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## THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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**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, other licensed corporation, bank manager, solicitor, professional accountant or other professional adviser.

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

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### ZHONG HUA INTERNATIONAL HOLDINGS LIMITED

中華國際控股有限公司\*

*(Incorporated in Bermuda with limited liability)*

**(Stock code: 1064)**

### MAJOR TRANSACTION

**Financial adviser to Zhong Hua International Holdings Limited**



**SOMERLEY LIMITED**

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A notice convening a special general meeting of Zhong Hua International Holdings Limited to be held at Joint Professional Centre, Unit 1, Ground Floor, The Center, 99 Queen's Road Central, Hong Kong at 11:00 a.m. on 28 December 2006 is set out on pages 82 to 83 of this circular. Whether or not you intend to attend the special general meeting, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon to the Company's branch share registrar in Hong Kong, Tengis Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as practicable and in any event not later than 48 hours before the time appointed for holding of the meeting. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting or any adjournment thereof should you so wish.

\* For identification only

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## DEFINITIONS

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*In this circular, unless the context otherwise requires, the following terms have the following meanings:*

“Agreement”	the conditional sale and purchase agreement dated 6 November 2006 entered into among the Vendor, the Purchaser and the Guarantor in relation to the sale and purchase of (i) the Sale Shares; and (ii) the benefit of and the interest in the Loan
“Board”	the board of the Directors
“Company”	Zhong Hua International Holdings Limited, a company incorporated in Bermuda with limited liability whose issued Shares are listed on the Main Board of the Stock Exchange
“Completion”	completion of the Agreement
“Consideration”	HK\$50 million, payable pursuant to the Agreement
“Director(s)”	director(s) of the Company
“Disposal”	the disposal by the Vendor of (i) the Sale Shares; and (ii) the benefit of and the interest in the Loan, pursuant to the Agreement
“Group”	the Company and its subsidiaries
“Guarantor” or “Mr. Luo”	Mr. Luo Xing
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“Latest Practicable Date”	6 December 2006, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Loan”	net inter-company balances in an amount of approximately HK\$68.6 million as at the date of the Agreement outstanding and owing from the Telesuccess Group to the Group

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## DEFINITIONS

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“Model Code”	the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules
“PRC”	the People’s Republic of China which for the purpose of this circular shall exclude Hong Kong, the Macao Special Administrative Region and Taiwan
“Purchaser” or “Gain Idea”	Gain Idea Investments Limited, a company incorporated in the British Virgin Islands with limited liability and wholly and beneficially owned by the Guarantor
“Remaining Group”	the Group after Completion
“Sale Shares”	the entire issued share capital of Telesuccess at Completion
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“SGM”	the special general meeting of the Company to be convened to consider and, if thought fit, approve the Agreement and the Disposal
“Share(s)”	ordinary share(s) of HK\$0.20 each in the issued share capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Sky City”	廣州天城網絡通訊有限公司 (Sky City Network Communication Limited), a wholly foreign-owned enterprise incorporated in the PRC and a wholly-owned subsidiary of Telesuccess
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Telesuccess”	Telesuccess International Limited, a company incorporated in the British Virgin Islands and a wholly-owned subsidiary of the Company as at the date of the Agreement
“Telesuccess Group”	Telesuccess and Sky City

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## DEFINITIONS

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“Vendor”	China Land Realty Investment (B.V.I) Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of the Company
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“%”	per cent.



**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:*

Ho Tsam Hung  
Ho Kam Hung  
Yang Jia Jian

*Non-executive Directors:*

Lam Kuo  
Young Kwok Sui

*Independent Non-executive Directors:*

Lawrence K. Tam  
Wong Kui Fai  
Wong Miu Ting, Ivy

*Head office and principal place  
of business in Hong Kong:*

Unit 6307, 63rd Floor  
The Center  
99 Queen's Road Central  
Hong Kong

*Registered office:*

Clarendon House  
2 Church Street  
Hamilton HM 11  
Bermuda

8 December 2006

*To the Shareholders*

Dear Sir or Madam,

**MAJOR TRANSACTION**

**INTRODUCTION**

On 23 November 2006, the Directors announced that the Vendor, a wholly-owned subsidiary of the Company, had entered into the Agreement with the Purchaser and the Guarantor on 6 November 2006, pursuant to which, among other things, the Vendor conditionally agreed to sell, and the Purchaser conditionally agreed to purchase, (i) the entire issued shares of Telesuccess; and (ii) the benefit of and the interest in the Loan, and the Guarantor agreed to guarantee the obligations of the Purchaser under the Agreement.

The Telesuccess Group comprises Telesuccess itself as an investment holding company and Sky City as the operating company. Sky City is principally engaged in the business of providing integrated telecommunication network services to online game developers and broadband media providers in Guangzhou, the PRC.

\* For identification only

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## LETTER FROM THE BOARD

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The Disposal constitutes a major transaction for the Company under the Listing Rules and is subject to the Shareholders' approval at the SGM. The purpose of this circular is to provide you with, among other things, further information on the Agreement, financial information on the Group and a notice to convene the SGM, at which an ordinary resolution will be proposed to consider and approve the Agreement and the Disposal.

### **THE AGREEMENT DATED 6 NOVEMBER 2006**

#### **Parties:**

- Vendor : China Land Realty Investment (B.V.I) Limited, a wholly-owned subsidiary of the Company and an investment holding company
- Purchaser : Gain Idea, the principal activity of which is investment holding
- Guarantor : Mr. Luo, guaranteeing the obligations of the Purchaser under the Agreement

As far as the Directors are aware, the Purchaser is an investment holding company acquired by Mr. Luo for the sole purpose of this acquisition. Mr. Luo has extensive experience in information technology related operations and investments for over 20 years. To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, both the Purchaser and Mr. Luo are third parties independent of the Company and its connected persons (as defined in the Listing Rules).

#### **Assets to be disposed of:**

The Sale Shares represented the entire issued share capital of Telesuccess as at the date of the Agreement and the Loan represented the net inter-company balance payable to the Group by the Telesuccess Group in an amount of approximately HK\$68.6 million. This amount is primarily attributable to the investment cost of Telesuccess for acquiring the minority interests of Sky City in February 2005.

The Telesuccess Group comprises Telesuccess itself as an investment holding company and Sky City as the operating company. Sky City is principally engaged in the business of providing integrated telecommunication network services to online game developers and broadband media providers in Guangzhou, the PRC.

Since Telesuccess is not required to prepare any statutory accounts, no audited financial statements have been prepared. Based on the unaudited consolidated management accounts of Telesuccess prepared in accordance with accounting principles generally accepted in Hong Kong, the consolidated losses before and after taxation, extraordinary items and minority interests of the Telesuccess Group for the year ended 31 December 2005 were both approximately HK\$25.1 million, and the consolidated profits before and after taxation, extraordinary items and minority interests of the Telesuccess Group for the year ended 31

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## LETTER FROM THE BOARD

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December 2004 were approximately HK\$87.1 million and HK\$88.8 million respectively. During the year ended 31 December 2004, the Telesuccess Group recorded consolidated income of approximately HK\$108.0 million which was not trading revenue but was a gain recognised on waiver of a debt due to Mr. Man O Fu who is the former shareholder of Telesuccess. Excluding such one-off income, the respective consolidated profits before and after taxation, extraordinary items and minority interests of the Telesuccess Group for the year ended 31 December 2004 of approximately HK\$87.1 million and HK\$88.8 million would both drop by approximately HK\$108.0 million and the Telesuccess Group would therefore suffer losses. According to the unaudited consolidated management accounts of Telesuccess, the unaudited consolidated losses before and after taxation, extraordinary items and minority interests of the Telesuccess Group for the six months ended 30 June 2006 were both approximately HK\$7.6 million and the unaudited consolidated net assets of the Telesuccess Group were approximately HK\$57.2 million as at 30 June 2006.

### **Consideration:**

The Consideration is HK\$50 million, payable by the Purchaser to the Vendor upon Completion.

The terms of the Agreement, including the Consideration, were determined after arm's length negotiations. In determining the Consideration, the Directors made reference to the net asset value of the Telesuccess Group as at 30 June 2006, the prospects of the Telesuccess Group and the immediate cash to be received upon Completion. Further information on the prospects of the Telesuccess Group is set out in the section headed "Reasons for the Disposal" below.

### **Condition:**

Completion of the Agreement is conditional upon the approval of the Agreement by the Shareholders in the SGM in compliance with the Listing Rules.

If the above condition is not fulfilled before 31 December 2006 (or such later date as may be agreed between the Vendor and the Purchaser in writing), the Agreement shall terminate and no party shall have any claim against any other for costs, damages, compensation or otherwise (save in respect of any antecedent breach of the Agreement).

### **Completion:**

Completion is to take place on the third business day after the fulfilment of the above condition. Upon Completion, the Vendor will no longer hold any interests in Telesuccess and Telesuccess will cease to be a subsidiary of the Company. The Group will also cease to be engaged in the provision of telecommunication and related services.



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## LETTER FROM THE BOARD

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### REASONS FOR THE DISPOSAL

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

The Group acquired the entire issued capital of Telesuccess which in turn held 80.9% interest in Sky City in June 2004 for a consideration of HK\$200 million. In February 2005, Telesuccess acquired the remaining 19.1% interest in Sky City for a consideration of HK\$60 million. Following the acquisition, the performance of the Telesuccess Group fell below the expectations of the management of the Group. For the year ended 31 December 2004, the unaudited consolidated turnover of the Telesuccess Group was approximately HK\$26.2 million, but its unaudited consolidated turnover declined to approximately HK\$6.8 million for the year ended 31 December 2005. As set out in the paragraph headed “Assets to be disposed of” above, excluding the one-off income of approximately HK\$108.0 million, the respective consolidated profits before and after taxation, extraordinary items and minority interests of the Telesuccess Group for the year ended 31 December 2004 of approximately HK\$87.1 million and HK\$88.8 million would both drop by approximately HK\$108.0 million and the Telesuccess Group would therefore suffer losses. The Telesuccess Group also recorded unaudited consolidated losses before and after taxation, extraordinary items and minority interests of both approximately HK\$25.1 million for the year ended 31 December 2005. The poor results were primarily attributable to cut-throat market competition in the online business market in Guangzhou, the PRC. Since late July 2005, the management of the Company and Sky City have had diverse views on developing the new business model and corporate direction of Sky City. The management of Sky City has been pressing the Group to inject fresh working capital to Sky City so that they could attempt to develop a new business model and procure better business opportunities. The Company had little confidence in the benefit of further capital commitment to a new business model. In this connection, an impairment loss of HK\$49 million was recognised in the consolidated accounts of the Company for the year ended 31 December 2005. The operating environment of Sky City remained gloomy in 2006 and the unaudited turnover of Sky City for the six months ended 30 June 2006 further shrank to approximately HK\$0.2 million and its loss after taxation for the same period was approximately HK\$7.6 million. At this stage, the Board is of the view that the business environment of Sky City will remain difficult and competitive and it is difficult to predict any turnaround in the foreseeable future and as a result, the recoverability of the Loan is in doubt. Based on the above and in accordance with the applicable accounting standards, the fair value of the Loan as at the date of the Agreement was nil. The Board therefore considers it appropriate to liquidate the investment in the Telesuccess Group for immediate cash and focus its resources on other more promising investment opportunities in future. Taking into account the unaudited consolidated net asset value of the Telesuccess Group as at 30 June 2006, the unamortised goodwill in an amount of approximately HK\$39.3 million as at 30 June 2006, the release of exchange reserves of approximately HK\$2.4 million and the impairment loss of the Loan, it is expected that a loss in an amount of approximately HK\$112.7 million will be recognised in the consolidated accounts of the Company for the year ending 31 December 2006 in respect of the Disposal should Completion take place on or before 31 December 2006. Although the Consideration is less than the aggregate value of the net asset value of the Telesuccess Group as at 30 June 2006 and the amount of the Loan which lead to a substantial amount of loss in respect of Disposal, in light of the above factors, the Directors consider that the terms of the Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

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## LETTER FROM THE BOARD

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The net proceeds from the Disposal after deducting the related expenses are estimated to be approximately HK\$49 million. The Group intends to apply the net proceeds for future investment purposes. Should there be any future acquisition or investment, the Company will comply with the relevant disclosures and/or the Shareholders' approval requirements of the Listing Rules where appropriate.

Following Completion, the Group will not hold any interests in Telesuccess Group and its results, assets and liabilities will accordingly cease to be consolidated in the accounts of the Group. Thus, the assets and liabilities of the Group are expected to decrease correspondingly after Completion. Nevertheless, the cash and bank balances of the Group will increase following the receipt of the Consideration.

### **SGM**

The Disposal constitutes a major transaction for the Company under the Listing Rules and is subject to the Shareholders' approval at the SGM. To the best knowledge, information and belief of the Directors and after making all reasonable enquiries, as at the Latest Practicable Date, no Shareholder has any material interest in the Agreement and the Disposal. Accordingly, no Shareholder is required to abstain from voting at the SGM.

A notice convening the SGM to be held at Joint Professional Centre, Unit 1, Ground Floor, The Center, 99 Queen's Road Central, Hong Kong at 11:00 a.m. on 28 December 2006 for the purpose of considering the Agreement and the Disposal is set out on pages 82 to 83 of this circular.

Whether or not you intend to attend the SGM, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon to the Company's branch share registrar in Hong Kong, Tengis Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not later than 48 hours before the time appointed for holding of the meeting. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting or any adjournment thereof should you so wish.

### **PROCEDURES FOR DEMANDING A POLL BY THE SHAREHOLDERS**

Pursuant to Article 66 of the Bye-laws of the Company, a resolution put to the vote of a meeting shall be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded:

- (a) by the chairman of such meeting; or
- (b) by at least three members present in person (or in the case of a member being a corporation, by its duly authorised representative) or by proxy for the time being entitled to vote at the meeting; or

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## LETTER FROM THE BOARD

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- (c) by a member or members present in person (or in the case of a member 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 members having the rights to vote at the meeting; or
- (d) by a member or members present in person (or in the case of a member being a corporation, by its duly authorised representative) or by proxy and holding Shares conferring a right to vote at the meeting being Shares on which an aggregate sum has paid up equal to not less than one-tenth of the total sum paid up on all Shares conferring that right.

A demand by person as proxy for a member or, in the case of a member being a corporation, by its duly authorised representative shall be deemed to be the same as a demand by a member.

### RECOMMENDATION

The Directors consider that the terms of the Agreement are fair and reasonable and are in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Shareholders to vote in favour of the resolution to be proposed at the SGM to approve the Agreement and the Disposal.

