the Enlarged Group's businesses and look for attractive investment opportunities in the PRC with an aim to maximize the Shareholders' return in the long run.

REFRESHMENT OF THE GENERAL MANDATE TO ALLOT AND ISSUE SHARES

Current General Mandate

At the Annual General Meeting, Shareholders approved, among other things, an ordinary resolution to grant to the Directors the Current General Mandate to allot and issue not exceeding 688,882,602 Shares, being 20% of the aggregate nominal amount of the issued share capital of the Company of 3,444,413,009 Shares as at the date of the Annual General Meeting.

Pursuant to the Current General Mandate, a maximum of 688,882,602 new Shares are allowed to be allotted and issued before (i) the conclusion of the next annual general meeting of the Company; (ii) the expiration of the period within which the next annual general meeting of the Company is required by law or the bye-laws of the Company to be held; or (iii) the revocation or variation of the Current General Mandate by an ordinary resolution of the Shareholders in a general meeting of the Company, whichever occurs first.

During the period from the date of grant of the Current General Mandate to the Latest Practicable Date, the Current General Mandate was utilised as follows:

(i) 200,000,000 new Shares may be issued upon full conversion of a convertible bond held by CNC Broadband Entertainment Corporation Limited at the initial conversion price of HK$0.15 per Share (subject to adjustment from time to time) pursuant to the Subscription Agreement (details of which are set out in the announcement of the Company dated 19th July, 2004). As mentioned in the aforesaid announcement, it was intended that the net proceeds from the issue of the convertible bond of approximately HK$29.85 million would be used to finance the Company's online game business (including, but not limited to, the provision of online game infrastructure platform and distribution channels) operating in the PRC. The entire amount was used as intended as described in such announcement; and

(ii) 475,000,000 new Shares were issued at the placing price of HK$0.09 per new Share pursuant to a placing agreement dated 1st November, 2004 entered into between the Company and Cheer Faith Limited, details of which are set out in the announcement of the Company dated 2nd November, 2004. As mentioned in the aforesaid announcement, the net proceeds from the placing were approximately HK$42.5 million, of which HK$37.5 million would be used to further develop the Company's online game business (including the provision of online game infrastructure platform) operating in the PRC and the remaining balance of HK$5 million would be used as the Group's general working capital. As at the Latest Practicable Date, HK$36 million had been paid as the Deposit for the Acquisition and approximately HK$2 million was used as the Group's general working capital. The remaining amount of approximately HK$4.5 million will be used as intended as described in the aforesaid announcement.

Accordingly, the Current General Mandate has been utilised as to an aggregate of 675,000,000 Shares, representing approximately 98.0% of the maximum number of Shares which may be allotted and issued pursuant to the Current General Mandate. As a result of the above utilisation of the Current General Mandate, the balance of new Shares which are allowed to be allotted and issued are 13,882,602 Shares.

Proposed grant of the New General Mandate

The Company will be convening the Special General Meeting at which an ordinary resolution will be proposed to the Independent Shareholders that:

(i) the Directors be granted the New General Mandate to allot and issue not exceeding 20% of the issued share capital of the Company as at the date of passing of the resolution; and

(ii) such mandate be extended to the Shares that are allowed to be repurchased by the Company pursuant to the general mandate approved and granted to the Directors at the Annual General Meeting.

As at the Latest Practicable Date, the Company had an aggregate of 3,919,413,009 Shares in issue. Upon passing of the resolution at the Special General Meeting and on the basis that no further Shares will be issued and/or repurchased by the Company between the Latest Practicable Date and the date of the Special General Meeting, the Company would be allowed pursuant to the New General Mandate to allot and issue not exceeding 783,882,601 new Shares, being 20% of 3,919,413,009 Shares in issue as at the Latest Practicable Date.

Reasons for the New General Mandate

As explained above, the Current General Mandate has been utilised as to an aggregate of 675,000,000 Shares, representing approximately 98.0% of the maximum number of Shares which may be allotted and issued pursuant to the Current General Mandate, and the balance of new Shares which are allowed to be allotted and issued thereunder are 13,882,602 Shares.

In order to maintain the financial flexibility for the Enlarged Group so that it is able to proceed with any equity financing exercise at any time should that be required, the Directors propose to seek approval by the Independent Shareholders at the Special General Meeting for the New General Mandate. Although there is currently no immediate funding need for the operation of the Group, and no definite investment plan which may require equity financing by issuing Shares, the Directors consider that given its interest-free and security-free nature, equity financing is important to Enlarged Group's future business development. As at the Latest Practicable Date, the Directors could not perceive whether or not there would be any issue of Shares and the amount thereof and the application of such proceeds. In the event that future funding needs arise or attractive terms for investment in the Shares from potential investors become available, the New General Mandate could provide the flexibility to the Enlarged Group to respond to the market promptly. Accordingly, the Directors consider that the

New General Mandate is in the interest of the Company and the Shareholders as a whole. In appropriate circumstances, the Directors would also consider debt financing, internally generated resources or other financings as appropriate should financing be required for the operation and/or any investment opportunities of the Enlarged Group in the future.

THE LISTING RULES

(i) Acquisition

In aggregating the First Acquisition, the transactions under the Agreement constitute a very substantial acquisition for the Company in accordance with Rule 14.22 of the Listing Rules. As at the Latest Practicable Date, Sky City was held as to 80.9% by the Purchaser and at 19.1% by the Vendor. The Vendor is a substantial shareholder of Sky City which is a non wholly-owned subsidiary of the Company. By virtue of the Vendor's interest in Sky City, the Acquisition constitutes a connected transaction of the Company under the Listing Rules. As none of the Shareholders has a material interest in the Acquisition, no Shareholders are required to abstain from voting. Accordingly, the Agreement is subject to approval of the Shareholders at the Special General Meeting.

(ii) New General Mandate

Pursuant to Rule 13.36(4)(a) of the Listing Rules, the New General Mandate requires approval of the Independent Shareholders at the Special General Meeting at which any of the controlling Shareholders and their associates or, where there are no controlling Shareholders, Directors (excluding independent non-executive Directors), the chief executive of the Company and their respective associates shall abstain from voting in favour. As at the Latest Practicable Date, High Rank Enterprises Limited, Morgan Estate Assets Limited, On Tai Profits Limited and Morcambe Corporation held an aggregate of 1,793,000,000 Shares, representing approximately 45.7% of the entire issued share capital of the Company. Accordingly, High Rank Enterprises Limited, Morgan Estate Assets Limited, On Tai Profits Limited, Morcambe Corporation and their respective associates, collectively being the controlling Shareholders (as defined in the Listing Rules), are required to abstain from voting in favour of the resolution to be proposed at the Special General Meeting in respect of the New General Mandate.

SPECIAL GENERAL MEETING

A notice convening the Special General Meeting is set out on pages 154 to 156 of this circular.

Voting on the resolutions in relation to the Agreement and the New General Mandate set out in the notice of the Special General Meeting which is contained in this circular will be taken on a poll.

A form of proxy for use at the Special General Meeting is enclosed with this circular. If you are not able to attend the Special General Meeting, you are requested to complete, sign and return the enclosed form of proxy in accordance with the instructions printed thereon as soon as possible and in any event no later than 48 hours before the time appointed for holding such meeting. Completion and return of the form of proxy will not preclude you from attending and voting in person at the Special General Meeting or any adjournment of it, should you so wish.

Announcement will be made by the Company following the conclusion of the Special General Meeting to inform you of the results of it.

RECOMMENDATION

The Directors are of the opinion that the terms of the Agreement and the New General Mandate are fair and reasonable insofar as the Shareholders are concerned and that the Acquisition contemplated under the Agreement and the New General Mandate are in the interest of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Shareholders vote in favour of the resolutions set out in the notice of the Special General Meeting contained in this circular.

In addition, your attention is drawn to the letter from the Independent Board Committee as set out on pages 22 to 23 of this circular which contains its recommendation to the Shareholders or the Independent Shareholders (as the case may be) in relation to the Acquisition and the New General Mandate, having considered the advice of GD Securities thereon. The letter from GD Securities is set out on pages 24 to 41 of this circular containing the principal factors and reasons it has taken into consideration and its recommendation to the Independent Board Committee and the Shareholders or the Independent Shareholders (as the case may be).

ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the appendices to this circular.

Yours faithfully,
For and on behalf of the Board
Zhong Hua International Holdings Limited
Ho Tsam Hung
Chairman

ZHONG HUA INTERNATIONAL HOLDINGS LIMITED
中華國際控股有限公司*

(Incorporated in Bermuda with limited liability)
(Stock code: 1064)

21st January, 2005

To the Shareholders or
the Independent Shareholders (as the case may be)

Dear Sirs,

VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION IN RELATION TO THE PROPOSED ACQUISITION OF THE REMAINING 19.1% EQUITY INTEREST IN A SUBSIDIARY AND REFRESHMENT OF THE GENERAL MANDATE TO ALLOT AND ISSUE SHARES

We refer to the circular of the Company dated 21st January, 2005 (the "Circular"), of which this letter forms part. Terms used in this letter have the same meanings as defined in the Circular unless the context otherwise requires.

We have been appointed as members of the Independent Board Committee to consider the Acquisition and the New General Mandate and advise you as to whether, in our opinion, the terms of the Agreement and the New General Mandate are fair and reasonable insofar as the Company and the Shareholders or the Independent Shareholders (as the case may be) are concerned, and the Acquisition contemplated under the Agreement and the New General Mandate are in the interest of the Company and the Shareholders as a whole.

GD Securities has been appointed as the independent financial adviser to advise us and you in connection with the Acquisition and the New General Mandate. Details of its advice, together with the principal factors and reasons it has taken into consideration in giving its advice, are set out in its letter on pages 24 to 41 of the Circular. Your attention is also drawn to the letter from the Board and the additional information set out in the appendices to the Circular.

Having considered the terms of the Agreement and the New General Mandate and the independent advice of GD Securities thereon, we consider that the terms of the Agreement and the New General Mandate are fair and reasonable insofar as the Company and the Shareholders or the Independent Shareholders (as the case may be) are concerned and the Acquisition contemplated under the Agreement and the New General Mandate are in the interest of the

* *For identification only*

Company and the Shareholders as a whole. We therefore recommend (i) the Shareholders vote in favour of resolution (1) set out in the notice of the Special General Meeting contained in the Circular to approve the Agreement and the Acquisition contemplated thereunder; and (ii) the Independent Shareholders vote in favour of resolutions (2) and (3) set out in the notice of the Special General Meeting contained in the Circular to approve the New General Mandate.

Yours faithfully,
For and on behalf of the
Independent Board Committee
Zhang Jie **Young Kwok Sui** **Ng Kin Sun**
Independent non-executive Directors

Set out below is the text of the letter of advice received from GD Securities in relation to the Acquisition and the New General Mandate for inclusion in this circular.

Guangdong Securities Limited

21st January, 2005

*To the Independent Board Committee and the Shareholders or
the Independent Shareholders (as the case may be) of
Zhong Hua International Holdings Limited*

Dear Sirs,

**VERY SUBSTANTIAL ACQUISITION AND
CONNECTED TRANSACTION IN RELATION TO
THE PROPOSED ACQUISITION OF
THE REMAINING 19.1% EQUITY INTEREST IN A SUBSIDIARY
AND
REFRESHMENT OF THE GENERAL MANDATE
TO ALLOT AND ISSUE SHARES**

We refer to our appointment as the independent financial adviser to advise (i) the Independent Board Committee and the Shareholders in respect of the terms of the Acquisition and (ii) the Independent Board Committee and the Independent Shareholders in respect of the refreshment of the general mandate to allot and issue shares of the Company (the "New General Mandate"), details of which are contained in the Letter from the Board in the circular issued to the Shareholders dated 21st January, 2005 (the "Circular"), of which this letter forms part. Terms used in this letter shall have the same respective meanings as defined in the Circular unless the context requires otherwise.

The Company announced that on 16th December, 2004, the Purchaser and the Vendor entered into the Agreement, pursuant to which the Purchaser conditionally agreed to acquire the remaining 19.1% equity interest and rights in Sky City for HK$60 million. Upon Completion, Sky City will become an indirect wholly-owned subsidiary of the Company and a wholly foreign owned enterprise in the PRC.

On 1st April, 2004, the Company announced that China Land entered into a sale and purchase agreement dated 26th March, 2004 with the First Vendor to acquire, through the Purchaser, an 80.9% indirect equity interest in Sky City. The consideration for the First Acquisition was HK$200 million and was satisfied as to HK$140 million by cash and as to HK$60 million by the issue and allotment of 464,396,284 Shares at an issue price of HK$0.1292 per Share by the Company to the First Vendor. The First Acquisition constituted a major transaction of the Company under the Listing Rules and was completed in June 2004.

In aggregating the First Acquisition, the transactions under the Agreement constitute a very substantial acquisition for the Company in accordance with Rule 14.22 of the Listing Rules. As at the Latest Practicable Date, Sky City was held as to 80.9% by the Purchaser and 19.1% by the Vendor. The Vendor is a substantial shareholder of Sky City which is a non wholly-owned subsidiary of the Company. By virtue of the Vendor's interest in Sky City, the Acquisition constitutes a connected transaction of the Company under the Listing Rules. Accordingly, the Agreement is subject to approval of the Shareholders at the Special General Meeting. No Shareholders are required to abstain from voting at such meeting.

In addition, as stated in the Letter from the Board, the total number of new Shares that were allowed to be allotted and issued was 13,882,602, representing approximately 2.0% of the maximum number of new Shares that were allowed to be allotted and issued pursuant to the Current General Mandate of 688,882,602 as at the Latest Practicable Date. Accordingly, the Company intends to seek the approval from the Independent Shareholders in respect of refreshment of the general mandate to allot and issue Shares in order to comply with Rules 13.36(4) of the Listing Rules. High Rank Enterprises Limited, Morgan Estate Assets Limited, On Tai Profits Limited, Morcambe Corporation and their respective associates, collectively being the controlling Shareholders (as defined in the Listing Rules), are required to abstain from voting in favour of the resolution to be proposed at the Special General Meeting in this regard. As at the Latest Practicable Date, the controlling Shareholders were collectively interested in as to approximately 45.7% of the entire issued share capital of the Company. The voting of the Independent Shareholders at the Special General Meeting shall be taken by poll pursuant to Rule 13.39(4)(b) of the Listing Rules.

In formulating our opinion, we have relied to a considerable extent on the statements, information, opinions, facts and representations contained in the Circular, which have been provided by the Directors and representatives of the Company and we have assumed that all such statements, information, opinions and representations contained or referred to in the Circular or otherwise supplied to us by the Company are true, complete, accurate and relevant, and we have not independently verified the accuracy of such. We have also relied on the representations of the Directors that they have collectively and individually accepted full responsibility for the accuracy of the information contained in the Circular relating to the Company and they have made all reasonable inquiries, and that to the best of their knowledge and belief, there are no other material factors omitted from the information and representations supplied to us.

We are not aware of any facts or circumstances which would render the information provided and the representations made to us untrue, inaccurate or misleading. We have assumed that all statements of belief, opinion and intention made by the Directors contained in and representations made or referred to in this Circular were true, accurate and complete at the time they were made and will continue to be so at the Latest Practicable Date and also assumed that all intentions of the Company and the Directors will be met or carried out as the case may be.

We consider that we have been provided with sufficient information to reach an informed view concerning the Acquisition and the New General Mandate contained in the Circular in order to provide a reasonable basis for our opinion. We have no reason to suspect that any relevant information has been withheld, nor are we aware of any fact or circumstance which would render the information provided and representations and opinions made to us untrue, inaccurate and misleading. We have not, however, carried out any independent verification of the information, nor have we conducted any form of investigation into the businesses, operational aspects, financial standing and affairs of the company to be acquired by the Group.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion and recommendation relating to the Acquisition and the New General Mandate, we have taken into consideration, inter alia, the following principal factors and reasons:

A. In respect of the Acquisition

1. Background of the Acquisition

The Group has been principally engaged in property investment, the leasing of point-of-sale equipment and provision of telecommunication and other related services in the PRC. In March 2004, with a view to diversify the Group's business and increase its sources of income, the Group began to develop telecommunication and technology-related business by acquiring 80.9% equity interests in Sky City, namely the First Acquisition.

As stated in the circular dated 31st May, 2004, the Group had been reviewing new business opportunities in the technology-related sectors in the PRC and the Directors considered that the First Acquisition provided an opportunity for the Group to broaden its business scope and increase its sources of revenue. The Directors also considered that the First Acquisition would enable the Group to tap into the rapidly growing market of online game business in the PRC. Accordingly, the Directors were of the view that the terms of the agreement in respect of the First Acquisition were fair and reasonable, on normal commercial term, and were in the interests of the Company and the Shareholders as a whole.

In view of the foregoing, we noted that the Acquisition is consistent with the overall corporate strategy of the Group and to help further strengthen its expertise in its technology-related business.

2. Reasons for the Acquisition

As stated in the Letter from the Board, Sky City was established in the PRC on 9th May, 1997 as a sino-foreign co-operative joint venture. Upon Completion, Sky City will become an indirect wholly-owned subsidiary of the Company and a wholly foreign owned enterprise in the PRC and the Company will, through the Purchaser, wholly own the entire registered capital of Sky City.

(i) Financial performance of telecommunication and other related services

As stated in the Letter from the Board, since its inception, Sky City has been focusing on the provision of internet data center services, design and installation of communication technology system and related communication network in the PRC. Sky City has developed business partnership with various telecommunication service providers, technology equipment providers and other technique developers.

Sky City started to provide integrated services to online game developers and other broadband media providers in the PRC by using its internet data center services and online game infrastructure platform in 2003. It also started to engage in the provision of agency services in relation to the telecommunication business, which included the distribution of pre-paid mobile phone cards.

We summarize and analyze the turnover, operating profit/loss and the net profit/loss of Sky City for each of the three years ended 31st December, 2003 and each of the respective nine-month periods ended 30th September, 2003 and 2004 as below.

	For the years ended 31st December,			**For the nine months ended 30th September,**	
	2001	**2002**	**2003**	**2003**	**2004**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(audited)	(audited)	(audited)	(unaudited)	(audited)
Turnover	17,825	26,559	18,477	12,760	20,052
Operating profit/(loss)	(18,304)	7,691	(2,154)	(2,872)	6,573
Net profit/(loss)	(18,304)	5,695	10,247	10,406	3,124

(a) Turnover

The turnover of Sky City during the periods stated above were mainly generated from the provision of telecommunication and other related services. The turnover of Sky City for the two years ended 31st December, 2002 included also the provision of software licensing services. For the year ended 31st December, 2002, the turnover of Sky City amounted to approximately HK$26.6 million which represented an increase of approximately 49% as compared with that of the previous year. As discussed with the directors of Sky City, the improvement in turnover was mainly attributable to the increase in the client base. For the year ended 31st December, 2003, the turnover of Sky City amounted to approximately HK$18.5 million which represented a decrease of approximately 30% as compared with that of the previous year. The decrease was mainly due to the fact that no revenue was generated from the provision of software licensing services during the year 2003. Since the management of

Sky City considered that the market potential of software licensing was limited, Sky City did not provide such services commencing from 2003 and began to focus its resources to transform its business model into an integrated service provider to provide integrated service to online game developers and other broadband media providers. We noted that, for the nine months ended 30th September, 2004, Sky City's unaudited turnover amounted to approximately HK$20 million, an increase of approximately 8% as compared to the turnover for the year ended 31st December, 2003. As compared with that of the corresponding period in 2003, the turnover of Sky City for the nine months ended 30th September, 2004 recorded an increase of approximately 57% and this showed that Sky City's transformation of business model is successful and the business of Sky City has been turning around.

(b) Operating profit/loss

For the year ended 31st December, 2002, the operating profit of Sky City was approximately HK$7.7 million while the preceding year recorded an operating loss of approximately HK$18.3 million. Such significant improvement was mainly due to the increase in both software licensing income and in client base. For the year ended 31st December, 2003, Sky City recorded an approximately HK$2.2 million operating loss which was mainly due to (i) a decrease in profit margin of the provision of internet data services; (ii) operating in the transitional period to transform its business model into an integrated services provider and (iii) outbreak of sever acute respiratory syndrome epidemic in the PRC. We noted that, for the nine months ended 30th September, 2004, the business of Sky City has been turning around and there was an operating profit of approximately HK$6.6 million.

(c) Net profit/loss

For the year ended 31st December, 2003, Sky City recorded a profit after tax of approximately HK$10.2 million, an increase of approximately 80% as compared with that of the preceding year. Such significant increase was mainly attributable to the waiver of an amount due to the former ultimate holding company of approximately HK$15.7 million. If such waiver was disregarded, Sky City would have recorded a net loss of approximately HK$5.5 million. For the nine months ended 30th September, 2004, Sky City's profit after tax amounted to approximately HK$3.1 million, which was approximately 45% lower than that tax for the year ended 31st December, 2002. Since the turnover for the nine months ended 30th September, 2004 was only generated from the provision of telecommunication and other related services (which included the integrated services for online game developers and other broadband media providers), the profit after tax for the corresponding period was accordingly lower than that for the year 2002 which included also the turnover generated from the provision software licensing services. As compared with the net loss of approximately HK$5.5 million for the year 2003 (assuming that the waiver of the amount due to the former immediate holding company was disregarded), Sky City recorded a profit after tax of approximately HK$3.1 million for the nine months ended 30th September, 2004, which showed that its business has been turning around with promising financial result.

We also noted that Sky City has demonstrated a consistent earnings record for the Group since the First Acquisition and has contributed significantly to the Group's turnover and operating profit margin. As referred to the Company's unaudited interim report for the six months ended 30th June, 2004, the Group, through Sky City, recorded a turnover of approximately HK$2.2 million (or approximately 30.8% of the Group's turnover) with an operating profit of approximately HK$0.69 million (or approximately 31.4% of the Group's operating profit) in respect of the technology and other related services and software licensing services.

Based on the above facts, we concur with the Directors' view that Sky City's business has been progressing satisfactorily with promising results and it has tapped into the rapidly growing market of online game business in the PRC. In view of the improving financial performance of Sky City and its significant contribution to the Group's turnover and operating profit, we concur with the Directors' view that the further acquisition of 19.1% equity interests of Sky City can help maximize the Shareholders' return and hence is in the interests of the Company and the Shareholders as a whole.

(ii) Expansion into the online game and Internet Café businesses

As stated in the Letter from the Board, due to the increasing demand for broadband services and online game in the PRC, Sky City began to provide integrated services to online game developers and other broadband media providers in 2003. Through the delivery of game data and content to Internet Café, Sky City could establish a physical distribution channel for game contents owned by the game developers.

As advised by the Directors, Sky City plans to further expand the online game and Internet Café businesses to include the following:

(a) To operate its own Internet Café: Sky City had signed co-operation agreements in respect of the establishment of Internet Cafés in March and June 2004, respectively. There will be 16 Internet Cafés to be set up in Guangdong Province by early 2006. The brand name "Sky City" will be added to these Internet Cafés. Computer hardware and other peripheral equipment will be provided by Sky City with an expected total expenditures not exceeding HK$13 million. Apart from the hardware equipment expenditures, one of the Internet Cafes will also charge Sky

City an upfront payment of RMB50,000 and a monthly administration fee of RMB20 per computer. The first Internet Café is expected to commence operation in the first quarter of 2005. The Internet Café will offer customers a variety of refreshments, snacks, Internet access and a selection of online games in the PRC, which could allow Sky City to achieve vertical integration for its online game distribution and related businesses;

(b) To develop its own branded online game: Sky City is currently developing and designing its own branded online game, namely casual games (e.g. chess, bridge etc.). The first self-developed game is expected to be launched by the end of first quarter in 2005. The strategy of developing its own online game is to tap the low cost, but high quality software engineers, thereby catering the local tastes of online gamer in the PRC;

(c) To further develop its integrated online game center ("IGC") services: By leveraging on its expertise in providing the online game infrastructure platform, Sky City intends to further develop its IGC services which include helping online game operators launch, market and operate online games, managing the game master files and game data, upgrading the respective online game platforms and providing online servers and other related back-up services for the online game operators. As at 31st March, 2004, Sky City has signed strategic co-operation agreements with three online game operators for the provision of IGC services in southern part of the PRC and such services has commenced operation and generated approximately HK$15.7 million revenue (before business tax) to Sky City for the nine months ended 30th September, 2004. Pursuant to the agreements, Sky City will deploy its online game infrastructure platform for the online game developed or franchised by the PRC counterparties and share the profits generated; and

(d) To expand the online game distribution business: In addition to distributing the online game through Internet Café, Sky City plans to utilize its distribution channels for mobile phone cards/ pre-paid mobile phone cards in Guangdong Province to distribute game discs and game pre-paid cards and such plan is expected to commence by the first quarter of 2005. By using the 3,000 point of sales/Internet Cafés for online game distribution in Guangdong Province, Sky City will bill and collect payments directly from customers.

We have also reviewed the industry survey reports on online game market in the PRC. According to International Data Corporation ("IDC"), the market size of the PRC online game worthed approximately RMB310 million, RMB910 million and RMB1.32 billion in 2001, 2002 and 2003 respectively and is expected to grow to approximately RMB8.34 billion by the year 2006. Based on the statistics of IDC, the online gamers in the PRC were approximately 4 million, 8.1 million and 13.8 million in 2001, 2002 and 2003 respectively and is expected to reach approximately 40 million by the year 2006. With the increasing number of PRC online gamers and the respective sales value of online game market, we concur with the Directors' view that there exists significant demand and growth potentials for online game hardware platforms, network connections and other related services in the PRC for reason that many online game operators tend to outsource some operating functions to outsiders (e.g. managing game data, provision of online servers etc) to enjoy economies of scale. In this regard, we are of the view that Sky City can capitalize on its skills and expertise in providing IGC and other related services, and to capture the market potential arising from the fast growing PRC online game industry.

Based on the Sky City's expansion plan on the online game and Internet Café businesses as well as the significant growth potential of the online game market in the PRC as discussed above, we concur with the Directors' view that the Acquisition is fair and reasonable and is in the interests of the Company and the Shareholders as a whole.

(iii) Full control of Sky City

As stated in the Letter from the Board, the board of directors of Sky City comprises three directors as at the Latest Practicable Date, of whom two are representing the Company and one is representing the Vendor. It is expected that following the completion of the Acquisition, the board of directors will be entirely controlled by the Company. Accordingly, the Group can fully participate in the operation of Sky City and thereby deploy effective measures to enhance the management and operational efficiency of Sky City. In this regard, we concur with the Directors' view that the Company will integrate Sky City's operation fully with that of the Group and the Acquisition is fair and reasonable and is in the interests of the Company and the Shareholders as a whole.

3. Principal terms of the Agreement

(i) The Consideration

As stated in the Letter from the Board, the Consideration payable under the Agreement is HK$60 million and will be satisfied in cash by the Company. As confirmed by the Directors, the Consideration was arrived at after arm's length negotiations between the parties to the Agreement and is calculated with reference to the growth potential of Sky City with its business of provision of online game infrastructure platforms and distribution channels. The Directors are of the opinion that, having taken into account the existing cash balance and net proceeds of approximately HK$42.5 million from the placing of Shares in November 2004, the Group will have sufficient internal resources to finance the Acquisition and the operation of Sky City.

In order to evaluate the fairness and reasonableness of the Consideration and determine whether it is arrived at on normal commercial terms, we have analyzed the P/E (price-to-earnings) and P/B (price-to-book) multiples for a number of listed companies (the "Comparables") which are also engaging in the online game development, operation and other related services in the PRC market. Set out below is a summary of the Comparables:

Company name	**Sector**	**Principal business activities**	**Closing share price as at the Latest Practicable Date (A)**		**Last reported audited full year's earnings per share as at the Latest Practicable Date (B)**		**Last reported net asset value per share as at the Latest Practicable Date (C)**		**Historical price-to-earnings multiple (A/B)**	**Historical price-to-book multiple (A)/(C)**
			Original currency	*HK$ equivalent*	*Original currency*	*HK$ equivalent*	*Original currency*	*HK$ equivalent*	*(times)*	*(times)*
Hongkong.com Corporation (8006.hk)	Information Technology (HK)	Provision of mobile value-added services, portal, Internet services, event organizing services, publishing, and the sale of hardware and software	HK$0.47	0.47	HK$0.03	0.03	HK$0.35	0.35	15.67	1.34
Tencent Holdings Limited (700.hk)	Information Technology (China)	Provision of Internet services and mobile value-added services	HK$4.65	4.65	RMB0.19	0.18	RMB1.00	0.94	25.83	4.95
Shanda Interactive Entertainment Limited (Nasdaq: SNDA)	Information Technology (China)	Operation of online game	US$34.81	271.52	US$0.64	4.99	US$1.38	10.76	54.41	25.23
NetEase.com, Inc. (ADR: NTES)	Information Technology (China)	Development of applications, services and other technologies for the Internet, offering online communities and personalized premium services for the NetEase Web sites	US$51.03	398.03	US$1.52	11.86	US$3.43	26.75	33.56	14.88
Sina Corporation (Nasdaq: SINA)	Information Technology (China/HK/ Taiwan/US)	Provision of wireless data and portal	US$29.73	231.89	US$0.62	4.84	US$3.16	24.65	47.91	9.41
Sohu.com Inc. (Nasdaq: SOHU)	Information Technology (China)	Provision of wireless data and portal	US$15.96	124.49	US$1.01	7.88	US$2.51	19.58	15.80	6.36
		Average:							**32.20**	**10.36**

As shown in the above table, we noted that the historical price-to-earnings multiple of approximately 30.8 times as implied by the Consideration payable by the Company for the Acquisition is within the range of Comparables. Nevertheless, the historical price-to-book multiple of approximately 2.87 times as implied by the Consideration payable by the Company for the Acquisition is lower than the Comparables' average historical price-to-book multiple of approximately 10 times. However, we noted that the Consideration of the Acquisition has commanded a higher implied valuation of Sky City as compared with that of the First Acquisition. Based on the earnings of Sky City for the year ended 31st December, 2003, the historical price-to-earnings multiple as implied by the considerations payable for the Acquisition and the First Acquisition were approximately 30.8 and 24.2, respectively. In this regard, we noted from our discussions with the Directors that the business of Sky City has been turning around in 2004 and recorded an operating profit of approximately HK$6.6 million for the nine months ended 30th September, 2004, a remarkable increase of approximately 329% as compared with that of the corresponding period in 2003. As discussed in the paragraph headed "Expansion into the online game and Internet Café businesses" of the section headed "Reasons for the Acquisition" above, since 2003, Sky City has leveraged on its expertise in providing internet data centre services and began to provide IGC services for online game developers, operators and other broadband media providers. Sky City has signed three strategic co-operation agreements with a number of online game operators for the integrated online game services in southern part of the PRC in order to capture the growth potential of the online game industry in the PRC. In addition, Sky City will capitalize on the existing competitive advantage on the provision of IGC and related services (i.e. using the telecommunication infrastructure platform to provide IGC and related services) and further develop its IGC and related services. Sky City also intends to build up strong and extensive online game distribution businesses in the PRC, through Internet Cafés and telecommunication agents. Therefore, with such promising financial results during the nine months ended 30th September, 2004, we concur with the Directors' view that Sky City is able to capitalize on its skills and expertise in the IGC and related services and to reap the benefits of future growth prospects of the online game market in the PRC.

Based on the foregoing and in view of the existing competitive advantage of Sky City in the provision of IGC and related services, the expansion plan of Sky City on online game distribution business and future growth prospects of the online game market in the PRC, we concur with the Directors' view that the Consideration payable by the Company for the Acquisition was determined on a fair and reasonable basis, on normal commercial terms, and is in the interests for the Company and Shareholders as a whole.

(ii) Payment arrangements for the Consideration

Pursuant to the Agreement, the Consideration of HK$60 million has been/will be satisfied in two stages as follows:

(a) An initial deposit of HK$36 million was paid in cash to the Vendor upon signing of the Agreement; and

(b) The balance of HK$24 million, being 40% of the total Consideration shall be paid in cash upon Completion.

The Agreement shall be null and void in the event that the conditions precedent as set out in the Letter from the Board are not fulfilled or waived by the Purchaser (as regard to condition (ii) of the conditions precedent as set out in the Letter from the Board) on or before 28th February, 2005. In such case, the initial deposit shall be refunded to the Purchaser in full.

On the basis that 40% of the Consideration will only become payable after the approvals by the Shareholders, being one of the conditions precedent as stated in the Letter from the Board, and the condition that the initial deposit paid to the Vendor will be fully refunded if the Agreement lapses, we concur with the Directors' view that the above payment arrangements for the Consideration of the Acquisition are fair and reasonable as far as the Shareholders are concerned.

4. Financial position of Sky City as at 30th September, 2004

(i) Trade receivables of approximately HK$27.9 million

As at 30th September, 2004, the trade receivables of Sky City were approximately HK$28 million, which increased by approximately HK$6 million or approximately 27% as compared with the trade receivable balances of approximately HK$22 million as at 31st December, 2003. We noted that such an increase in trade receivables is due to the fact that all trade debtors were aged within 12 months which are considered to be current debtors. As discussed with the management of Sky City, the credit period of trade debtors granted to customers is within the range from 3 to 12 months and the increase in trade debtor balance as at 30th September, 2004 is within the credit period granted. We have also reviewed the subsequent settlement of the trade receivable balances as at 30th September, 2004 and noted that there were approximately HK$6.2 million trade debts aged over one year settled as at the Latest Practicable Date, representing approximately of 22% of the trade receivable balances as at 30th September, 2004. The management of Sky City has also confirmed that no provision is considered necessary. In view of the above, we concur with the Directors' view that the trade debts of Sky City can be recovered pursuant to the respective contract terms from customers.

(ii) Bank borrowings of approximately HK$51.9 million

As at 30th September, 2004, the total liabilities of Sky City were approximately HK$92 million and the bank borrowings of Sky City were approximately HK$51.9 million, which were unsecured and repayable within one year. The bank borrowings represent approximately 56% of the total liabilities of Sky City as at 30th September, 2004. The management of Sky City is confident that the bank borrowings will be renewed when they become due, given the historical record on punctual payment of finance charges and the present sustainable business of Sky City. In this regard, we have compared the bank borrowings of approximately HK$51.9 million as at 30th September, 2004 with those of approximately HK$56.6 million as at 31st December, 2003 and noted that the borrowings had dropped by approximately 9%. Moreover, we noted that Sky City has recorded operating profit of approximately HK$6.6 million for the nine months ended 30th September, 2004 which was significantly high to cover the finance charges of approximately HK$2.6 million during the same period. The management of Sky City has also confirmed that it has been in good relationship with its principal banks and bank facilities of approximately HK$45.3 million are available as at the Latest Practicable Date. We, therefore, concur with the view of the management of Sky City that the existing bank borrowings are manageable by Sky City, based on its existing operating results and future business plans.

5. Financial effects of the Acquisition on the Group

(i) Earnings

As stated in the Letter from the Board, after completion of the Acquisition, Sky City will become an indirect wholly-owned subsidiary of the Company and the accounts will be wholly consolidated into the accounts of the Group. Based on the unaudited accounts, Sky City has demonstrated a consistent earnings record since the financial year ended 31st December, 2003, we concur with the Directors' view that Sky City can continue to demonstrate a positive earnings and generate additional financial contributions to the Group's earnings as discussed in the paragraph headed "Financial performance of telecommunication and other related services" of the section headed "Reasons for the Acquisition" above.

In this regard, we concur with the Directors' view that the Acquisition is fair and reasonable and is in the interests of the Company and the Shareholders as a whole.

(ii) Net Assets

We noted that the unaudited consolidated net assets value immediately before the Acquisition of the Group was approximately HK$497 million as at 30th June, 2004 and the pro forma consolidated net assets value will remain the same at approximately HK$497 million immediately after the Acquisition. Accordingly, we consider that the Acquisition will not have any adverse impact on the Group's consolidated net asset value and it is in the interests of the Company and the Shareholders as a whole.

(iii) Financial resources

As stated in the Letter from the Board, the Acquisition will be satisfied by internal resources of the Group. The initial deposit of HK$36 million was paid in cash upon signing the Agreement and the balance of HK$24 million shall be paid in cash upon Completion. Based on the unaudited interim results of the Group for the six months ended 30th June, 2004, the cash and bank balances of the Group (excluding the cash and bank balances of Sky City) was approximately HK$97.7 million which was adequate to pay off the initial deposit of HK$36 million. We have confirmed with the Directors that the cash and bank balances of the Group (excluding the cash and bank balances of Sky City) amounted to approximately HK$102.4 million as at the Latest Practicable Date which are substantially larger than the payment obligations for the balance of HK$24 million. Accordingly, we concur with the Directors' view that the Group has adequate financial resources to fulfill the payment obligation and will not lead to any material adverse impact on the Group's operation or financial conditions upon Completion of the Acquisition and we also concur with the Directors' view that the Acquisition is in the interests of the Company and the Shareholders as a whole.

B. In respect of the refreshment of the General Mandate

1. Background of and reasons for the New General Mandate

At the Annual General Meeting, Shareholders approved, among other things, an ordinary resolution to grant to Directors the Current General Mandate to allot and issue not exceeding 688,882,602 Shares, being 20% of the aggregate nominal amount of issued share capital of the Company of 3,444,413,009 Shares as at the date of passing the resolution.

As stated in the Letter from the Board, during the period from the grant of the Current General Mandate to the Latest Practicable Date, the Current General Mandate had been utilized as to an aggregate of 675,000,000 Shares, of which (i) 200,000,000 Shares were in association with the convertible bond of HK$30,000,000 issued by the Company to CNC Broadband Entertainment Corporation Limited, which may be allotted and issued upon full conversion and (ii) 475,000,000 Shares were issued to Cheer Faith Limited at the placing price of HK$0.09 per new Share under the Current General Mandate. The balance of new Shares under the Current General Mandate which are allowed to be allotted and issued are 13,882,602 Shares.

In order to increase the flexibility for raising additional capital for any business opportunities that may arise in the future, the Board proposes to pass an ordinary resolution to approve the New General Mandate at the forthcoming Special General Meeting pursuant to the Rule 13.36(4)(a). The New General Mandate will be in force when it is approved by the Independent Shareholders at the Special General Meeting.

2. *Terms of the New General Mandate*

The Company will be required to seek the prior consent from the Shareholders for the allotment, issue or grant of Shares or securities convertible into Shares or rights to subscribe for Shares or such convertible securities, unless such allotment, issue or grant falls under the circumstances provided under Rule 13.36(2) of the Listing Rules. An ordinary resolution will be proposed at the Special General Meeting to obtain approval from the Independent Shareholders to refresh the Current General Mandate so that the Directors will be entitled to exercise the powers of the Company to allot and issue Shares not exceeding 20% of the aggregate nominal amount of the issued share capital of the Company as at the date of the Special General Meeting. The approval of the New General Mandate by the Shareholders is unconditional.

3. *Fund raising activities conducted by the Company since the Annual General Meeting*

Set out below is a summary of the information relating to the Company's usage of the Current General Mandate since the Annual General Meeting on 16th June, 2004:

Date of announcement	**Details of fund raising activities**	**Net proceeds raised** *(HK$)*	**Usage of funds**
19th July, 2004	Subscription by CNCBE for a convertible bond issue with a principal amount of HK$30 million issued by the Company	Approximately HK$29.85 million	• To finance the Company's online game business (including but not limited to the provision of online game infrastructure platform and distribution channels) operation in the PRC
2nd November, 2004	Placing of 475 million new Shares of HK$0.09 per placing share	Approximately HK$42.5 million	• To further develop the Company's online game business (including the provision of online game infrastructure platform) operation in the PRC • General working capital

As discussed in the paragraph headed "Financial Resources" under the above section "The Acquisition" in this letter, we have confirmed with the Directors that the cash and bank balances of the Group (excluding the cash and bank balances of Sky City) amounted to approximately HK$102.4 million as at the Latest Practicable Date and the existing cash resources of the Group are sufficient to finance its daily operations and the Group has sufficient working capital to finance the Acquisition. However, there is no certainty that such cash and bank balances will be adequate for future appropriate investments identified by the Company. In addition, as mentioned in the Letter from the Board, the Group will continue to look for attractive investment opportunities in the PRC with an aim to maximize the Shareholders' return in the long run. In the event that the Group identifies a suitable investment opportunity and does not have sufficient cash resources on hand, and it fails to obtain loans on terms which the Directors consider acceptable to the Group or raise funds from the equity capital market, or it cannot find other alternatives to finance the acquisition of such investment opportunity in a timely manner, the Group may lose its bid in an otherwise favorable investment.

4. Financial flexibility

The Directors consider that the granting of the New General Mandate is in the interests of the Company and the Shareholders since equity financing is interest- and security-free nature. In addition, the Directors believe that the New General Mandate will provide the Enlarged Group with additional financial flexibility for any business opportunities that may arise in the future and for the purpose of raising general working capital for the Group. As at the Latest Practicable Date, the Directors confirmed that there is no definite plan for any investment or acquisition of the Group nor is there any immediate funding need for the operation of the Group, we also noted that the Directors cannot perceive whether or not there will be any issue of Shares as at the Latest Practicable Date and the amount thereof and the application of such proceeds.

We consider that granting of the New General Mandate could enhance the financial flexibility of the Company to raise additional funds and to strengthen the capital base of the Group for further business development of the Group. In addition, the grant of the New General Mandate could provide the Group with the maximum flexibility as allowed under the Listing Rules to allot and issue new Shares as consideration for funding the future investment opportunities, acquisitions and/or corporate transaction exercises as and when such opportunities arise.

5. Other financing alternatives

Other than equity financing, the Directors will also consider other alternatives such as debt financing, bank borrowing and funding through internal resources to raise additional funds to meet its financing requirements arising from future developments of the Group, depending on the financial position, capital structure and cost of funding of the Group and the then market condition.

As confirmed by the Directors, the New General Mandate provides another alternative for the Directors to finance the Group's businesses and the Directors will choose the method of financing which serves the best interest for the Group. The Directors have also confirmed that they will take due and careful consideration when exercising the New General Mandate so as to maximize the returns to the Shareholders as a whole. We therefore concur with the Directors' view that the New General Mandate will provide another means of financing to decide on for the future development of the Group.

6. Potential dilution to the shareholding of the Independent Shareholders

The table below sets out the shareholding structure of the Latest Practicable Date; the respective shareholding structures of the Company upon full utilization of the Current General Mandate and the New General Mandate:

	Issued Shares as at the Latest Practicable Date		Issued Shares with full utilization of the New General Mandate	
	No. of Shares	*%*	*No. of Shares*	*%*
High Rank Enterprises Limited	983,000,000	25.08	983,000,000	20.90
Morgan Estate Assets Limited	270,000,000	6.89	270,000,000	5.74
On Tai Profits Limited	270,000,000	6.89	270,000,000	5.74
Morcambe Corporation	270,000,000	6.89	270,000,000	5.74
Shares issued under the New General Mandate	–	–	783,882,601	16.67
Independent Shareholders	2,126,413,009	54.25	2,126,413,009	45.21
Total	3,919,413,009	100	4,703,295,610	100

As set out in the Letter from the Board, the Current General Mandate shall continue in force during the period from the date of passing of the resolutions for approval for such mandates up to (i) the conclusion of the next annual general meeting of the Company; (ii) the expiration of the period within which the next annual general meeting of the Company is required by the memorandum of association of the Company and the laws of Bermuda; or (iii) the revocation or variation of such mandates by ordinary resolution of the Shareholders in general meeting, whichever occurs first. Such duration is in compliance with Rule 13.36(3) of the Listing Rules.

As shown in the above table, 783,882,601 Shares of the Company will be issued upon full utilization of the New General Mandate, which represent 20% and approximately 16.67% of the existing issued share capital and the enlarged issued share capital (increased by the New General Mandate) of the Company respectively. Immediately after full utilization of the New General Mandate, the shareholding interest of the Independent Shareholders will decrease from approximately 54.25% to 45.21% with the maximum dilution of approximately 9.04%. However, having taken into account that the New General Mandate will bring an increase in the amount of capital and provide the Enlarged Group with additional financial flexibility for any business opportunities that may arise in the future and the shareholding of all the Shareholders (including the controlling Shareholders) will be diluted to the same extent upon any utilization of the New General Mandate, we consider such dilution or potential dilution effect to shareholding of the Independent Shareholders is acceptable.

7. Terms of the New General Mandate

The Company will be required to seek the prior consent from the Shareholders for the allotment, issue or grant of Shares or securities convertible into Shares or rights to subscribe for Shares or such convertible securities, unless such allotment, issue or grant falls under the circumstances provided under Rule 13.36(2) of the Listing Rules. An ordinary resolution will be proposed at the Special General Meeting to obtain approval from the Independent Shareholders to refresh the Current General Mandate so that the Directors will be entitled to exercise the powers of the Company to allot and issue Shares not exceeding 20% of the aggregate nominal amount of the issued share capital of the Company as at the date of the Special General Meeting. The approval of the New General Mandate by the Shareholders is unconditional.

RECOMMENDATIONS

Having considered the factors and reasons stated above, we are of the opinion that, (i) the terms and conditions of the Agreement are on normal commercial terms, in the ordinary and usual course of the Group's business, and are fair and reasonable and in the interests of the Company and the Shareholders; and (ii) the New General Mandate is fair and reasonable, so far as the Independent Shareholders are concerned and the New General Mandate is in the interests of the Company and the Independent Shareholders as a whole. Therefore, we advise the Independent Board Committee to recommend to the Shareholders or the Independent Shareholders (as the case may be) to vote in favour of the Acquisition and the New General Mandate at the Special General Meeting.

Yours faithfully,
For and on behalf of
GUANGDONG SECURITIES LIMITED
C. K. Poon
Managing Director
and Head of Corporate Finance Department

1. THREE YEARS FINANCIAL SUMMARY

Following is the summary of the audited consolidated profit and loss account of the Group for each of the three years ended 31st December, 2003 and its audited consolidated balance sheet as at 31st December, 2001, 2002 and 2003 as extracted from the annual reports of the Company.

(i) Audited Consolidated Profit and Loss Account

	For the year ended 31st December,		
	2003	**2002**	**2001**
	HK$'000	*HK$'000* (Restated)	*HK$'000*
TURNOVER	5,507	172,511	215,764
Cost of sales	(920)	(102,180)	(127,686)
Gross profit	4,587	70,331	88,078
Other revenue	315	99	56
Gain on disposal of interests in subsidiaries	22,568	9,028	–
Gain on partial disposal of interests in subsidiaries	–	–	15,752
Selling and distribution costs	(142)	(40,571)	(9,169)
Administrative expenses	(11,494)	(26,266)	(27,783)
Other operating expenses	(28,377)	(16,994)	(96)
PROFIT/(LOSS) FROM OPERATING ACTIVITIES	(12,543)	(4,373)	66,838
Finance costs	(2,563)	(6,301)	(3,251)
Share of losses of jointly-controlled entities	–	(160)	(108)
Amortisation and impairment of goodwill on acquisition of jointly-controlled entities	(133,030)	(176,350)	(10,870)
PROFIT/(LOSS) BEFORE TAX	(148,136)	(187,184)	52,609
Tax	(126)	(12,564)	(18,651)
PROFIT/(LOSS) BEFORE MINORITY INTERESTS	(148,262)	(199,748)	33,958
Minority interests	–	7,340	(1,893)
NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	(148,262)	(192,408)	32,065
EARNINGS/(LOSS) PER SHARE			
Basic	HK(4.98) cents	HK(6.46) cents	HK1.08 cents
Diluted	N/A	N/A	HK1.06 cents

(ii) Audited Consolidated Balance Sheet

	As at 31st December,		
	2003	**2002**	**2001**
	HK$'000	*HK$'000*	*HK$'000*
		(Restated)	
NON-CURRENT ASSETS			
Fixed assets	17,201	7,738	10,439
Investment properties	183,600	183,600	408,200
Intangible assets	35,682	–	–
Properties under development	–	–	60,588
Interests in jointly-controlled entities	–	138,903	321,362
Deferred tax assets	249	353	–
Trade receivables	7,913	11,917	52,998
Other receivable	230,000	280,000	116,033
Pledged deposits	553	2,200	4,071
	475,198	624,711	973,691
CURRENT ASSETS			
Properties under development	–	–	366,221
Completed properties for sale	–	–	103,940
Trade receivables	11,869	8,113	63,785
Prepayments, deposits and other receivables	70,680	91,914	156,543
Cash and cash equivalents	41,312	40,857	55,174
	123,861	140,884	745,663
CURRENT LIABILITIES			
Trade payables	(34,925)	(37,664)	(133,123)
Tax payable	(8,667)	(8,670)	(154,583)
Other payables and accruals	(17,950)	(22,069)	(93,463)
Interest-bearing bank loans	(8,857)	(10,974)	(147,410)
Deferred income	(22,568)	(22,568)	–
	(92,967)	(101,945)	(528,579)
NET CURRENT ASSETS	30,894	38,939	217,084
TOTAL ASSETS LESS CURRENT LIABILITIES	506,092	663,650	1,190,775
NON-CURRENT LIABILITIES			
Interest-bearing bank loans	(32,188)	(40,152)	(46,041)
Deferred income	(103,820)	(126,388)	–
Deferred tax liabilities	(14,497)	(14,497)	–
	(150,505)	(181,037)	(46,041)
MINORITY INTERESTS	–	–	(305,891)
	355,587	482,613	838,843
CAPITAL AND RESERVES			
Issued capital	59,600	59,600	59,600
Reserves	295,987	423,013	779,243
	355,587	482,613	838,843

2. AUDITED FINANCIAL INFORMATION

Set out below are the audited financial statements together with the relevant notes to the financial statements as extracted from the annual report of the Company for the year ended 31st December, 2003.

"**Consolidated profit and loss account**
Year ended 31st December, 2003

	Notes	2003 HK$'000	2002 HK$'000 (Restated)
TURNOVER	5	5,507	172,511
Cost of sales		(920)	(102,180)
Gross profit		4,587	70,331
Other revenue		315	99
Gain on disposal of interests in subsidiaries	27(a)	22,568	9,028
Selling and distribution costs		(142)	(40,571)
Administrative expenses		(11,494)	(26,266)
Other operating expenses		(28,377)	(16,994)
LOSS FROM OPERATING ACTIVITIES	6	(12,543)	(4,373)
Finance costs	7	(2,563)	(6,301)
Share of losses of jointly-controlled entities		–	(160)
Amortisation and impairment of goodwill on acquisition of jointly-controlled entities		(133,030)	(176,350)
LOSS BEFORE TAX		(148,136)	(187,184)
Tax	9	(126)	(12,564)
LOSS BEFORE MINORITY INTERESTS		(148,262)	(199,748)
Minority interests		–	7,340
NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	10, 26	(148,262)	(192,408)
LOSS PER SHARE	11		
Basic		HK(4.98) cents	HK(6.46) cents
Diluted		N/A	N/A

Consolidated balance sheet
31st December, 2003

	Notes	2003 HK$'000	2002 HK$'000 (Restated)
NON-CURRENT ASSETS			
Fixed assets	12	17,201	7,738
Investment properties	13	183,600	183,600
Intangible assets	14	35,682	–
Interests in jointly-controlled entities	16	–	138,903
Deferred tax assets	23	249	353
Trade receivables	17	7,913	11,917
Other receivable	18	230,000	280,000
Pledged deposits	19	553	2,200
		475,198	624,711
CURRENT ASSETS			
Trade receivables	17	11,869	8,113
Prepayments, deposits and other receivables	18	70,680	91,914
Cash and cash equivalents	19	41,312	40,857
		123,861	140,884
CURRENT LIABILITIES			
Trade payables	20	(34,925)	(37,664)
Tax payable		(8,667)	(8,670)
Other payables and accruals	21	(17,950)	(22,069)
Interest-bearing bank loans	22	(8,857)	(10,974)
Deferred income		(22,568)	(22,568)
		(92,967)	(101,945)
NET CURRENT ASSETS		30,894	38,939
TOTAL ASSETS LESS CURRENT LIABILITIES		506,092	663,650
NON-CURRENT LIABILITIES			
Interest-bearing bank loans	22	(32,188)	(40,152)
Deferred income		(103,820)	(126,388)
Deferred tax liabilities	23	(14,497)	(14,497)
		(150,505)	(181,037)
		355,587	482,613
CAPITAL AND RESERVES			
Issued capital	24	59,600	59,600
Reserves	26	295,987	423,013
		355,587	482,613

Consolidated Summary Statement of Changes in Equity

Year ended 31st December, 2003

	Notes	**2003** *HK$'000*	**2002** *HK$'000* (Restated)
Total equity at 1st January:			
As previously reported		494,419	838,843
Prior year adjustment	*26*	(11,806)	(43,774)
As restated		482,613	795,069
Surplus on revaluation of investment properties	*26*	–	3,564
Deferred tax adjustment on revaluation of investment properties	*26*	–	(335)
Exchange differences on translation of the financial statements of overseas subsidiaries	*26*	236	35
Net gains not recognised in the profit and loss account		236	3,264
Revaluation reserve released on disposal of investment properties	*26*	–	(22,510)
Revaluation reserve and exchange fluctuation reserve released on disposal of subsidiaries	*26*	–	(107,802)
Impairment of goodwill remaining eliminated against consolidated retained profits/accumulated losses	*26*	21,000	7,000
Net loss for the year attributable to shareholders	*26*	(148,262)	(192,408)
Total equity at 31st December		355,587	482,613