### GENERAL

Your attention is drawn to the financial information on the Group and the other 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 Kam Hung**  
*Executive Director*

## 1. SUMMARY OF FINANCIAL INFORMATION

A summary of the published results and the assets and liabilities of the Group as extracted from the relevant annual and interim reports of the Company is set out below:

**Results**

	<b>(Unaudited)</b>		<b>(Audited)</b>		
	<b>Six months ended</b>		<b>For the year ended</b>		
	<b>30 June</b>		<b>31 December</b>		
	<b>2005</b>	<b>2006</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
			(Restated)	(Restated)	
Turnover	<u>11,139</u>	<u>6,399</u>	<u>5,507</u>	<u>25,145</u>	<u>17,213</u>
Profit/(loss) before taxation	(6,590)	(15,269)	(148,136)	44,874	20,330
Taxation	<u>(3,601)</u>	<u>(1,383)</u>	<u>(126)</u>	<u>(2,320)</u>	<u>(34,090)</u>
Profit/(loss) before minority interests	(10,191)	(16,652)	(148,262)	42,554	(13,760)
Minority interests	<u>(11)</u>	<u>–</u>	<u>–</u>	<u>3,577</u>	<u>(11)</u>
Profit/(loss) attributable to the Shareholders	<u>(10,202)</u>	<u>(16,652)</u>	<u>(148,262)</u>	<u>46,131</u>	<u>(13,771)</u>

**Assets and liabilities**

	<b>(Unaudited)</b>		<b>(Audited)</b>		
	<b>As at 30 June</b>		<b>As at 31 December</b>		
	<b>2005</b>	<b>2006</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
			(Restated)	(Restated)	
Total assets	754,633	765,941	599,059	758,442	754,633
Total liabilities including minority interests	<u>(228,588)</u>	<u>(206,297)</u>	<u>(247,277)</u>	<u>(249,994)</u>	<u>(228,588)</u>
Net assets attributable to the Shareholders	<u>526,045</u>	<u>559,644</u>	<u>351,782</u>	<u>508,448</u>	<u>526,045</u>

## 2. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE YEAR ENDED 31 DECEMBER 2005

Set out below is the audited consolidated income statement, consolidated balance sheet, consolidated statement of changes in equity and consolidated cash flow statement of the Group, and the balance sheet of the Company together with the notes to the financial statements of the Group as extracted from pages 25 to 98 of the annual report of the Company for the year ended 31 December 2005. The page numbers referred to in this section are the page numbers of the annual report of the Company for the year ended 31 December 2005.

### “Consolidated Income Statement

*Year ended 31 December 2005*

	<i>Notes</i>	<b>2005</b> <i>HK\$'000</i>	<b>2004</b> <i>HK\$'000</i> (Restated)
REVENUE	5	17,213	25,145
Cost of sales		<u>(21,292)</u>	<u>(19,545)</u>
Gross profit/(loss)		(4,079)	5,600
Other income		1,613	1,157
Change in fair value of investment properties	13	97,932	–
Gain on disposal of interests in subsidiaries	25	22,568	85,763
Selling and distribution costs		–	(12)
Administrative expenses		(24,792)	(9,657)
Other operating expenses, net		(66,744)	(33,437)
Finance costs	6	<u>(6,168)</u>	<u>(4,540)</u>
PROFIT BEFORE TAX	7	20,330	44,874
Tax	9	<u>(34,090)</u>	<u>(2,320)</u>
PROFIT/(LOSS) FOR THE YEAR		<u><u>(13,760)</u></u>	<u><u>42,554</u></u>
Attributable to:			
Equity holders of the Company	10, 30	(13,771)	46,131
Minority interests	30	<u>11</u>	<u>(3,577)</u>
		<u><u>(13,760)</u></u>	<u><u>42,554</u></u>
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	11		
Basic		<u><u>HK(3.10) cents</u></u>	<u><u>HK13.98 cents</u></u>
Diluted		<u><u>N/A</u></u>	<u><u>HK13.82 cents</u></u>

**Consolidated Balance Sheet**

31 December 2005

	<i>Notes</i>	<b>2005</b> <i>HK\$'000</i>	<b>2004</b> <i>HK\$'000</i> (Restated)
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	<i>12</i>	118,176	130,186
Investment properties	<i>13</i>	285,000	183,600
Intangible assets	<i>14</i>	16,490	23,303
Goodwill	<i>15</i>	79,788	84,882
Interests in jointly-controlled entities	<i>17</i>	–	–
Trade receivables	<i>18</i>	–	10,055
Prepaid rental	<i>19</i>	17,179	17,808
Deposits and other receivable	<i>20</i>	40,000	64,003
Pledged deposits	<i>21</i>	354	776
Total non-current assets		<u>556,987</u>	<u>514,613</u>
<b>CURRENT ASSETS</b>			
Trade receivables	<i>18</i>	45,954	35,689
Prepayments, deposits and other receivables	<i>20</i>	18,541	101,886
Cash and cash equivalents	<i>21</i>	133,151	106,254
Total current assets		<u>197,646</u>	<u>243,829</u>
<b>CURRENT LIABILITIES</b>			
Trade payables	<i>22</i>	(31,333)	(31,486)
Tax payable		(16,895)	(14,884)
Other payables and accruals	<i>23</i>	(22,773)	(17,065)
Interest-bearing bank and other borrowings	<i>24</i>	(31,762)	(50,322)
Deferred income	<i>25</i>	(18,057)	(40,625)
Convertible bond	<i>24, 26</i>	(29,782)	–
Total current liabilities		<u>(150,602)</u>	<u>(154,382)</u>
NET CURRENT ASSETS		<u>47,044</u>	<u>89,447</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		604,031	604,060
<b>NON-CURRENT LIABILITIES</b>			
Interest-bearing bank and other borrowings	<i>24</i>	(22,893)	(27,601)
Convertible bond	<i>24, 26</i>	–	(29,426)
Deferred tax liabilities	<i>27</i>	(55,093)	(22,502)
Total non-current liabilities		<u>(77,986)</u>	<u>(79,529)</u>
Net assets		<u>526,045</u>	<u>524,531</u>
<b>CAPITAL AND RESERVES</b>			
Equity attributable to equity holders of the Company			
Issued capital	<i>28</i>	98,048	78,388
Reserves	<i>30</i>	427,997	430,060
Minority interests	<i>30</i>	526,045	508,448
		<u>–</u>	<u>16,083</u>
Total equity		<u>526,045</u>	<u>524,531</u>

## Consolidated Summary Statement of Changes in Equity

Year ended 31 December 2005

	<i>Notes</i>	<b>2005</b> <i>HK\$'000</i>	<b>2004</b> <i>HK\$'000</i> (Restated)
Total equity at 1 January			
As previously reported		511,679	355,587
Previously reported separately as minority interests		16,083	–
Prior year adjustments	<i>2.4(b)</i>	<u>(3,231)</u>	<u>(3,805)</u>
As restated after prior year adjustments		<u>524,531</u>	<u>351,782</u>
Issue of shares, including share premium	<i>28, 30</i>	22,860	102,750
Issue of a share option	<i>30</i>	2,280	–
Issue of a convertible bond	<i>30</i>	–	707
Acquisition of a subsidiary		–	19,660
Acquisition of an additional interest in a subsidiary	<i>30</i>	(16,094)	–
Exchange differences on translation of the financial statements of overseas subsidiaries	<i>30</i>	<u>6,228</u>	<u>78</u>
Net income and expense recognised directly in equity		<u>6,228</u>	<u>78</u>
Profit/(loss) for the year attributable to	<i>30</i>		
Equity holders of the Company		(13,771)	46,131
Minority interests		<u>11</u>	<u>(3,577)</u>
		<u>(13,760)</u>	<u>42,554</u>
Impairment of goodwill remaining eliminated against consolidated retained profits	<i>30</i>	<u>–</u>	<u>7,000</u>
Total equity at 31 December		<u><u>526,045</u></u>	<u><u>524,531</u></u>

**Consolidated Cash Flow Statement***Year ended 31 December 2005*

	<i>Notes</i>	<b>2005</b> <i>HK\$'000</i>	<b>2004</b> <i>HK\$'000</i> (Restated)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit before tax		20,330	44,874
Adjustments for:			
Interest expense	6	6,168	4,540
Interest income	7	(1,613)	(1,157)
Loss on disposal of property, plant and equipment	7	–	7
Gain on disposal of interests in subsidiaries	7	(22,568)	(85,763)
Depreciation	7	14,453	9,456
Change in fair value of investment properties		(97,932)	–
Amortisation of intangible assets	7	7,356	8,429
Amortisation of goodwill on acquisition of subsidiaries	7	–	5,281
Impairment of intangible assets	7	–	6,806
Amortisation of prepaid rentals	7	1,000	580
Impairment of goodwill	7	49,000	7,000
Waiver of accrued directors' remuneration	7	–	(5,299)
Provision for deposit paid for a telecommunication project	7	–	15,978
Provision for deposits paid for online game platform and Internet cafe project	7	19,144	–
Operating profit/(loss) before working capital changes		(4,662)	10,732
Increase in trade receivables		(210)	(1,787)
Decrease in prepayments, deposits and other receivables		51,833	148,091
Decrease in trade payables		(153)	(3,439)
Increase/(decrease) in other payables and accruals		5,708	(1,265)
Exchange differences on translation of the financial statements of overseas subsidiaries		163	167
Cash generated from operations		52,679	152,499
Interest received		1,613	1,157
Interest paid		(5,661)	(4,343)
Interest element on finance lease	6	(151)	(64)
Overseas taxes paid		(24)	–
Net cash inflow from operating activities		48,456	149,249



	<i>Notes</i>	<b>2005</b> <i>HK\$'000</i>	<b>2004</b> <i>HK\$'000</i> (Restated)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchases of property, plant and equipment		(358)	(326)
Acquisition of an additional interest in a subsidiary	<i>31</i>	(24,000)	–
Acquisition of subsidiaries	<i>31</i>	–	(135,956)
Decrease/(increase) in deposits pledged to a bank		422	(223)
		<u>(23,936)</u>	<u>(136,505)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from issue of shares	<i>28</i>	22,860	42,750
Proceeds from issue of a share option	<i>28</i>	2,280	–
Repayments of bank loans		(23,160)	(20,055)
Issue of a convertible bond		–	30,000
Capital element of finance lease payments		(108)	(336)
		<u>1,872</u>	<u>52,359</u>
<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>			
Cash and cash equivalents at beginning of year		106,254	41,312
Effect of foreign exchange rate changes, net		505	(161)
		<u>133,151</u>	<u>106,254</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>			
		<u>133,151</u>	<u>106,254</u>
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>			
Cash and bank balances		<u>133,151</u>	<u>106,254</u>

**Balance Sheet**

31 December 2005

	<i>Notes</i>	<b>2005</b> <i>HK\$'000</i>	<b>2004</b> <i>HK\$'000</i> (Restated)
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	<i>12</i>	90	99
Interests in subsidiaries	<i>16</i>	<u>290,218</u>	<u>290,218</u>
Total non-current assets		<u>290,308</u>	<u>290,317</u>
<b>CURRENT ASSETS</b>			
Due from subsidiaries	<i>16</i>	194,798	200,651
Deposits and other receivables	<i>20</i>	902	461
Cash and bank balances		<u>7,041</u>	<u>2,598</u>
Total current assets		<u>202,741</u>	<u>203,710</u>
<b>CURRENT LIABILITIES</b>			
Tax payable		(3,610)	(3,610)
Other payables and accruals	<i>23</i>	(5,002)	(4,224)
Convertible bond	<i>24, 26</i>	<u>(29,782)</u>	<u>–</u>
Total current liabilities		<u>(38,394)</u>	<u>(7,834)</u>
<b>NET CURRENT ASSETS</b>		<u>164,347</u>	<u>195,876</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		454,655	486,193
<b>NON-CURRENT LIABILITY</b>			
Convertible bond	<i>24, 26</i>	<u>–</u>	<u>(29,426)</u>
Net assets		<u><u>454,655</u></u>	<u><u>456,767</u></u>
<b>CAPITAL AND RESERVES</b>			
Issued capital	<i>28</i>	98,048	78,388
Reserves	<i>30</i>	<u>356,607</u>	<u>378,379</u>
Total equity		<u><u>454,655</u></u>	<u><u>456,767</u></u>

**Notes to Financial Statements**

31 December 2005

**1. CORPORATE INFORMATION**

The principal office of the Company is located at Unit 6307, 63/F, The Center, 99 Queen's Road Central, Hong Kong.

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

- property investment
- leasing of equipment
- provision of telecommunication and other related services

**2.1 BASIS OF PREPARATION**

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") which also include Hong Kong Accounting Standards ("HKASs") and interpretations issued by the Hong Kong Institute of Certified Public Accountants, 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. These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand (HK\$'000) except when otherwise indicated.

**Basis of Consolidation**

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2005. The results of the subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The acquisition of subsidiaries during the year has been accounted for using the purchase method of accounting. This method involves allocating the cost of the business combinations to the fair value of the assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

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

## 2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The following new and revised HKFRSs affect the Group and are adopted for the first time for the current year's financial statements:

HKAS 1	Presentation of Financial Statements
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 31	Interests in Joint Ventures
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39 Amendment	Transition and Initial Recognition of Financial Assets and Financial Liabilities
HKAS 40	Investment Property
HKFRS 2	Share-based Payment
HKFRS 3	Business Combinations
HK(SIC)-Int 21	Income Taxes – Recovery of Revalued Non-depreciable Assets

The adoption of HKASs 7, 8, 12, 14, 16, 18, 19, 27, 28, 31, 33, 36, 37, 38 and HKFRS 2 has had no material impact on the accounting policies of the Group and the Company and the methods of computation in the Group's and the Company's financial statements.

HKAS 1 has affected the presentation of minority interests on the face of the consolidated balance sheet, consolidated income statement, consolidated statement of changes in equity and other disclosures.

HKAS 21 has had no material impact on the Group. As permitted by the transitional provisions of HKAS 21, goodwill arising in a business combination prior to 1 January 2005 and fair value adjustments arising on that acquisition are deemed to be in the currency of the Company. In respect of acquisitions subsequent to 1 January 2005, any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of the assets and liabilities are treated as assets and liabilities of the foreign operation and are translated at the closing rate in accordance with HKAS 21.

HKAS 24 has expanded the definition of related parties and affected the Group's related party disclosures.

The impact of adopting the other HKFRSs is summarised as follows:

**(a) HKAS 17 – Leases**

In prior years, leasehold land and buildings held for own use were stated at cost less accumulated depreciation and any impairment losses.

Upon the adoption of HKAS 17, the Group's leasehold interest in land and buildings is separated into leasehold land and leasehold buildings. The Group's leasehold land is classified as an operating lease, because the title of the land is not expected to pass to the Group by the end of the lease term, and is classified as prepaid land lease payments, while leasehold buildings are classified as part of property, plant and equipment. Prepaid land lease payments under operating leases are initially stated at cost and subsequently amortised on the straight-line basis over the lease terms. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

The directors consider that no reliable source of such allocation of lease payments could be obtained, and accordingly, the land and building elements have not been separated. The adoption of HKAS 17 has had no material effect on the consolidated income statement and retained profits for the Group.

**(b) HKAS 32 and HKAS 39 – Financial Instruments**

*Convertible bond*

In prior years, convertible bond was stated at amortised cost. Upon the adoption of HKAS 32, convertible bond is split into liability and equity components. The effects of the above changes are summarised in note 2.4 to the financial statements. In accordance with HKAS 32, comparative amounts have been restated.

**(c) HKAS 40 – Investment Property**

In prior years, changes in the fair values of investment properties were dealt with as movements in the investment properties revaluation reserve. If the total of this reserve was insufficient to cover a deficit, on a portfolio basis, the excess of the deficit was charged to the income statement. Any subsequent revaluation surplus was credited to the income statement to the extent of the deficit previously charged.

Upon the adoption of HKAS 40, gains or losses arising from changes in the fair values of investment properties are included in the income statement in the year in which they arise.

In accordance with the transitional provisions of HKAS 40, the opening balance of retained profits and the results for the comparative period have been restated to reflect this change retrospectively. The effects of the above change are summarised in note 2.4 to the financial statements.

**(d) HKFRS 3 – Business Combinations and HKAS 36 – Impairment of Assets**

In prior years, goodwill arising on acquisitions prior to 1 January 2001 was eliminated against the consolidated retained profits in the year of acquisition and was not recognised in the income statement until disposal or impairment of the acquired business.

Goodwill arising on acquisitions on or after 1 January 2001 was capitalised and amortised on the straight-line basis over its estimated useful life and was subject to impairment testing when there was any indication of impairment.

The adoption of HKFRS 3 and HKAS 36 has resulted in the Group ceasing annual goodwill amortisation and commencing testing for impairment at the cash-generating unit level annually (or more frequently if events or changes in circumstances indicate that the carrying value may be impaired).