Consolidated Cash Flow Statement

Year ended 31st December, 2003

	Notes	2003 HK$'000	2002 HK$'000 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax		(148,136)	(187,184)
Adjustments for:			
Interest expense	7	2,563	6,301
Share of losses of jointly-controlled entities		–	160
Interest income	6	(315)	(99)
Loss on disposal of fixed assets	6	3	–
Write off of fixed assets	6	183	–
Gain on disposal of interests in subsidiaries	6	(22,568)	(9,028)
Depreciation	6	769	1,216
Amortisation of intangible assets	6	1,318	–
Amortisation of goodwill		21,350	21,350
Impairment of goodwill		132,680	162,000
Provision for amounts due from jointly-controlled entities	6	5,873	6,000
Provision for an other receivable	6	–	3,994
Proceeds from pre-sale of properties		–	110,683
Attributable profits on pre-sold properties		–	(44,125)
Development costs on properties under development		–	(27,822)
Profit from sale of properties		–	(43,192)
Operating profit/(loss) before working capital changes		(6,280)	254
Decrease in completed properties for sale		–	7,270
Decrease/(increase) in trade receivables		248	(6,045)
Decrease/(increase) in prepayments, deposits and other receivables		71,234	(88,056)
Increase/(decrease) in trade payables, other payables and accruals		(6,858)	16,562
Exchange adjustments on translation of the financial statements of overseas subsidiaries		430	29
Cash generated from/(used in) operations		58,774	(69,986)
Interest received		315	99
Interest paid		(2,563)	(13,261)
Overseas taxes paid		(25)	(179)
Net cash inflow/(outflow) from operating activities		56,501	(83,327)

	Notes	2003 *HK$'000*	2002 *HK$'000* (Restated)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of fixed assets		(10,448)	(259)
Additions to intangible assets		(37,000)	–
Proceeds from disposal of investment properties		–	11,308
Increase in amounts due from jointly-controlled entities		–	(51)
Disposal of subsidiaries	*27(a)*	–	11,179
Decrease in deposits pledged to a bank		1,647	1,871
Net cash inflow/(outflow) from investing activities		(45,801)	24,048
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans		–	76,695
Repayments of bank loans		(10,081)	(31,738)
Net cash inflow/(outflow) from financing activities		(10,081)	44,957
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		619	(14,322)
Cash and cash equivalents at beginning of year		40,857	55,174
Effect of foreign exchange rate changes, net		(164)	5
CASH AND CASH EQUIVALENTS AT END OF YEAR		41,312	40,857
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		41,312	40,857

Balance Sheet

31st December, 2003

	Notes	2003 HK$'000	2002 HK$'000
NON-CURRENT ASSETS			
Fixed assets	12	161	449
Interests in subsidiaries	15	290,218	419,358
		290,379	419,807
CURRENT ASSETS			
Due from subsidiaries	15	71,034	82,285
Due from jointly-controlled entities		–	1,004
Prepayments, deposits and other receivables	18	538	5,240
Cash and bank balances		3,101	164
		74,673	88,693
CURRENT LIABILITIES			
Tax payable		(3,610)	(3,610)
Other payables and accruals	21	(5,855)	(10,471)
		(9,465)	(14,081)
NET CURRENT ASSETS		65,208	74,612
		355,587	494,419
CAPITAL AND RESERVES			
Issued capital	24	59,600	59,600
Reserves	26	295,987	434,819
		355,587	494,419

Notes to Financial Statements

31st December, 2003

1. CORPORATE INFORMATION

During the year, the Group was engaged in the following principal activities:

- property investment
- property development
- sale of online English learning courses
- leasing of equipment

2. IMPACT OF A REVISED HONG KONG STATEMENT OF STANDARD ACCOUNTING PRACTICE

The following revised Hong Kong Statement of Standard Accounting Practice ("SSAPs") and related interpretation are effective for the first time for the current year's financial statements and have a significant impact thereon:

- SSAP 12 (Revised): "Income taxes"
- Interpretation 20: "Income taxes – Recovery of revalued non-depreciable assets"

This SSAP and the Interpretation prescribe new accounting measurement and disclosure practices. The major effects on the Group's accounting policies and on the amounts disclosed in these financial statements of adopting this SSAP and the Interpretation are summarised as follows:

The principal impact of the revision of this SSAP on these financial statements is described below:

Measurement and recognition:

- deferred tax assets and liabilities relating to the differences between capital allowances for tax purposes and depreciation for financial reporting purposes and other taxable and deductible temporary differences are generally fully provided for, whereas previously the deferred tax was recognised for timing differences only to the extent that it was probable that the deferred tax asset or liability would crystallise in the foreseeable future;
- a deferred tax liability has been recognised on the revaluation of the Group's investment properties;
- a deferred tax asset has been recognised for tax losses arising in the current/prior periods to the extent that it is probable that there will be sufficient future taxable profits against which such losses can be utilised; and

Disclosures:

- deferred tax assets and liabilities are presented separately on the balance sheet, whereas previously they were presented on a net basis; and
- the related note disclosures are now more extensive than previously required. These disclosures are presented in notes 9 and 23 to the financial statements and include a reconciliation between the accounting loss and the tax expense for the year.

Further details of these changes and the prior year adjustments arising from them are included in the accounting policy for deferred tax in note 3 and in note 23 to the financial statements.

Interpretation 20 requires that a deferred tax asset or liability that arises from the revaluation of certain non-depreciable assets and investment properties is measured based on the tax consequences that would follow from the recovery of the carrying amount of that asset through sale. This policy has been applied by the Group in respect of the revaluation of its investment properties in the deferred tax calculated under SSAP 12.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with SSAPs, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the periodic remeasurement of investment properties, as further explained below.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31st December, 2003. The results of the subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the results and net assets of the Company's subsidiaries.

Subsidiaries

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

Joint venture companies

A joint venture company is a company set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture company operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture company's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture company is treated as:

(a) a subsidiary, if the Group has unilateral control, directly or indirectly, over the joint venture company;

(b) a jointly-controlled entity, if the Group does not have unilateral control, but has joint control, directly or indirectly, over the joint venture company;

(c) an associate, if the Group does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture company's registered capital and is in a position to exercise significant influence over the joint venture company; or

(d) a long term investment, if the Group holds, directly or indirectly, less than 20% of the joint venture company's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture company.

Jointly-controlled entities

A jointly-controlled entity is a joint venture company which is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's share of the post-acquisition results and reserves of jointly-controlled entities is included in the consolidated profit and loss account and consolidated reserves, respectively. Where the profit sharing ratio is different to the Group's equity interest, the share of post-acquisition results of the jointly-controlled entities is determined based on the agreed profit sharing ratio. The Group's interests in jointly-controlled entities are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses.

Goodwill

Goodwill arising on the acquisition of subsidiaries and jointly-controlled entities represents the excess of the cost of the acquisition over the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life of 15 years. In the case of jointly-controlled entities, any unamortised goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

Prior to the adoption of SSAP 30 "Business combinations" in 2001, goodwill arising on acquisitions was eliminated against consolidated reserves in the year of acquisition. On the adoption of SSAP 30, the Group applied the transitional provision of the SSAP that permitted such goodwill to remain eliminated against consolidated reserves. Goodwill on acquisitions subsequent to the adoption of the SSAP is treated according to the SSAP 30 goodwill accounting policy above.

On disposal of subsidiaries or jointly-controlled entities, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant reserves, as appropriate. Any attributable goodwill previously eliminated against consolidated reserves at the time of acquisition is written back and included in the calculation of the gain or loss on disposal.

The carrying amount of goodwill, including goodwill remaining eliminated against consolidated reserves, is reviewed annually and written down for impairment when it is considered necessary. A previously recognised impairment loss for goodwill is not reversed unless the impairment loss was caused by a specific external event of an exceptional nature that was not expected to recur, and subsequent external events have occurred which have reversed the effect of that event.

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years.

A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Fixed assets and depreciation

Fixed assets, other than investment properties, are stated at cost less accumulated depreciation and any impairment losses.

The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

Depreciation is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life. The principal annual rates used for this purpose are as follows:

Land and buildings	Over the lease terms
Leasehold improvements	20%
Equipment	20%
Furniture and fixtures	20%
Motor vehicles	20%

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are intended to be held on a long term basis for their investment potential, any rental income being negotiated at arm's length. Such properties are not depreciated and are stated at their open market values on the basis of annual professional valuations performed at the end of each financial year. Changes in the values of investment properties are dealt with as movements in the investment properties revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on a portfolio basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged.

On disposal of an investment property, the relevant portion of the investment properties revaluation reserve realised in respect of previous valuations is released to the profit and loss account.

Intangible assets

Intangible assets represent the rights to operate the leasing of equipment business. The operating rights are stated at cost less any accumulated amortisation and any impairment losses. Such costs are amortised on the straight-line basis, over the operating terms of the contractual arrangements of five years.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets and rentals receivable under the operating leases are credited to the profit and loss account on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheet, cash and cash equivalents comprise cash on hand and at banks, including term deposits which are not restricted as to use.

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the profit and loss account or in equity if it relates to items that are recognised in the same or a different period, directly in equity.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences:

- except where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax assets and unused tax losses can be utilised:

- except where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(i) from the sale of completed properties for sale, when all of the conditions of sale have been met and the risks and rewards of ownership have been transferred to the buyer;

(ii) from the pre-sale of properties under development, on the exchange of legally binding unconditional sale contracts, provided that the construction work has progressed to a stage where the ultimate realisation of profit can be reasonably determined, and on the basis that revenue is recognised on the percentage of completion method, calculated by reference to the proportion of construction costs incurred up to the accounting date to the estimated total construction costs to completion, limited to the amount of sales deposits and instalments received and with due allowance for contingencies;

(iii) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(iv) rental income, on a time proportion basis over the lease terms; and

(v) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable.

Employee benefits

Retirement benefits scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

Share option scheme

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The financial impact of share options granted under the share option scheme is not recorded in the Company's or the Group's balance sheets until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date, or which have lapsed, are deleted from the register of outstanding options.

Foreign currencies

Foreign currency transactions are recorded at the applicable exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable exchange rates ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of overseas subsidiaries and jointly-controlled entities are translated into Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiaries and jointly-controlled entities are translated into Hong Kong dollars at the weighted average exchange rates for the year, and their balance sheets are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

4. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments. Summary details of the business segments are as follows:

(a) the sale and pre-sale of properties segment engages in the construction of properties in the Mainland of the People's Republic of China ("Mainland China");

(b) the property investment segment invests in shopping centres located in Mainland China, for rental income potential;

(c) the corporate segment comprises corporate income and expense items;

(d) the "sale of online English learning courses" segment engages in sale of online English learning courses; and

(e) the leasing of equipment segment engages in the leasing of equipment.

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets. No geographical segment information is presented as over 90% of the Group's revenue is derived from customers based in Mainland China, and over 90% of the Group's assets are located in Mainland China.

The following tables present revenue, profit/(loss) and certain asset, liability and expenditure information for the Group's business segments.

	Sale and pre-sale of properties		Property investment		Corporate		Sale of online English learning courses		Leasing of equipment		Consolidated	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000* (Restated)	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000* (Restated)
Segment revenue:												
Sales to external customers	–	165,799	3,219	5,912	–	–	1,379	800	909	–	5,507	172,511
Other revenue and gains – *note 6*	–	–	–	–	22,568	9,028	–	–	–	–	22,568	9,028
Total	–	165,799	3,219	5,912	22,568	9,028	1,379	800	909	–	28,075	181,539
Segment results	–	10,751	2,049	3,097	6,699	(10,846)	(20,825)	(7,474)	(781)	–	(12,858)	(4,472)
Interest income											315	99
Loss from operating activities											(12,543)	(4,373)
Finance costs											(2,563)	(6,301)
Share of losses of jointly-controlled entities and amortisation and impairment of goodwill on acquisition of jointly-controlled entities											(133,030)	(176,510)
Loss before tax											(148,136)	(187,184)
Tax											(126)	(12,564)
Loss before minority interests											(148,262)	(199,748)
Minority interests											–	7,340
Net loss from ordinary activities attributable to shareholders											(148,262)	(192,408)

	Sale and pre-sale of properties		Property investment		Corporate		Sale of online English learning courses		Leasing of equipment		Consolidated	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000* (Restated)	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000* (Restated)
Segment assets	–	–	266,053	272,374	285,864	353,320	249	645	46,644	–	598,810	626,339
Interests in jointly-controlled entities											–	138,903
Unallocated assets											249	353
Total assets											599,059	765,595
Segment liabilities	–	–	43,939	44,544	176,333	215,120	36	151	–	–	220,308	259,815
Unallocated liabilities											23,164	23,167
											243,472	282,982
Other segment information:												
Capital expenditure	–	206	9	–	15	39	–	14	47,424	–	47,448	259
Depreciation and amortisation	–	525	273	282	122	406	3	3	1,689	–	2,087	1,216
Unallocated amounts											21,350	21,350
											23,437	22,566
Impairment of goodwill recognised in the profit and loss account	–	–	–	–	–	–	21,000	7,000	–	–	21,000	7,000
Unallocated amounts											111,680	155,000
											132,680	162,000
Other non-cash expenses	–	–	–	–	186	–	–	–	–	–	186	–
Provision for an other receivable	–	–	–	–	–	–	–	3,994	–	–	–	3,994
Provision for amounts due from jointly-controlled entities	–	–	–	–	5,873	6,000	–	–	–	–	5,873	6,000
Surplus/(deficit) on revaluation of investment properties recognised directly in equity	–	9,364	–	(5,800)	–	–	–	–	–	–	–	3,564
Revaluation reserve released on disposal of investment properties	–	22,510	–	–	–	–	–	–	–	–	–	22,510

5. TURNOVER

Turnover represents the aggregate of the gross amounts of proceeds from the sale and pre-sale of properties, adjusted to reflect the stage of construction, to the extent that they were not previously recognised, the net invoiced value of goods sold, after allowances for returns and trade discounts, and gross rental income, after elimination of all significant intra-group transactions less any applicable turnover taxes.

	Group	
	2003	**2002**
	HK$'000	*HK$'000*
Sale and pre-sale of properties	–	165,799
Rental income from investment properties	3,219	5,912
Rental income from equipments held for operating lease purposes	909	–
Sale of online English learning courses	1,379	800
	5,507	172,511

6. LOSS FROM OPERATING ACTIVITIES

The Group's loss from operating activities is arrived at after charging/(crediting):

	2003	2002
	HK$'000	*HK$'000* (Restated)
Cost of inventories sold	920	102,180
Depreciation	769	1,216
Amortisation of intangible assets*	1,318	–
Impairment of goodwill arising during the year*	21,000	7,000
Minimum lease payments under operating leases on land and buildings	1,784	3,662
Staff costs (including directors' remuneration – *note 8*):		
Pension scheme contributions#	127	127
Wages and salaries	3,858	8,766
	3,985	8,893
Auditors' remuneration	893	1,108
Loss on disposal of fixed assets*	3	–
Write off of fixed assets*	183	–
Provision for amounts due from jointly-controlled entities*	5,873	6,000
Provision for an other receivable*	–	3,994
Gross and net rental income from investment properties	(3,219)	(5,912)
Exchange losses, net	691	879
Gain on disposal of interests in subsidiaries	(22,568)	(9,028)
Interest income	(315)	(99)

* Included in "Other operating expenses" on the face of the consolidated profit and loss account.

\# At 31st December, 2003, the Group had no forfeited contributions available to reduce its contributions to the pension scheme in future years (2002: Nil).

7. FINANCE COSTS

	Group	
	2003	2002
	HK$'000	*HK$'000*
Interest expense on bank loans and overdrafts wholly repayable within five years	2,563	13,261
Less: Interest capitalised on properties under development	–	(6,960)
	2,563	6,301

8. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES

Directors' remuneration for the year, disclosed pursuant to the Rules (the "Listing Rules") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and Section 161 of the Hong Kong Companies Ordinance is as follows:

	Group	
	2003	**2002**
	HK$'000	*HK$'000*
Fees:		
Executive directors	720	840
Independent non-executive directors	180	430
	900	1,270
Other executive directors' emoluments:		
Salaries, allowances and benefits in kind	647	2,102
Pension scheme contributions	36	42
	1,583	3,414

The number of directors whose remuneration fell within the following bands is as follows:

	Number of directors	
	2003	**2002**
Nil – HK$1,000,000	6	8
HK$1,000,001 – HK$1,500,000	–	1
	6	9

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

Five highest paid employees

The five highest paid employees during the year included two (2002: one) directors, details of whose remuneration are set out above. Details of the remuneration of the remaining three (2002: four) non-director, highest paid employees for the year are as follows:

	Group	
	2003	**2002**
	HK$'000	*HK$'000*
Salaries, allowances and benefits in kind	1,108	2,820
Pension scheme contributions	36	41
	1,144	2,861

The remuneration of the remaining three (2002: four) non-director, highest paid employees fell within the following bands:

	Number of employees	
	2003	**2002**
Nil – HK$1,000,000	3	3
HK$1,500,001 – HK$2,000,000	–	1
	3	4

During the year, no share options were granted to the directors or the three non-director, highest paid employees in respect of their services to the Group. Further details of the share option schemes of the Company are set out in note 25 to the financial statements.

During the year, no emoluments were paid by the Group to the directors or the three non-director, highest paid employees as an inducement to join or upon joining the Group, or as compensation for loss of office.

9. TAX

	Group	
	2003	**2002**
	HK$'000	*HK$'000*
		(Restated)
Provision for the year:		
Current – Hong Kong	22	–
Elsewhere	–	12,048
Deferred *(note 23)*	104	516
Total tax charge for the year	126	12,564

Hong Kong profits tax has been provided at the rate of 17.5% on the estimated assessable profits arising in Hong Kong during the year. The applicable Hong Kong profits tax rate for the prior year was 16.0%. The increased Hong Kong profits tax rate became effective from the year of assessment 2003/2004, and so is applicable to the assessable profits arising in Hong Kong for the whole of the year ended 31st December, 2003.

No provision for Hong Kong profits tax had been made as the Group did not generate any taxable profits in Hong Kong during the year ended 31st December, 2002. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof. The subsidiaries established in the People's Republic of China are subject to income taxes at tax rate of 33%.

A reconciliation of the tax expense applicable to loss before tax using the statutory rates for the countries in which the Company and its subsidiaries are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

Group – 2003

	Hong Kong		**Mainland China**		**Total**	
	HK$'000	%	*HK$'000*	%	*HK$'000*	%
Loss before tax	(147,670)		(466)		(148,136)	
Calculated at the statutory tax rate	(25,842)	(17.5)	(154)	(33.0)	(25,996)	(17.6)
Income not subject to tax	(4,012)	(2.7)	–	–	(4,012)	(2.7)
Expenses not deductible for tax	28,166	19.1	362	77.6	28,528	19.2
Tax losses not recognised	1,710	1.1	–	–	1,710	1.1
Tax losses utilised from previous periods	–	–	(104)	(22.3)	(104)	–
Tax charge at the Group's effective rate	22	–	104	22.3	126	–

Group – 2002

	Hong Kong		**Mainland China**		**Total**	
	HK$'000	%	*HK$'000*	%	*HK$'000*	%
Profit/(loss) before tax	(191,834)		4,650		(187,184)	
Tax at the statutory tax rate	(30,693)	(16.0)	1,535	33.0	(29,158)	(15.6)
Income not subject to tax	(4,225)	(2.2)	–	–	(4,225)	(2.2)
Expenses not deductible for tax	34,762	18.1	11,545	248.3	46,307	24.7
Tax losses not recognised	156	0.1	–	–	156	0.1
Tax losses utilised from previous periods	–	–	(516)	(11.1)	(516)	(0.3)
Tax charge at the Group's effective rate	–	–	12,564	270.2	12,564	6.7

10. NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders for the year ended 31st December, 2003 dealt with in the financial statements of the Company is HK$138,832,000 (2002: HK$214,900,000) (note 26).

11. LOSS PER SHARE

The calculation of basic loss per share is based on the net loss attributable to shareholders for the year of HK$148,262,000 (2002: HK$192,408,000 (as restated)) and the weighted average of 2,980,016,725 (2002: 2,980,016,725) ordinary shares in issue during the year.

Diluted loss per share for the years ended 31st December, 2003 and 2002 has not been disclosed as the potential ordinary shares outstanding during these years had an anti-dilutive effect on the basic loss per share for these years.

12. FIXED ASSETS

Group

	Land and buildings *HK$'000*	Leasehold improvements *HK$'000*	Equipment *HK$'000*	Furniture and fixtures *HK$'000*	Motor vehicles *HK$'000*	Total *HK$'000*
At cost:						
At 1st January, 2003	7,645	573	648	761	637	10,264
Additions	–	3	10,428	17	–	10,448
Disposals	–	–	–	(9)	–	(9)
Write off	–	(539)	(1)	(76)	–	(616)
Exchange realignment	(31)	–	(1)	(5)	–	(37)
At 31st December, 2003	7,614	37	11,074	688	637	20,050
Accumulated depreciation:						
At 1st January, 2003	511	366	410	652	587	2,526
Provided during the year	211	43	453	38	24	769
Disposals	–	–	–	(6)	–	(6)
Write back	–	(380)	–	(53)	–	(433)
Exchange realignment	(2)	–	(1)	(4)	–	(7)
At 31st December, 2003	720	29	862	627	611	2,849
Net book value:						
At 31st December, 2003	6,894	8	10,212	61	26	17,201
At 31st December, 2002	7,134	207	238	109	50	7,738

Company

	Leasehold improvements *HK$'000*	Equipment *HK$'000*	Furniture and fixtures *HK$'000*	Total *HK$'000*
At cost:				
At 1st January, 2003	573	460	577	1,610
Additions	3	–	13	16
Write off	(539)	(1)	(76)	(616)
At 31st December, 2003	37	459	514	1,010
Accumulated depreciation:				
At 1st January, 2003	366	263	532	1,161
Provided during the year	43	64	14	121
Write back	(380)	–	(53)	(433)
At 31st December, 2003	29	327	493	849
Net book value:				
At 31st December, 2003	8	132	21	161
At 31st December, 2002	207	197	45	449

Included in the total amount of the Group's Equipment, there are 2,482 point-of-sale equipment (the "POS Equipment") held for leasing purposes with cost of HK$10,424,000 (2002: Nil) and accumulated depreciation of HK$371,000 (2002: Nil). The POS Equipment was transferred from Easy-Link Technology Services Co., Ltd. to the Group, and was installed by Guangzhou Easylink Pay Network Co., Ltd. in the department stores and shops located in Mainland China, during the year ended 31st December, 2003.

The Group's land and buildings included above are held under medium term leases in Mainland China.

13. INVESTMENT PROPERTIES

	Group	
	2003	**2002**
	HK$'000	*HK$'000*
At 1st January	183,600	408,200
Revaluation surplus – *note 26*	–	3,564
Disposals	–	(40,164)
Disposal of subsidiaries	–	(188,000)
At 31st December, at valuation	183,600	183,600

The investment properties are held under medium term land use rights in Mainland China.

The investment properties were revalued by Chesterton Petty Limited, an independent firm of professionally qualified valuers, on an open market value, existing use basis as at 31st December, 2003.

At the balance sheet date, certain of the Group's investment properties were pledged to secure general banking facilities granted to the Group as set out in note 22 to the financial statements.

14. INTANGIBLE ASSETS

Group

	Operating rights
	HK$'000
Cost:	
At beginning of year	–
Additions	37,000
At 31st December, 2003	37,000
Accumulated amortisation:	
At beginning of year	–
Provided during the year	1,318
At 31st December, 2003	1,318
Net book value:	
At 31st December, 2003	35,682
At 31st December, 2002	–

15. INTERESTS IN SUBSIDIARIES

	Company 2003	2002
	HK$'000	*HK$'000*
Unlisted shares, at cost	467,158	467,158
Provision for impairment	(176,940)	(47,800)
	290,218	419,358
Due from subsidiaries	286,875	298,126
Provision against amounts due from subsidiaries	(215,841)	(215,841)
	71,034	82,285
	361,252	501,643

The amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued share/ registered capital	Percentage of equity attributable to the Company 2003	2002	Principal activities
Directly held					
China Land Realty Investment (BVI) Limited	British Virgin Islands/ Hong Kong	US$11,204 Ordinary	100	100	Investment holding
Indirectly held					
Chongqing Smart Hero Real Estate Development Company Limited ("CQ Smart Hero")	Mainland China	US$2,000,000 Registered capital *(Note a)*	100	100	Property development, holding and management
Ever Brian Inc. ("Ever Brian")	British Virgin Islands/ Mainland China	US$1 Ordinary	100	100	Sale of online English learning courses
I-Action Agents Limited	British Virgin Islands/ Hong Kong	US$1 Ordinary	100	100	Investment holding
Smart Hero (Holdings) Limited	Hong Kong	HK$2 Ordinary, HK$300 Non-voting deferred *(Note b)*	100	100	Investment holding

Name	Place of incorporation/ registration and operations	Nominal value of issued share/ registered capital	Percentage of equity attributable to the Company 2003	2002	Principal activities
Proland International Technology Limited	Hong Kong	HK$2	100	100	Investment holding
Guangzhou Proland Electrical Technology Limited ("GZ Proland")	Mainland China	HK$1,500,000 Registered capital *(Note a)*	100	100	Leasing of equipment

Notes:

a. CQ Smart Hero and GZ Proland are wholly foreign owned enterprises established in the People's Republic of China. They have registered capitals of US$2,000,000 and HK$1,500,000, respectively, of which US$2,000,000 and nil, respectively, which were paid-up as at 31st December, 2003. The registered capital of GZ Proland was fully paid-up subsequent to the balance sheet date.

b. The non-voting deferred shares carry no rights to dividends, to receive notice of or to attend or vote at any general meeting of the company, or to participate in any distribution on winding-up.

The above table lists the subsidiaries of the Company as at 31st December, 2003 which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the assets and liabilities of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

As detailed in note 3 to the financial statements, upon the adoption of SSAP 30 in 2001, the Group applied the transitional provision of SSAP 30 that permitted goodwill in respect of acquisition which occurred prior to the adoption of the SSAP, to remain eliminated against consolidated retained profits/accumulated losses.

The movements of the goodwill remaining in consolidated accumulated losses as at 31st December, 2003, arising from the acquisition of a subsidiary prior to the adoption of SSAP 30 in 2001, are as follows:

	HK$'000
Cost:	
At 1st January and 31st December, 2003	35,000
Accumulated impairment:	
At 1st January, 2003	7,000
Impairment provided during the year	21,000
At 31st December, 2003	28,000
Net amount:	
At 31st December, 2003	7,000
At 31st December, 2002	28,000

Ever Brian, an indirectly held wholly-owned subsidiary of the Company, is engaged in the sale of online English courses in Mainland China.

The performance of Ever Brian for the year was below the original business plan. The directors have evaluated the business activity and future performance of the business of Ever Brian and considered that the goodwill arising from the acquisition of Ever Brian was impaired. A business valuation of Ever Brian was performed by an independent firm of professionally qualified valuers as at the balance sheet date. Based on the valuation to assess the value in use, the Group has recognised an impairment loss for goodwill attributable to the Group's equity interest in Ever Brian of HK$21,000,000 in the profit and loss account for the year ended 31st December, 2003.

16. INTERESTS IN JOINTLY-CONTROLLED ENTITIES

	Group	
	2003	**2002**
	HK$'000	*HK$'000*
Share of net assets	–	–
Goodwill on acquisition	–	133,030
Due from jointly-controlled entities	11,873	11,873
Less: Provision against amounts due from jointly-controlled entities	(11,873)	(6,000)
	–	138,903

The amounts due from jointly-controlled entities are unsecured, interest-free and have no fixed terms of repayment.