The transitional provisions of HKFRS 3 have required the Group to eliminate at 1 January 2005 the carrying amounts of accumulated amortisation with a corresponding adjustment to the cost of goodwill. Goodwill previously eliminated against the retained profits remains eliminated against the retained profits and is not recognised in the income statement when all or part of the business to which the goodwill relates is disposed of or when a cash-generating unit to which the goodwill relates becomes impaired.

The effects of the above changes are summarised in note 2.4 to the financial statements.

**(e) HK(SIC)-Int 21 – Income Taxes – Recovery of Revalued Non-depreciable Assets**

In prior periods, deferred tax arising on the revaluation of investment properties was recognised based on the tax rate that would be applicable upon the sale of the investment properties.

Upon the adoption of HK(SIC)-Int 21, deferred tax arising on the revaluation of the Group's investment properties is determined depending on whether the properties will be recovered through use or through sale. The Group has determined that its investment properties will be recovered through use, and accordingly the profits tax rate has been applied to the calculation of deferred tax.

The effects of the above changes are summarised in note 2.4 to the financial statements.

### 2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements. Unless otherwise stated, these HKFRSs are effective for annual periods beginning on or after 1 January 2006:

HKAS 1 Amendment	Capital Disclosures
HKAS 39 and HKFRS 4 Amendments	Financial Guarantee Contracts
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease

The HKAS 1 Amendment shall be applied for annual periods beginning on or after 1 January 2007. The revised standard will affect the disclosures about qualitative information about the Group's objective, policies and processes for managing capital; quantitative data about what the Company regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

In accordance with the amendments to HKAS 39 regarding financial guarantee contracts, financial guarantee contracts are initially recognised at fair value and are subsequently measured at the higher of (i) the amount determined in accordance with HKAS 37 and (ii) the amount initially recognised, less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18.

HKFRS 7 incorporates and further extends the disclosure requirements of HKAS 32 and modifies the disclosure requirements of HKAS 32 relating to financial instruments. This HKFRS shall be applied for annual periods beginning on or after 1 January 2007.

Except as stated above, the Group expects that the adoption of the pronouncements listed above will not have any significant impact on the Group's financial statements in the period of initial application.

### 2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES

#### (a) Effect on the Consolidated Balance Sheet

At 31 December 2004	Effect of adopting			Total HK\$'000
	HKAS 32 Convertible bond HK\$'000	HKAS 40 Investment properties HK\$'000	HK(SIC)-Int 21 Deferred tax arising from revaluation of investment properties HK\$'000	
<b>Effect of new policies (Increase/(decrease))</b>				
<b>Liabilities/equity</b>				
Convertible bond	(574)	–	–	(574)
Deferred tax liabilities	–	–	3,805	3,805
Investment properties revaluation reserve	–	(40,964)	–	(40,964)
Equity component of convertible bond	707	–	–	707
Retained profits	(133)	40,964	(3,805)	37,026
				–

At 31 December 2005	Effect of adopting			Total HK\$'000
	HKAS 32	HKAS 40	HK(SIC)-Int 21 Deferred tax arising from revaluation of investment properties	
<b>Effect of new policies (Increase/(decrease))</b>	<b>Convertible bond HK\$'000</b>	<b>Investment properties HK\$'000</b>	<b>of investment properties HK\$'000</b>	
<b>Liabilities/equity</b>				
Convertible bond	355	–	–	355
Deferred tax liabilities	–	–	32,317	32,317
Investment properties revaluation reserve	–	(97,932)	–	(97,932)
Retained profits	(355)	97,932	(32,317)	65,260
				–
<b>(b) Effect on Opening Balance of Total Equity at 1 January 2005 and 1 January 2004</b>				
At 1 January 2004	Effect of adopting			Total HK\$'000
	HKAS 32	HKAS 40	HK(SIC)-Int 21 Deferred tax arising from revaluation of investment properties	
<b>Effect of new policies (Increase/(decrease))</b>	<b>Convertible bond HK\$'000</b>	<b>Investment properties HK\$'000</b>	<b>of investment properties HK\$'000</b>	
Investment properties revaluation reserve	–	(40,964)	–	(40,964)
Retained profits	–	40,964	(3,805)	37,159
				(3,805)
At 1 January 2005	Effect of adopting			Total HK\$'000
	HKAS 32	HKAS 40	HK(SIC)-Int 21 Deferred tax arising from revaluation of investment properties	
<b>Effect of new policies (Increase/(decrease))</b>	<b>Convertible bond HK\$'000</b>	<b>Investment properties HK\$'000</b>	<b>of investment properties HK\$'000</b>	
Investment properties revaluation reserve	–	(40,964)	–	(40,964)
Equity component of convertible bond	707	–	–	707
Retained profits	(133)	40,964	(3,805)	37,026
				(3,231)

## (c) Effect on the Consolidated Income Statement for the Year Ended 31 December 2005 and 31 December 2004

At 31 December 2004	Effect of adopting				Total HK\$'000
	HKFRS 3 Amortisation of goodwill HK\$'000	HKAS 32 Convertible bond HK\$'000	HKAS 40 Investment properties HK\$'000	HK(SIC)-Int 21 Deferred tax arising from revaluation of investment properties HK\$'000	
Increase in finance costs	-	(133)	-	-	(133)
Total decrease in profit					(133)

  

At 31 December 2005	Effect of adopting				Total HK\$'000
	HKFRS 3 Amortisation of goodwill HK\$'000	HKAS 32 Convertible bond HK\$'000	HKAS 40 Investment properties HK\$'000	HK(SIC)-Int 21 Deferred tax arising from revaluation of investment properties HK\$'000	
Increase in finance costs	-	(355)	-	-	(355)
Change in fair value of investment properties	-	-	97,932	-	97,932
Decrease in other operating expenses	9,016	-	-	-	9,016
Increase in tax	-	-	-	(32,317)	(32,317)
Total increase in profit					74,276

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Subsidiaries**

A subsidiary is an entity 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 income statement 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 is an entity 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 entity and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture'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) an equity investment accounted for in accordance with HKAS 39, 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 that 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 income statement and consolidated reserves, respectively. Where the profit sharing ratio is different from 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 acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

#### *Goodwill on acquisitions for which the agreement date is on or after 1 January 2005*

Goodwill arising on acquisition is initially recognised in the consolidated balance sheet as an asset, initially measured at cost and subsequently at cost less any accumulated impairment losses.

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than a segment based on either the Group's primary or the Group's secondary reporting format determined in accordance with HKAS 14 "Segment Reporting".

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

An impairment loss recognised for goodwill is not reversed in a subsequent period.

Prior to the adoption of Statement of Standard Accounting Practice (“SSAP”) 30 “Business Combinations” in 2001, goodwill arising on acquisition was eliminated against the consolidated retained profits in the year of acquisition. On the adoption of HKFRS 3, such goodwill remains eliminated against the consolidated retained profits and is not recognised in the income statement when all or part of the business to which the goodwill relates is disposed of or when a cash-generating unit to which the goodwill relates becomes impaired. Goodwill on acquisitions subsequent to the adoption of SSAP 30 was recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life.

### Related Parties

A party is considered to be related to the Group if:

- (a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;
- (b) the party is an associate;
- (c) the party is a jointly-controlled entity;
- (d) the party is a member of the key management personnel of the Group;
- (e) the party is a close member of the family of any individual referred to in (a) or (d);
- (f) the party is an entity that is controlled, jointly-controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or
- (g) the party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party of the Group.

### Impairment of Assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required, the asset’s recoverable amount is estimated. An asset’s recoverable amount is calculated as the higher of the asset’s or cash-generating unit’s value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that 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 such impairment loss is credited to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

### Property, Plant and Equipment and Depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses.

The cost of an item of property, plant and equipment 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 items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement 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 an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Telecommunication network and equipment	5% to 20%
Land and buildings	Over the lease terms
Leasehold improvements	20%
Equipment	20%
Computer and office equipment, furniture and fixtures	20%
Motor vehicles	20%

Where parts of an item of property, plant and equipment have different useful lives, the cost of their item is allocated in a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and depreciation method are reviewed and adjusted if appropriate, at each balance sheet date.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sale proceeds and the carrying amount of the relevant asset.

### Investment Properties

Investment properties are interests in land and buildings held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the balance sheet date.

Gains or losses arising from changes in the fair values of investment properties are included in the income statement in the year in which they arise.

Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the year of the retirement or disposal.

### Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, 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 property, plant and equipment, 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 income statement 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 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 income statement 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 income statement on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

### **Investments and Other Financial Assets**

*Applicable to the year ended 31 December 2005:*

Financial assets in the scope of HKAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

All regular way purchases and sales of financial assets are recognised on the trade date i.e., the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

#### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

#### *Fair value*

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument, which is substantially the same; a discounted cash flow analysis and option pricing models.

### **Impairment of Financial Assets**

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or group of financial assets is impaired.

#### *Assets carried at amortised cost*

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in the income statement.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with

similar credit risk characteristics and that group is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

#### *Assets carried at cost*

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

#### **Derecognition of Financial Assets**

*Applicable to the year ended 31 December 2005:*

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay in full without material delay to a third party under a "pass-through" arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

#### **Interest-bearing Loans and Borrowings**

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

**Convertible Bonds**

The component of convertible bonds that exhibits characteristics of a liability is recognised as a liability in the balance sheet, net of transaction costs. On issuance of convertible bonds, the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond; and this amount is carried as a long term liability on the amortised cost basis using the effective interest method until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the conversion option that is recognised and included in shareholders' equity, net of transaction costs. The carrying amount of the conversion option is not remeasured in subsequent years.

Transaction costs are apportioned between the liability and equity components of the convertible bonds based on the allocation of proceeds to the liability and equity components when the instruments are first recognised.

**Derecognition of Financial Liabilities**

*Applicable to the year ended 31 December 2005:*

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the income statement.

**Intangible Assets**

Intangible assets represent the software purchased and developed for licencing, and the rights to operate the leasing of equipment business. The software and the operating rights are stated at cost less any accumulated amortisation and any impairment losses. The operating rights are amortised on the straight-line basis, over the operating terms of the contractual arrangements of five years. The software is amortised on the straight-line basis, over its estimated useful life of four years.

**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 sheets, 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 income statement or in equity if it relates to items that are recognised in the same or a different period, directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the tax authorities.

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, carryforward of unused tax credits 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 carryforward of unused tax credits 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 reassessed at each balance sheet date and 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.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same tax authority.

### **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 held 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 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;
- (iii) from the provision of telecommunication and other related services, based on usage of the Group's fibre-optic network and related facilities and are recognised when the services are rendered;
- (iv) rental income, on a time proportion basis over the lease terms; and
- (v) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

### **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 income statement 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-based payment transactions*

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. Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date on which they are granted. The fair value is determined by using a binomial model. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company ("market conditions"), if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the "vesting date"). The cumulative expense recognised for equity-settled transactions at each balance sheet date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the income statement for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

The Group has adopted the transitional provisions of HKFRS 2 in respect of equity-settled awards and has applied HKFRS 2 only to equity-settled awards granted after 7 November 2002 that had not vested on 1 January 2005 and to those granted on or after 1 January 2005.

#### **Foreign Currencies**

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.



The functional currencies of certain overseas subsidiaries and jointly-controlled entities are currencies other than the Hong Kong dollars. As at the balance sheet date, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the balance sheet date and, their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are included in a separate component of equity. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

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.

### 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

#### **Judgements**

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

##### *Impairment of assets*

Management judgement is required in the area of asset impairment, including goodwill, particularly in assessing whether: (1) an event has occurred that may affect asset values; (2) the carrying value of an asset can be supported by the net present value of future cash flows from the assets using estimated cash flow projections; and (3) the cash flow is discounted using an appropriate rate.

#### **Estimation Uncertainty**

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

##### *Allowance for bad and doubtful debts*

The Group makes allowances for bad and doubtful debt based on an assessment of the recoverability of trade and other receivables. Allowances are applied to trade and other receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of bad and doubtful debts requires the use of judgement and estimates. Where the expectation is different from the original estimate, such difference will impact the carrying value of trade and other receivables and doubtful debt expenses in the year in which such estimate has been changed.

##### *Impairment of goodwill*

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. Changing the assumptions selected by management to determine the level, if any, of impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could significantly affect the Group's reported financial condition and results of operation.

Impairment of goodwill of HK\$49,000,000 was charged to the income statement during the year, further details of which are set out in note 15 to the financial statements.

## 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 property investment segment invests in shopping centres located in Mainland China, for rental income potential;
- (b) the corporate and others segment comprises corporate income and expense items;
- (c) the leasing of equipment segment engages in the leasing of equipment; and
- (d) the provision of telecommunication and other related services.

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.

	Property investment		Corporate and others		Leasing of equipment		Telecommunication and other related services		Consolidated	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
		(Restated)		(Restated)						(Restated)
Segment revenue:										
Sales to external customers	6,722	5,804	-	320	3,678	3,639	6,813	15,382	17,213	25,145
Other revenue and gains	97,932	-	22,568	85,763	-	-	-	-	120,500	85,763
Total	<u>104,654</u>	<u>5,804</u>	<u>22,568</u>	<u>86,083</u>	<u>3,678</u>	<u>3,639</u>	<u>6,813</u>	<u>15,382</u>	<u>137,713</u>	<u>110,908</u>
Segment results	<u>103,683</u>	<u>4,940</u>	<u>(3,545)</u>	<u>69,146</u>	<u>(4,192)</u>	<u>(13,047)</u>	<u>(71,061)</u>	<u>(12,782)</u>	<u>24,885</u>	<u>48,257</u>
Interest income									1,613	1,157
Finance costs									(6,168)	(4,540)
Profit before tax									20,330	44,874
Tax									(34,090)	(2,320)
Profit/(loss) for the year									<u>(13,760)</u>	<u>42,554</u>

*Note:* Due to the decreasing significance of the sale of online English learning courses to the Group, it has not been disclosed as a separate segment in the current year. Accordingly, certain comparative amounts have been reclassified to conform with the current year's presentation.

**APPENDIX I**
**FINANCIAL INFORMATION ON THE GROUP**

	Property investment		Corporate and others		Leasing of equipment		Telecommunication and other related services		Consolidated	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
	HK\$'000	HK\$'000 (Restated)	HK\$'000	HK\$'000 (Restated)	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000 (Restated)
Segment assets	317,888	216,119	48,073	133,405	26,980	33,958	238,966	280,456	631,907	663,938
Unallocated assets									122,726	94,504
									<u>754,633</u>	<u>758,442</u>
Segment liabilities	40,418	38,387	107,496	154,081	110	118	8,576	1,134	156,600	193,720
Unallocated liabilities									71,988	40,191
									<u>228,588</u>	<u>233,911</u>
Other segment information:										
Capital expenditure	–	6	50	9	–	210	308	101	358	326
Depreciation and amortisation	218	239	60	1,798	7,805	9,373	14,726	7,055	22,809	18,465
Unallocated amounts									–	5,281
									<u>22,809</u>	<u>23,746</u>
Impairment of goodwill recognised in the income statement	–	–	–	7,000	–	–	49,000	–	49,000	7,000
Write-back of provision for other receivables	–	–	–	–	–	–	(7,171)	(3,232)	(7,171)	(3,232)
Provision for/(write-back) of doubtful debts	–	–	–	–	–	–	(229)	4,592	(229)	4,592
Provision for deposit paid for a telecommunication project	–	–	–	–	–	–	–	15,978	–	15,978
Provision for deposits paid for online game platform and Internet cafe project	–	–	–	–	–	–	19,144	–	19,144	–
Impairment of intangible assets	–	–	–	–	–	6,806	–	–	–	6,806

## 5. REVENUE

Revenue, which is also the Group's turnover, represents the telecommunication and other related services income, 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.

An analysis of revenue is as follows:

	<b>2005</b>	<b>2004</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Rental income from investment properties	6,722	5,804
Rental income from equipment held for operating lease purposes	3,678	3,639
Telecommunication and other related services	6,813	15,382
Sale of online English learning courses	–	320
	<u>17,213</u>	<u>25,145</u>

## 6. FINANCE COSTS

	<b>Group</b>	
	<b>2005</b>	<b>2004</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
		(Restated)
Interest on:		
Bank loans	4,836	4,043
Finance lease	151	64
Convertible bond	1,181	433
	<u>6,168</u>	<u>4,540</u>

## 7. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	<b>2005</b>	<b>2004</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Cost of inventories sold	–	220
Cost of services provided*	21,292	19,325
Depreciation	14,453	9,456
Amortisation of intangible assets	7,356	8,429
Amortisation of goodwill on acquisition of subsidiaries**	–	5,281
Amortisation of prepaid rentals	1,000	580
Impairment of goodwill**	49,000	7,000
Impairment of intangible assets**	–	6,806
Minimum lease payments under operating leases on land and buildings	1,726	663
Employee benefits expense (including directors' remuneration – note 8):		
Pension scheme contributions <sup>#</sup>	250	213
Wages and salaries	5,529	3,652
	<u>5,779</u>	<u>3,865</u>
Change in fair value of investment properties	97,932	–
Auditors' remuneration	1,100	1,000
Loss on disposal of property, plant and equipment**	–	7
Provision for/(write-back) of doubtful debts**	(229)	4,592
Provision for deposit paid for a telecommunication project**	–	15,978
Provision for deposits paid for online game platform and Internet cafe project**	19,144	–
Provision for other deposit**	6,000	–
Write-back of provision for other receivables**	(7,171)	(3,232)
Waiver of accrued directors' remuneration**	–	(5,299)
Gross and net rental income	(6,722)	(5,804)
Foreign exchange differences, net	(1,330)	(11)
Gain on disposal of interests in subsidiaries	(22,568)	(85,763)
Bank interest income	<u>(1,613)</u>	<u>(1,157)</u>

\* The cost of services provided includes amounts aggregating HK\$20,390,000 (2004: HK\$16,467,000) relating to direct staff costs, amortisation of intangible assets, amortisation of prepaid rentals, operating lease rentals of land and buildings, and depreciation which are also included in the respective total amounts disclosed above for each of these types of expense.

\*\* Included in "Other operating expenses, net" on the face of the consolidated income statement.

<sup>#</sup> At 31 December 2005, the Group had no forfeited contributions available to reduce its contributions to the pension scheme in future years (2004: Nil).

## 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:

2005

	Directors' fees <i>HK\$</i>	Salaries, allowances and benefit in kind <i>HK\$</i>	Pension scheme contributions <i>HK\$</i>	Total <i>HK\$</i>
<b>Executive Directors</b>				
Ho Tsam Hung	240,000	–	12,000	252,000
Yang Jia Jian	150,000	–	–	150,000
Ho Kam Hung	240,000	–	12,000	252,000
Ho Pak Hung	80,000	–	4,000	84,000
	<u>710,000</u>	<u>–</u>	<u>28,000</u>	<u>738,000</u>
<b>Non-executive Directors</b>				
Yeung Mo Sheung, Ann	87,500	–	–	87,500
Lam Kuo	40,000	–	–	40,000
	<u>127,500</u>	<u>–</u>	<u>–</u>	<u>127,500</u>
<b>Independent Non-executive Directors</b>				
Young Kwok Sui	210,000	–	–	210,000
Wong Ting Kon	87,500	–	–	87,500
Lawrence K. Tam	7,500	–	–	7,500
Wong Miu Ting, Ivy	7,500	–	–	7,500
Ng Kin Sun	100,000	–	–	100,000
Zhang Jie	–	–	–	–
	<u>412,500</u>	<u>–</u>	<u>–</u>	<u>412,500</u>
	<u>1,250,000</u>	<u>–</u>	<u>28,000</u>	<u>1,278,000</u>

2004

	Directors' fees <i>HK\$</i>	Salaries, allowances and benefit in kind <i>HK\$</i>	Pension scheme contributions <i>HK\$</i>	Total <i>HK\$</i>
<b>Executive Directors</b>				
Ho Tsam Hung	240,000	–	12,000	252,000
Ho Kam Hung	240,000	–	12,000	252,000
Ho Pak Hung	240,000	–	12,000	252,000
	<u>720,000</u>	<u>–</u>	<u>36,000</u>	<u>756,000</u>
<b>Independent Non-executive Directors</b>				
Young Kwok Sui	210,000	–	–	210,000
Ng Kin Sun	40,000	–	–	40,000
Zhang Jie	–	–	–	–
	<u>250,000</u>	<u>–</u>	<u>–</u>	<u>250,000</u>
	<u>970,000</u>	<u>–</u>	<u>36,000</u>	<u>1,006,000</u>

**Five Highest Paid Employees**

The five highest paid employees during the year included nil (2004: two) directors, details of whose remuneration are set out above. Details of the remuneration of the five (2004: three) non-director, highest paid employees for the year are as follows:

	<b>Group</b>	
	<b>2005</b>	<b>2004</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Salaries, allowances and benefits in kind	2,063	1,241
Pension scheme contributions	<u>48</u>	<u>35</u>
	<u>2,111</u>	<u>1,276</u>

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

	<b>Number of employees</b>	
	<b>2005</b>	<b>2004</b>
Nil – HK\$1,000,000	<u>5</u>	<u>3</u>

There was no arrangement under which a director waived or agreed to waive any remuneration during the year. Pursuant to waiver agreement dated 31 December 2004 entered into by certain executive directors of the Company, a total remuneration of HK\$5,299,000 in respect of the prior years was waived in 2004.

During the year, no share options were granted to the directors or 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 29 to the financial statements.

During the year, no emoluments were paid by the Group to the directors or 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	
	2005	2004
	HK\$'000	HK\$'000
Provision for the year:		
Current – elsewhere	1,773	2,071
Deferred ( <i>note 27</i> )	32,317	249
	<u>34,090</u>	<u>2,320</u>
Total tax charge for the year	<u>34,090</u>	<u>2,320</u>

No provision for Hong Kong profits tax has been made as the Group did not generate any taxable profits in Hong Kong during the year.

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 Mainland China are subject to income taxes at tax rate of 33%.

A reconciliation of the tax expense applicable to profit before tax using the statutory rates for the locations in which the Company and its subsidiaries are domiciled to the tax expense at the effective tax rates, and a reconciliation of the statutory tax rates to the effective tax rates, are as follows:

**Group – 2005**

	Hong Kong		Mainland China		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Profit/(loss) before tax	<u>(53,963)</u>		<u>74,293</u>		<u>20,330</u>	
Calculated at the statutory tax rate	(9,444)	(17.5)	24,517	33.0	15,073	74.1
Income not subject to tax	(3,949)	(7.3)	–	–	(3,949)	(19.4)
Expenses not deductible for tax	9,636	17.9	8,207	11.0	17,843	87.8
Tax losses not recognised	3,757	6.9	1,366	1.8	5,123	25.2
	<u>–</u>	<u>–</u>	<u>34,090</u>	<u>45.8</u>	<u>34,090</u>	<u>167.7</u>
Tax charge at the Group's effective rate	<u>–</u>	<u>–</u>	<u>34,090</u>	<u>45.8</u>	<u>34,090</u>	<u>167.7</u>

**Group – 2004 (restated)**

	Hong Kong		Mainland China		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Profit/(loss) before tax	<u>76,541</u>		<u>(31,667)</u>		<u>44,874</u>	
Calculated at the statutory tax rate	13,395	17.5	(10,450)	(33.0)	2,945	6.6
Lower tax rate for specific provinces or local authority	–	–	3,283	10.4	3,283	7.3
Income not subject to tax	(16,957)	(22.1)	–	–	(16,957)	(37.8)
Expenses not deductible for tax	2,780	3.6	5,439	17.2	8,219	18.3
Tax losses not recognised	782	1.0	4,297	13.5	5,079	11.3
Tax losses utilised from previous periods	–	–	(249)	(0.8)	(249)	(0.6)
	<u>–</u>	<u>–</u>	<u>2,320</u>	<u>7.3</u>	<u>2,320</u>	<u>5.1</u>
Tax charge at the Group's effective rate	<u>–</u>	<u>–</u>	<u>2,320</u>	<u>7.3</u>	<u>2,320</u>	<u>5.1</u>



**10. NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY**

The net loss from ordinary activities attributable to equity holders of the Company for the year ended 31 December 2005 dealt with in the financial statements of the Company was HK\$27,252,000 (2004: HK\$2,277,000 (restated)) (note 30).

**11. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY**

The calculation of basic loss per share is based on the net loss for the year attributable to ordinary equity holders of the Company of HK\$13,771,000 (2004: net profit for the year attributable to ordinary equity holders of the Company of HK\$46,131,000 (restated)), and the weighted average number of 444,847,328 (2004: 329,985,782) ordinary shares in issue during the year, adjusted to reflect the capital reorganisation on 27 April 2006 as further detailed in note 37(d) to the financial statements.

A diluted loss per share for the year ended 31 December 2005 has not been disclosed as the convertible bond and share option outstanding during the year had anti-dilutive effects on the basic loss per share for the year.

The calculation of diluted earnings per share for the year ended 31 December 2004 is based on the net profit for that year attributable to ordinary equity holders of the Company of HK\$46,131,000 (restated), adjusted to reflect the interest on the convertible bond of HK\$433,000, and the weighted average number of 337,031,275 ordinary shares in issue during that year, adjusted to reflect the capital reorganisation on 27 April 2006 as further detailed in note 37(d) to the financial statements.

A reconciliation of the weighted average number of shares used in the basic earnings per share calculation for the year ended 31 December 2004 to that used in diluted earnings per share calculation is as follows:

<b>Shares</b>	<b>Number of shares</b>
Weighted average number of ordinary shares used in the basic earnings per share calculation	329,985,782
Weighted average number of ordinary shares assumed to have been issued on the conversion of bond	<u>7,045,493</u>
	<u><u>337,031,275</u></u>

## 12. PROPERTY, PLANT AND EQUIPMENT

## Group

	Telecom- munication network and equipment <i>HK\$'000</i>	Land and buildings <i>HK\$'000</i>	Leasehold improvements <i>HK\$'000</i>	Equipment <i>HK\$'000</i>	Computer and office equipment, furniture and fixtures <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
At cost:							
At 1 January 2005	120,877	7,626	910	11,113	1,180	285	141,991
Additions	85	–	–	51	5	217	358
Exchange realignment	1,913	163	29	243	32	18	2,398
At 31 December 2005	122,875	7,789	939	11,407	1,217	520	144,747
Accumulated depreciation:							
At 1 January 2005	6,578	933	284	2,950	854	206	11,805
Provided during the year	11,380	214	348	2,170	271	70	14,453
Exchange realignment	130	22	34	83	27	17	313
At 31 December 2005	18,088	1,169	666	5,203	1,152	293	26,571
Net book value:							
At 31 December 2005	104,787	6,620	273	6,204	65	227	118,176
At 31 December 2004	114,299	6,693	626	8,163	326	79	130,186
	Telecom- munication network and equipment <i>HK\$'000</i>	Land and buildings <i>HK\$'000</i>	Leasehold improvements <i>HK\$'000</i>	Equipment <i>HK\$'000</i>	Computer and office equipment, furniture and fixtures <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
At cost:							
At 1 January 2004	–	7,614	37	11,074	688	637	20,050
Additions	73	–	186	39	28	–	326
Acquisition of subsidiaries ( <i>note 31</i> )	120,655	–	686	–	476	149	121,966
Disposals	–	–	–	–	(13)	(501)	(514)
Exchange realignment	149	12	1	–	1	–	163
At 31 December 2004	120,877	7,626	910	11,113	1,180	285	141,991
Accumulated depreciation:							
At 1 January 2004	–	720	29	862	627	611	2,849
Provided during the year	6,573	212	255	2,088	232	96	9,456
Disposals	–	–	–	–	(6)	(501)	(507)
Exchange realignment	5	1	–	–	1	–	7
At 31 December 2004	6,578	933	284	2,950	854	206	11,805
Net book value:							
At 31 December 2004	114,299	6,693	626	8,163	326	79	130,186
At 31 December 2003	–	6,894	8	10,212	61	26	17,201

## Company

	<b>Leasehold improvements</b>	<b>Computer and office equipment, furniture and fixtures</b>	<b>Total</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At cost:			
At 1 January 2005	37	982	1,019
Additions	–	51	51
	<u>37</u>	<u>1,033</u>	<u>1,070</u>
At 31 December 2005	37	1,033	1,070
Accumulated depreciation:			
At 1 January 2005	35	885	920
Provided during the year	1	59	60
	<u>36</u>	<u>944</u>	<u>980</u>
At 31 December 2005	36	944	980
Net book value:			
At 31 December 2005	<u>1</u>	<u>89</u>	<u>90</u>
At 31 December 2004	<u>2</u>	<u>97</u>	<u>99</u>
	<b>Leasehold improvements</b>	<b>Computer and office equipment, furniture and fixtures</b>	<b>Total</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At cost:			
At 1 January 2004	37	973	1,010
Additions	–	9	9
	<u>37</u>	<u>982</u>	<u>1,019</u>
At 31 December 2004	37	982	1,019
Accumulated depreciation:			
At 1 January 2004	29	820	849
Provided during the year	6	65	71
	<u>35</u>	<u>885</u>	<u>920</u>
At 31 December 2004	35	885	920
Net book value:			
At 31 December 2004	<u>2</u>	<u>97</u>	<u>99</u>
At 31 December 2003	<u>8</u>	<u>153</u>	<u>161</u>

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\$10,664,000 (2004: HK\$10,424,000) and accumulated depreciation of HK\$4,646,000 (2004: HK\$2,459,000).

The net book value of the Group's property, plant and equipment held under finance leases included in the total amount of telecommunication network and equipment at 31 December 2005 amounted to HK\$792,000 (2004: HK\$1,057,000).

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

### 13. INVESTMENT PROPERTIES

	<b>Group</b>	
	<b>2005</b>	<b>2004</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Carrying amount at 1 January	183,600	183,600
Change in fair value of investment properties	97,932	–
Exchange realignment	3,468	–
	<u>          </u>	<u>          </u>
Carrying amount at 31 December	<u>285,000</u>	<u>183,600</u>

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

The Group's investment properties were revalued as at 31 December 2005 by Savills Valuation and Professional Services Limited, independent professionally qualified valuers, at HK\$285,000,000 on an open market value, existing use basis. The investment properties are leased to third parties under operating leases, further summary details of which are included in note 34(b)(i) to the financial statements. Revaluation surplus of HK\$97,932,000 resulting from the above valuation has been credited to the income statement.

At the balance sheet date, the Group's investment properties were pledged to secure general banking facilities granted to the Group as set out in note 24 to the financial statements.