The movements of the goodwill capitalised as an asset arising from the acquisition of jointly-controlled entities are as follows:

	Group
	HK$'000
Cost:	
At 1st January and 31st December, 2003	320,250
Accumulated amortisation and impairment:	
At 1st January, 2003	187,220
Provided during the year	21,350
Impairment provided during the year	111,680
At 31st December, 2003	320,250
Net book value:	
At 31st December, 2003	–
At 31st December, 2002	133,030

世聯匯通信息科技有限公司 ("Shi Lian"), an indirectly held jointly-controlled entity of the Group, is engaged in the provision of technology consultancy services for a phone payment system operating in Mainland China.

The operation of Shi Lian has incurred losses since 2001. The directors have evaluated the business activity and future performance of the business of Shi Lian and considered that the goodwill arising from the acquisition of the jointly-controlled entities was impaired. A business valuation of Shi Lian was performed by an independent firm of professionally qualified valuers as at the balance sheet date. Based on the valuation, the Group has recognised an impairment loss for goodwill attributable to the Group's equity interest in Shi Lian of HK$111,680,000 in the profit and loss account for the year ended 31st December, 2003.

Particulars of the jointly-controlled entities are as follows:

Name	Business structure	Place of incorporation/ registration and operations	Ownership interest	Percentage of Voting power	Profit sharing	Principal activities
I-Mall Investments Limited	Corporate	British Virgin Islands	68.6	33.3	68.6	Investment holding
B2B Market Investments Limited	Corporate	British Virgin Islands	35.0	33.3	35.0	Investment holding
Cyber Union Enterprise Limited	Corporate	Hong Kong	35.0	50.0	35.0	Investment holding
Shi Lian	Corporate	Mainland China	35.0	33.3	35.0	Provision of technology consultancy services

All of the above investments in jointly-controlled entities are indirectly held by the Company.

The above jointly-controlled entities were held through I-Action Agents Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of the Company.

17. TRADE RECEIVABLES

An aged analysis of the trade receivables at the balance sheet date is as follows:

	Group			
	2003		2002	
	HK$'000	*Percentage*	*HK$'000*	*Percentage*
Within 6 months	3,957	20	4,132	21
More than 6 months but within 1 year	–	–	9	–
More than 1 year but within 2 years	3,956	20	–	–
Not due as at 31st December	11,869	60	15,889	79
	19,782	100	20,030	100
Portion classified as current assets	(11,869)		(8,113)	
Non-current assets	7,913		11,917	

The Group generally grants a credit term of three months to its customers.

The Group's trade receivables are aged based on the due date of instalments as stipulated in the sale contracts.

The legal titles of the properties sold are retained by the Group until the contracted amounts and related expenses of the property have been fully settled.

18. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2003	**2002**	**2003**	**2002**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Non-current assets:				
Other receivable[#]	230,000	280,000	–	–
Current assets:				
Prepayments	93	152	89	148
Deposits and other receivables[#]	70,587	91,762	449	5,092
	70,680	91,914	538	5,240

[#] Other receivables of HK$330,000,000 as at 31st December, 2002 represented the third, fourth and fifth instalment receivables arising on the disposal of certain subsidiaries during the year ended 31st December, 2002 (note 27(a)). The instalment receivables are not yet due as at 31st December, 2002 and the third instalment receivable of HK$50,000,000 was due and repaid during the year ended 31st December, 2003. The fourth and fifth instalment receivables of HK$280,000,000 are not yet due as at 31st December, 2003. Subsequent to the year end, a total of HK$190,000,000 was settled.

19. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

At 31st December, 2003, bank deposits of approximately HK$553,000 (2002: HK$2,200,000) were pledged to a bank to secure mortgage loans granted by the bank to certain purchasers of the Group's properties.

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$38,259,000 (2002: HK$40,626,000). The RMB is not freely convertible into other currencies; however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

20. TRADE PAYABLES

An aged analysis of the trade payables at the balance sheet date is as follows:

	Group			
	2003		**2002**	
	HK$'000	*Percentage*	*HK$'000*	*Percentage*
Within 6 months	251	1	664	2
More than 6 months but within 1 year	5	–	83	–
More than 1 year but within 2 years	204	1	8,670	23
More than 2 years but within 3 years	8,092	23	21	–
Over 3 years	26,373	75	28,226	75
	34,925	100	37,664	100

The Group's trade payables are aged based on the date of the goods received or services rendered.

21. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2003	**2002**	**2003**	**2002**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Other payables	8,242	7,364	583	–
Accruals	9,708	14,705	5,272	10,471
	17,950	22,069	5,855	10,471

22. INTEREST-BEARING BANK LOANS

	Group	
	2003	**2002**
	HK$'000	*HK$'000*
Bank loans:		
Secured	36,657	40,888
Unsecured	4,388	10,238
	41,045	51,126
Bank loans repayable:		
Within one year or on demand	8,857	10,974
In the second year	4,710	9,512
In the third to fifth years, inclusive	15,706	15,372
Beyond five years	11,772	15,268
	41,045	51,126
Current portion	(8,857)	(10,974)
Non-current portion	32,188	40,152

The Group had bank loan facilities amounting to HK$41,045,000 (2002: HK$52,700,000), of which approximately HK$41,045,000 (2002: HK$51,126,000) had been utilised at the balance sheet date. The bank loans were supported by certain of the Group's investment properties and a corporate guarantee executed by the Company.

23. DEFERRED TAX

The movement in deferred tax liabilities and assets during the year is as follows:

Deferred tax liabilities

Group

	Revaluation of investment properties *HK$'000*
At 1st January, 2003	
As previously reported	–
Prior year adjustment:	
SSAP 12 – restatement of deferred tax	14,497
As restated and at 31st December, 2003	14,497

Deferred tax assets

Group

	Losses available for offset against future taxable profit *HK$'000*
At 1st January, 2003	
As previously reported	–
Prior year adjustment:	
SSAP 12 – restatement of deferred tax	353
As restated	353
Deferred tax charged to the profit and loss account *(note 9)*	(104)
Gross deferred tax assets at 31st December, 2003	249
Net deferred tax liabilities at 31st December, 2003	14,248

Deferred tax liabilities

Group

	Revaluation of investment properties *HK$'000*
At 1st January, 2002	
As previously reported	–
Prior year adjustment:	
SSAP 12 – restatement of deferred tax	47,123
As restated	47,123
Deferred tax credited to equity	(5,696)
Disposal of subsidiaries *(note 27(a))*	(26,930)
At 31st December, 2002	14,497

Deferred tax assets

Group

	Losses available for offset against future taxable profit *HK$'000*
At 1st January, 2002	
As previously reported	–
Prior year adjustment:	
SSAP 12 – restatement of deferred tax	5,732
As restated	5,732
Deferred tax charged to the profit and loss account *(note 9)*	(516)
Disposal of subsidiaries *(note 27(a))*	(4,863)
Gross deferred tax assets at 31st December, 2002	353
Net deferred tax liabilities at 31st December, 2002	14,144

The Group has tax losses arising in Hong Kong of HK$9,771,000 (2002: HK$975,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in Group companies that have been loss-making for some time.

At 31st December, 2003, there was no significant unrecognised deferred tax liability (2002: Nil) for taxes that would have been payable on the unremitted earnings of certain of the Group's subsidiaries or jointly-controlled entities as the Group had no liability to additional tax should such amounts be remitted.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

SSAP 12 (revised) was adopted during the year, as further explained in note 2 to the financial statements. This change in accounting policy has resulted in an increase in the Group's net deferred tax liability as at 31st December, 2003 and 2002 by HK$14,248,000 and HK$14,144,000, respectively. As a consequence, the consolidated net loss attributable to shareholders for the years ended 31st December, 2003 and 2002 have been increased by HK$459,000 and HK$658,000, respectively, and the consolidated retained profits at 1st January, 2003 and 2002 have been increased by HK$2,691,000 and HK$3,349,000, respectively, as detailed in the consolidated summary statement of changes in equity and note 26.

24. SHARE CAPITAL

Shares

	2003	**2002**
	HK$'000	*HK$'000*
Authorised:		
6,000,000,000 ordinary shares of HK$0.02 each	120,000	120,000
Issued and fully paid:		
2,980,016,725 ordinary shares of HK$0.02 each	59,600	59,600

Share options

Details of the Company's share option schemes and the share options issued under one of the schemes are included in note 25 to the financial statements.

25. SHARE OPTION SCHEMES

The Company's share option scheme which was adopted on 19th September, 1997 (the "Old Scheme") was terminated and replaced by a new share option scheme at the special general meeting held on 11 June 2002 (the "New Scheme"). The options granted under the Old Scheme remain exercisable within the respective exercise period. During the year, no share options were granted or exercised under the Old Scheme or the New Scheme.

Summaries of the Old Scheme and the New Scheme are set out below:

(1) Old Scheme

The principal purpose of the Old Scheme is to recognise the significant contributions of the directors and employees of the Group to the growth of the Group, by rewarding them with opportunities to obtain an ownership interest in the Company and to further motivate and give an incentive to these persons to continue to contribute to the Group's long term success and prosperity.

Eligible participants of the Old Scheme are the executive directors and full-time employees of the Group. The Old Scheme became effective on 19th September, 1997 and, unless otherwise cancelled or amended, will remain in force for ten years from that date. These share options granted under the Old Scheme are exercisable at any time for a period from the commencement date and expiring on the last day of the period to be determined by the board of directors, or the tenth anniversary of the adoption date on 19th September, 1997, whichever is the earlier.

At 31st December, 2003, the number of shares issuable under share options granted under the Old Scheme was 90,500,000, which represented approximately 3% of the Company's shares in issue as at that date. The maximum number of shares issuable under share options to each eligible participant in the Old Scheme within any 12-month period, is limited to 2.5% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

The offer of a grant of share options may be accepted in writing within 28 days from the date of the offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences after a certain vesting period and ends on a date which is not later than three years from the date of the commencement of the exercise period of the share options or the expiry date of the Old Scheme, if earlier.

The exercise price of the share options is determinable by the directors, but may not be less than 80% of the average closing price of the Company's shares on the Stock Exchange for the five trading days immediately preceding the date of offer or the nominal value of the Company's shares, whichever is higher.

The following share options were outstanding under the Old Scheme during the year:

Name or category of participant	Number of share options At 1st January, 2003	Lapsed during the year	At 31st December, 2003	Date of grant of share options*	Exercise period of share options	Exercise price of share options** HK$
Directors						
Ho Tsam Hung	27,500,000	–	27,500,000	1st June, 2001	1st December, 2001 to 1st December, 2004	0.1395
Ho Pak Hung	27,500,000	–	27,500,000	1st June, 2001	1st December, 2001 to 1st December, 2004	0.1395
Ho Kam Hung	27,500,000	–	27,500,000	1st June, 2001	1st December, 2001 to 1st December, 2004	0.1395
	82,500,000	–	82,500,000			
Other employees						
In aggregate	8,000,000	–	8,000,000	1st June, 2001	1st December, 2001 to 1st December, 2004	0.1395
	90,500,000	–	90,500,000			

* The vesting period of the share options is from the date of the grant until the commencement of the exercise period.

** The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

At the balance sheet date, the Company had 90,500,000 share options outstanding under the Old Scheme. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 90,500,000 additional ordinary shares of the Company and additional share capital of HK$1,810,000 and share premium of HK$10,814,750 (before issue expenses).

(2) New Scheme

The principal purpose of the New Scheme is to provide eligible participants with the opportunity to acquire proprietary interests in the Company and as an incentive to work towards enhancing the value of the Company and its shares for the benefit of the Company and its shareholders as a whole.

Eligible participants of the New Scheme include all directors, employees, any entity in which the Group holds an equity interest (the "Invested Entity"), consultants, advisors, suppliers and customers of the Group or any Invested Entity, any person or entity that provides research, development or other technological support to the Group or any Invested Entity, any shareholder of any member of the Group or any Invested Entity and holders of securities issued by the Group or any Invested Entity. The New Scheme became effective on 11th June, 2002 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the New Scheme is an amount equivalent, upon their exercise, to 30% of the shares of the Company in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the New Scheme within any 12-month period, is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a director, chief executive, a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time and with an aggregate value (based on the closing price of the Company's shares at the date of the grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 28 days from the date of the offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors. No options will be exercisable ten years after the date of the offer of the share options or the expiry date of the New Scheme, if earlier.

The exercise price of the share options is determinable by the directors, but may not less than the highest of (i) the nominal value of the ordinary shares of the Company on the date of grant; (ii) the closing price of the Company's shares as stated in the daily quotation sheets issued by the Stock Exchange on the date of grant; and (iii) the average closing price of the Company's shares as stated in the daily quotation sheets issued by the Stock Exchange for the five business days immediately preceding the date of grant.

Up to the date of approval of the financial statements, no share options have been granted under the New Scheme.

26. RESERVES

Group

	Share premium account HK$'000	Contributed surplus HK$'000	Investment properties revaluation reserve HK$'000	Exchange fluctuation reserve HK$'000	Retained profits/ (accumulated losses) HK$'000	Total HK$'000
At 1st January, 2002						
As previously reported	220,002	80,258	205,889	9,374	263,720	779,243
Prior year adjustment:						
SSAP 12 – restatement of deferred tax	–	–	(47,123)	–	3,349	(43,774)
As restated	220,002	80,258	158,766	9,374	267,069	735,469
Exchange adjustment on translation of the financial statements of overseas subsidiaries	–	–	–	35	–	35
Disposal of subsidiaries – *note 27(a)* (as restated)	–	–	(98,521)	(9,281)	–	(107,802)
Revaluation reserve released on disposal of investment properties (as restated)	–	–	(22,510)	–	–	(22,510)
Surplus on revaluation of investment properties	–	–	3,564	–	–	3,564
Impairment of goodwill remaining eliminated against consolidated retained profits	–	–	–	–	7,000	7,000
Deferred tax adjustment on revaluation of investment properties	–	–	(335)	–	–	(335)
Net loss for the year (as restated)	–	–	–	–	(192,408)	(192,408)
At 31st December, 2002	220,002	80,258	40,964	128	81,661	423,013
At 1st January, 2003						
As previously reported	220,002	80,258	55,461	128	78,970	434,819
Prior year adjustment:						
SSAP 12 – restatement of deferred tax	–	–	(14,497)	–	2,691	(11,806)
As restated	220,002	80,258	40,964	128	81,661	423,013
Exchange adjustment on translation of the financial statements of overseas subsidiaries	–	–	–	236	–	236
Impairment of goodwill remaining eliminated against consolidated retained profits	–	–	–	–	21,000	21,000
Net loss for the year	–	–	–	–	(148,262)	(148,262)
At 31st December, 2003	220,002	80,258	40,964	364	(45,601)	295,987
Reserves retained by/ (losses accumulated in):						
Company and subsidiaries	220,002	80,258	40,964	364	(45,333)	296,255
Jointly-controlled entities	–	–	–	–	(268)	(268)
At 31st December, 2003	220,002	80,258	40,964	364	(45,601)	295,987
Company and subsidiaries	220,002	80,258	40,964	128	81,929	423,281
Jointly-controlled entities	–	–	–	–	(268)	(268)
At 31st December, 2002	220,002	80,258	40,964	128	81,661	423,013

Notes:

(a) The amount of goodwill arising on the acquisition of a subsidiary in prior years of HK$7,000,000, after provision for impairment of HK$28,000,000, as at 31st December, 2003, remained eliminated against consolidated retained profits as explained in note 15 to the financial statements.

(b) The contributed surplus of the Group represents the difference between the nominal value of the shares of the subsidiaries acquired pursuant to the Group reorganisation in 1997, over the nominal value of the Company's shares issued in exchange therefor.

Company

	Share premium account	**Contributed surplus**	**Accumulated losses**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 1st January, 2002	220,002	547,326	(117,609)	649,719
Net loss for the year	–	–	(214,900)	(214,900)
At 31st December, 2002 and 1st January, 2003	220,002	547,326	(332,509)	434,819
Net loss for the year	–	–	(138,832)	(138,832)
At 31st December, 2003	220,002	547,326	(471,341)	295,987

The contributed surplus of the Company represents the excess of the fair value of the shares of the subsidiaries acquired pursuant to the Group reorganisation in 1997, over the nominal value of the Company's shares issued in exchange therefor. Under the Companies Act 1981 of Bermuda (as amended), the Company may make distributions to its members out of the contributed surplus under certain circumstances.

27. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Disposal of subsidiaries

	Notes	2003 *HK$'000*	2002 *HK$'000* (Restated)
Net assets disposed of:			
Fixed assets		–	1,745
Investment properties		–	188,000
Properties under development		–	395,033
Deferred tax assets	*23*	–	4,863
Completed properties for sale		–	96,670
Cash and bank balances		–	8,821
Trade receivables		–	116,698
Prepayments, deposits and other receivables		–	314,724
Trade payables		–	(52,945)
Other payables and accruals		–	(100,863)
Interest-bearing bank loans		–	(187,282)
Deferred tax liabilities	*23*	–	(26,930)
Tax payable		–	(157,782)
Minority interests		–	(300,934)
		–	299,818
Exchange fluctuation reserve released on disposal		–	(9,281)
Revaluation reserve released on disposal		–	(98,521)
Gain on disposal of subsidiaries		–	157,984
Consideration		–	350,000
Satisfied by:			
Cash and other receivables		–	120,000
Property units		–	230,000
Total Consideration		–	350,000

The total consideration of HK$350,000,000 was to be settled in five instalments. The first and second instalments of a total of HK$20,000,000 were settled in cash before 31st December, 2002. The third instalment of HK$50,000,000 was settled in cash before 31st December, 2003 and the fourth instalment of HK$50,000,000 will be settled in cash by 31st March, 2004. The fifth instalment of HK$230,000,000 was to be settled on or before a date falling on the first day immediately after expiration of the thirtieth month after 31st December, 2002. The total gain on disposal of HK$157,984,000 (as restated) was recognised in line with the settlement schedule of the consideration. Deferred income in respect of gain on disposal of interests in subsidiaries recognised in the consolidated profit and loss account during the year is HK$22,568,000 (2002: HK$9,028,000 (as restated)). The remaining deferred income was included in the consolidated balance sheet as to current and non-current portion of HK$22,568,000 (2002: HK$22,568,000) and HK$103,820,000 (2002: HK$126,388,000 (as restated)), respectively.

Pursuant to a supplementary agreement entered into subsequent to 31st December, 2003, the settlement terms of the fifth instalment is changed as further detailed in note 32(b) to the financial statements.

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:

	2003	**2002**
	HK$'000	*HK$'000*
Cash consideration	–	20,000
Cash and bank balances disposed of	–	(8,821)
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries	–	11,179

The results of the subsidiaries disposed of during the year ended 31st December, 2002 contributed HK$168 million and HK$1 million to the Group's consolidated turnover and loss after tax for that year.

(b) Major non-cash transactions

(1) During the year ended 31st December, 2002, the Group disposed of its entire 51% interest in Ample Dragon Limited to an independent third party for a consideration of HK$350,000,000. Instalment receivables arising thereon of HK$330,000,000 are included in "Other receivables" in the consolidated balance sheet (note 18), of which HK$230,000,000 will be satisfied by certain property units which were yet to be developed as at 31st December, 2002.

(2) During the year ended 31st December, 2002, the Group disposed of certain of its investment properties for a consideration of HK$54,815,000. Part of the consideration of approximately HK$29,607,000 was settled by setting off against accounts payable in respect of certain expenditures incurred by the Group. A further part of the consideration of approximately HK$11,308,000 was settled in cash and the remaining balance of approximately HK$13,900,000 was included in the net assets of the subsidiaries disposed of in 2002 as set out in note 27(a) above.

28. CONTINGENT LIABILITIES

At the balance sheet date, contingent liabilities not provided for in the financial statements were as follows:

	Group		**Company**	
	2003	**2002**	**2003**	**2002**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Guarantees given for mortgage loans granted by banks to certain purchasers of the Group's properties	5,529	22,006	–	–
Guarantees given to a bank in respect of facilities utilised by certain subsidiaries	–	–	41,045	51,126
	5,529	22,006	41,045	51,126

29. PLEDGE OF ASSETS

Details of the Group's bank loans secured by the assets of the Group are included in note 22 to the financial statements.

30. COMMITMENTS

(a) Capital commitments

	Group		Company	
	2003	**2002**	**2003**	**2002**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Capital commitments in respect of property development projects:				
Contracted, but not provided for	35,902	35,902	–	–
Capital commitment in respect of capital contribution to a subsidiary:				
Contracted, but not provided for	1,500	1,500	–	–
	37,402	37,402	–	–

(b) Commitments under operating leases

(i) As lessor

The Group leases certain of its investment properties and POS Equipment under operating lease arrangements with leases negotiated for terms of two years and five years, respectively.

At 31st December, 2003, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2003	**2002**
	HK$'000	*HK$'000*
Within one year	9,736	2,261
In the second to fifth years, inclusive	20,038	–
	29,774	2,261

(ii) As lessee

The Group leases its office properties in Hong Kong under operating lease arrangements with leases negotiated for terms ranging from one to two years.

At 31st December, 2003, the Company and the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2003	**2002**	**2003**	**2002**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Within one year	549	973	–	963
In the second to fifth years, inclusive	183	–	–	–
	732	973	–	963

31. CONNECTED AND RELATED PARTY TRANSACTIONS

In addition to the transactions and balances detailed elsewhere in these financial statements, the Group had the following connected and related party transactions during the year:

On 31st December, 2002, Ho Tsam Hung, a director of the Company, entered into an agreement with the Company to indemnify the Company from any losses arising from certain other receivables totalling approximately HK$17,164,000. The full amount of the said other receivables has been included in the consolidated balance sheet as at 31st December, 2002. The indemnity covered the period from 1st January, 2003 to 31st December, 2003. These other receivables were fully settled subsequent to year end.

32. POST BALANCE SHEET EVENTS

(a) Pursuant to an agreement dated 26th March, 2004 (the "Agreement") entered into between China Land Realty Investment (BVI) Limited ("CLRIL"), a wholly-owned subsidiary of the Company and Mr. Man O Fu, an independent third party (the "Vendor"), CLRIL agreed to acquire from the Vendor the entire issued share capital (the "Sale Share") of Telesuccess International Limited, ("TIL"), a company incorporated in the British Virgin Islands. The sole asset of TIL is its 80.9% equity interest in GuangZhou Sky City Network Communication Ltd., a sino-foreign co-operative joint venture set up in the PRC.

The consideration for the Sale Share is HK$200,000,000 which will be satisfied as to HK$140,000,000 by cash and as to the remaining HK$60,000,000 by the issue and allotment of 464,396,284 new shares (the "Consideration Shares") at an issue price of HK$0.1292 per share by the Company to the Vendor.

The proposed acquisition of the Sale Share constitutes a major transaction for the Company under Rule 14.09 of the Listing Rules. Further details of the transaction are set out in the Company's announcement dated 1st April, 2004.

At the date of these financial statements, the Agreement remained conditional, subject to the satisfaction of the conditions as set out in the Agreement.

(b) On 26th March, 2004, CLRIL entered into a supplementary agreement (the "Supplementary Agreement") with Guangdong Properties Investment Ltd. ("GD Properties"), a company incorporated in the British Virgin Islands. CLRIL as seller and GD Properties as purchaser entered into the sale and purchase agreement dated 25th October, 2002 in relation to the disposal by CLRIL of 51% of the entire issued share capital of Ample Dragon Limited for a total consideration of HK$350 million, including HK$120 million in cash and the receiving of the completed units (including completed residential units and car-parking spaces) by CLRIL with the valuation of no less than HK$230 million.

Pursuant to the Supplementary Agreement, CLRIL and GD Properties agreed that the balance of the consideration of HK$230 million, instead of being satisfied by delivering the completed units, shall be satisfied by GD Properties paying the CLRIL HK$230 million in cash (the "Cash Consideration"). The Cash Consideration was paid on 23rd April, 2004 of approximately HK$140 million and the balance thereof will be paid on or before 26th January, 2005.

33. COMPARATIVE AMOUNTS

As further explained in note 2 to the financial statements, due to the adoption of a revised SSAP during the current year, the accounting treatment and presentation of certain items in the financial statements have been revised to comply with the new requirements. Accordingly, certain prior year adjustments have been made and certain comparative amounts have been restated to conform with the current year's presentation.

34. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 28th April, 2004."

3. MANAGEMENT DISCUSSION AND ANALYSIS

(i) For the year ended 31st December, 2001

Following is the management discussion and analysis extracted from the chairman's statement in the annual report of the Company for the year ended 31st December, 2001:

"***BUSINESS REVIEW***

The Group's turnover mainly comprised pre-sale of Phase III of the residential units currently under construction from Haizhu Peninsula Garden in Guangzhou, the People's Republic of China (the "PRC") and sale of completed units from Gang Yu Square in Chongqing, the PRC, together with rental income generated from the commercial podiums located in Guangzhou and Chongqing.

Property development and investment business

The improved results of the Group for the year were mainly attributable to the satisfactory pre-sale of Phase III of Haizhu Peninsula Garden. Over 50% of the residential units had been sold up to the end of 2001. The construction of the superstructure of Phase III of Haizhu Peninsula Garden was completed in September, 2001 and it is expected the residential units in Phase III will be available in move-in condition in mid 2002.

Provision of online English learning services

The Group is engaged in the provision of online English learning courses, developed by GlobalEnglish Corporation in the United States of America, to individual and corporate customers in the region of the PRC including Hong Kong and Macau.

We had conducted extensive researches on the demand of English learning services, marketing strategy and distribution channels during the past year. We had commenced the selling of the "GlobalEnglish" learning courses in early 2002 and the results were satisfactory.

Upon entering the World Trade Organisation and the successful bid for the 2008 Olympic Games in Beijing, it is anticipated that the demand for English learning courses will increase dramatically and it is expected that the sale of online English learning courses will generate additional revenue for the Group in near future.

Provision of exclusive technology consultancy services

Upon completion of the acquisition of I-Action Agents Limited on 28th June, 2001, the Group is also engaged in the provision of exclusive technology consultancy services to 廣州市飛躍信息技術開發有限公司 ("Fei Yue") for the setting up and development of call centers and the operation of the phone banking payment gateway in Guangdong Province excluding Shenzhen.

Since the acquisition, the Group had conducted large scale marketing campaigns with GNET (廣東省銀行卡網絡服務中心) to promote the use of phone banking services in Guangzhou and we were at the final stage of system testing for our call centers. With Fei Yue successfully obtained service contracts with major telecommunication, media and other companies to serve as their phone banking payment service provider in Guangdong Province excluding Shenzhen and with Fei Yue's exclusive cooperation agreement with GNET for the operation and management of a phone payment system for a term of fifteen years commencing from 28th September, 2000, technology consultancy fee income arising from services rendered to Fei Yue is expected to increase in near future.

FINANCIAL REVIEW

Liquidity and financial resources

The Group generally financed its businesses with internally generated cash flows and banking facilities. Cash and bank balances for the Group as at 31st December, 2001 amounted to HK$55,174,000 (31st December, 2000: HK$8,491,000) and pledged deposits of HK$4,071,000 (2000: Nil). Interest-bearing bank loans for the Group amounted to HK$193,451,000 (31st December, 2000: HK$187,334,000) of which 76%, 22% and 2% respectively were repayable within one year or on demand, in the second year and in the third to fifth years, inclusive. An amount of HK$181,751,000 bank loans were charged at fixed interest rates. The cash position of the Group had improved as a result of the satisfactory sale and pre-sale of the Group's properties during the year.