## 14. INTANGIBLE ASSETS

## Group

	Software HK\$'000	Operating rights HK\$'000	Total HK\$'000
Cost:			
At beginning of year	2,856	37,000	39,856
Exchange realignment	57	740	797
	<u>2,913</u>	<u>37,740</u>	<u>40,653</u>
At 31 December 2005	2,913	37,740	40,653
Accumulated amortisation and impairment:			
At beginning of year	1,173	15,380	16,553
Provided during the year	1,700	5,656	7,356
Exchange realignment	40	214	254
	<u>2,913</u>	<u>21,250</u>	<u>24,163</u>
At 31 December 2005	2,913	21,250	24,163
Net book value:			
At 31 December 2005	<u>–</u>	<u>16,490</u>	<u>16,490</u>
At 31 December 2004	<u>1,683</u>	<u>21,620</u>	<u>23,303</u>
Cost:			
At beginning of year	–	37,000	37,000
Acquisition of subsidiaries ( <i>note 31</i> )	2,856	–	2,856
	<u>2,856</u>	<u>37,000</u>	<u>39,856</u>
At 31 December 2004	2,856	37,000	39,856
Accumulated amortisation and impairment:			
At beginning of year	–	1,318	1,318
Provided during the year	1,173	7,256	8,429
Impairment during the year recognised in the income statement *	–	6,806	6,806
	<u>1,173</u>	<u>15,380</u>	<u>16,553</u>
At 31 December 2004	1,173	15,380	16,553
Net book value:			
At 31 December 2004	<u>1,683</u>	<u>21,620</u>	<u>23,303</u>
At 31 December 2003	<u>–</u>	<u>35,682</u>	<u>35,682</u>

\* The operating rights were valued by B.I. Appraisals Limited, an independent firm of professionally qualified valuers, on a discounted cash flow basis at HK\$21,620,000 as at 31 December 2004. Accordingly, an impairment loss on intangible assets of HK\$6,806,000 was charged to the income statement for the year ended 31 December 2004.

**15. GOODWILL**

The amounts of the goodwill capitalised as an asset and recognised in the consolidated balance sheet, arising from the acquisition of subsidiaries, are as follows:

	<b>Group</b> <i>HK\$'000</i>
Cost:	
Acquisition of subsidiaries ( <i>note 31</i> ) and at 31 December 2004	90,163
Previously reported at 1 January 2005	90,163
Effect of adopting HKFRS 3	(5,281)
	84,882
Acquisition of an additional interest in a subsidiary ( <i>note 31</i> )	43,906
	128,788
At 31 December 2005	<u>128,788</u>
Accumulated amortisation and impairment:	
Amortisation provided during the year and at 31 December 2004	5,281
Previously reported at 1 January 2005	5,281
Effect of adopting HKFRS 3	(5,281)
Impairment during the year recognised in the income statement	49,000
	49,000
At 31 December 2005	<u>49,000</u>
Net book value:	
At 31 December 2005	<u><u>79,788</u></u>
At 31 December 2004	<u><u>84,882</u></u>

**Impairment Testing of Goodwill**

Goodwill acquired through business combination has been allocated to a cash-generating unit, the telecommunication and other related services segment, for impairment testing.

For the year ended 31 December 2005, management determined that there was an impairment of goodwill based on valuation performed by BMI Appraisals Limited, an independent firm of professionally qualified valuers, on the Group's telecommunication and other related services segment. The valuation was arrived at after using a market value approach (with comparisons to selected publicly traded companies operating in the same industry).

## 16. INTERESTS IN SUBSIDIARIES

	Company	
	2005	2004
	HK\$'000	HK\$'000
Unlisted shares, at cost	467,158	467,158
Provision for impairment	(176,940)	(176,940)
	<u>290,218</u>	<u>290,218</u>
Due from subsidiaries	410,639	416,492
Provision against amounts due from subsidiaries	(215,841)	(215,841)
	<u>194,798</u>	<u>200,651</u>
	<u>485,016</u>	<u>490,869</u>

The amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment. The carrying amounts of these amounts due from/to subsidiaries approximate to their fair values.

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		Principal activities
			2005	2004	
<b>Directly held</b>					
China Land Realty Investment (BVI) Limited ("CLRIL")	British Virgin Islands/Hong Kong	US\$11,204 Ordinary	100	100	Investment holding
<b>Indirectly held</b>					
Chongqing Smart Hero Real Estate Development Company Limited ("CQ Smart Hero")	People's Republic of China ("PRC")/ 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/PRC/ 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
Proland International Technology Limited	Hong Kong	HK\$2 Ordinary	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		Principal activities
			2005	2004	
Guangzhou Proland Electrical Technology Limited (“GZ Proland”)	PRC/Mainland China	HK\$1,500,000 Registered capital ( <i>Note a</i> )	100	100	Leasing of equipment
Telesuccess International Limited (“Telesuccess”)	British Virgin Islands	US\$1 Ordinary	100	100	Investment holding
Sky City Network Communication Limited (“Sky City”) ( <i>Note c</i> )	PRC/Mainland China	RMB110,000,000 Registered capital ( <i>Notes a, c</i> )	100	80.9	Provision of telecommunication and other related services

*Notes:*

- CQ Smart Hero, GZ Proland and Sky City are wholly foreign owned enterprises established in the PRC.
- 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 Group acquired the remaining 19.1% interest of Sky City during the year.

The above table lists the subsidiaries of the Company as at 31 December 2005 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.

**17. INTERESTS IN JOINTLY-CONTROLLED ENTITIES**

	Group	
	2005 HK\$'000	2004 HK\$'000
Share of net assets	–	–
Due from jointly-controlled entities	11,873	11,873
Less: Provision against amounts due from jointly-controlled entities	(11,873)	(11,873)
	<u>–</u>	<u>–</u>

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

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.



Particulars of the jointly-controlled entities are as follows:

Name	Business structure	Place of incorporation/ registration and operations	Percentage of			Principal activities
			Ownership interest	Voting power	Profit sharing	
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	PRC/Mainland China	35.0	33.3	35.0	Provision of technology consultancy services

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.

#### 18. TRADE RECEIVABLES

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

	Group			
	2005		2004	
	HK\$'000	Percentage	HK\$'000	Percentage
Within 6 months	5,088	11	17,639	39
More than 6 months but within 1 year	5,986	13	11,735	26
More than 1 year but within 2 years	16,895	37	3,847	8
More than 2 years	13,938	30	4,598	10
Not due as at 31 December	4,047	9	7,925	17
	<u>45,954</u>	<u>100</u>	<u>45,744</u>	<u>100</u>
Portion classified as current assets	<u>(45,954)</u>		<u>(35,689)</u>	
Non-current assets	<u>–</u>		<u>10,055</u>	

The Group generally grants a credit term of 3 months to 12 months to its customers.

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

HK\$19,415,000 (2004: HK\$19,524,000) included in the total trade receivables are attributable to properties sold in prior years. The legal titles of the properties sold are retained by the Group until the contracted amounts and related expenses of the properties have been fully settled.

## 19. PREPAID RENTAL

	<b>Group</b> <i>HK\$'000</i>
At cost:	
At 1 January 2005	18,387
Exchange realignment	<u>382</u>
At 31 December 2005	<u>18,769</u>
Accumulated amortisation:	
At 1 January 2005	579
Provided during the year	1,000
Exchange realignment	<u>11</u>
At 31 December 2005	<u>1,590</u>
Net book value:	
At 31 December 2005	<u><u>17,179</u></u>
At 31 December 2004	<u><u>17,808</u></u>

The prepaid rental represents the prepayment made for the leasing of transmission lines with lease terms of 20 years. The prepaid rental is amortised on a straight-line basis over the lease terms of 20 years.

## 20. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	<b>Group</b>		<b>Company</b>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Non-current assets:				
Deposits and other receivable <sup>#</sup>	<u>40,000</u>	<u>64,003</u>	<u>–</u>	<u>–</u>
Current assets:				
Prepayments	251	298	40	92
Deposits and other receivables	<u>18,290</u>	<u>101,588</u>	<u>862</u>	<u>369</u>
	<u>18,541</u>	<u>101,886</u>	<u>902</u>	<u>461</u>

<sup>#</sup> Other receivable of HK\$40,000,000 as at 31 December 2005 represented the remaining receivable arising on the disposal of certain subsidiaries (the “Disposed Subsidiaries”) during the year ended 31 December 2002. As set out in more details in note 25 below, the repayment date of HK\$40,000,000 was rescheduled from 26 January 2006 to a date on or before 31 January 2007.

**21. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS**

At 31 December 2005, bank deposits of approximately HK\$354,000 (2004: HK\$776,000) 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\$125,991,000 (2004: HK\$100,955,000). 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.

Cash at banks earns interest at floating rate based on daily bank deposits rates. The carrying amounts of the cash and cash equivalents and the pledged deposits approximate to their fair values.

**22. TRADE PAYABLES**

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

	<b>Group</b>			
	<b>2005</b>		<b>2004</b>	
	<i>HK\$'000</i>	<i>Percentage</i>	<i>HK\$'000</i>	<i>Percentage</i>
Within 6 months	–	–	195	1
More than 6 months but within 1 year	–	–	343	1
More than 1 year but within 2 years	105	1	3	–
More than 2 years but within 3 years	–	–	195	1
Over 3 years	31,228	99	30,750	97
	<u>31,333</u>	<u>100</u>	<u>31,486</u>	<u>100</u>

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

**23. OTHER PAYABLES AND ACCRUALS**

	<b>Group</b>		<b>Company</b>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Other payables	12,335	8,207	583	583
Accruals	10,438	8,858	4,419	3,641
	<u>22,773</u>	<u>17,065</u>	<u>5,002</u>	<u>4,224</u>

## 24. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Effective interest rate (%)	Maturity	Group	
			2005 HK\$'000	2004 HK\$'000 (Restated)
<b>Current</b>				
Finance lease payables	10.4	2006	515	492
Bank loans – unsecured	5-11	On demand	26,564	45,120
Bank loans – secured	5-9	2006	4,683	4,710
			<u>31,762</u>	<u>50,322</u>
Convertible bond (note 26)	4	2006	29,782	–
<b>Non-current</b>				
Finance lease payables	–	–	–	131
Bank loans – secured	5-9	2007-2010	22,893	27,470
			<u>22,893</u>	<u>27,601</u>
Convertible bond (note 26)	4	2006	–	29,426
			<u>84,437</u>	<u>107,349</u>
<b>Group</b>				
			<b>2005</b>	<b>2004</b>
			HK\$'000	HK\$'000 (Restated)
Analysed into:				
Bank loans and overdrafts repayable:				
Within one year or on demand			31,247	49,830
In the second year			5,084	4,963
In the third to fifth years, inclusive			17,809	16,550
Beyond five years			–	5,957
			<u>54,140</u>	<u>77,300</u>
Other borrowings repayable:				
Within one year			30,297	492
In the second year			–	29,557
			<u>30,297</u>	<u>30,049</u>
			<u>84,437</u>	<u>107,349</u>

The bank loans were supported by certain of the Group's investment properties, a corporate guarantee executed by the Company and corporate guarantees provided by certain entities in Mainland China.

**Finance Lease Payables**

The Group leases certain of its telecommunication equipment for its business use. These leases are classified as finance leases and have remaining lease terms of one year.

The total future minimum lease payments under finance leases and their present values at the balance sheet date were as follows:

	<b>Group</b>			
	<b>Minimum</b>	<b>Present</b>	<b>Minimum</b>	<b>Present</b>
	<b>lease</b>	<b>value of</b>	<b>lease</b>	<b>value of</b>
	<b>payments</b>	<b>lease</b>	<b>payments</b>	<b>lease</b>
<b>2005</b>	<b>2005</b>	<b>2004</b>	<b>2004</b>	
<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	
Amounts payable:				
Within one year	547	515	536	492
In the second year	—	—	134	131
	<u>547</u>	<u>515</u>	<u>670</u>	<u>623</u>
Total minimum finance lease payments	547	515	670	623
Future finance charges	(32)		(47)	
Total net finance lease payables	515		623	
Portion classified as current liabilities	(515)		(492)	
Non-current portion	—		131	

**25. DEFERRED INCOME**

The total consideration of HK\$350,000,000 in respect of the disposal of the Disposed Subsidiaries for the year ended 31 December 2002 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 31 December 2002. The third instalment of HK\$50,000,000 was settled in cash before 31 December 2003 and the fourth instalment of HK\$50,000,000 was settled in cash on 31 March 2004. The fifth instalment of HK\$230,000,000 was to be settled by delivering certain completed units (the “Units”) of the properties under development of the Disposed Subsidiaries, on or before a date falling on the first day immediately after expiration of the thirtieth month after 31 December 2002. The total gain on disposal of HK\$157,984,000 was recognised in line with the settlement schedule of the consideration. On 26 March 2004, the Group entered into a supplementary agreement with the purchaser of the Disposed Subsidiaries (the “Purchaser”), following which the fifth instalment of HK\$230,000,000, instead of being satisfied by the Units, shall be satisfied by the Purchaser by two instalments of HK\$140,000,000 and HK\$90,000,000, namely the Revised Fifth Instalment and the Sixth Instalment, respectively, in cash. The Revised Fifth Instalment was paid on 23 April 2004 and the Sixth Instalment would be paid on or before 26 January 2005.

The repayment date of the Sixth Instalment was mutually agreed between the Group and the Purchaser to be rescheduled from 26 January 2005 to 26 July 2005. HK\$50,000,000 was paid on 26 July 2005. Subsequent to the balance sheet date, on 23 January 2006, the repayment of the remaining consideration of HK\$40,000,000 was rescheduled on or before 31 January 2007. The gain on disposal of the Disposed Subsidiaries recognised in the consolidated income statement during the year is HK\$22,568,000 (2004: HK\$85,763,000). The remaining deferred income of HK\$18,057,000 (2004: HK\$40,625,000) was included in the consolidated balance sheet.

**26. CONVERTIBLE BOND**

The convertible bond (the “Bond”) bears interest at 2.75% per annum and are due for repayment on 18 August 2006. The Bond is convertible into a total of 200,000,000 shares with a par value of HK\$0.02 each of the Company, at the conversion price of HK\$0.15 per share at any time from 19 November 2004 up to the day falling fourteen days prior to the maturity date of the Bond on 18 August 2006. Further details of the terms and conditions of the Bond are set out in the announcement of the Company dated 19 July 2004.

The fair value of the liability component of the Bond was determined, upon issuance, using the prevailing market interest rate for similar debt without a conversion option and is carried as a current liability. The residual amount is assigned to the conversion option as the equity component that is recognised in shareholders' equity.

The net proceeds received from the issue of the convertible bond have been split between the liability and equity components, as follows:

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i> (Restated)
Nominal value of convertible bond issued during the year	30,000	30,000
Equity component	<u>(707)</u>	<u>(707)</u>
Liability component at the issue date	29,293	29,293
Interest expense	1,614	433
Interest paid	<u>(1,125)</u>	<u>(300)</u>
Liability component at 31 December ( <i>note 24</i> )	<u><u>29,782</u></u>	<u><u>29,426</u></u>

Subsequent to the balance sheet date, on 24 February 2006, the Bond was converted into 200,000,000 shares at HK\$0.15 per share.

## 27. DEFERRED TAX

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

### Deferred Tax Liabilities

#### Group

	Fair value adjustment of fixed assets <i>HK\$'000</i>	2005 Revaluation of investment properties <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2005	4,200	18,302	22,502
Deferred tax charged to the income statement ( <i>note 9</i> )	–	32,317	32,317
Exchange realignment	<u>–</u>	<u>274</u>	<u>274</u>
At 31 December 2005	<u><u>4,200</u></u>	<u><u>50,893</u></u>	<u><u>55,093</u></u>
	Fair value adjustment of fixed assets <i>HK\$'000</i>	2004 Revaluation of investment properties <i>HK\$'000</i> (Restated)	Total <i>HK\$'000</i> (Restated)
At 1 January 2004	–	18,302	18,302
Acquisition of subsidiaries ( <i>note 31</i> )	<u>4,200</u>	<u>–</u>	<u>4,200</u>
At 31 December 2004	<u><u>4,200</u></u>	<u><u>18,302</u></u>	<u><u>22,502</u></u>

**Deferred Tax Assets****Group**

	<b>Losses available for offset against future taxable profit</b> <i>HK\$'000</i>
At 1 January 2004	249
Deferred tax charged to the income statement ( <i>note 9</i> )	(249)
At 31 December 2004	–
Net deferred tax liabilities at 31 December 2004 (restated)	22,502

The Group has tax losses arising in Hong Kong of HK\$346,000 (2004: HK\$9,771,000) 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 31 December 2005, there was no significant unrecognised deferred tax liability (2004: 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.

**28. SHARE CAPITAL****Shares**

	<b>2005</b> <i>HK\$'000</i>	<b>2004</b> <i>HK\$'000</i>
Authorised:		
6,000,000,000 ordinary shares of HK\$0.02 each	<u>120,000</u>	<u>120,000</u>
Issued and fully paid:		
4,902,413,009 (2004: 3,919,413,009) ordinary shares of HK\$0.02 each	<u>98,048</u>	<u>78,388</u>

On 3 June 2005, a total of 783,000,000 shares of HK\$0.02 each were allotted and issued to an independent third party at an issue price of HK\$0.02 per share, payable in cash. The placement raised gross proceeds of HK\$15,660,000 for the Company for general working capital purposes.

Pursuant to a subscription agreement dated on 31 August 2005 between the Company and Hero Grand Investments Limited (the "Subscriber"), an independent third party, the Subscriber had conditionally agreed to subscribe for 200,000,000 new shares (the "Subscription Shares") at a subscription price of HK\$0.036 per share. The subscription was completed on 24 October 2005 and raised cash proceeds of HK\$7,200,000. In addition, pursuant to the same subscription agreement and a supplemental agreement dated 23 September 2005, the Company had conditionally agreed to grant an option (the "Option") to the Subscriber at a price of HK\$2,280,000. Pursuant to the Option, the Subscriber will be entitled to subscribe a maximum of 570,000,000 new shares (the "Option Shares") at an exercise price of HK\$0.038 per share, subject to adjustments, anytime from the date of the completion of the supplemental agreement and up to 31 December 2006.

Subsequent to the balance sheet date, on 18 April 2006, the Subscriber served the notice for subscription of 100,000,000 Option Shares at an exercise price of HK\$0.038. The 100,000,000 Option Shares were allotted and issued on 25 April 2006, and a gross proceeds of HK\$3,800,000 was raised by the Company.

The exercise price of the Option was adjusted from HK\$0.038 per share to HK\$0.38 per share, adjusted to reflect the capital reorganisation on 27 April 2006 as further detailed in note 37(d) to the financial statements. The maximum number of Option Shares to be subscribed under the Option was adjusted from 470,000,000 to 47,000,000.

## 29. SHARE OPTION SCHEMES

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

A Summary of the Scheme is set out below:

The principal purpose of the 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 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 Scheme became effective on 11 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 Scheme is an amount equivalent, upon their exercise, to 30% of the shares of the Company in issue at anytime. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period, is limited to 1% of the shares of the Company in issue at anytime. 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 anytime 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 Scheme, if earlier.

The exercise price of the share options is determinable by the directors, but may not be 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.

At the balance sheet date, no share options have been granted under the Scheme.

Subsequent to the balance sheet date, on 10 February 2006, a total of 26,000,000 share options were granted to certain employees and advisors of the Group. These share options vested on 10 February 2006, and have an exercise price of HK\$0.2 per share and an exercise period from 10 February 2006 to 9 February 2009. The above number and exercise price of the share options have been adjusted to reflect the capital reorganisation on 27 April 2006 as further detailed in note 37(d) to the financial statements. 22,000,000 shares and 4,000,000 shares were exercised on 5 June 2006 and 20 June 2006 respectively.

On 30 March 2006, a total of 3,800,000 share options were granted to certain employees and advisors of the Group. These share options vested on 30 March 2006, and have an exercise price of HK\$0.32 per share and an exercise period from 30 March 2006 to 29 March 2009. The above number and exercise price of the share options have been adjusted to reflect the capital reorganisation on 27 April 2006 as further detailed in note 37(d) to the financial statements. 3,000,000 shares were exercised on 5 June 2006.



As a result of the above, cash proceeds of approximately HK\$6,160,000, before expenses, were raised from the exercise of share options.

At the date of approval of these financial statements, the Company had 800,000 share options outstanding under the Scheme, which represented approximately 0.14% of the Company's shares in issue as at that date.

### 30. RESERVES

#### Group

	Share premium account HK\$'000	Contributed surplus HK\$'000	Equity component of convertible bond HK\$'000	Other reserve HK\$'000	Investment properties revaluation reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Retained profits/ (accumulated loss) HK\$'000	Total HK\$'000	Minority interests HK\$'000
At 1 January 2004	220,002	80,258	-	-	40,964	364	(45,601)	295,987	-
Prior year adjustment (note 2.4(b))	-	-	-	-	(40,964)	-	37,159	(3,805)	-
As restated	220,002	80,258	-	-	-	364	(8,442)	292,182	-
Issue of shares	83,962	-	-	-	-	-	-	83,962	-
Issue of a convertible bond (as restated)	-	-	707	-	-	-	-	707	-
Acquisition of subsidiaries	-	-	-	-	-	-	-	-	19,660
Exchange difference on translation of overseas subsidiaries	-	-	-	-	-	78	-	78	-
Net income and expense recognised directly in equity	-	-	-	-	-	78	-	78	-
Impairment of goodwill eliminated against consolidated accumulated losses	-	-	-	-	-	-	7,000	7,000	-
Profit/(loss) for the year (as restated)	-	-	-	-	-	-	46,131	46,131	(3,577)
At 31 December 2004 (as restated)	303,964	80,258	707	-	-	442	44,689	430,060	16,083

	Share premium account HK\$'000	Contributed surplus HK\$'000	Equity component of convertible bond HK\$'000	Other reserve HK\$'000	Investment properties revaluation reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Retained profits/ (accumulated loss) HK\$'000	Total HK\$'000	Minority interests HK\$'000
At 1 January 2005									
As previously reported	303,964	80,258	-	-	40,964	442	7,663	433,291	16,083
Prior year adjustment (note 2.4(b))	-	-	707	-	(40,964)	-	37,026	(3,231)	-
As restated	303,964	80,258	707	-	-	442	44,689	430,060	16,083
Issue of new shares (note 28)	3,200	-	-	-	-	-	-	3,200	-
Issue of a share option (note 28)	-	-	-	2,280	-	-	-	2,280	-
Acquisition of an additional interest in a subsidiary	-	-	-	-	-	-	-	-	(16,094)
Exchange difference on translation of overseas subsidiaries	-	-	-	-	-	6,228	-	6,228	-
Net income and expense recognised directly in equity	-	-	-	-	-	6,228	-	6,228	-
Loss for the year	-	-	-	-	-	-	(13,771)	(13,771)	11
At 31 December 2005	<u>307,164</u>	<u>80,258</u>	<u>707</u>	<u>2,280</u>	<u>-</u>	<u>6,670</u>	<u>30,918</u>	<u>427,997</u>	<u>-</u>
Reserves retained by/(losses accumulated in): Company and subsidiaries	307,164	80,258	707	2,280	-	6,670	31,186	428,265	-
Jointly-controlled entities	-	-	-	-	-	-	(268)	(268)	-
At 31 December 2005	<u>307,164</u>	<u>80,258</u>	<u>707</u>	<u>2,280</u>	<u>-</u>	<u>6,670</u>	<u>30,918</u>	<u>427,997</u>	<u>-</u>
Company and subsidiaries	303,964	80,258	707	-	-	442	44,957	430,328	16,083
Jointly-controlled entities	-	-	-	-	-	-	(268)	(268)	-
At 31 December 2004 (restated)	<u>303,964</u>	<u>80,258</u>	<u>707</u>	<u>-</u>	<u>-</u>	<u>442</u>	<u>44,689</u>	<u>430,060</u>	<u>16,083</u>

*Notes:*

- (a) 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.
- (b) The other reserve represent the consideration received for an option granted to a shareholder during the year as explained in note 28 to the financial statements.

## Company

	Share premium account <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Equity component of convertible bond <i>HK\$'000</i>	Other reserve <i>(note 30(b))</i> <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2004	220,002	547,326	–	–	(471,341)	295,987
Issued of new shares	83,962	–	–	–	–	83,962
Issue of a convertible bond (as restated)	–	–	707	–	–	707
Loss for the year (as restated)	–	–	–	–	(2,277)	(2,277)
At 31 December 2004 (as restated)	<u>303,964</u>	<u>547,326</u>	<u>707</u>	<u>–</u>	<u>(473,618)</u>	<u>378,379</u>
At 1 January 2005 As previously reported	303,964	547,326	–	–	(473,485)	377,805
Prior period adjustment in respect of convertible bond <i>(note 2.4(b))</i>	–	–	707	–	(133)	574
As restated	303,964	547,326	707	–	(473,618)	378,379
Issue of new shares	3,200	–	–	–	–	3,200
Issue of a share option <i>(note 28)</i>	–	–	–	2,280	–	2,280
Loss for the year	–	–	–	–	(27,252)	(27,252)
At 31 December 2005	<u>307,164</u>	<u>547,326</u>	<u>707</u>	<u>2,280</u>	<u>(500,870)</u>	<u>356,607</u>

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 Bermuda Companies Act 1981, the Company may make distributions to its members out of the contributed surplus under certain circumstances.

## 31. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT

## Acquisition of Subsidiaries

	<i>Notes</i>	<b>2005</b> <i>HK\$'000</i>	<b>2004</b> <i>HK\$'000</i>
Net assets acquired:			
Property, plant and equipment	12	–	121,966
Intangible assets	14	–	2,856
Cash and bank balances		–	5,612
Trade receivables		–	24,175
Prepaid rental		–	18,455
Prepayments, deposits and other receivables		–	29,278
Interest-bearing bank loans		–	(56,310)
Other payables and accruals		–	(5,679)
Finance lease payables		–	(959)
Tax payable		–	(4,129)
Deferred tax liabilities	27	–	(4,200)
Minority interests		–	(19,660)
		<u>–</u>	<u>111,405</u>
Goodwill on acquisition	15	–	90,163
		<u>–</u>	<u>201,568</u>
Satisfied by:			
Cash		–	140,000
Costs associated with the acquisition		–	1,568
Issue of share capital, at fair value		–	60,000
		<u>–</u>	<u>201,568</u>

On 14 December 2004, Telesuccess, a wholly-owned subsidiary of the Group, entered into a sales and purchase agreement with the then existing shareholder, to acquire the remaining 19.1% interest in Sky City at a cash consideration of HK\$60,000,000. The consideration was satisfied by deposit of HK\$36,000,000 paid in 2004 and the remaining consideration of HK\$24,000,000, which was paid in current year. The acquisition was completed on 7 February 2005 and goodwill of HK\$43,906,000 arose from the acquisition (note 15).

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries is as follows:

	<b>2005</b> <i>HK\$'000</i>	<b>2004</b> <i>HK\$'000</i>
Cash consideration	–	(140,000)
Costs associated with the acquisition	–	(1,568)
Cash and bank balances acquired	–	5,612
	<u>–</u>	<u>(135,956)</u>
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	<u>–</u>	<u>(135,956)</u>

The results of the subsidiaries acquired during the year ended 31 December 2004 contributed turnover and loss after tax of HK\$15,000,000 and HK\$16,000,000 to the Group for that year, respectively.

**32. CONTINGENT LIABILITIES**

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

	<b>Group</b>		<b>Company</b>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Guarantees given for mortgageloans granted by banks to certain purchasers of the Group's properties	3,395	7,763	–	–
Guarantees given to a bank in respect of facilities granted by a subsidiary	–	–	41,000	41,000
	<u>3,395</u>	<u>7,763</u>	<u>41,000</u>	<u>41,000</u>

**33. PLEDGE OF ASSETS**

Details of the Group's bank loans secured by the assets of the Group are included in note 24 to the financial statements.

**34. COMMITMENTS****(a) Capital Commitments**

	<b>Group</b>		<b>Company</b>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Contracted, but not provided for:				
Property Development project	35,902	35,902	–	–
Internet cafe project	–	17,080	–	–
	<u>35,902</u>	<u>52,982</u>	<u>–</u>	<u>–</u>

**(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 31 December 2005, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	<b>Group</b>	
	<b>2005</b>	<b>2004</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	12,838	9,736
In the second to fifth years, inclusive	<u>13,048</u>	<u>10,326</u>
	<u>25,886</u>	<u>20,062</u>

(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 31 December 2005, the Company and the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Within one year	879	437	–	–
In the second to fifth years, inclusive	442	834	–	–
	<u>1,321</u>	<u>1,271</u>	<u>–</u>	<u>–</u>

**35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES**

The Group's principal financial instruments, comprise interest-bearing bank borrowings, convertible bond, finance lease, and cash and short term deposits. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are cash flow interest rate risk, foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

**Cash Flow Interest Rate Risk**

The interest rates of the interest-bearing bank and other borrowings of the Group are disclosed in note 24 to the financial statements. The Group believes its exposure to cash flow interest rate risk is minimal.

**Foreign Currency Risk**

The Group has transactional currency exposures. Such exposures arise from substantial portion of its revenues and expenses are generated and incurred by its operating units in RMB.

Considering that there is insignificant fluctuation in the exchange rate of RMB against Hong Kong dollars, the Group believes its exposure to exchange rate risk is minimal.

**Credit Risk**

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis.

The Group trades only with recognised and creditworthy third parties and there is no requirement for collateral.

**Liquidity Risk**

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans and convertible bond. The directors of the Company have reviewed the Group's working capital and capital expenditure requirements and determined that the Group has no significant liquidity risk.

**36. LITIGATION**

- (a) A writ of summon was issued in August 2005 by a former director of a subsidiary of the Company (the “Former Director”) against certain defendants which include, inter alia, the Company, a wholly-owned subsidiary of the Company, and a director and certain accounting staff of the Company. According to the summon, the Former Director claimed certain damages in relation to the acquisition of a subsidiary by the Group from a private company controlled by the Former Director in December 2000. In the Indorsement of Claims, the Former Director claimed that a receipt for a consideration of HK\$33,500,000 signed by the private company controlled by her be set aside and demanded for payment of outstanding consideration in the amount of HK\$33,500,000.

The Company has filed an acknowledgement of service to defend the proceedings. Having consulted the Group’s legal counsel, the directors concluded that no provision for the proceedings is required in this stage.

- (b) In November 2005, a writ of summon was filed against the Company by a third party (the “Plaintiff”) which alleged that a cheque drawn in the name of the Company in the sum of HK\$33,000,000 was returned by the bank upon presentation by the Plaintiff. The Plaintiff claimed against the Company for a sum of HK\$33,000,000 and interest thereon. In December 2005, the Plaintiff discontinued the legal action. The Company did not commit to pay any amount to the Plaintiff.

**37. POST BALANCE SHEET EVENTS**

Save as disclosed elsewhere in the financial statements, the following significant events took place subsequent to the balance sheet date:

- (a) On 23 January 2006, the Group entered into an agreement with the purchaser of the Disposed Subsidiaries to reschedule the repayment date of the remaining consideration of HK\$40,000,000 on or before 31 January 2007 (note 25). The remaining deferred income of HK\$18,057,000 was included in the consolidated balance sheet under current liabilities.
- (b) On 24 February 2006, Asia Pacific Broadband Entertainment Corporation Limited (formerly known as CNC Broadband Entertainment Corporation Limited), the holder of the Bond, exercised the conversion rights of the Bond. 200,000,000 shares with a par value of HK\$0.02 each of the Company were converted at the conversion price of HK\$0.15 per share.
- (c) On 28 March 2006, the Company entered into a subscription agreement with an independent party which had conditionally agreed to subscribe for 170 million shares to be issued and allotted by the Company at a subscription price of HK\$0.03 per share. On 25 April 2006, the Company issued and allotted 170 million shares at HK\$0.03 per share resulting in raising gross proceeds of approximately HK\$5.1 million, which will be used for general working capital of the Group.
- (d) On 10 April 2006, the Company proposed a capital reorganisation (the “Reorganisation”), to consolidate every ten ordinary shares of HK\$0.02 each in the issued and unissued share capital of the Company into one ordinary share of HK\$0.20 each (the “Consolidated Shares”). Pursuant to the Reorganisation, the authorised share capital of the Company was increased from HK\$120 million to HK\$ 200 million by the creation of 400 million additional Consolidated Shares of HK\$0.2 each in the capital of the Company. The Reorganisation was approved by shareholders at the special general meeting on 27 April 2006.