The Group's gearing ratio as at 31st December, 2001 was 0.33 (31st December, 2000: 0.41), calculated based on the Group's total debts of HK$574,620,000 (31st December, 2000: HK$561,627,000) over total assets of HK$1,719,354,000 (31st December, 2000: HK$1,393,558,000).

Currency structure

The Group had limited exposure to foreign exchange rate fluctuations as most of its transactions, including borrowings, were mainly conducted in Hong Kong dollars or Renminbi and the exchange rates of these currencies were relatively stable throughout the year.

Pledge of assets

The Group had utilized bank loan facilities amounting to approximately HK$193,451,000 (31st December, 2000: HK$187,334,000) as at 31st December, 2001. The bank loans were secured by certain of the Group's investment properties, properties under development and completed properties for sales and a corporate guarantee executed by the Company.

Contingent liabilities

As at 31st December, 2001, guarantees given for mortgage loans granted by banks to certain purchasers of the Group's properties amounted to HK$353,791,000 (31st December, 2000: HK$242,383,000).

Material acquisitions and disposals of subsidiaries

On 6th April, 2001, the Group entered into a conditional agreement for the acquisition of 100% equity interest in I-Action Agents Limited for a consideration of HK$320,000,000. The principal activities of I-Action Agents Limited and its subsidiaries are engaged in the provision of technology consultancy services for the operation of the phone banking payment gateway. The consideration was to be satisfied by the disposal of the Group's 49% interest in Ample Dragon Limited. The principal activities of Ample Dragon Limited and its subsidiaries are mainly engaged in property development and investment in the PRC.

Details of the acquisition and the disposal of subsidiaries have been set out in a circular of the Company dated 31st May, 2001. The transaction was completed on 28th June, 2001 and the profit arising from the disposal had been reflected in the Group's profit and loss account for the year.

Employee and remuneration policy

The Group employed approximately 114 full-time staff in Hong Kong and the PRC as at 31st December, 2001. Employees are remunerated according to the nature of their job and market trend, with built-in merit components incorporated in the annual increment to reward and motivate individual performance. In the PRC, the Group provides staff welfare and bonuses to its employees in accordance with the prevailing labour law. In Hong Kong, other staff benefits include medical schemes, mandatory provident fund schemes and employees' share option scheme.

Share subdivision

On 8th August, 2001, the Company passed an ordinary resolution to approve that every share of HK$0.10 in the issued and unissued share of the Company was to be subdivided into five shares of HK$0.02 each. The authorised share capital of the Company remained unchanged at HK$120,000,000 divided into 6,000,000,000 shares of HK$0.02 each after the subdivision.

Details of the subdivision of shares have been set out in a circular of the Company dated 17th July, 2001.

PROSPECTS

It is believed that significant economic growth will be generated upon entering the World Trade Organisation and the 2008 Beijing Olympic Games in the PRC and therefore creating numerous investment opportunities. The Group will continue to evaluate attractive investment opportunities with aims to maximize shareholders' return."

(ii) For the year ended 31st December, 2002

Following is the management discussion and analysis extracted from the chairman's statement in the annual report of the Company for the year ended 31st December, 2002:

"***BUSINESS REVIEW***

The Group's turnover in the year ended 31st December, 2002 mainly comprised pre-sale of Phase III of the residential units currently under construction at Haizhu Peninsula Garden in Guangzhou, the People's Republic of China (the "PRC"), together with rental income generated from the commercial podiums located in Guangzhou and Chongqing, the PRC.

The net loss of the Group for the year was mainly resulted from an impairment of goodwill arising on the acquisition of I-Action Agents Limited and its subsidiaries, which are engaged in the provision of technology consultancy services for the operation of the phone payment gateway, together with the impairment of goodwill arising on the acquisition of a subsidiary which is engaged in the sale of online English learning courses.

Property development and investment

The residential units of Phase III of Haizhu Peninsula Garden had been sold up to 64% up to the end of 2002. During the year, the Group had disposed of the equity interests in Ample Dragon Limited and its subsidiaries, which are principally engaged in the property development and investment in Haizhu Peninsula Garden. The Group ceased to own any shares or have any interest in Ample Dragon Limited upon the completion of the disposal on 31st December, 2002.

The commercial units in Gang Yu Square in Chongqing, the PRC, were leased out in the year ended 31st December, 2002 and the occupancy rate was highly satisfactory.

Sale of online English learning courses

The Group is engaged in the sale of online English learning courses, developed by GlobalEnglish Corporation in the United States of America, to individual and corporate customers in the region of the PRC including Hong Kong and Macau.

The Group, after conducting extensive researches, commenced the business since 2002. The Group had entered into contracts with several large-scale corporate customers and sub-distributors and has been negotiating with several multinational clients in recent months.

Provision of exclusive technology consultancy services

In early 2002, the Group had conducted large-scale marketing campaign with GNET (廣東省銀行卡網絡服務中心) to promote the use of phone banking services in Guangzhou, the PRC. Service contracts with major telecommunication and other companies to serve as their phone banking payment service provider in Guangdong Province excluding Shenzhen had been obtained during the year. The business is still in the early stage of development and the Group expects that the income from the services will increase in the future.

FINANCIAL REVIEW

Liquidity and financial resources

The Group generally financed its businesses with internally generated cash flows and banking facilities. Cash and bank balances for the Group as at 31st December, 2002 amounted to HK$40,857,000 (31st December, 2001: HK$55,174,000) and pledged deposits of HK$2,200,000 (2001: HK$4,071,000) while interest-bearing bank loans and borrowings for the Group amounted to HK$51,126,000 (31st December, 2001: HK$193,451,000) of which 21%, 19%, 30% and 30% respectively are repayable within one year or on demand, in the second year, in the third to fifth years, inclusive, and beyond five years. No bank loan and borrowings (31st December, 2001: HK$181,751,000) is charged at fixed interest rates as at 31st December, 2002.

The Group's gearing ratio as at 31st December, 2002 was 0.16 (31st December, 2001: 0.33), calculated based on the Group's total liabilities, excluding deferred income, of HK$119,529,000 (31st December, 2001: HK$574,620,000) over total assets of HK$765,242,000 (31st December, 2001: HK$1,719,354,000).

Currency structure

The Group had limited exposure to foreign exchange rate fluctuations as most of its transactions, including borrowings, were mainly conducted in Hong Kong dollars or Renminbi and the exchange rates of these currencies were relatively stable throughout the year.

Pledge of assets

The Group had utilized bank loan facilities amounting to approximately HK$51,126,000 (31st December, 2001: HK$193,451,000) as at 31st December, 2002. The bank loans were secured by certain of the Group's investment properties and a corporate guarantee executed by the Company.

Contingent liabilities

As at 31st December, 2002, guarantees given for mortgage loans granted by banks to certain purchasers of the Group's properties amounted to HK$22,006,000 (31st December, 2001: HK$353,791,000).

Material acquisitions and disposals of subsidiaries

On 25th October, 2002, the Group entered into a conditional agreement for the disposal of 51% equity interest of Ample Dragon Limited for a consideration of HK$350 million. The principal activities of Ample Dragon Limited and its subsidiaries are mainly engaged in property development and investment in Haizhu Peninsula Garden in Guangzhou, the PRC.

Details of the disposal of Ample Dragon Limited had been set out in a circular of the Company dated 13th December, 2002. The transaction was completed on 31st December, 2002 and the Group ceased to own any shares or have any interest in Ample Dragon Limited and its subsidiaries. The total gain on disposal is HK$160 million, of which HK$9 million had been reflected in the Group's consolidated profit and loss account and HK$151 million had been recorded as deferred income in the consolidated balance sheet.

Employee and remuneration policy

The Group employed approximately 21 full time staff in Hong Kong and Chongqing, the PRC, as at 31st December, 2002. Employees are remunerated according to the nature of their job and market trend, with built-in merit components incorporated in the annual increment to reward and motivate individual performance. In Chongqing, the PRC, the Group provides staff welfare and bonuses to its employees in accordance with the prevailing labour law. In Hong Kong, other staff benefits include medical schemes, Mandatory Provident Fund Schemes and employee share option scheme.

PROSPECTS

The Group is optimistic with the significant economic growth in the PRC and therefore creates numerous investment opportunities. The Group will continue its diversification with a view to broaden its business scope and increase sources of revenue. With a capacity of free up capital resulted from the disposal of Ample Dragon Limited, the Group is now continuing to evaluate attractive investment opportunities in the PRC with an aim to maximize shareholders' return and lead to encouraging results to the Group in long run."

(iii) For the year ended 31st December, 2003

Following is the management discussion and analysis extracted from the chairman's statements in the annual report of the Company for the year ended 31st December, 2003:

"***BUSINESS REVIEW***

The Group's turnover in the year ended 31st December, 2003 comprised the rental income generated from the commercial podiums located in Chongqing, the People's Republic of China (the "PRC"), the sale of online English learning courses in the PRC and the leasing of Point-of-sale ("POS") equipment in Guangzhou, the PRC. In addition, the Group has recognized a gain on disposal of 51% equity interest in former subsidiaries of HK$22,568,000 in the year.

The decline in turnover was mainly attributable to the disposal of the Group's businesses in property development and investment in Haizhu Peninsula Garden in Guangzhou in prior year.

The net loss of the Group for the year was mainly resulted from the inclusion of impairment provision arising on the acquisition of I-Action Agents Limited and its jointly-controlled entities, which are engaged in the provision of technology consultancy services for the operation of the phone payment gateway, together with the impairment of goodwill on the investment in the business of provision of online English learning services previously eliminated against reserves.

Property investment

During the year, the commercial units in Gang Yu Square in Chongqing, the PRC, were leased out and the occupancy rate was highly satisfactory. It is expected that the business will continue to generate a steady stream of income to the Group.

Provision of online English learning services

In the year ended 31st December, 2003, the Group was engaged in the provision of online English learning courses, developed by GlobalEnglish Corporation in the United States of America, to customers in the region of the PRC including Hong Kong and Macau. During the year under review, the turnover has increased as the English Hit and the increase in the popularity of online English learning in the PRC. The Group is still negotiating with GlobalEnglish Corporation on the renewal terms. In view of fierce competition in the market of online English learning services and probable increases in the cost of services, the Group considered a provision in the impairment of goodwill on the acquisition in the year.

Leasing of equipment

The Group started to be engaged in leasing of corded and cordless POS equipment in Guangzhou in 2003. Monthly leasing income will be received on POS equipment each leased out. Other than leasing of POS equipment, the Group can also operate the value-added services generated from the application of POS equipment. With the explosive growth potential *of the business, the Group plans to enter other cities in the PRC through strategic partnerships and targets to offer tailor-made value-added services to large corporate customers with market leading positions. The business is now at its start-up stage of operation and the Group expects that the income from the business will increase in the future.*

FINANCIAL REVIEW

Liquidity and financial resources

The Group generally financed its businesses with internally generated cash flows and banking facilities. Cash and bank balances for the Group as at 31st December, 2003 amounted to HK$41,312,000 (31st December, 2002: HK$40,857,000) and pledged deposits of HK$553,000 (2002: HK$2,200,000) while interest-bearing bank loans and borrowings for the Group amounted to HK$41,045,000 (31st December, 2002: HK$51,126,000) of which 22%, 11%, 38% and 29% respectively are repayable within one year or on demand, in the second year, in the third to fifth years, inclusive, and beyond five years. No bank loan and borrowings is charged at fixed interest rates as at 31st December, 2003 and 2002.

The Group's gearing ratio as at 31st December, 2003 was 0.20 (31st December, 2002: 0.18 (restated)), calculated based on the Group's total liabilities, excluding deferred income, of HK$117,084,000 (31st December, 2002: HK$134,026,000 (restated)) over total assets of HK$599,059,000 (31st December, 2002: HK$765,595,000 (restated)).

Currency structure

The Group had limited exposure to foreign exchange rate fluctuations as most of its transactions, including borrowings, were mainly conducted in Hong Kong dollars or Renminbi and the exchange rates of these currencies were relatively stable throughout the year.

Pledge of assets

The Group had utilized bank loan facilities amounting to approximately HK$41,045,000 (31st December, 2002: HK$51,126,000) as at 31st December, 2003. The bank loans were supported by certain of the Group's investment properties and a corporate guarantee executed by the Company.

Contingent liabilities

As at 31st December, 2003, guarantees given for mortgage loans granted by banks to certain purchasers of the Group's properties amounted to HK$5,529,000 (31st December, 2002: HK$22,006,000).

Material acquisitions and disposals of subsidiaries

During the year, there was no material acquisition and disposal of subsidiaries in the Group.

Employee and remuneration policy

The Group employed approximately 27 full time staff in Hong Kong, Chongqing and Guangzhou, as at 31st December, 2003. Employees are remunerated according to the nature of *their job and market trend, with built-in merit components incorporated in the annual increment to reward and motivate individual performance. In Chongqing and Guangzhou, the Group provides staff welfare and bonuses to its employees in accordance with the prevailing labour law. In Hong Kong, other staff benefits include medical schemes, Mandatory Provident Fund Schemes and employee share option scheme.*

Post balance sheet event

Subsequent to the balance sheet date on 26th March, 2004, the Group entered into a conditional agreement with an independent third party for the acquisition of 100% equity interest in Telesuccess International Limited ("Telesuccess") for a consideration of HK$200,000,000. The consideration will be satisfied as to HK$140,000,000 by cash and as to the remaining HK$60,000,000 by the issue and allotment of new shares of the Company. The sole asset of Telesuccess is its 80.9% equity interest in 廣州天城網絡通訊有限公司 ("Sky City"). Sky City has been transformed into an integrated service provider to provide integrated service to online game developers and other broadband media providers in 2003. In addition, it starts to be engaged in the provision of agency services in relation to telecommunication business.

The acquisition of Telesuccess constitutes a major transaction for the Company pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and details of the transaction were set out in the Company's press announcement dated 1st April, 2004 and a circular for the said transaction will be posted to our shareholders in due course.

On 26th March, 2004, the Group entered into a supplementary agreement (the "Supplementary Agreement") with Guangdong Properties Investment Limited ("GD Properties"). GD Properties as purchaser entered into the sale and purchase agreement dated 25th October, 2002 in relation to the disposal of 51% equity interest in Ample Dragon Limited for a total consideration of HK$350,000,000, including HK$120,000,000 in cash and the receiving of the completed units with the valuation of no less than HK$230,000,000.

Pursuant to the Supplementary Agreement, the Group and GD Properties agreed that the balance of consideration of HK$230,000,000 shall be satisfied by GD Properties in cash. The cash consideration of HK$140,000,000 was paid on 23rd April, 2004 and the balance thereof will be paid on or before 26th January, 2005.

PROSPECTS

The Group is optimistic with the significant economic growth in the PRC and therefore creates numerous investment opportunities.

With a capacity of free up capital resulted from the disposal of Ample Dragon Limited in prior year, the Group will continue to build on strength and expertise of its principal businesses and look for attractive investment opportunities in the PRC and prospects for growth. The Group will be more flexible in its future business expansion with aims to maximize shareholders' return."

4. INTERIM FINANCIAL STATEMENTS

The following are the condensed consolidated financial statements together with the relevant notes to the accounts followed by the management discussion and analysis extracted from the interim report of the Company for the six months ended 30th June, 2004.

"Condensed Consolidated Profit and Loss Account

		For the six months ended 30th June,	
		2004	**2003**
		(Unaudited)	(Unaudited)
	Notes	*HK$'000*	*HK$'000*
TURNOVER	2	7,292	2,847
Cost of sales		(5,603)	(820)
Gross profit		1,689	2,027
Other revenue		313	93
Gain on disposal of interests in subsidiaries		85,763	–
Selling and distribution costs		(12)	(103)
Administrative expenses		(4,386)	(5,729)
Other operating expenses		(7,732)	–
PROFIT/(LOSS) FROM OPERATING ACTIVITIES	4	75,635	(3,712)
Finance costs	5	(1,375)	(1,353)
Amortisation of goodwill on acquisition of jointly-controlled entities		–	(10,675)
PROFIT/(LOSS) BEFORE TAX		74,260	(15,740)
Tax	6	(62)	–
PROFIT/(LOSS) BEFORE MINORITY INTERESTS		74,198	(15,740)
Minority interests		(16)	–
NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		74,182	(15,740)
EARNINGS/(LOSS) PER SHARE	8		
– BASIC		HK2.45 cent	HK(0.53) cent
– DILUTED		N/A	N/A

Condensed Consolidated Statement of Changes in Equity

	Issued capital *HK$'000*	Share premium account *HK$'000*	Contributed surplus *HK$'000*	Investment properties revaluation reserve *HK$'000*	Exchange fluctuation reserve *HK$'000*	Retained profits/ (accumulated losses) *HK$'000*	Total *HK$'000*
Balance at 1st January, 2004	59,600	220,002	80,258	40,964	364	(45,601)	355,587
Exchange adjustment on translation of financial statements of overseas subsidiaries	–	–	–	–	(1)	–	(1)
Impairment of goodwill remaining eliminated against consolidated accumulated losses	–	–	–	–	–	7,000	7,000
Issue of share capital	9,288	51,083	–	–	–	–	60,371
Profit for the period	–	–	–	–	–	74,182	74,182
Balance at 30th June, 2004 (Unaudited)	68,888	271,085	80,258	40,964	363	35,581	497,139

	Issued capital *HK$'000*	Share premium account *HK$'000*	Contributed surplus *HK$'000*	Investment properties revaluation reserve *HK$'000*	Exchange fluctuation reserve *HK$'000*	Retained profits *HK$'000*	Total *HK$'000*
Balance at 1st January, 2003, as previously reported	59,600	220,002	80,258	55,461	128	78,970	494,419
Effect of adoption of revised SSAP 12 "Income Taxes"	–	–	–	(14,497)	–	2,691	(11,806)
Balance at 1st January, 2003, as restated	59,600	220,002	80,258	40,964	128	81,661	482,613
Loss for the period	–	–	–	–	–	(15,740)	(15,740)
Balance at 30th June, 2003 (Unaudited)	59,600	220,002	80,258	40,964	128	65,921	466,873

Condensed Consolidated Balance Sheet

	Notes	30th June, 2004 (Unaudited) HK$'000	31st December, 2003 (Audited) HK$'000
NON-CURRENT ASSETS			
Fixed assets		136,969	17,201
Investment properties		183,600	183,600
Intangible assets		34,781	35,682
Goodwill		89,810	–
Deferred tax assets		249	249
Trade receivables	*9*	7,913	7,913
Prepayment and other receivable		43,789	230,000
Pledged deposits		772	553
		497,883	475,198
CURRENT ASSETS			
Trade receivables	*9*	38,944	11,869
Prepayments, deposits and other receivables		105,370	70,680
Cash and bank balances		101,853	41,312
		246,167	123,861
CURRENT LIABILITIES			
Trade payables	*10*	(34,595)	(34,925)
Tax payable		(12,858)	(8,667)
Other payables and accruals		(27,542)	(17,950)
Interest-bearing bank loans		(62,361)	(8,857)
Finance lease payables		(467)	–
Deferred income		(40,625)	(22,568)
		(178,448)	(92,967)
NET CURRENT ASSETS		67,719	30,894
TOTAL ASSETS LESS CURRENT LIABILITIES		565,602	506,092
NON-CURRENT LIABILITIES			
Interest-bearing bank loans		(29,708)	(32,188)
Finance lease payables		(382)	–
Deferred income		–	(103,820)
Deferred tax liabilities		(18,697)	(14,497)
		(48,787)	(150,505)
Minority interests		(19,676)	–
		497,139	355,587
CAPITAL AND RESERVES			
Issued capital		68,888	59,600
Reserves		428,251	295,987
		497,139	355,587

Condensed Consolidated Cash Flow Statements

	For the six months ended 30th June, 2004 (Unaudited) *HK$'000*	**For the six months ended 30th June, 2003** (Unaudited) *HK$'000*
NET CASH INFLOW FROM OPERATING ACTIVITIES	202,022	2,966
NET CASH INFLOW/(OUTFLOW) FROM INVESTING ACTIVITIES	(136,195)	128
NET CASH OUTFLOW FORM FINANCING ACTIVITIES	(5,286)	(5,015)
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	60,541	(1,921)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	41,312	40,857
CASH AND CASH EQUIVALENTS AT END OF PERIOD	101,853	38,936
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	101,853	38,936

Notes to Financial Statements

For the six months ended 30th June, 2004

1. SIGNIFICANT ACCOUNTING POLICIES

These unaudited condensed consolidated interim financial statements have been prepared in accordance with Statement of Standard Accounting Practice ("SSAP") 25 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants and Appendix 16 of the Rules Governing the Listing of Securities in The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The accounting policies and basis of preparation used in the preparation of these interim financial statements are consistent with those used in the Group's audited financial statements for the year ended 31st December, 2003.

2. TURNOVER

Turnover for the six months ended 30th June, 2004 (the "Period") represents the aggregate of gross rental income from investment properties and leasing of equipment, the sale of online English learning courses and income from provision of telecommunication and other related services, less any applicable turnover taxes.

Turnover for the six months ended 30th June, 2003 represented the gross rental income and the sale of online English learning courses, less any applicable turnover taxes.

3. SEGMENT INFORMATION

The following table presents revenue and results information for the Group's business segments.

For the six months ended 30th June (Unaudited)

	Sale and pre-sale of properties		Property investment		Sale of online English learning courses		Leasing of equipment		Telecommunication and other related services		Software licensing services		Corporate		Consolidated	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Segment revenue:																
Sales to external customers	–	–	2,906	1,611	320	1,236	1,822	–	2,244	–	–	–	–	–	7,292	2,847
Other revenue and gains	–	–	–	–	–	–	–	–	–	–	–	–	85,763	–	85,763	–
Total	–	–	2,906	1,611	320	1,236	1,822	–	2,244	–	–	–	85,763	–	93,055	2,847
Segment results	–	–	2,782	1,059	(6,991)	70	(3,170)	–	861	–	(168)	–	82,008	(4,881)	75,322	(3,752)
Interest income															313	40
Profit/(loss) from operating activities															75,635	(3,712)
Finance costs															(1,375)	(1,353)
Amortisation of goodwill on acquisition of jointly-controlled entities															–	(10,675)
Profit/(loss) before tax															74,260	(15,740)
Tax															(62)	–
Profit/(loss) before minority interests															74,198	(15,740)
Minority interests															(16)	–
Net profit/(loss) from ordinary activities attributable to shareholders															74,182	(15,740)

No geographical segment information is presented as over 90% of the Group's revenue is derived from customers based in the Mainland of the People's Republic of China ("Mainland China").

4. PROFIT/(LOSS) FROM OPERATING ACTIVITIES

The Group's profit/(loss) from operating activities is arrived at after charging/(crediting):

	For the six months ended 30th June, 2004	2003
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Cost of inventories sold	220	820
Depreciation	2,210	222
Impairment of goodwill arising in the Period	7,000	–
Amortisation of intangible assets	3,891	–
Amortisation of goodwill on acquisition of jointly-controlled entities	–	10,675
Amortisation of goodwill on acquisition of subsidiaries	724	–
Interest income	(313)	(40)
Net rental income	(2,906)	(1,611)

5. FINANCE COSTS

	For the six months ended 30th June, 2004	2003
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Interest expense on bank loans wholly repayable within five years	1,375	1,353

6. TAX

	For the six months ended 30th June, 2004	2003
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Provision for the period:		
Hong Kong	–	–
Elsewhere	62	–
	62	–

No provision for Hong Kong profits tax has been made as the Group did not generate any taxable profits in Hong Kong during the Period (30th June, 2003: Nil).

Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

7. INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30th June, 2004 (2003: Nil).

8. EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings/(loss) per share is based on the net profit from ordinary activities attributable to shareholders for the Period of HK$74,182,000 (30th June, 2003: net loss of HK$15,740,000) and the weighted average of 3,028,497,656 (30th June, 2003: 2,980,016,725) ordinary shares in issue during the Period.

Diluted earning per share for the Period and diluted loss per share for the six months ended 30th June, 2003 have not been disclosed as the potential ordinary shares outstanding during these periods had an anti-dilutive effect on the basic earnings per share for the Period and the basic loss per share for the six months ended 30th June, 2003.

9. TRADE RECEIVABLES

The aged analysis of the Group's trade receivables at the balance sheet date, net of provisions, is as follows:

	30th June, 2004 (Unaudited)		**31st December, 2003** (Audited)	
	HK$'000	*Percentage*	*HK$'000*	*Percentage*
Within 6 months	13,600	26	3,957	20
More than 6 months but within 1 year	10,291	20	–	–
More than 1 year but within 2 years	16,091	31	3,956	20
Not due at balance sheet date	11,869	23	11,869	60
	51,851	100	19,782	100
Provisions for doubtful debts	(4,994)		–	
	46,857		19,782	
Portion classified as current assets	(38,944)		(11,869)	
Non-current assets	7,913		7,913	

The Group generally grants a credit term of four to six months to the customers.

The Group's trade receivables are aged based on the due date of instalments as stipulated in the sales contracts and the date of recognition of turnover from provision of telecommunication and other related services.

10. TRADE PAYABLES

The aged analysis of the Group's trade payables at the balance sheet date is as follows:

	30th June, 2004 (Unaudited)		**31st December, 2003** (Audited)	
	HK$'000	*Percentage*	*HK$'000*	*Percentage*
Within 6 months	814	2	251	1
More than 6 months but within 1 year	223	1	5	–
More than 1 year but within 2 years	5	–	204	1
More than 2 years but within 3 years	204	1	8,092	23
Over 3 years	33,349	96	26,373	75
	34,595	100	34,925	100

The Group's trade payables are aged based on the date of the goods received or services rendered.

11. CONTINGENT LIABILITIES

At the balance sheet date, the Group's contingent liabilities not provided for in the financial statements were as follows:

	30th June, 2004	31st December, 2003
	(Unaudited)	(Audited)
	HK$'000	*HK$'000*
Guarantees given for mortgage loans granted by banks to certain purchasers of the Group's properties	7,722	5,529

12. PLEDGE OF ASSETS

The Group's bank loans were supported by certain of the Group's investment properties, corporate guarantees executed by the Company and certain independent third parties.

13. COMMITMENTS

(a) Capital commitments

	Group	
	30th June, 2004	31st December, 2003
	(Unaudited)	(Audited)
	HK$'000	*HK$'000*
Capital commitments in respect of:		
Contracted, but not provided for		
Property development project	35,902	35,902
Telecommunication project	8,037	–
Telecommunication equipment	274	–
	44,213	35,902
Capital commitment in respect of capital contribution to a subsidiary:		
Contracted, but not provided for	–	1,500
	44,213	37,402

(b) Commitments under operating leases

(i) As lessor

The Group leases certain of its investment properties and POS equipment under operating lease arrangements with leases negotiated for terms of two years and five years, respectively.

At 30th June, 2004, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	30th June, 2004	**31st December, 2003**
	(Unaudited)	(Audited)
	HK$'000	*HK$'000*
Within one year	9,734	9,736
In the second to fifth years, inclusive	15,163	20,038
	24,897	29,774

(ii) As lessee

The Group leases certain of its properties and transmission lines under operating lease arrangements with leases negotiated for terms ranging from one to seven years.

At 30th June, 2004, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	30th June, 2004	**31st December, 2003**
	(Unaudited)	(Audited)
	HK$'000	*HK$'000*
Within one year	855	549
In the second to fifth years, inclusive	980	183
	1,835	732

14. CONNECTED AND RELATED PARTY TRANSACTION

On 31st December, 2002, Ho Tsam Hung, a director of the Company, entered into an agreement with the Company to indemnify the Company from any losses arising from certain other receivables totalling approximately HK$17,164,000. The amount of HK$14,713,000 of the said other receivables has been included in the consolidated balance sheet as at 30th June, 2003. The indemnity covers the period from 1st January, 2003 to 31st December, 2003.

REVIEW OF RESULTS

The Directors are pleased to report that the Group recorded a turnover of HK$7,292,000 (30th June, 2003: HK$2,847,000) for the six months ended 30th June, 2004, representing an increase of 156% compared with the corresponding period. Net profit from ordinary activities attributable to shareholders was HK$74,182,000 (30th June, 2003: net loss of HK$15,740,000) for the Period.

BUSINESS REVIEW

The Group's turnover in the Period mainly comprised the rental income generated from the commercial podium in Chongqing, the People's Republic of China (the "PRC"), the leasing of Point-of-sale ("POS") equipment in Guangzhou and the provision of telecommunication and other related services in the PRC. In addition, the Group received settlements of a total of HK$190,000,000 from the disposal of 51% equity interest in former subsidiaries in 2002, during the Period, and recognized a gain on disposal of HK$85,763,000 thereon.

Property investment

The rental income generated from leasing of the commercial units in Gang Yu Square in Chongqing, the PRC, increased in the Period compared with the corresponding period. The occupancy rate of the square in the Period was highly satisfactory. It is expected that the business will continue to generate a steady stream of income to the Group.

Provision of online English learning services

The Group was engaged in the provision of online English learning courses in the region of the PRC including Hong Kong and Macau since 2001. Due to the substantial increases in the cost of services, the Group has not renewed the engagement since the expiry of prior engagement in early 2004. In view of the increased popularity of online English learning services, the Group will continue to evaluate the returns on the business.

Leasing of equipment

Since 2003, the Group started to be engaged in leasing of corded and cordless POS equipment in Guangzhou for a term of five years with an option to extend till 17th July, 2011. Monthly leasing income will be received on POS equipment each leased out. Other than leasing of POS equipment, the Group has the rights to operate the value-added services generated from the application of POS equipment. The business is now at its start-up of operation and the Group expects that the income from the business will increase in the future.

Provision of telecommunication and other related services

In the Period, the Group has acquired 80.9% equity interest in 廣州天城網絡通訊有限公司 ("Sky City"), which provides integrated telecommunication network services to online game developers and other broadband media providers. Sky City has demonstrated that it has tapped into the rapidly growing market of on-line business in the PRC and the Group is very satisfied with its financial performance so far generated. With the continuing economic growth in the PRC, the growth in the internet population and the increasing demand for online games in the PRC, the Directors are of the view that Sky City would continue to provide very good contribution to the Group and it is expected that more resources would be put into this business in order to further strengthen its market position.

FINANCIAL REVIEW

Liquidity and financial resources

The Group generally financed its businesses with internally generated cash flows and banking facilities. Cash and bank balances of the Group as at 30th June, 2004 amounted to HK$101,853,000 (31st December, 2003: HK$41,312,000) and pledged deposits of HK$772,000 (31st December, 2003: HK$553,000) while interest-bearing bank loans and borrowings for the Group amounted to HK$92,069,000 (31st December, 2003: HK$41,045,000) of which 68%, 5%, 18% and 9% respectively are repayable within one year or on demand, in the second year, in the third to fifth years, inclusive, and beyond five years, respectively. An amount of HK$56,310,000 bank loans as at 30th June, 2004 were charged at fixed interest rates (31st December, 2003: Nil).

The Group's gearing ratio as at 30th June, 2004 was 0.25 (31st December, 2003: 0.20), calculated based on the Group's total liabilities, excluding deferred income, of HK$186,610,000 (31st December, 2003: HK$117,084,000) over total assets of HK$744,050,000 (31st December, 2003: HK$599,059,000).

Currency structure

The Group had limited exposure to foreign exchange rate fluctuations as most of its transactions, including borrowings, were mainly conducted in Hong Kong dollars or Renminbi and the exchange rates of these currencies were relatively stable throughout the Period.

Pledge of assets

The Group had utilized bank loan facilities amounting to approximately HK$92,069,000 (31st December, 2003: HK$41,045,000) as at 30th June, 2004. The bank loans were supported by certain of the Group's investment properties, corporate guarantees executed by the Company and certain independent third parties.

Contingent liabilities

As at 30th June, 2004, guarantees given for mortgage loans granted by banks to certain purchasers of the Group's properties amounted to HK$7,722,000 (31st December, 2003: HK$5,529,000).

Material acquisitions of subsidiaries

On 26th March, 2004, the Group entered into a conditional agreement with an independent third party for the acquisition of 100% equity interest in Telesuccess International Limited ("Telesuccess") for a consideration of HK$200,000,000. The sole asset of Telesuccess is its 80.9% equity interest in 廣州天城網絡通訊有限公司 ("Sky City"). Sky City is an integrated service provider to provide integrated service to online game developers and other broadband media providers in 2003.

Details of the acquisition of Telesuccess had been set out in a circular of the Company dated 31st May, 2004. The transaction was completed on 11th June, 2004.

Employee and remuneration policy

The Group employed approximately 54 full time staff in Hong Kong, Chongqing and Guangzhou, as at 30th June, 2004. Employees are remunerated according to the nature of their job and market trend, with built-in merit components incorporated in the annual increment to reward and motivate individual performance. In Chongqing and Guangzhou, the Group provides staff welfare and bonuses to its employees in accordance with the prevailing labour law. In Hong Kong, other staff benefits include medical schemes, Mandatory Provident Fund Schemes and employee share option scheme.

Post balance sheet event

Subsequent to the balance sheet date on 16th July, 2004, the Company entered into a conditional subscription agreement in relation to the issue of bond in a principal amount of HK$30,000,000 (the "Bond") to CNC Broadband Entertainment Corporation Limited. The maturity date of the Bond will be on the second anniversary from the date of the issue of the Bond. Assuming full conversion of the Bond at the initial conversion price of HK$0.15 per share, subject to adjustment from time to time, 200,000,000 new shares will be issued by the Company. The proceeds will be used for the purpose of financing the Group's online games business operating in the PRC.

Details of the transaction were set out in the Company's press announcement dated 19th July, 2004. The transaction was completed on 19th August, 2004.

PROSPECTS

The Group is optimistic with the continuing economic growth in the PRC which creates numerous investment opportunities. The Group will continue to build on strength and expertise of its principal businesses and look for attractive investment opportunities in the PRC and prospects for growth. The Group will be more flexible in its future business expansion with aims to maximize shareholders' return."

5. STATEMENT OF INDEBTEDNESS

Borrowings

As at 30th November, 2004, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Enlarged Group had outstanding borrowings of HK$115.2 million. The borrowings comprised secured bank loan of approximately HK$32.6 million, unsecured bank loans of approximately HK$51.9 million, convertible bond payable of approximately HK$30.0 million and outstanding obligation under finance lease of approximately HK$0.7 million.

Security

As at 30th November, 2004, the banking facilities of the Enlarged Group were supported by certain of the Group's investment properties and corporate guarantees executed by the Company and certain independent third parties.

Contingent liability

As at 30th November, 2004, the Enlarged Group had given guarantees of approximately HK$7.8 million for mortgage loans granted by a bank to certain purchasers of the properties of the Enlarged Group.

Disclaimer

Save as aforesaid or as otherwise mentioned herein and apart from intra-Group liabilities, the Enlarged Group did not, at the close of business on 30th November, 2004, have any outstanding loan capital issued and outstanding or agreed to be issued, bank overdrafts, charges or debentures, mortgages, loans, or other similar indebtedness or any finance lease commitments, hire purchase commitments, liabilities under acceptances (other than normal trade bills), acceptance credits or any guarantees or other material contingent liabilities.

The Directors have confirmed that there have been no material changes in the indebtedness and contingent liabilities of the Enlarged Group since 30th November, 2004.

6. WORKING CAPITAL

The Directors are of the opinion that taking into account the Enlarged Group's internal resources and the present banking facilities currently available to the Enlarged Group, the Enlarged Group has sufficient working capital for its present requirements.

7. MATERIAL ADVERSE CHANGES

The Directors are not aware of any material adverse change in the financial or trading position of the Enlarged Group since 31st December, 2003 (being the date to which the latest published audited accounts of the Company were made up) up to and including the Latest Practicable Date.

The following is the text of an accountants' report on Sky City received from Ernst & Young for inclusion in this circular.

ERNST & YOUNG
安永會計師事務所

15th Floor
Hutchison House
10 Harcourt Road
Central
Hong Kong

21st January, 2005

The Board of Directors
Zhong Hua International Holdings Limited

Dear Sirs,

We set out below our report on the financial information regarding Guangzhou Sky City Network Communication Ltd. 廣州天城網絡通訊有限公司 ("Sky City") to be acquired by Zhong Hua International Holdings Limited (the "Company") pursuant to a conditional sale and purchase agreement (the "Agreement") dated 14th December, 2004 made between Telesuccess International Limited ("Telesuccess") (a wholly-owned subsidiary of the Company) and GuangDong Zhong Xun Technology Limited 廣東中訊科技有限公司 ("Zhong Xun"), the minority shareholder of Sky City, prepared on the basis as set out in Section I below, for inclusion in the circular issued by the Company dated 21st January, 2005 (the "Circular"). Pursuant to the Agreement, Telesuccess will acquire the remaining 19.1% interest in Sky City at a consideration of HK$60 million. Upon completion of the Agreement, Sky City will become a wholly-owned subsidiary of the Company.

Sky City was established in the People's Republic of China (the "PRC") as a sino-foreign co-operative joint venture on 9th May, 1997, and is principally engaged in the provision of telecommunication and other related services and software licensing services.

The financial statements of Sky City for the years ended 31st December, 2001, 2002 and 2003, prepared in accordance with PRC accounting principles, were audited by Guangzhou Hanghai Certified Public Accountants, Guangdong Xinhua Certified Public Accountants and Huatian Certified Public Accountants, respectively, all of them are registered in the PRC.

For the purpose of this report, we have extracted the financial information of Sky City for the years ended 31st December, 2001, 2002 and 2003 from the circular issued by the Company dated 31st May, 2004 and we have examined the management accounts of Sky City for the nine months ended 30th September, 2004, which were prepared in accordance with accounting principles generally accepted in Hong Kong, in accordance with the Statements of Auditing Standards and Auditing Guideline "Prospectuses and the reporting accountant" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

For the purpose of this report we have performed a review of the comparative financial information which includes the results, statement of changes in equity and cash flows of Sky City for the nine months ended 30th September, 2003, together with the notes thereon, (the "30th September, 2003 Financial Information") for which the directors are responsible, in accordance with SAS 700 "Engagements to review interim financial reports" issued by the HKICPA. A review consists principally of making enquiries of management and applying analytical procedures to the financial information and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excluded audit procedures such as tests of controls and verification of assets and liabilities and transactions. It is substantially less in scope and provides a lower level of assurance than an audit, and accordingly we do not express an audit opinion on 30th September, 2003 Financial Information.

The summaries of the profit and loss accounts, the statements of changes in equity and the cash flow statements of Sky City for the years ended 31st December, 2001, 2002 and 2003, and for the nine months ended 30th September, 2004 (the "Relevant Periods") and of the balance sheets of Sky City as at 31st December, 2001, 2002, 2003 and 30th September, 2004 (the "Summaries") as set out in this report have been prepared, and are presented on the basis as set out in Section I below.

The Summaries are the responsibility of the directors of Sky City who approve their issuance. The directors of the Company are responsible for the content of the Circular relating to Sky City in which this report is included. It is our responsibility to compile the Summaries together with the notes thereto, to form an independent opinion on such information and to report our opinion to you.

In our opinion, the Summaries together with the notes thereto give, for the purpose of this report, a true and fair view of the results and cash flows of Sky City for each of the Relevant Periods, and of the state of affairs of Sky City as at 31st December, 2001, 2002, 2003 and 30th September, 2004, respectively.

On the basis of our review, for the purpose of this report, we are not aware of any material modification that should be made to the 30th September, 2003 Financial Information.

I. BASIS OF PRESENTATION

The Summaries were prepared on a going concern basis notwithstanding that Sky City had net current liabilities as at 30th September, 2004 as the Company has agreed to provide continuous financial support to Sky City to enable Sky City to operate as a going concern.

The Summaries were prepared in accordance with accounting principles generally accepted in Hong Kong.

II. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted by Sky City in arriving at the Summaries set out in this report, which has been prepared under the historical cost convention and in accordance with accounting principles generally accepted in Hong Kong, are as follows:

(a) Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

(b) Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises.

(c) Fixed assets and depreciation

Fixed assets, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses.

The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

Depreciation is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life. The principal annual rates used for this purpose are as follows:

Leasehold improvements	20%
Telecommunication network and equipment	5% to 20%
Computer and office equipment, furniture and fixtures	20%
Motor vehicles	20%

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sale proceeds and the carrying amount of the relevant asset.

Construction in progress represents telecommunication network and equipment under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction during the period of construction. Construction in progress is reclassified to the appropriate category of fixed assets when completed and ready for use.

(d) Intangible assets

Intangible assets represent the software purchased and developed for licensing. The software is stated at cost less any accumulated amortisation and any impairment losses. Such costs are amortised on the straight-line basis, over their estimated useful lives of four years.

(e) Leased assets

Leases that transfer substantially all the rewards and risks of ownership of assets to Sky City, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in fixed assets and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the profit and loss account so as to provide a constant periodic rate of charge over the lease terms.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where Sky City is the lessee, rentals payable under the operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

(f) Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of Sky City cash management.

For the purpose of the balance sheet, cash and bank balances comprise cash on hand and at banks which are not restricted as to use.

(g) Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the profit and loss account, or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences except where the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax assets and unused tax losses can be utilised except where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

(h) Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to Sky City and when the revenue can be measured reliably, on the following bases:

(a) Telecommunication and other related services

Telecommunication services comprise the telecommunication network services in the PRC.

Telecommunication and other related services income based on usage of Sky City's fibre-optic network and related facilities are recognised when the services are rendered;

(b) Software licensing income, when the services have been rendered; and

(c) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable.

III. RESULTS

The following are the results of Sky City for the Relevant Periods, which are prepared on the basis set out in Section I above:

		Year ended 31st December,			Nine months ended 30th September,	
		2001	**2002**	**2003**	**2003**	**2004**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
		(audited)	(audited)	(audited)	(unaudited)	(audited)
TURNOVER	*(a)*	17,825	26,559	18,477	12,760	20,052
Cost of sales		(7,484)	(11,381)	(15,047)	(10,982)	(10,714)
Gross profit		10,341	15,178	3,430	1,778	9,338
Other revenue	*(a)*	40	31	37	19	20
Administrative expenses		(3,065)	(2,338)	(2,951)	(1,999)	(1,087)
Other operating expenses		(25,620)	(5,180)	(2,670)	(2,670)	(1,698)
PROFIT/(LOSS) FROM OPERATING ACTIVITIES	*(b)*	(18,304)	7,691	(2,154)	(2,872)	6,573
Finance costs	*(c)*	–	(331)	(1,751)	(858)	(2,592)
Waiver of an amount due to the former ultimate holding company		–	–	15,710	15,710	–
Waiver of a loan from the former ultimate holding company		–	–	825	825	–
PROFIT/(LOSS) BEFORE TAX		(18,304)	7,360	12,630	12,805	3,981
Tax	*(e)*	–	(1,665)	(2,383)	(2,399)	(857)
NET PROFIT/(LOSS) FOR THE YEAR/PERIOD		(18,304)	5,695	10,247	10,406	3,124
Dividend	*(f)*	–	–	–	–	–

Notes:

(a) Turnover and other revenue

Turnover represents telecommunication and other related services income and software licensing income.

An analysis of Sky City's turnover and other revenue is as follows:

	Year ended 31st December,			Nine months ended 30th September,	
	2001	**2002**	**2003**	**2003**	**2004**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(audited)	(audited)	(audited)	(unaudited)	(audited)
Turnover					
Telecommunication and other related services income	13,637	19,495	18,477	12,760	20,052
Software licensing income	4,188	7,064	–	–	–
	17,825	26,559	18,477	12,760	20,052
Other revenue					
Interest income	40	31	37	19	20
	17,865	26,590	18,514	12,779	20,072

(b) Profit/(loss) from operating activities

Sky City's profit/(loss) from operating activities is arrived at after charging/(crediting):

	Year ended 31st December,			Nine months ended 30th September,	
	2001	**2002**	**2003**	**2003**	**2004**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(audited)	(audited)	(audited)	(unaudited)	(audited)
Cost of services provided	7,484	11,381	15,047	10,982	10,714
Depreciation	4,777	7,524	8,974	6,622	7,038
Intangible assets:					
Amortisation for the year*	337	2,027	2,027	1,520	1,520
Impairment arising during the year**	6,752	–	–	–	–
	7,089	2,027	2,027	1,520	1,520
Auditors' remuneration	35	20	30	–	–
Minimum lease payments under operating leases on:					
Leasehold land and buildings	559	593	552	412	386
Transmission lines	–	461	2,134	1,245	734
Staff costs (including director's remuneration — note (d)):					
Wages and salaries	1,679	827	660	507	507
Provision for bad and doubtful debts**	–	2,350	2,670	2,670	1,698
Provision for deposit paid for a broadband project**	18,868	2,830	–	–	–

* Included in "Cost of sales" on the face of the profit and loss accounts.

** Included in "Other operating expenses" on the face of the profit and loss accounts.

(c) Finance costs

	Year ended 31st December,			Nine months ended 30th September,	
	2001	2002	2003	2003	2004
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(audited)	(audited)	(audited)	(unaudited)	(audited)
Interest on bank loans wholly repayable within five years	–	331	1,716	846	2,493
Interest on finance leases	–	–	35	12	99
	–	331	1,751	858	2,592

(d) Directors' remuneration and five highest paid employees

Details of the emoluments of the directors during the Relevant Periods are set out below:

	Year ended 31st December,			Nine months ended 30th September,	
	2001	2002	2003	2003	2004
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(audited)	(audited)	(audited)	(unaudited)	(audited)
Fees	–	–	–	–	–
Salaries, allowances and benefits in kind	296	173	187	128	51

The number of directors whose remuneration fell within the following band are as follows:

	Year ended 31st December,			Nine months ended 30 September	
	2001	2002	2003	2003	2004
	(audited)	(audited)	(audited)	(unaudited)	(audited)
Nil to HK$1,000,000	3	3	4	4	3

The five highest paid employees during the nine months ended 30 September 2004 included 1 (year ended 31st December, 2003: 4; year ended 31st December, 2002: 3; year ended 31st December, 2001: 3; nine months ended 30th September, 2003: 4) directors, respectively, details of whose remuneration are set out above. Details of the emoluments of the remaining 4 (year ended 31st December, 2003: 1; year ended 31st December, 2002: 2; year ended 31st December, 2001: 2; nine months ended 30th September, 2003: 1) non-director, highest paid employees during the Relevant Periods are set out below:

	Year ended 31st December,			Nine months ended 30th September,	
	2001	2002	2003	2003	2004
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(audited)	(audited)	(audited)	(unaudited)	(audited)
Salaries, allowances and benefits in kind	196	83	58	44	118

The number of non-director, highest paid employees whose remuneration fell within the following band are as follows:

	Year ended 31st December,			Nine months ended 30th September,	
	2001	**2002**	**2003**	**2003**	**2004**
	(audited)	(audited)	(audited)	(unaudited)	(audited)
Nil to HK$1,000,000	2	2	1	1	4

During the Relevant Periods, no remuneration was paid by Sky City to the directors or any of the highest paid non-director individuals as an inducement to joining Sky City or as compensation for loss of office. No director of Sky City waived any remuneration during the Relevant Periods.

(e) Tax

	Year ended 31st December,			Nine months ended 30th September,	
	2001	**2002**	**2003**	**2003**	**2004**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(audited)	(audited)	(audited)	(unaudited)	(audited)
Current year provision – PRC	–	1,665	2,333	2,349	857
Underprovision in prior years	–	–	50	50	–
Total tax charge for the year	–	1,665	2,383	2,399	857

Hong Kong profits tax has not been provided as Sky City did not generate any assessable profits in Hong Kong during the Relevant Periods. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the PRC in which Sky City operates, based on existing legislation, interpretations and practices in respect thereof.

Under the PRC income tax law, enterprises are subject to corporate income tax ("CIT") at a rate of 33%. However, Sky City was exempted from CIT for two years from the first profit-making year of operation in 2000. Also, Sky City operates in a special development zone of the PRC, and the relevant tax authority has granted Sky City a preferential CIT rate of 15% commencing from the calendar year 2002 until 2004.

A reconciliation of the tax expense applicable to profit/(loss) before tax using the statutory rate in the PRC to the tax expense at the effective tax rates, and a reconciliation of the applicable rates, (i.e. the statutory tax rates) to the effective tax rates, are as follows:

	Year ended 31st December,						Nine months ended 30th September,			
	2001		2002		2003		2003		2004	
	HK$'000 (audited)	%	*HK$'000* (audited)	%	*HK$'000* (audited)	%	*HK$'000* (unaudited)	%	*HK$'000* (audited)	%
Profit/(loss) before tax	(18,304)		7,360		12,630		12,805		3,981	
Tax charge/(credit) at the statutory tax rate	6,040	33	2,429	33	4,168	33	4,226	33	1,314	33
Lower tax rate for specific industry	–	–	(1,325)	(18)	(2,273)	(18)	(2,305)	(18)	(717)	(18)
Lower tax rate for tax relief granted	(6,040)	(33)	–	–	–	–	–	–	–	–
Expenses not deductible for tax	–	–	561	8	438	4	428	3	260	7
Adjustments in respect of current tax of previous years	–	–	–	–	50	–	50	–	–	–
	–	–	1,665	23	2,383	19	2,399	18	857	22

No deferred tax has been provided during each of the Relevant Periods and at the end of each of the Relevant Periods because the amounts involved are insignificant.

(f) Dividend

No dividend has been paid or declared by Sky City to its former shareholders during each of the Relevant Periods.

(g) Earnings per share

No earnings per share information is presented as its inclusion, for the purpose of this report, is not considered meaningful.

IV. BALANCE SHEETS

The following are balance sheets of Sky City as at the end of each the Relevant Periods, which are prepared on the basis set out in Section I above:

		31st December,			30th September,
		2001	**2002**	**2003**	**2004**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
		(audited)	(audited)	(audited)	(audited)
NON-CURRENT ASSETS					
Fixed assets	*(a)*	82,650	103,861	98,178	91,250
Intangible assets	*(b)*	7,769	5,742	3,715	2,195
Prepayment and deposits	*(c)*	–	18,866	44,515	71,127
		90,419	128,469	146,408	164,572
CURRENT ASSETS					
Trade receivables	*(d)*	2,805	12,425	22,349	27,891
Prepayments, deposits and other receivables	*(c)*	705	1,886	2,064	4,779
Cash and bank balances		5,269	2,119	3,155	3,349
		8,779	16,430	27,568	36,019
CURRENT LIABILITIES					
Loan from a former fellow subsidiary	*(e)*	–	–	2,434	–
Due to the former ultimate holding company	*(e)*	12,795	15,710	–	–
Loan from the former ultimate holding company	*(e)*	59,978	38,561	–	–
Loan from the immediate holding company	*(e)*	–	–	–	29,987
Interest-bearing bank borrowings, unsecured	*(f), (g)*	–	18,868	56,604	51,887
Other payables and accruals		1,362	5,226	4,891	5,125
Finance lease payables	*(h)*	–	–	436	482
Tax payable		–	1,342	3,714	4,571
		74,135	79,707	68,079	92,052
NET CURRENT LIABILITIES		(65,356)	(63,277)	(40,511)	(56,033)

	Notes	31st December, 2001 HK$'000 (audited)	31st December, 2002 HK$'000 (audited)	31st December, 2003 HK$'000 (audited)	30th September, 2004 HK$'000 (audited)
TOTAL ASSETS LESS CURRENT LIABILITIES		25,063	65,192	105,897	108,539
NON-CURRENT LIABILITIES					
Loan from a former fellow subsidiary	*(e)*	–	8,019	–	–
Finance lease payables	*(h)*	–	–	741	259
		–	8,019	741	259
		25,063	57,173	105,156	108,280
CAPITAL AND RESERVE					
Paid-up capital	*(i)*	39,623	66,038	103,774	103,774
Retained profits/(accumulated losses)	*(j)*	(14,560)	(8,865)	1,382	4,506
		25,063	57,173	105,156	108,280

Notes:

(a) Fixed assets

	Leasehold improvements	Telecommunication network and equipment	Computer and office equipment, furniture and fixtures	Motor vehicles	Construction in progress	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(audited)	(audited)	(audited)	(audited)	(audited)	(audited)
Cost:						
At 1st January, 2001	119	59,534	353	566	3,652	64,224
Additions	1,483	655	773	–	23,236	26,147
Transfers	–	20,685	–	–	(20,685)	–
At 31st December, 2001	1,602	80,874	1,126	566	6,203	90,371
Accumulated depreciation:						
At 1st January, 2001	–	2,802	29	113	–	2,944
Provided during the year	173	4,339	152	113	–	4,777
At 31st December, 2001	173	7,141	181	226	–	7,721
Net book value:						
At 31st December, 2001	1,429	73,733	945	340	6,203	82,650
Cost:						
At 1st January, 2002	1,602	80,874	1,126	566	6,203	90,371
Additions	217	197	147	152	28,022	28,735
Transfers	–	10,088	–	–	(10,088)	–
At 31st December, 2002	1,819	91,159	1,273	718	24,137	119,106
Accumulated depreciation:						
At 1st January, 2002	173	7,141	181	226	–	7,721
Provided during the year	396	6,753	237	138	–	7,524
At 31st December, 2002	569	13,894	418	364	–	15,245
Net book value:						
At 31st December, 2002	1,250	77,265	855	354	24,137	103,861

	Leasehold improvements *HK$'000* (audited)	Telecom-munication network and equipment *HK$'000* (audited)	Computer and office equipment, furniture and fixtures *HK$'000* (audited)	Motor vehicles *HK$'000* (audited)	Construction in progress *HK$'000* (audited)	Total *HK$'000* (audited)
Cost:						
At 1st January, 2003	1,819	91,159	1,273	718	24,137	119,106
Additions	17	1,432	2	–	1,840	3,291
Transfers	–	25,977	–	–	(25,977)	–
At 31st December, 2003	1,836	118,568	1,275	718	–	122,397
Accumulated depreciation:						
At 1st January, 2003	569	13,894	418	364	–	15,245
Provided during the year	409	8,148	273	144	–	8,974
At 31st December, 2003	978	22,042	691	508	–	24,219
Net book value:						
At 31st December, 2003	858	96,526	584	210	–	98,178
Cost:						
At 1st January, 2004	1,836	118,568	1,275	718	–	122,397
Additions	–	110	–	–	–	110
At 30th September, 2004	1,836	118,678	1,275	718	–	122,507
Accumulated depreciation:						
At 1st January, 2003	978	22,042	691	508	–	24,219
Provided during the period	307	6,432	191	108	–	7,038
At 30th September, 2004	1,285	28,474	882	616	–	31,257
Net book value:						
At 30th September, 2004	551	90,204	393	102	–	91,250

The net book value of Sky City's fixed assets held under finance leases included in the total amount of telecommunication network and equipment at 30th September, 2004, amounted to HK$1,119,000 (31st December, 2003: HK$1,344,000; 31st December, 2002: Nil; 31st December, 2001: Nil).