**38. COMPARATIVE AMOUNTS**

As further explained in notes 2.2 and 2.4 to the financial statements, due to the adoption of new and revised HKFRSs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain prior year and opening balance adjustments have been made and certain comparative amounts have been reclassified and restated to conform with the current year’s presentation and accounting treatment.

**39. APPROVAL OF THE FINANCIAL STATEMENTS**

The financial statements were approved and authorised for issue by the board of directors on 5 July 2006.”

## 3. UNAUDITED INTERIM FINANCIAL STATEMENTS

Set out below is the unaudited condensed consolidated income statement, condensed consolidated balance sheet, condensed consolidated statement of changes in equity and condensed consolidated cash flow statement together with the notes thereto as extracted from pages 1 to 19 of the interim report of the Company for the six months ended 30 June 2006. The page numbers referred to in this section are the page numbers of the aforesaid interim report of the Company.

## “Condensed Consolidated Income Statement

		<b>For the six months ended</b>	
		<b>30 June</b>	
		<b>2006</b>	<b>2005</b>
		<b>(Unaudited)</b>	<b>(Unaudited)</b>
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>TURNOVER</b>	2	6,399	11,139
Cost of sales		<u>(9,248)</u>	<u>(10,897)</u>
Gross profit/(loss)		(2,849)	242
Other income		1,048	751
Change in fair value of investment properties		–	10,700
Administrative expenses		(11,456)	(9,831)
Other operating expenses, net		575	(5,361)
Finance costs	3	<u>(2,587)</u>	<u>(3,091)</u>
<b>LOSS BEFORE TAX</b>	4	(15,269)	(6,590)
Tax	5	<u>(1,383)</u>	<u>(3,601)</u>
<b>LOSS FOR THE PERIOD</b>		<u>(16,652)</u>	<u>(10,191)</u>
<b>ATTRIBUTABLE TO:</b>			
Equity holders of the Company		(16,652)	(10,202)
Minority Interests		<u>–</u>	<u>11</u>
		<u>(16,652)</u>	<u>(10,191)</u>
<b>LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY</b>	7		
– BASIC		<u>HK(3.21) cents</u>	<u>HK(2.48) cents</u>
– DILUTED		<u>N/A</u>	<u>HK(2.31) cents</u>



## Condensed Consolidated Balance Sheet

		<b>30 June 2006 (Unaudited) HK\$'000</b>	<b>31 December 2005 (Audited) HK\$'000</b>
	<i>Notes</i>		
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		114,959	118,176
Investment properties		286,890	285,000
Intangible assets		13,860	16,490
Goodwill		79,788	79,788
Prepaid rental		16,842	17,179
Deposits and other receivable		–	40,000
Pledged deposits		401	354
		<hr/>	<hr/>
Total non-current assets		512,740	556,987
		<hr/>	<hr/>
<b>CURRENT ASSETS</b>			
Trade receivables	8	32,365	45,954
Prepayments, deposits and other receivables		66,393	18,541
Cash and cash equivalents		154,443	133,151
		<hr/>	<hr/>
Total current assets		253,201	197,646
		<hr/>	<hr/>
<b>CURRENT LIABILITIES</b>			
Trade payables	9	(31,526)	(31,333)
Tax payable		(18,424)	(16,895)
Other payables and accruals		(27,456)	(22,773)
Interest-bearing bank and other borrowings		(32,781)	(31,762)
Convertible Bond	10	–	(29,782)
Deferred income		(18,057)	(18,057)
		<hr/>	<hr/>
Total current liabilities		(128,244)	(150,602)
		<hr/>	<hr/>
<b>NET CURRENT ASSETS</b>		124,957	47,044
		<hr/>	<hr/>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		637,697	604,031
		<hr/>	<hr/>
<b>NON-CURRENT LIABILITIES</b>			
Interest-bearing bank and other borrowings		(22,811)	(22,893)
Deferred tax liabilities		(55,242)	(55,093)
		<hr/>	<hr/>
Total non-current liabilities		(78,053)	(77,986)
		<hr/>	<hr/>
Net assets		<u>559,644</u>	<u>526,045</u>
		<hr/>	<hr/>
<b>CAPITAL AND RESERVES</b>			
<b>Equity attributable to equity holders of the Company</b>			
Issued capital	11	113,248	98,048
Reserves	11	446,396	427,997
		<hr/>	<hr/>
Minority interests	11	559,644	526,045
		<hr/>	<hr/>
Total equity		<u>559,644</u>	<u>526,045</u>
		<hr/>	<hr/>

## Condensed Consolidated Statement of Changes in Equity

	<i>Notes</i>	For the six months ended	
		30 June	
		2006	2005
		(Unaudited)	(Unaudited)
		HK\$'000	HK\$'000
<b>Total equity at 1 January</b>		526,045	524,531
Issue of shares, including share premium	<i>11</i>	5,100	15,660
Shares issued upon conversion of convertible bond	<i>11</i>	29,833	–
Shares issued upon exercise of a share option	<i>11</i>	3,800	–
Employee share option scheme	<i>11</i>	1,855	–
Shares issued under employee share option scheme	<i>11</i>	6,160	–
Acquisition of an additional interests in a subsidiary	<i>11</i>	–	(16,094)
Exchange differences on translation of the financial statements of overseas subsidiaries	<i>11</i>	3,503	29
Net income and expense recognised directly in equity		3,503	29
<b>Loss for the period attributable to:</b>	<i>11</i>		
Equity holders of the Company		(16,652)	(10,202)
Minority interests		–	11
		(16,652)	(10,191)
<b>Total equity at 30 June</b>		559,644	513,935

## Condensed Consolidated Cash Flow Statement

	For the six months ended	
	30 June	
	2006	2005
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES	8,887	(4,419)
NET CASH OUTFLOW FROM INVESTING ACTIVITIES	(366)	(24,307)
NET CASH INFLOW FROM FINANCING ACTIVITIES	<u>12,771</u>	<u>3,957</u>
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	21,292	(24,769)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	<u>133,151</u>	<u>106,254</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u><u>154,443</u></u>	<u><u>81,485</u></u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	<u><u>154,443</u></u>	<u><u>81,485</u></u>

## Notes to the Condensed Consolidated Financial Statements

## 1. SIGNIFICANT ACCOUNTING POLICIES

The condensed consolidated interim financial statements are prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting”. The accounting policies and basis of preparation adopted in the preparation of the interim financial statements are the same as those used in the annual financial statements for the year ended 31 December 2005, except in relation to the following new and revised Hong Kong Financial Reporting Standards (“HKFRSs”, which also include HKASs and Interpretations) that affect the Group and are mandatory for the accounting period beginning on or after 1 January 2006:

HKAS 21 (Amendment)	Net Investment in a Foreign Operation
HKAS 39 (Amendment)	The Fair Value Option
HKAS 39 & HKFRS 4 (Amendment)	Financial Guarantee Contracts
HKFRS – Int 4	Determining whether an Arrangement contains a Lease

The adoption of the above HKFRSs did not result in material impact on the accounting policies of the Group’s condensed consolidated interim financial statements.

## 2. SEGMENT INFORMATION

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

## For the six months ended 30 June (Unaudited)

	Property investment		Leasing of equipment		Telecommunication and other related services		Corporate and others		Consolidated	
	2006 (Unaudited) HK\$’000	2005 (Unaudited) HK\$’000	2006 (Unaudited) HK\$’000	2005 (Unaudited) HK\$’000	2006 (Unaudited) HK\$’000	2005 (Unaudited) HK\$’000	2006 (Unaudited) HK\$’000	2005 (Unaudited) HK\$’000	2006 (Unaudited) HK\$’000	2005 (Unaudited) HK\$’000
Segment revenue:										
Sales to external customers	4,355	2,909	1,868	1,824	176	6,406	-	-	6,399	11,139
Other revenue and gains	-	10,700	-	-	-	-	-	-	-	10,700
	<u>4,355</u>	<u>13,609</u>	<u>1,868</u>	<u>1,824</u>	<u>176</u>	<u>6,406</u>	<u>-</u>	<u>-</u>	<u>6,399</u>	<u>21,839</u>
Total	4,355	13,609	1,868	1,824	176	6,406	-	-	6,399	21,839
Segment results	4,199	13,225	(2,280)	(2,124)	(6,266)	(8,004)	(9,383)	(7,347)	(13,730)	(4,250)
Interest income									1,048	751
Finance costs									(2,587)	(3,091)
Loss before tax									(15,269)	(6,590)
Tax									(1,383)	(3,601)
Loss for the period									<u>(16,652)</u>	<u>(10,191)</u>

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”).

## 3. FINANCE COSTS

	For the six months ended 30 June	
	2006	2005
	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Interest on bank loans	2,411	2,353
Interest on finance lease	–	150
Interest on convertible bond	176	588
	<u>2,587</u>	<u>3,091</u>

## 4. LOSS BEFORE TAX

The Group's loss before tax is arrived at after charging/(crediting) the following:

	For the six months ended 30 June	
	2006	2005
	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Depreciation	7,315	7,184
Amortisation of intangible assets	2,828	3,840
Provision for doubtful debts	–	5,880
Interest income	(1,013)	(751)
Net rental income	(4,355)	(2,909)
Write back of other receivables	(575)	(519)
	<u>(575)</u>	<u>(519)</u>

## 5. TAX

	For the six months ended 30 June	
	2006	2005
	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Provision for the period:		
Hong Kong	–	–
Elsewhere	1,383	70
Deferred taxation	–	3,531
	<u>1,383</u>	<u>3,601</u>

No provision for Hong Kong profits tax has been made as the Group did not generate any taxable profits in Hong Kong during the six months ended 30 June 2006 (the "Period") (2005: 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.

## 6. INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the Period (2005: Nil).

**7. LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY**

The calculation of basic loss per share for the Period is based on the loss attributable to ordinary equity holders of the Company of HK\$16,652,000 (2005: net loss of HK\$10,202,000) and the weighted average number of 518,103,178 (2005: 411,408,151, adjusted to reflect the capital reorganisation on 27 April 2006 as further detailed in note 11 to the financial statements) ordinary shares in issue during the Period.

A diluted loss per share for the Period has not been disclosed as the share option outstanding during the Period had an anti-dilutive effect on the basic loss per share for the Period.

The calculation of diluted loss per share for the six months ended 30 June 2005 is based on the loss attributable to ordinary equity holders of the Company of HK\$9,716,000, after adjusting for the interest saved upon the deemed conversion of all convertible bond. The weighted average number of ordinary shares used in the calculation is the 411,408,151 ordinary shares in issue during the six months ended 30 June 2005, as used in the basic loss per share calculation; and the weighted average of 10,000,000 ordinary shares assumed to have been issued on the deemed conversion of all convertible bonds during the six months ended 30 June 2005. The above number of shares has been adjusted to reflect the capital reorganisation on 27 April 2006 as further detailed in note 11 to the financial statements.

**8. TRADE RECEIVABLES**

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

	<b>30 June 2006</b>		<b>31 December 2005</b>	
	<b>(Unaudited)</b>		<b>(Audited)</b>	
	<i>HK\$'000</i>	<i>Percentage</i>	<i>HK\$'000</i>	<i>Percentage</i>
Within 6 months	2,002	6	5,088	11
More than 6 months but within 1 year	5,140	16	5,986	13
More than 1 year but within 2 years	6,046	19	16,895	37
More than 2 years	15,089	47	13,938	30
Not due at balance sheet date	4,088	12	4,047	9
	<u>32,365</u>	<u>100</u>	<u>45,954</u>	<u>100</u>
Portion classified as current assets	<u>(32,365)</u>		<u>(45,954)</u>	
Non-current assets	<u>–</u>		<u>–</u>	

The Group generally grants credit terms of 3 to 12 months to the customers.

The age of the Group's trade receivables are based on the date of recognition of turnover and the due date of instalments as stipulated in the sales contracts.

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

**9. TRADE PAYABLES**

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

	<b>30 June 2006</b>		<b>31 December 2005</b>	
	<b>(Unaudited)</b>		<b>(Audited)</b>	
	<i>HK\$'000</i>	<i>Percentage</i>	<i>HK\$'000</i>	<i>Percentage</i>
Within 6 months	–	–	–	–
More than 6 months but within 1 year	–	–	–	–
More than 1 year but within 2 years	–	–	105	1
More than 2 years but within 3 years	81	1	–	–
Over 3 years	31,445	99	31,228	99
	<u>31,526</u>	<u>100</u>	<u>31,333</u>	<u>100</u>

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

**10. CONVERTIBLE BOND**

The convertible bond (the "Bond") bears interest at 2.75% per annum and is due for repayment on 18 August 2006. The Bond is convertible into a total of 20,000,000 shares with a par value of HK\$0.2 each of the Company, at the conversion price of HK\$1.5 per share at any time from 19 November 2004 up to the day falling fourteen days prior to the maturity date of the Bond on 18 August 2006. Further details of the terms and conditions of the Bond are set out in the announcement of the Company dated 19 July 2004.

The fair value of the liability component of the Bond was determined, upon issuance, using the prevailing market interest rate for similar debt without a conversion option and was carried as a current liability. The residual amount was assigned to the conversion option as the equity component that was recognised in shareholders' equity.

On 24 February 2006, the Bond was converted into 20,000,000 shares at HK\$1.5 per share. The above number of shares and the conversion price have been adjusted to reflect the capital reorganisation on 27 April 2006 as further detailed in note 11 to the financial statements.