(b) Intangible assets

	31st December, 2001	31st December, 2002	31st December, 2003	30th September, 2004
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(audited)	(audited)	(audited)	(audited)
Cost:				
At beginning of the year/period	–	14,858	14,858	14,858
Additions	14,858	–	–	–
At end of year/period	14,858	14,858	14,858	14,858
Accumulated amortisation and impairment:				
At beginning of year/period	–	7,089	9,116	11,143
Provided during the year/period	337	2,027	2,027	1,520
Impairment charged to the profit and loss account during the year/period	6,752	–	–	–
At the end of year/period	7,089	9,116	11,143	12,663
Net book value:				
At 31st December/30th September	7,769	5,742	3,715	2,195

(c) Prepayments, deposits and other receivables

	Notes	31st December, 2001	31st December, 2002	31st December, 2003	30th September, 2004
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
		(audited)	(audited)	(audited)	(audited)
Non-current assets:					
Prepayment	*(i)*	–	18,866	17,873	17,127
Deposits	*(ii)*	–	–	26,642	54,000
		–	18,866	44,515	71,127
Current assets:					
Prepayments	*(i)*	–	993	1,027	1,002
Deposits and other receivables		705	893	1,037	3,777
		705	1,886	2,064	4,779

Notes:

(i) Included in the total amounts of prepayments is prepayment of a total of HK$18,120,000 made for the leasing of transmission lines with lease terms of 20 years, which is recorded under non-current assets and current assets of HK$17,127,000 (31st December, 2003: HK$17,873,000; 31st December, 2002: HK$18,866,000; 31st December, 2001: Nil) and HK$993,000 (31st December, 2003: HK$993,000; 31st December, 2002: HK$993,000; 31st December, 2001: Nil), respectively.

(ii) Balance represents the deposits paid for the participation of a telecommunication project of HK$22,868,000 and an online game platform and Internet cafe project of HK$27,358,000 as at 30th September, 2004 (31st December, 2003: HK$22,868,000; 31st December, 2002: Nil; 31st December, 2001: Nil) and the acquisition of telecommunication equipment of HK$3,774,000 as at 30th September, 2004 (31st December, 2003: HK$3,774,000; 31st December, 2002: Nil; 31st December, 2001: Nil).

(d) Trade receivables

Sky City usually grants credit period ranging from 3 to 12 months. An aged analysis of Sky City's trade receivables as at the balance sheet dates, based on the date of recognition of turnover, and net of provisions, is as follows:

	31st December,			30th September,
	2001	**2002**	**2003**	**2004**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(audited)	(audited)	(audited)	(audited)
Within 3 months	1,630	1,712	3,975	6,969
4 – 6 months	863	788	5,704	6,426
7 – 12 months	312	9,925	6,246	8,003
Over 12 months	–	–	6,424	6,493
	2,805	12,425	22,349	27,891

(e) Balances with the immediate holding company, the former ultimate holding company and a former fellow subsidiary

The balances with the immediate holding company, the former ultimate holding company, namely 新科技電信投資有限公司, and a former fellow subsidiary are unsecured and interest-free. Except for the loan from a former fellow subsidiary of HK$8,019,000 as at 31st December, 2002, which was repayable more than one year, the other balances have no fixed terms of repayment. Subsequent to 31st December, 2003, the loan from a former fellow subsidiary was fully repaid.

(f) Interest-bearing bank borrowings, unsecured

The balance represents short term bank loans repayable within one year.

(g) Banking facilities

As at 31st December, 2002 and 2003 and 30th September, 2004, Sky City's banking facilities were supported by corporate guarantees provided by certain third parties.

(h) Finance lease payables

Sky City leases certain of its telecommunication equipment for its business. These leases are classified as finance leases and have remaining lease terms of three years.

The total future minimum lease payments under finance lease and their present values were as follows:

	Minimum lease payments				Present value of minimum lease payments			
	31st December,			30th September,	31st December,			30th September,
	2001	2002	2003	2004	2001	2002	2003	2004
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(audited)	(audited)	(audited)	(audited)	(audited)	(audited)	(audited)	(audited)
Amounts payable:								
Within one year	–	–	538	538	–	–	436	482
In the second year	–	–	538	269	–	–	482	259
In the third to fifth years, inclusive	–	–	269	–	–	–	259	–
Total minimum finance lease payments	–	–	1,345	807	–	–	1,177	741
Future finance charges	–	–	(168)	(66)				
Total net finance lease payables	–	–	1,177	741				
Portion classified as current liabilities	–	–	(436)	(482)				
Long term portion	–	–	741	259				

(i) Paid-up capital

	31st December,			30th September,
	2001	2002	2003	2004
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(audited)	(audited)	(audited)	(audited)
Registered capital	66,038	66,038	103,774	103,774
Paid-up capital	39,623	66,038	103,774	103,774

On 21st December, 2001, the registered capital of Sky City increased from HK$39,623,000 to HK$66,038,000. On 15th August, 2003, the registered capital of Sky City further increased from HK$66,038,000 to HK$103,774,000.

On 1st February, 2002, the paid-up capital of Sky City increased from HK$39,623,000 to HK$66,038,000. On 31st October, 2003, the paid-up capital of Sky City increased from HK$66,038,000 to HK$103,774,000.

(j) Reserves

Details of movements in the reserves of Sky City are included in statements of movements in equity in Section V below.

	Retained profits/ (accumulated losses)			
	31st December,			30th September,
	2001	2002	2003	2004
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(audited)	(audited)	(audited)	(audited)
At beginning of the year/period	3,744	(14,560)	(8,865)	1,382
Net profit/(loss) for the year/period	(18,304)	5,695	10,247	3,124
At the end of the year/period	(14,560)	(8,865)	1,382	4,506

(k) Operating lease arrangements

Sky City leases certain of its properties and transmission lines under operating lease arrangements, with leases negotiated for terms ranging from one to seven years.

At the end of each of the Relevant Periods, Sky City had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	31st December,			30th September,
	2001	2002	2003	2004
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(audited)	(audited)	(audited)	(audited)
Within one year	766	597	540	263
In the second to fifth years, inclusive	2,693	1,572	1,087	827
After five years	1,245	305	–	–
	4,704	2,474	1,627	1,090

(l) Commitments

In addition to the operating lease commitments detailed in note (k) above, Sky City had the following commitments at the end of each of the Relevant Periods.

(a) Capital commitments

	31st December,			30th September,
	2001	2002	2003	2004
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(audited)	(audited)	(audited)	(audited)
Contracted, but not provided for:				
Telecommunication equipment	149	378	275	275
Telecommunication project	–	–	8,080	8,080
Online game project	–	–	–	16,981
	149	378	8,355	25,336

(m) Related party transactions

In addition to the transactions and balances detailed elsewhere in this report, Sky City had the following transactions with related parties during the Relevant Periods:

		Year ended 31st December,			Nine months ended 30th September,	
	Note	**2001**	**2002**	**2003**	**2003**	**2004**
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
		(audited)	(audited)	(audited)	(unaudited)	(audited)
Design and construction fee paid to a former shareholder	*(i)*	943	–	–	–	–

Note:

(i) The directors consider that the design and construction fee were made according to the conditions similar to those offered by the former shareholder to its other customers.

V. STATEMENTS OF CHANGES IN EQUITY

The following are the statements of changes in equity of Sky City for the Relevant Periods, which are prepared on the basis set out in Section I above:

	Paid-up capital	Retained profits/ (accumulated losses)	Total
	HK$'000	*HK$'000*	*HK$'000*
At 1st January, 2001	39,623	3,744	43,367
Net loss for the year	–	(18,304)	(18,304)
At 31st December, 2001 and 1st January, 2002 (audited)	39,623	(14,560)	25,063
Increase in paid-up capital	26,415	–	26,415
Net profit for the year	–	5,695	5,695
At 31st December, 2002 and 1st January, 2003 (audited)	66,038	(8,865)	57,173
Increase in paid-up capital	37,736	–	37,736
Net profit for the year	–	10,247	10,247
At 31st December, 2003 and 1st January, 2004 (audited)	103,774	1,382	105,156
Net profit for the period	–	3,124	3,124
At 30th September, 2004 (audited)	103,774	4,506	108,280
At 31st December, 2002 and 1st January, 2003 (audited)	66,038	1,382	67,420
Increase in paid-up capital (unaudited)	37,736	–	37,736
Net profit for the period (unaudited)	–	10,406	10,406
At 30th September, 2003 (unaudited)	103,774	11,788	115,562

VI. CASH FLOW STATEMENTS

The following are the cash flow statements of Sky City for the Relevant Periods, which are prepared on the basis set out in Section I above:

	Year ended 31st December,			Nine months ended 30th September,	
	2001	2002	2003	2003	2004
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(audited)	(audited)	(audited)	(unaudited)	(audited)
CASH FLOWS FROM OPERATING ACTIVITIES					
Profit/(loss) before tax	(18,304)	7,360	12,630	12,805	3,981
Adjustments for:					
Finance costs (Section III, note (c))	–	331	1,751	858	2,592
Interest income (Section III, note (a))	(40)	(31)	(37)	(19)	(20)
Waiver of an amount due to the former ultimate holding company	–	–	(15,710)	(15,710)	–
Waiver of a loan from the former ultimate holding company	–	–	(825)	(825)	–
Depreciation (Section III, note (a))	4,777	7,524	8,974	6,622	7,038
Amortisation of intangible assets (Section III, note (b))	337	2,027	2,027	1,520	1,520
Impairment of intangible assets (Section III, note (b))	6,752	–	–	–	–
Provision for bad and doubtful debts (Section III, note (b))	–	2,350	2,670	2,670	1,698
Provision for deposit paid for a broadband project (Section III, note (b))	18,868	2,830	–	–	–
Operating profits before working capital changes	12,390	22,391	11,480	7,921	16,809
Decrease/(increase) in trade receivables	4,440	(11,970)	(12,594)	(6,908)	(7,240)
Increase in prepayments, deposits and other receivables	(16,973)	(22,877)	(25,827)	(16,568)	(29,327)
Increase/(decrease) in other payables and accruals	(221)	3,864	(335)	3,033	234
Increase in an amount due to the former ultimate holding company	5,970	2,915	–	–	–
Cash generated from/(used in) former operations	5,606	(5,677)	(27,276)	(12,522)	(19,524)
Interest received	40	31	37	19	20
Interest paid	–	(331)	(1,716)	(846)	(2,493)
Interest element on finance leases rental payments	–	–	(35)	(12)	(99)
PRC tax paid	–	(323)	(11)	(11)	–
Net cash inflow/(outflow) from operating activities	5,646	(6,300)	(29,001)	(13,372)	(22,096)

	Year ended 31st December,			Nine months ended 30th September,	
	2001	2002	2003	2003	2004
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(audited)	(audited)	(audited)	(unaudited)	(audited)
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchases of fixed assets	(26,147)	(28,735)	(1,877)	(1,830)	(110)
Increase in intangible assets	(14,858)	–	–	–	–
Net cash outflow from investing activities	(41,005)	(28,735)	(1,877)	(1,830)	(110)
CASH FLOWS FROM FINANCING ACTIVITIES					
New bank loans	–	18,868	56,604	56,604	–
Repayment of bank loans	–	–	(18,868)	(18,868)	(4,717)
Increase in a loan from the former ultimate holding company	39,977	4,998	–	–	–
Increase in a loan from the immediate holding company	–	–	–	–	29,987
Increase/(decrease) in a loan from a former fellow subsidiary	–	8,019	(5,585)	(5,661)	(2,434)
Capital element of finance lease rental payments	–	–	(237)	–	(436)
Net cash inflow from financing activities	39,977	31,885	31,914	32,075	22,400
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	4,618	(3,150)	1,036	16,873	194
Cash and cash equivalents at beginning of year/period	651	5,269	2,119	2,119	3,155
CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD	5,269	2,119	3,155	18,992	3,349
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS					
Cash and bank balance	5,269	2,119	3,155	18,992	3,349

Notes:

Major non-cash transactions:

(a) During the years ended 31st December, 2002 and 2003, Sky City increased its paid-up capital by HK$26,415,000 and HK$37,736,000, respectively, through the capitalisation of a loan from the former ultimate holding company.

(b) During the year ended 31st December, 2003, Sky City entered into finance lease arrangements in respect of fixed assets with a total capital value at the inception of the leases of HK$1,414,000 (2002: Nil; 2001: Nil).

VII. SEGMENT INFORMATION

Segment information is presented by way of Sky City's primary segment reporting basis, by business segment.

Sky City's operating businesses are structured and managed separately, according to the nature of the services they provide. Each of Sky City's business segments represents a strategic business unit that offers services which are subject to risks and returns that are different from those of the other business segments. Summary details of the business segments are as follows:

(a) Telecommunication and other related services; and

(b) Software licensing services.

The following tables present revenue, profit/(loss) and certain asset, liability and expenditure information for Sky City's business segments.

(a) Business segment

Year ended 31st December, 2001 (audited)	**Telecommunication and other related services** *HK$'000*	**Software licensing services** *HK$'000*	**Consolidated** *HK$'000*
Segment revenue:			
Sales to external customers	13,637	4,188	17,825
Segment results	8,299	3,827	12,126
Interest income			40
Unallocated expenses			(30,470)
Loss from operating activities			(18,304)
Finance costs			–
Loss before tax			(18,304)
Tax			–
Net loss for the year			(18,304)
Segment assets	82,524	7,984	90,508
Unallocated assets			8,690
Total assets			99,198
Segment liabilities	(54)	–	(54)
Unallocated liabilities			(74,081)
Total liabilities			(74,135)
Other segment information:			
Capital expenditure	23,891	14,858	38,749
Unallocated			2,256
			41,005
Depreciation and amortisation	4,339	337	4,676
Unallocated amounts			438
			5,114
Impairment losses recognised in the profit and loss account	–	6,752	6,752
Other unallocated non-cash expenses			18,868
			25,620

Year ended 31st December, 2002 (audited)	**Telecommunication and other related services** *HK$'000*	**Software licensing services** *HK$'000*	**Consolidated** *HK$'000*
Segment revenue:			
Sales to external customers	19,495	7,064	26,559
Segment results	11,589	5,038	16,627
Interest income			31
Unallocated expenses			(8,967)
Profit from operating activities			7,691
Finance costs			(331)
Profit before tax			7,360
Tax			(1,665)
Net profit for the year			5,695
Segment assets	133,332	6,094	139,426
Unallocated assets			5,473
Total assets			144,899
Segment liabilities	(2,898)	–	(2,898)
Unallocated liabilities			(84,828)
Total liabilities			(87,726)
Other segment information:			
Capital expenditure	28,219	–	28,219
Unallocated			516
			28,735
Depreciation and amortisation	6,753	2,027	8,780
Unallocated amounts			771
			9,551
Other non-cash expenses	519	1,831	2,350
Unallocated amounts			2,830
			5,180

Year ended 31st December, 2003 (audited)	**Telecom-munication and other related services** *HK$'000*	**Software licensing services** *HK$'000*	**Consolidated** *HK$'000*
Segment revenue:			
Sales to external customers	18,477	–	18,477
Segment results	6,769	(2,027)	4,742
Interest income			37
Unallocated expenses			(6,933)
Loss from operating activities			(2,154)
Finance costs			(1,751)
Waiver of an amount due to the former ultimate holding company			15,710
Waiver of a loan from the former ultimate holding company			825
Profit before tax			12,630
Tax			(2,383)
Net profit for the year			10,247
Segment assets	141,161	4,068	145,229
Unallocated assets			28,747
Total assets			173,976
Segment liabilities	(1,592)	–	(1,592)
Unallocated liabilities			(67,228)
Total liabilities			(68,820)
Other segment information:			
Capital expenditure	3,272	–	3,272
Unallocated			19
			3,291
Depreciation and amortisation	8,148	2,027	10,175
Unallocated amounts			826
			11,001
Other non-cash expense	2,670	–	2,670

Nine months ended 30th September, 2003 (unaudited)	Telecom-munication and other related services HK$'000	Software licensing services HK$'000	Consolidated HK$'000
Segment revenue:			
Sales to external customers	12,760	–	12,760
Segment results	4,358	(1,520)	2,838
Interest income			19
Unallocated expenses			(5,729)
Loss from operating activities			(2,872)
Finance costs			(858)
Waiver of an amount due to the former ultimate holding company			15,710
Waiver of a loan from the former ultimate holding company			825
Profit before tax			12,805
Tax			(2,399)
Net profit for the year			10,406
Other segment information:			
Depreciation and amortisation	6,111	1,520	7,631
Unallocated amounts			511
			8,142
Other non-cash expense	2,670	–	2,670

Nine months ended 30th September, 2004 (audited)	Telecom-munication and other related services *HK$'000*	Software licensing services *HK$'000*	Consolidated *HK$'000*
Segment revenue:			
Sales to external customers	20,052	–	20,052
Segment results	10,055	(1,520)	8,535
Interest income			20
Unallocated expenses			(1,982)
Profit from operating activities			6,573
Finance costs			(2,592)
Waiver of an amount due to the ultimate holding company			–
Waiver of a loan from the ultimate holding company			–
Profit before tax			3,981
Tax			(857)
Net profit for the year			3,124
Segment assets	169,044	2,195	171,239
Unallocated assets			29,352
Total assets			200,591
Segment liabilities	(1,302)	–	(1,302)
Unallocated liabilities			(91,009)
Total liabilities			(92,311)
Other segment information:			
Capital expenditure	110	–	110
Unallocated			–
			110
Depreciation and amortisation	6,432	1,520	7,952
Unallocated amounts			606
			8,558
Other non-cash expense	1,698	–	1,698

(b) Geographical segments

No geographical segment information is presented as it is Sky City management's view that over 90% of the business of Sky City is conducted in the PRC.

VIII. SUBSEQUENT EVENT

Subsequent to 30th September, 2004, Zhong Xun, an existing shareholder of Sky City, entered into the Agreement to dispose of its entire 19.1% interests in Sky City to Telesuccess at a consideration of HK$60 million.

IX. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by Sky City in respect of any period subsequent to 30th September, 2004.

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong

PRO FORMA FINANCIAL INFORMATION

(1) Unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group

The following table is an illustrative and unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group as at 30th June, 2004 which has been prepared for the purpose of illustration as if the Completion had taken place on 30th June, 2004.

The unaudited pro forma consolidated statement of assets and liabilities is based on the unaudited consolidated balance sheet of the Group as at 30th June, 2004 which has consolidated the Group's 80.9% interests of Sky City as at 30th June, 2004.

The unaudited pro forma consolidated statement of assets and liabilities is prepared to provide the unaudited pro forma information of the Enlarged Group as a result of Completion. As it has been prepared for illustrative purpose only and because of its nature, it may not give a true picture of the financial position or results of the Enlarged Group at any future date.

	The Group As at 30th June, 2004	**Pro forma adjustments**		**Pro forma Enlarged Group As at 30th June, 2004**
	HK$'000	*HK$'000*	*Notes*	*HK$'000*
Non-current assets				
Fixed assets	136,969			136,969
Investment properties	183,600			183,600
Intangible assets	34,781			34,781
Goodwill	89,810	40,324	*(iii)*	130,134
Deferred tax assets	249			249
Trade receivables	7,913			7,913
Prepayment and other receivables	43,789			43,789
Pledged deposits	772			772
	497,883			538,207
Current assets				
Trade receivables	38,944			38,944
Prepayment and other receivables	105,370			105,370
Cash and bank balances	101,853	(60,000)	*(i)*	41,853
	246,167			186,167

	The Group As at 30th June, 2004	Pro forma adjustments		Pro forma Enlarged Group As at 30th June, 2004
	HK$'000	*HK$'000*	*Notes*	*HK$'000*
Current liabilities				
Trade payables	(34,595)			(34,595)
Tax payables	(12,858)			(12,858)
Other payables and accruals	(27,542)			(27,542)
Interest-bearing bank loans	(62,361)			(62,361)
Finance lease payables	(467)			(467)
Deferred income	(40,625)			(40,625)
	(178,448)			(178,448)
Net current assets	67,719			7,719
Total assets less current liabilities	565,602			545,926
Non-current liabilities				
Interest-bearing bank loans	(29,708)			(29,708)
Finance lease payables	(382)			(382)
Deferred tax liabilities	(18,697)			(18,697)
	(48,787)			(48,787)
Minority interests	(19,676)	19,676	*(ii)*	–
	497,139			497,139
Capital and reserves				
Issued capital	68,888			68,888
Reserves	428,251			428,251
	497,139			497,139

Notes:

(i) The adjustment reflects the payment of cash consideration of HK$60,000,000 by the Group for the Acquisition.

(ii) The adjustment reflects the recognition of net assets value of 19.1% interests in Sky City by elimination of minority interests.

(iii) The adjustment reflects the recognition of the goodwill arising from the Acquisition.

(iv) The above adjustments have not taken into account any professional expenses to be capitalised for the Acquisition as it is insignificant to the pro forma financial information as stated above.

(2) Unaudited pro forma consolidated profit and loss account of the Enlarged Group

The following table is an illustrative and unaudited pro forma consolidated profit and loss account of the Enlarged Group for the six months ended 30th June, 2004 which has been prepared for the purpose of illustration as if the Completion had taken place at the beginning of the relevant period.

The unaudited pro forma consolidated profit and loss account is based on the unaudited consolidated profit and loss account of the Group for the six months ended 30th June, 2004 which has consolidated the Group's 80.9% interests in Sky City for the six months ended 30th June, 2004.

The unaudited pro forma consolidated profit and loss account is prepared to provide the unaudited pro forma information of the Enlarged Group as a result of Completion. As it has been prepared for illustrative purpose only and because of its nature, it may not give a true picture of the financial position or results of the Enlarged Group at any future date.

	For the six months ended 30th June, 2004		
	The Group	**Pro forma adjustments**	**Pro forma Enlarged Group**
	HK$'000	*HK$'000*	*HK$'000*
Turnover	7,292		7,292
Cost of sales	(5,603)		(5,603)
Gross profit	1,689		1,689
Other revenue	313		313
Gain on disposal of interests in subsidiaries	85,763		85,763
Selling and distribution costs	(12)		(12)
Administrative expenses	(4,386)		(4,386)
Other operating expenses	(7,732)	(336)(Note)	(8,068)
Profit from operating activities	75,635		75,299
Finance costs	(1,375)		(1,375)
Profit before tax	74,260		73,924
Tax	(62)		(62)
Profit from minority interests	74,198		73,862
Minority interests	(16)	16(Note)	–
Net profit from ordinary activities attributable to shareholders	74,182		73,862

Note: The adjustments reflect the amortisation of estimated goodwill arising from the Acquisition of approximately HK$4,032,000 per annum, assuming a 10-year amortisation period on a straight-line basis, and the elimination of minority interests. Sky City was a 80.9% owned subsidiary of the Group since June 2004. Accordingly, on the assumption that the Completion had taken place on 1st January, 2004, the minority interests are eliminated and the goodwill arising from the Acquisition is only amortised for one month during the six months ended 30th June, 2004.

(3) Unaudited pro forma consolidated cash flow statement of the Enlarged Group

The following table is an illustrative and unaudited pro forma consolidated cash flow statement of the Enlarged Group for the six months 30th June, 2004 which has been prepared for the purpose of illustration as if the Completion had taken place at the beginning of the relevant period.

The unaudited pro forma consolidated cash flow statement is based on the unaudited consolidated cash flow statement of the Group for the six months 30th June, 2004 which has consolidated the Group's 80.9% interests of Sky City as at 30th June, 2004.

The unaudited pro forma consolidated cash flow statement is prepared to provide the unaudited pro forma financial information of the Enlarged Group as a result of Completion. As it has been prepared for illustrative purpose only and because of its nature, it may not give a true picture of the financial position or results of the Enlarged Group at any future date.

	For the six months ended 30th June, 2004		
	The Group	**Pro forma adjustment**	**Pro forma Enlarged Group**
	HK$'000	*HK$'000*	*HK$'000*
Operating activities			
Net cash inflow generated from operations	203,084		203,084
Interest received	313		313
Interest paid	(1,375)		(1,375)
Net cash inflow generated from operating activities	202,022		202,022
Investing activities			
Purchase of fixed assets	(20)		(20)
Decrease in pledged deposits	(219)		(219)
Acquisition of 80.9% interests in Sky City	(135,956)		(135,956)
Acquisition of 19.1% interests in Sky City	–	(60,000)[(Note)]	(60,000)
Net cash outflow from investing activities	(136,195)		(196,195)
Financing activities			
Repayment of bank loans	(5,286)		(5,286)
Net cash outflow from financing activities	(5,286)		(5,286)
Net increase in cash and cash equivalents	60,541		541
Cash and cash equivalents at the beginning of the year	41,312		41,312
Cash and cash equivalents as at 30th June, 2004	101,853		41,853

Note: The adjustment reflects the payment of cash consideration of HK$60,000,000 by the Group for the Acquisition.

(4) Unaudited pro forma statement of adjusted consolidated net tangible assets of the Enlarged Group

For illustrative purposes only, the following is a statement of unaudited pro forma adjusted consolidated net tangible assets of the Enlarged Group, which is prepared based on the unaudited consolidated net assets of the Group as at 30th June, 2004, adjusted to reflect the effect of the Acquisition at Completion.

The unaudited pro forma statement of adjusted consolidated net tangible assets of the Enlarged Group before and after Completion is prepared to provide the unaudited pro forma information of the Enlarged Group as a result of Completion. As it has been prepared for illustrative purpose only and because of its nature, it may not give a true picture of the financial position or results of the Enlarged Group at any future date.

	Immediately before Completion (Unaudited)	**Adjustments**	**Pro forma**
	HK$'000	*HK$'000*	*HK$'000*
Net tangible assets	372,548	(40,324)	332,224

Notes:

1. The unaudited pro forma adjusted consolidated net tangible asset value of the Group immediately before Completion is calculated as follows:

	HK$'000
Unaudited consolidated net assets of the Group as at 30th June, 2004	497,139
Less: Intangible assets	(124,591)
Unaudited consolidated net tangible assets of the Group as at 30th June, 2004	372,548

2. Following the Completion, the adjustments will include:

Net assets attributable to the Acquisition	19,676
Estimated goodwill arising from the Acquisition	40,324
Consideration payable for the Acquisition	(60,000)
Estimated goodwill arising from the Acquisition	(40,324)
	(40,324)

3. Unaudited pro forma adjusted consolidated net tangible asset value per Share immediately before Completion based on 3,444,413,009 Shares in issue as at 30th June, 2004 before Completion (not taking into account of the share placement of 475,000,000 Shares completed in November 2004) 0.108

4. Unaudited pro forma adjusted consolidated net tangible asset value per Share immediately following Completion based on 3,444,413,009 Shares in issue as at 30th June, 2004 following Completion 0.096

REPORT ON PRO FORMA FINANCIAL INFORMATION

The following is the text of a report received from Ernst & Young, for inclusion in this circular, in respect of the pro forma financial information of the Enlarged Group as set out in the section headed "Pro forma financial information" in this appendix.

ERNST & YOUNG
安永會計師事務所

15th Floor
Hutchison House
10 Harcourt Road
Central
Hong Kong

21st January, 2005

The Board of Directors
Zhong Hua International Holdings Limited

Dear Sirs,

We report on the unaudited pro forma financial information of the Enlarged Group (the "Group" (as defined herein) together with the Remaining Interest (as defined herein) set out on pages 135 to 139 in Appendix III to the circular dated 21st January, 2005 issued by Zhong Hua International Holdings Limited (the "Company", and together with its subsidiaries are referred to as the "Group"), solely for illustrative purposes, to provide information about how the proposed acquisition of the remaining 19.1% interest of Guangzhou Sky City Network Communication Ltd. (the "Remaining Interest") by the Company and the transactions as described in the accompanying introduction to the unaudited pro forma financial information of the Enlarged Group might have affected the historical financial information in respect of the Group.

The basis of preparation of the unaudited pro forma financial information is set out in the accompanying introduction and notes to the unaudited pro forma financial information of the Enlarged Group.

RESPONSIBILITIES

It is the responsibility solely of the directors of the Company to prepare the unaudited pro forma financial information in accordance with Rule 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

It is our responsibility to form an opinion, as required by the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

BASIS OF OPINION

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards and Bulletin 1998/8 "Reporting on pro forma financial information pursuant to the Listing Rules" issued by the Auditing Practices Board in the United Kingdom. Our work, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the unaudited pro forma financial information with the directors of the Company.

Our work did not constitute an audit or review made in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants, and accordingly, we do not express any such audit or review assurance on the unaudited pro forma financial information.

The unaudited pro forma financial information is for illustrative purposes only, and because of its nature, it does not provide any assurance or indication that any event will take place in the future and may not give a true picture of the financial position or results of:

– the Enlarged Group had the transaction actually occurred as at the dates indicated therein; or

– the Enlarged Group at any future date or for any future periods.

OPINION

In our opinion:

(a) the accompanying unaudited pro forma financial information has been properly compiled on the basis stated therein;

(b) such basis is consistent with the accounting policies of the Company; and

(c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to Rule 4.29(1) of the Listing Rules.

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong

The following is the text of a letter and valuation certificate issued by Chesterton Petty Limited, an independent property valuer, prepared for the purpose of incorporation in this circular, in connection with its valuation of the property interest held by the Enlarged Group as at 30th November, 2004.

Chesterton
PETTY
卓德

21st January, 2005

The Board of Directors
Zhong Hua International Holdings Limited
Unit 6307, 63/F
The Center
99 Queen's Road Central
Hong Kong

Dear Sirs

In accordance with your instructions for us to value the property interest held by Zhong Hua International Holdings Limited (the "Company") or its subsidiaries or GuangZhou Sky City Network Communication Ltd. (hereinafter together known as the "Enlarged Group") in the People's Republic of China ("the PRC"), we confirm that we have carried out inspection, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the open market value of the property interest as at 30th November, 2004.

Our valuation is our opinion of the open market value which we would define as intended to mean "the best price at which the sale of an interest in a property would have been completed unconditionally for cash consideration on the date of valuation assuming:

(a) a willing seller;

(b) that, prior to the date of valuation, there had been a reasonable period (having regard to the nature of the property and the state of the market) for the proper marketing of the interest, for the agreement of price and terms and for the completion of the sale;

(c) that the state of the market, level of values and other circumstances were, on any earlier assumed date of exchange of contracts, the same as on the date of valuation;

(d) that no account is taken of any additional bid by a purchaser with a special interest; and

(e) that both parties to the transaction has acted knowledgeably, prudently and without compulsion".

In addition, our valuation has been made on the assumption that the owner sells the property interest on the open market without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement which would serve to increase the value of the property interest. Furthermore, no account has been taken of any option or right of pre-emption concerning or affecting the sale of the property interest and no forced sale situation in any manner is assumed in our valuation.

We have valued the property interest by reference to sales evidence as available on the market and where appropriate on the basis of capitalization of the net income shown on the documents handed to us by the Enlarged Group. We have allowed for outgoings, and where appropriate, made provisions for reversionary income potential.

We have been provided with copies of extracts of title documents relating to the property interest. However, we have not inspected the original documents to verify the ownership or to verify any amendments, which may not appear on the copies handed to us. In the course of our valuation, we have relied to a considerable extent on the information given by the Enlarged Group and its legal advisers on PRC law, 廣東四方三和律師事務所 (Guangdong Si Fang San He Lawfirm), regarding the titles and other legal matters relating to the property, and have accepted advice given to us on matters such as planning approvals or statutory notices, easements, tenure, letting, site and floor areas and all other relevant matters. Dimensions, measurements and areas included in the valuation certificate are based on information contained in the documents provided to us by the Enlarged Group and are therefore only approximations. We have not been able to carry out on-site measurements to verify the correctness of the site and floor areas of the property. We have assumed that the site and floor areas shown on the documents handed to us are correct.

We have inspected the exteriors and, where possible, the interiors of the property. However, no structural survey has been made, but in the course of our inspection, we did not note any serious defects. We are not, however, able to report that the property is free from rot, infestation or any other structural defects.

No allowance has been made in our valuation for any charges, mortgages or amounts owing on the property nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the property interest is free from encumbrances, restrictions and outgoings of an onerous nature which could affect its value.

Unless otherwise stated, all monetary amounts stated are in Hong Kong Dollars. The exchange rate adopted in our valuation is HK$1 = RMB1.06, and there has been no significant fluctuation in the exchange rates for RMB against Hong Kong Dollars between that and the date of this letter.

We enclosed herewith our valuation certificate.

Yours faithfully
For and on behalf of
Chesterton Petty Limited
Charles C K Chan
MSc FRICS FHKIS MCIArb RPS(GP)
Executive Director

Note: Charles C K Chan, Chartered Estate Surveyor, MSc, FRICS, FHKIS, MCIArb, RPS(GP), has been a qualified valuer with Chesterton Petty Limited since June 1987 and has about 11 years' experience in the valuation of properties in the PRC.

VALUATION CERTIFICATE

Property interest held by the Enlarged Group

Property	Description and tenure	Particulars of occupancy	Open market value in existing state as at 30th November, 2004
Retail, Office and Warehouse Portions of Gang Yu Square The Junction of No. 6 Lane of Shanxi Road and Chiao Dong Road Yuzhong District Chongqing The PRC	Gang Yu Square is a 16-storey commercial building completed in 1997. The property comprises various retail units on the first, second, third, fourth, eighth and eleventh levels and various office units on the whole of fourteenth level and a warehouse unit on basement level of Gang Yu Square. The total gross floor area of the property is approximately 25,760.19 sq.m. (277,283 sq.ft.). The property is held under a land use right for a term of 40 years commencing from 1st May, 1996 to 30th April, 2036 for commercial uses.	Apart from the 14th Level of the property which is owner-occupied as office, the remaining portion of the property is currently subject to a lease for a term of 2 years expiring on 31st December, 2005 yielding an annual rent of RMB6,500,000 exclusive of management fee and other charges.	HK$189,400,000

Notes:

(1) Pursuant to a State-owned Land Use Right Certificate issued by Chongqing Yu Zhong District State Land Administration Bureau on 13th January, 1997, the land use rights of Gang Yu Square have been granted to 重慶超霸房地產開發有限公司 Chongqing Smart Hero Real Estate Development Company Limited (referred hereinafter to as "Chongqing Smart Hero") for a term of 40 years commencing from 1st May, 1996 to 30th April, 2036 for commercial uses.

(2) Pursuant to a Building Ownership Certificate No. 049501 issued by Chongqing City Land and Building Administration Bureau on 6th August, 2000, the ownership of Gang Yu Square with a total gross floor area of approximately 49,383.34 sq.m, is vested in Chongqing Smart Hero.

(3) Pursuant to the Distribution Agreement for Gang Yu Square made between 重慶市商業儲運公司 (referred hereinafter to as "Party A") and Chongqing Smart Hero on 26th June, 1997, Chongqing Smart Hero is entitled to the ownership of the whole of Level 1, 2, 3, 4, 8, 9, 10, 11 and 60 per cent. of area of the basement level with a total area of 29,283.06 sq.m.

(4) The breakdown of the open market value of the property are summarised as follows:

Portions	Open market value in existing state as at 30th November, 2004
Portion of Basement, L1, L2, L3, L4, L8 and L11	HK$183,600,000
L14	HK$ 5,800,000
Total:	HK$189,400,000

(5) We have been provided with a legal opinion on the title to the property issued by the Enlarged Group's PRC legal adviser, which contains, inter alia, the following information:

(i) According to the Distribution Agreement for Gang Yu Square, the ownership of Levels 1, 2, 3, 4, 8, 9, 10, 11 and 60 per cent. of area of the basement level of Gang Yu Square is vested into Chongqing Smart Hero whilst the ownership of Levels 5, 6, 7, 12, 13 and 40 per cent. of area of the basement level of Gang Yu Square is vested into Party A.

The parties entered into the said Distribution Agreement for Gang Yu Square have not proceed to the transfer of the title, the ownership of all the levels of Gang Yu Square as stated in the said agreement is still vested into Chongqing Smart Hero.

(ii) Chongqing Smart Hero has acquired the State-owned Land User Right Certificate and the Building Ownership Certificate of Gang Yu Square and is entitled to transfer, lease or mortgage Gang Yu Square legally.

(iii) Levels 1 to 4, 8 and 11 of Gang Yu Square are subject to a mortgage in favour of East Asia Bank Company Limited Guangzhou Branch for a term of 8 years. Chongqing Smart Hero shall obtain prior written approval from East Asia Bank Company Limited Guangzhou Branch for transfer, lease and mortgage of Levels 1 to 4, 8 and 11 of Gang Yu Square.

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts not contained herein the omission of which would make any statement contained in this circular misleading.

2. DISCLOSURE OF INTERESTS

(i) Interests of Directors

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executive of the Company and their associates in the Shares, underlying Shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), the Model Code for Securities Transactions by Directors and which were required to be entered into the register pursuant to section 352 of the SFO; and the interests and short positions of the Directors in the Shares and the underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, are as follows:

(a) The Company

		Number of Shares		Approximate
Name of Director	Nature of interests	Long position	Short position	% shareholding
Ho Tsam Hung	Corporate *(Note 1)*	270,000,000	–	6.89%
Ho Pak Hung	Corporate *(Note 2)*	270,000,000	–	6.89%
Ho Kam Hung	Corporate *(Note 3)*	270,000,000	–	6.89%

Notes:

1. 270,000,000 Shares were beneficially held by Mr. Ho Tsam Hung through Morgan Estate Assets Limited.

2. 270,000,000 Shares were beneficially held by Mr. Ho Pak Hung through On Tai Profits Limited.

3. 270,000,000 Shares were beneficially held by Mr. Ho Kam Hung through Morcambe Corporation.

(b) Associated corporations

As at the Latest Practicable Date, the following Directors had interests in the non-voting deferred shares in certain of the Company's subsidiaries:

(1) Interests in the non-voting deferred shares of Smart Hero (Holdings) Limited

	Number of shares		
Name of Director	**Personal interests**	**Long position**	**Short position**
Ho Tsam Hung	91	91	–
Ho Pak Hung	91	91	–
Ho Kam Hung	91	91	–

(2) Interests in the non-voting deferred shares of China Land Realty Investment Limited

	Number of shares		
Name of Director	**Personal interests**	**Long position**	**Short position**
Ho Tsam Hung	91	91	–
Ho Pak Hung	91	91	–
Ho Kam Hung	91	91	–

All the above mentioned non-voting deferred shares carry no rights to dividends, to receive notice of or to attend or vote at any general meeting of the relevant company, or to participate in any distribution on winding-up.

Saved as disclosed above, as at the Latest Practicable Date, so far as is known to the Directors and the chief executive of the Company, none of the Directors or chief executive of the Company and their associates had any interests and short positions in the Shares, underlying Shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), the Model Code for Securities Transactions by Directors of Listed Companies and which were required to be entered into the register required to be kept under section 352 of the SFO; and none of the Directors is a director or employee of a company which had an interest or short position in the Shares and the underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

As at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement entered into by any members of the Enlarged Group subsisting at the Latest Practicable Date which was significant in relation to the business of the Enlarged Group; and none of the Directors had any direct or indirect interest in any assets which had been, since 31st December, 2003 (being the date to which the latest published audited accounts of the Company were made up), acquired or disposed of by or leased to any member of the Enlarged Group, or which were proposed to be acquired or disposed of by or leased to any member of the Enlarged Group.

(ii) Interests of substantial Shareholders

As at the Latest Practicable Date, so far as is known to the Directors and the chief executive of the Company, the following persons (other than a Director or chief executive of the Company) had an interest or short position in the Shares and underlying Shares which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or recorded in the register kept by the Company pursuant to Section 336 of the SFO, or who were, directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company or any other member of the Enlarged Group.

Long position in the Shares

Name	Capacity and nature of interest	Number of Shares	Approximate % shareholding
High Rank Enterprises Limited *(Note 1)*	Beneficial owner	983,000,000	25.08%
Cheer Faith Limited	Beneficial owner	475,000,000	12.12%
Morgan Estate Assets Limited *(Note 2)*	Controlled corporation	270,000,000	6.89%
On Tai Profits Limited *(Note 3)*	Controlled corporation	270,000,000	6.89%
Morcambe Corporation *(Note 4)*	Controlled corporation	270,000,000	6.89%
Ms. Yeung Ching Yi *(Note 5)*	Spouse	270,000,000	6.89%
Ms. Liang Gui Fen *(Note 6)*	Spouse	270,000,000	6.89%
Ms. Ye Jia Li *(Note 7)*	Spouse	270,000,000	6.89%

Notes:

1. Each of Mr. Ho Tsam Hung, Mr. Ho Pak Hung and Mr. Ho Kam Hung, being the executive Directors, is interested in approximately 31.58% of the issued share capital of High Rank Enterprises Limited.

2. Morgan Estate Assets Limited is wholly owned by Mr. Ho Tsam Hung.

3. On Tai Profits Limited is wholly owned by Mr. Ho Pak Hung.

4. Morcambe Corporation is wholly owned by Mr. Ho Kam Hung.

5. As Ms. Yeung Ching Yi is the spouse of Mr. Ho Tsam Hung, she is deemed to be interested in the 270,000,000 Shares held by Morgan Estate Assets Limited.

6. As Ms. Liang Gui Fen is the spouse of Mr. Ho Pak Hung, she is deemed to be interested in the 270,000,000 Shares held by On Tai Profits Limited.

7. As Ms. Ye Jia Li is the spouse of Mr. Ho Kam Hung, she is deemed to be interested in the 270,000,000 Shares held by Morcambe Corporation.

Save as disclosed above, the Directors and the chief executive of the Company were not aware that there was any person (other than a Director or chief executive of the Company) who, as at the Latest Practicable Date, had an interest or short position in the Shares and underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Enlarged Group, or had any options in respect of such capital.

3. MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by members of the Enlarged Group within the two years preceding the date of this circular and are or may be material:

(i) The agreement dated 27th October, 2003 entered into between Guangzhou Proland Electrical Technology Limited ("Guangzhou Proland"), a wholly-owned subsidiary of the Company, and Easy-Link Technology Services Co., Ltd., pursuant to which Guangzhou Proland acquired 2,482 point-of-sale equipment ("POS equipment") and was granted the operating rights in leasing POS equipment in Guangzhou with a 5-year term at a total consideration of approximately HK$47 million, where Guangzhou Proland was further granted an option to extend the term of the operating rights till 17th July, 2011 pursuant to a supplementary agreement dated 20th April, 2004;

(ii) The supplemental agreement dated 26th March, 2004 entered into between China Land and Guangdong Properties regarding the amendment of the payment terms of the balance of the consideration of HK$230 million in relation to the Disposal;

(iii) The agreement dated 26th March, 2004 entered into between the First Vendor and China Land in relation to the First Acquisition;

(iv) The Subscription Agreement;

(v) The placing agreement dated 1st November, 2004 entered into between the Company and Cheer Faith Limited in relation to the issue of a total of 475,000,000 placing Shares at HK$0.09 each; and

(vi) The Agreement.

4. EXPERTS AND CONSENTS

The following are the qualifications of the experts who have given opinions or advice which are contained in this circular:

Name	Qualification
Chesterton	Independent professional valuers
Ernst & Young	Certified Public Accountants
GD Securities	Licensed corporation under the SFO to conduct types 1 (dealing in securities), 4 (advising on securities), 6 (advising on corporate finance) and 9 (asset management) regulated activities

Chesterton, Ernst & Young and GD Securities have given and have not withdrawn their respective written consents to the issue of this circular with the inclusion herein of their respective letters and reports (as the case may be) and references to their respective names, in the form and context in which they respectively appear.

As at the Latest Practicable Date, none of Chesterton, Ernst & Young and GD Securities was beneficially interested in the share capital of any member of the Enlarged Group, nor did they have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Enlarged Group, nor did they have any interest, either direct or indirect, in any assets which had been since 31st December, 2003 (being the date to which the latest published audited accounts of the Company were made up) acquired or disposed of by or leased to any member of the Enlarged Group or which were proposed to be acquired or disposed of by or leased to any member of the Enlarged Group.

5. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered into any service contracts with any member of the Enlarged Group which were not expiring or determinable by the employer within one year without payment of compensation other than statutory compensation.

6. LITIGATION

As at the Latest Practicable Date, none of the members of the Enlarged Group was engaged in any litigation or claims of material importance pending or threatened against any member of the Enlarged Group.

7. COMPETING INTERESTS

Certain Directors, through a private company, hold interests in a development site located at Jie Fang Nan Road, Yuexiu District, Guangzhou, PRC with an intention to develop the site into residential and commercial properties. The site is currently erected with a temporary distribution centre for shoes and related products. The distribution centre is currently managed by a separate management team which is independent from the management of the Group. Given the different location and market segment of the distribution centre, which is situated at Yuexiu District, and of the Group's shopping arcade, which is situated in Chongqing, the Directors consider that competition between the two properties is remote and unlikely. The Directors confirm that the Group is capable of carrying on its businesses independently of, and at arm's length from the aforesaid competing business.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors and his/her respective associates was considered to have an interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group other than those businesses to which the Directors and his/her associates were appointed to represent the interests of the Company and/or the Group.

8. PROCEDURES FOR DEMANDING A POLL BY SHAREHOLDERS

Pursuant to the bye-laws of the Company, a poll can be demanded:

(i) by the chairman of the meeting; or

(ii) by at least three Shareholders present in person (or in the case of a Shareholder being a corporation by its duly authorised representative) or by proxy for the time being entitled to vote at the meeting; or

(iii) by a Shareholder or Shareholders present in person (or in the case of a Shareholder being a corporation by its duly authorised representative) or by proxy and representing not less than one-tenth of the total voting rights of all Shareholders having the right to vote at the meeting; or

(iv) by a Shareholder or Shareholders present in person (or in the case of a Shareholder being a corporation by its duly authorised representative) or by proxy and holding Shares in the Company conferring a right to vote at the meeting being Shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all Shares conferring that right.

The Company will procure the chairman of the Special General Meeting to demand for voting on a poll. Tengis Limited (the Hong Kong branch share registrar of the Company) will serve as the scrutineer for the vote-taking.

9. MISCELLANEOUS

(i) The secretary and qualified accountant of the Company is Ms. Yam Ka Yin, Rebecca, *ACCA, CPA*.

(ii) The Hong Kong branch share register and transfer office of the Company is Tengis Limited situated at 28th Floor, BEA Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong.

(iii) The English text of this circular and the accompanying proxy form shall prevail over its Chinese text.

10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours at the principal place of business of the Company from the date of this circular up to and including 4th February, 2005.

(i) the memorandum of association and bye-laws of the Company;

(ii) the annual reports of the Company for the two years ended 31st December, 2002 and 2003;

(iii) the interim report of the Company for the six months ended 30th June, 2004;

(iv) the accountants' report on Sky City, the text of which is set out in Appendix II to this circular;

(v) the comfort letter regarding the pro forma financial information of the Enlarged Group from Ernst & Young, the text of which is set out in Appendix III to this circular;

(vi) the letter from the Independent Board Committee, the text of which is set out on pages 22 to 23 of this circular;

(vii) the letter from GD Securities, the text of which is set out on pages 24 to 41 of this circular;

(viii) the property valuation report of the Enlarged Group from Chesterton, the text of which is set out in Appendix IV to this circular;

(ix) the material contracts referred to in paragraph 3 headed "Material contracts" of this appendix;

(x) the written consents referred to in paragraph 4 headed "Experts and consents" of this appendix; and

(xi) a copy of each of the circulars issued pursuant to the requirements set out in Chapters 14 and/or 14A of the Listing Rules which have been issued since 31st December, 2003.

ZHONG HUA INTERNATIONAL HOLDINGS LIMITED
中華國際控股有限公司*

(Incorporated in Bermuda with limited liability)
(Stock code: 1064)

NOTICE IS HEREBY GIVEN THAT a special general meeting of Zhong Hua International Holdings Limited (the "Company") will be held at Unit 6307, 63rd Floor, The Center, 99 Queen's Road Central, Hong Kong at 11:00 a.m. on Monday, 7th February, 2005 for the purpose of considering and, if thought fit, passing the following ordinary resolutions by way of a poll, with or without amendments, as ordinary resolutions of the Company:

ORDINARY RESOLUTIONS

1. "**THAT** the agreement dated 14th December, 2004 (the "Agreement") entered into between the Company's wholly-owned subsidiary, Telesuccess International Limited, as purchaser and 廣東中訊科技有限公司 (GuangDong Zhong Xun Technology Limited) as vendor for the sale and purchase of 19.1% equity interest in 廣州天城網絡通訊有限公司 (GuangZhou Sky City Network Communication Ltd.), a copy of which has been produced to the meeting marked "A" and has been signed by the chairman of the meeting for the purpose of identification, and the transactions contemplated therein be and are hereby approved, confirmed and ratified in all aspects; and

   THAT any one director of the Company be and is hereby authorised on behalf of the Company to sign, seal, execute, perfect and deliver such other documents and do all such acts, matters and things as he may in his discretion consider necessary, desirable or expedient for the purpose of implementing, completing and giving effect to the Agreement and the transactions contemplated under the Agreement."

2. "**THAT** the mandate to issue shares of the Company given to the directors of the Company at the Annual General Meeting held on 16th June, 2004 be and is hereby revoked and replaced by the following mandate:

   (A) subject to paragraph (C) below, the exercise by the directors of the Company during the Relevant Period (as hereinafter defined) of all the powers of the Company to allot, issue or otherwise deal with additional shares of HK$0.02 each in the capital of the Company or securities convertible into such shares, or options, warrants or similar rights to subscribe for any shares in the Company and to make or grant offers, agreements and options (including bonds, warrants and debentures convertible into shares of the Company) which would or might require the exercise of such powers, be and is hereby generally and unconditionally approved;

* *For identification only*

(B) the approval in paragraph (A) of this resolution shall authorise the directors of the Company during the Relevant Period (as hereinafter defined) to make or grant offers, agreements and options (including bonds, warrants and debentures convertible into shares of the Company) which would or might require the exercise of such power after the end of the Relevant Period;

(C) the aggregate nominal amount of share capital allotted and agreed conditionally or unconditionally to be allotted (whether pursuant to options or otherwise) and issued by the directors of the Company pursuant to the approval in paragraph (A) above, otherwise than pursuant to (a) a Rights Issue (as hereinafter defined); (b) an issue of shares as scrip dividends pursuant to the bye-laws of the Company from time to time; (c) an issue of shares of the Company upon the exercise of the subscription or conversion rights under the terms or any warrants or other securities issued by the Company carrying a right to subscribe for shares of the Company; and (d) an issue of shares under any option scheme or similar arrangement for the time being adopted for the grant or issue of shares or rights to acquire shares of the Company, shall not exceed the aggregate of:

(i) 20 per cent. of the aggregate nominal amount of the share capital of the Company in issue at the date of passing of this resolution; and

(ii) (if the directors of the Company are so authorised by a separate ordinary resolution of the shareholders of the Company) the nominal amount of any share capital of the Company repurchased by the Company subsequent to the passing of this resolution (up to a maximum equivalent to 10 per cent. of the aggregate nominal amount of the share capital of the Company in issue at the date of the Annual General Meeting on 16th June, 2004); and

the authority pursuant to paragraph (A) of this resolution shall be limited accordingly; and

(D) for the purpose of this resolution,

"Relevant Period" means the period from the passing of this resolution until whichever is earlier of:

(i) the conclusion of the next annual general meeting of the Company;

(ii) the expiration of the period within which the next annual general meeting of the Company is required by law or the bye-laws of the Company to be held; and

(iii) the date on which the authority set out in this resolution is revoked or varied by an ordinary resolution of the shareholders in general meeting of the Company; and

"Rights Issue" means the allotment issue or grant of shares pursuant to an offer of shares open for a period fixed by the directors of the Company to holders of shares of the Company whose names appear on the register of members of the Company on a fixed record date in proportion to their then holdings of such shares as at that date (subject to such exclusions or other arrangements as the directors of the Company may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any territory outside Hong Kong applicable to the Company)."

3. "**THAT** conditional upon the passing of resolution no. 2 above, the mandate granted to the directors of the Company at the Annual General Meeting of the Company held on 16th June, 2004 to extend the general mandate to allot, issue and deal with shares of the Company to shares repurchased by the Company be and is hereby revoked and replaced by the mandate **THAT** the Directors be and they are hereby authorised to exercise the authority referred to in paragraph (A) of resolution no. 2 above in respect of the share capital of the Company referred to in sub-paragraph (ii) of paragraph (C) of resolution no. 2 above."

By order of the Board
Zhong Hua International Holdings Limited
Ho Tsam Hung
Chairman

Hong Kong, 21st January, 2005

Head office and principal place of business in Hong Kong:
Unit 6307, 63rd Floor
The Center
99 Queen's Road Central
Hong Kong

Notes:

(1) A member of the Company entitled to attend and vote at the above meeting is entitled to appoint one or more proxies to attend and vote in his stead. A proxy need not be a member of the Company. A form of proxy for use at the meeting is enclosed herewith. In the case of a joint holding, the form of proxy may be signed by any joint holder, but if more than one joint holder is present at the meeting, whether in person or by proxy, that one of the joint holders whose name stands first on the register of members in respect of the relevant joint holding shall alone be entitled to vote in respect thereof.

(2) To be valid, the form of proxy together with any power of attorney or other authority under which it is signed or a notarially certified copy of that power of attorney or authority must be deposited with the Hong Kong branch share registrars of the Company, Tengis Limited at 28th Floor, BEA Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not later than 48 hours before the time fixed for holding the meeting or any adjournment thereof.

(3) Completion and return of the form of proxy will not preclude members from attending and voting at the special general meeting.