## 11. RESERVES

	Issued capital (Unaudited) HK\$'000	Share premium account (Unaudited) HK\$'000	Contributed surplus (Unaudited) HK\$'000	Capital reserve (Unaudited) HK\$'000	Equity component of convertible bond (Unaudited) HK\$'000	Other reserve (Unaudited) HK\$'000	Exchange fluctuation reserve (Unaudited) HK\$'000	Retained profits/ (accumulated losses) (Unaudited) HK\$'000	Total (Unaudited) HK\$'000	Minority interests (Unaudited) HK\$'000
At 1 January 2005	78,388	303,964	80,258	-	707	-	442	44,689	508,448	16,083
Exchange adjustment on translation of financial statements of overseas subsidiaries	-	-	-	-	-	-	29	-	29	-
Acquisition of additional interests in a subsidiary	-	-	-	-	-	-	-	-	-	(16,094)
Issue of new shares	15,660	-	-	-	-	-	-	-	15,660	-
(Loss)/profit for the period	-	-	-	-	-	-	-	(10,202)	(10,202)	11
At 30 June 2005 and 1 July 2005	94,048	303,964	80,258	-	707	-	471	34,487	513,935	-
Exchange adjustment on translation of financial statements of overseas subsidiaries	-	-	-	-	-	-	6,199	-	6,199	-
Issue of new shares	4,000	3,200	-	-	-	-	-	-	7,200	-
Issue of a share option	-	-	-	-	-	2,280	-	-	2,280	-
Loss for the period	-	-	-	-	-	-	-	(3,569)	(3,569)	-
At 31 December 2005 and 1 January 2006	98,048	307,164	80,258	-	707	2,280	6,670	30,918	526,045	-
Exchange adjustment on translation of financial statements of overseas subsidiaries	-	-	-	-	-	-	3,503	-	3,503	-
Issue of new shares	3,400	1,700	-	-	-	-	-	-	5,100	-
Conversion of the Bond	4,000	26,540	-	-	(707)	-	-	-	29,833	-
Shares issued upon exercise of a share option	2,000	1,800	-	-	-	-	-	-	3,800	-
Employee share option scheme	-	-	-	1,855	-	-	-	-	1,855	-
Shares issued under employee share option scheme	5,800	2,118	-	(1,758)	-	-	-	-	6,160	-
Loss for the period	-	-	-	-	-	-	-	(16,652)	(16,652)	-
At 30 June 2006 (Unaudited)	<u>113,248</u>	<u>339,322</u>	<u>80,258</u>	<u>97</u>	<u>-</u>	<u>2,280</u>	<u>10,173</u>	<u>14,266</u>	<u>559,644</u>	<u>-</u>

On 10 April 2006, the Company proposed a capital reorganisation (the “Reorganisation”) to consolidate every ten ordinary shares of HK\$0.02 each in the issued and unissued share capital of the Company into one ordinary share of HK\$0.20 each (the “Consolidated Shares”). Pursuant to the Reorganisation, the authorised share capital of the Company was increased from HK\$120 million to HK\$200 million by the creation of 400 million additional Consolidated Shares of HK\$0.2 each in the capital of the Company. The Reorganisation was approved by shareholders at the special general meeting on 27 April 2006.



**12. CONTINGENT LIABILITIES**

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

	<b>30 June 2006 (Unaudited) HK\$'000</b>	<b>31 December 2005 (Audited) HK\$'000</b>
Guarantees given for mortgage loans granted by banks to certain purchasers of the Group's properties	4,014	3,395

**13. PLEDGE OF ASSETS**

The Group's bank loans were supported by certain of the Group's investment properties, a corporate guarantee executed by the Company and corporate guarantees provided by entities in the PRC.

**14. COMMITMENTS****(a) Capital commitments**

	<b>Group</b>	
	<b>30 June 2006 (Unaudited) HK\$'000</b>	<b>31 December 2005 (Audited) HK\$'000</b>
Capital commitments in respect of: Contracted, but not provided for property development project	35,902	35,902

**(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 30 June 2006, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	<b>Group</b>	
	<b>30 June 2006 (Unaudited) HK\$'000</b>	<b>31 December 2005 (Audited) HK\$'000</b>
Within one year	12,968	12,838
In the second to fifth years, inclusive	6,696	13,048
	<u>19,664</u>	<u>25,886</u>

(ii) *As lessee*

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

At 30 June 2006, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	30 June 2006 (Unaudited) HK\$'000	31 December 2005 (Audited) HK\$'000
Within one year	771	879
In the second to fifth years, inclusive	125	442
	896	1,321

**15. LITIGATION**

A writ of summons was issued in August 2005 by a former director of a subsidiary of the Company (the "Former Director") against certain defendants which include, inter alia, the Company, a wholly owned subsidiary of the Company, and a director and certain accounting staff of the Company. According to the summons, the Former Director claimed certain damages in relation to the acquisition of a subsidiary by the Group from a private company controlled by the Former Director in December 2000. In the Indorsement of Claims, the Former Director claimed that a receipt for a consideration of HK\$33,500,000 signed by the private company controlled by her be set aside and demanded for payment of outstanding consideration in the amount of HK\$33,500,000.

The Company has filed an acknowledgement of service to defend the proceedings. Having consulted the Group's legal counsel, the directors concluded that no provision for the proceedings is required in this stage.

**16. POST BALANCE SHEET EVENTS**

Pursuant to a subscription agreement and a supplemental agreement dated on 31 August 2005 and 23 September 2005 respectively between the Company and Hero Grand Investments Limited (the "Subscriber"), an independent third party, the Subscriber had conditionally agreed to subscribe for 20,000,000 new shares (the "Subscription Shares") at a subscription price of HK\$0.36 per share, and the Company had conditionally agreed to grant an option (the "Option") to the Subscriber at a price of HK\$2,280,000. Pursuant to the terms of the deed of the Option, the Subscriber will be entitled to subscribe a maximum of 57,000,000 new shares (the "Option Shares") at an exercise price of HK\$0.38 per share, subject to adjustments, anytime from the date of the completion of the supplemental agreement and up to 31 December 2006. 20,000,000 Subscription Shares and 10,000,000 Option Shares at an exercise price of HK\$0.38 were allotted and issued in October 2005 and April 2006 respectively.

Subsequent to the balance sheet date, on 11 August 2006 and 22 August 2006, the Subscriber served notices for subscription of 25,000,000 and 22,000,000 Option Shares respectively at an exercise price of HK\$0.38. The 25,000,000 and 22,000,000 Option Shares were allotted and issued on 14 August 2006 and 23 August 2006 respectively, and a gross proceed of HK\$17,860,000 was raised by the Company.

The above number of shares, subscription price and exercise price have been adjusted to reflect the capital reorganisation on 27 April 2006 as further detailed in note 11 to the financial statements."

#### 4. STATEMENT OF INDEBTEDNESS

##### **Borrowings**

As at 30 September 2006, the Group had outstanding bank borrowings of approximately HK\$55.1 million. The borrowings comprised secured bank loan of approximately HK\$24.6 million, unsecured bank loans of approximately HK\$27.3 million and outstanding obligation under finance leases of approximately HK\$3.2 million.

##### **Security**

As at 30 September 2006, the banking facilities of the Group were supported by certain investment properties of the Group, a corporate guarantee executed by the Company and corporate guarantees provided by certain entities in the PRC.

##### **Contingent liabilities**

As at 30 September 2006, the Group had given guarantees of approximately HK\$4.4 million for mortgage loans granted by a bank to certain purchasers of properties of the Group. Sky City had also given a guarantee of approximately RMB3.6 million in respect of a bank loan granted to an independent third party by a bank in the PRC.

##### **Disclaimer**

Save as aforesaid or as otherwise mentioned herein and apart from intra-group liabilities, the Group did not, at the close of business on 30 September 2006, have any 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.

As at the Latest Practicable Date, the Directors were not aware of any material change in respect of the indebtedness or other contingent liabilities of the Group since 30 September 2006.

#### 5. WORKING CAPITAL

Taking into account the Remaining Group's internal resources, presently available banking and other facilities, and in the absence of the unforeseen circumstances, the Directors are of the opinion that the Remaining Group will have sufficient working capital for the twelve-month period from the date of this circular.

**6. FINANCIAL AND TRADING PROSPECTS**

Given that the Group has extensive experience in property development and investment in the PRC since 1992, the Directors consider that they should capitalise on their expertise and connections in this area for the Group's future business development. Hence, it is expected that the Group will consolidate its business sectors and formulate a new business direction in the coming year. In this respect, the Agreement was entered into to dispose of the Group's entire interest in the loss making Telesuccess Group. It is expected that a loss of approximately HK\$112.7 million would be incurred from the Disposal and such loss would be recognised in the consolidated accounts of the Group for the year ending 31 December 2006 should Completion take place on or before 31 December 2006. The Directors are optimistic that the continuing economic growth in the PRC will serve to facilitate the business growth of the Remaining Group.

## 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 the omission of which would make any statement contained in this circular misleading.

## 2. DISCLOSURE OF INTERESTS

### (i) Directors' interests and short positions in the securities of the Company and its associated corporations

As at the Latest Practicable Date, the interests and short positions of the Directors and the chief executives of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) (a) 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 or short positions which the Directors or the chief executives were taken or deemed to have under such provisions of the SFO); or (b) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code contained in the Listing Rules were as follows:

#### (a) The Company

Name of the Director	Nature of interests	Number of the Shares		Approximate % of total issued share capital
		Long position	Short position	
Ho Tsam Hung	Interest through a controlled corporation (Note 1)	14,500,000	–	2.36%
Ho Kam Hung	Interest through a controlled corporation (Note 2)	27,000,000	–	4.40%

#### Notes:

- 14,500,000 Shares were beneficially held by Mr. Ho Tsam Hung through Morgan Estate Assets Limited.
- 27,000,000 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*

Name of the Director	Nature of interests	Number of shares		Approximate % of total issued share capital
		Long position	Short position	
Ho Tsam Hung	Beneficial interest	91	–	30.13%
Ho Kam Hung	Beneficial interest	91	–	30.13%

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

Name of the Director	Nature of interests	Number of shares		Approximate % of total issued share capital
		Long position	Short position	
Ho Tsam Hung	Beneficial interest	91	–	30.13%
Ho Kam Hung	Beneficial interest	91	–	30.13%

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.

Save as disclosed above, as at the Latest Practicable Date, to the knowledge of the Company, none of the Directors or the chief executives of the Company had or was deemed to have any interests or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) (a) 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 or short positions which the Directors and the chief executives were taken or deemed to have under the provisions of the SFO); or (b) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code contained in the Listing Rules.

**(ii) Interests of substantial Shareholders**

As at the Latest Practicable Date, so far as is known to any Director or chief executive of the Company, other than a Director or chief executive of the Company, the following persons had interests or short position in the Shares or 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, 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 Group:

***Long position in the Shares***

<b>Name of the Shareholder</b>	<b>Nature of interest</b>	<b>Number of the Shares</b>	<b>Approximate % of total issued share capital</b>
Noble Idea Investments Limited ( <i>Note 1</i> )	Beneficial interest	45,100,000	7.35%
Choi Kwan Yee ( <i>Note 1</i> )	Interest through a controlled corporation	45,100,000	7.35%
High Rank Enterprises Limited ( <i>Note 2</i> )	Beneficial interest	31,700,000	5.17%
Hero Grand Investments Limited ( <i>Note 3</i> )	Beneficial interest	77,000,000	12.56%
Leung Po Wa ( <i>Note 3</i> )	Interest through a controlled corporation	77,000,000	12.56%

*Notes:*

1. Noble Idea Investments Limited is wholly owned by Choi Kwan Yee.
2. Each of Mr. Ho Tsam 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. Mr. Ho Tsam Hung and Mr. Ho Kam Hung are brothers.
3. Hero Grand Investments Limited is wholly owned by Leung Po Wa.

Save as disclosed above, as at the Latest Practicable Date, so far as is known to any Director or chief executive of the Company, other than a Director or chief executive of the Company, no persons had interests or short position in the Shares or 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, 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 Group or any options in respect of such capital.

### 3. MATERIAL CONTRACTS

The following contracts (not being contracts in the ordinary course of business) were entered into by members of the Group within two years preceding the Latest Practicable Date and are or may be material:

- (i) a conditional sale and purchase agreement dated 14 December 2004 entered into between 廣東中訊科技有限公司 (GuangDong Zhong Xun Technology Limited) and Telesuccess relating to the sale of 19.1% interest in Sky City to Telesuccess at a consideration of HK\$60 million;
- (ii) a conditional placing agreement dated 17 May 2005 entered into between the Company and Get Nice Investment Limited as a placing agent to place 783,000,000 new ordinary shares of HK\$0.02 each (before 10 into 1 share consolidation) in the share capital of the Company at the placing price of HK\$0.02 per placing share (before 10 into 1 share consolidation);
- (iii) a conditional sale and purchase agreement dated 30 June 2005 (the “Acquisition Agreement”) entered into among Zhong Hua Entertainment Holdings Limited, a wholly-owned subsidiary of the Company (as a purchaser), Mr. Frank Wong (as a vendor and a warrantor), and Mr. Cheng Lok Wah Adrian (as a warrantor) to acquire 70% of the issued share capital of Apollo Luxury Cruises Co., Limited at a consideration of HK\$150 million. Completion of the Acquisition Agreement did not take place due to non-fulfillment of the condition. Details of the termination were set out in the announcement of the Company dated 12 September 2005;
- (iv) a conditional underwriting agreement dated 4 July 2005 (the “Underwriting Agreement”) entered into between the Company and Orient Securities Limited as an underwriter in relation to the underwriting of up to 218,120,650 new ordinary shares of HK\$0.20 each in the share capital of the Company at an subscription price of HK\$0.25 each;
- (v) a conditional subscription agreement (as supplemented by an agreement dated 23 September 2005) dated 31 August 2005 entered into among the Company, Hero Grand Investments Limited (“Hero Grand”) and Leung Po Wa as a guarantor in relation to (a) the subscription of 200 million new ordinary shares of HK\$0.02 each (before 10 into 1 share consolidation) in the share capital of the Company at a



subscription price of HK\$0.036 per share (before 10 into 1 share consolidation) by Hero Grand; and (b) the grant of an option to Hero Grand at an aggregate option price of HK\$2,280,000, pursuant to which Hero Grand is entitled to subscribe for a maximum of 570,000,000 new ordinary shares of HK\$0.02 each (before 10 into 1 share consolidation) in the share capital of the Company at an exercise price of HK\$0.038 per option share (before 10 into 1 share consolidation), subject to adjustments;

- (vi) a termination agreement dated 6 September 2005 entered into between the Company and Orient Securities Limited to terminate the Underwriting Agreement set out in paragraph (iv) above;
- (vii) a supplementary agreement dated 23 January 2006 entered into between China Land Realty Investment (B.V.I) Limited, a wholly-owned subsidiary of the Company, and Guangdong Properties Investment Limited as the purchaser relating to the disposal of 51% equity interest of Ample Dragon Limited, pursuant to which the repayment of the remaining consideration of HK\$40 million by Guangdong Properties Investment Limited was deferred to not later than 31 January 2007;
- (viii) a conditional subscription agreement dated 28 March 2006 entered into between the Company and Trendy Way Investments Limited in relation to the subscription of 170 million new ordinary shares of HK\$0.02 each (before 10 into 1 share consolidation) in the share capital of the Company at a subscription price of HK\$0.03 per share (before 10 into 1 share consolidation); and
- (ix) the Agreement.

#### 4. LITIGATION

A writ of summons was issued in August 2005 by, Ms. Suen Kwai Kam, a former director of a subsidiary of the Company (the “Former Director”) against, inter alia, the Company. According to the summons, the Former Director claimed certain damages in relation to the acquisition of a subsidiary by the Group from China Dragon Ventures Inc., a private company controlled by the Former Director, in December 2000. In the indorsement of claim, the Former Director claimed that a receipt for a consideration of HK\$33,500,000 signed by the private company controlled by her be set aside and demanded payment of allegedly outstanding consideration in the amount of HK\$33,500,000. The indorsement of claims, however, did not provide any information to substantiate the Former Director’s claims.

The Company has filed an acknowledgement of service to defend the proceedings in February 2006. No further action has been taken by the Former Director since then. No provision was made in the accounts of the Group in respect of this litigation as the Directors considered that the Company had a strong case in it.

Save for the aforesaid, there was no litigation or claim of material importance known to the Directors to be pending or threatened against any member of the Group as at the Latest Practicable Date.

**5. SERVICE CONTRACT**

None of the Directors had entered into any service contract with the Company or any other member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)) as at the Latest Practicable Date.

**6. COMPETING INTERESTS**

Certain Directors, through a private company, hold interests in a development site located at Jie Fang Nan Road, Yuexiu District, Guangzhou 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.

Save for the above, as at the Latest Practicable Date, so far as the Directors are aware, none of the Directors or their respective associates had any interest in a business which competes or may compete with the business of the Group, or have or may have any other conflicts of interest with the Group pursuant to Rule 8.10 of the Listing Rules.

**7. OTHER INTERESTS OF THE DIRECTORS**

As at the Latest Practicable Date:

- (a) none of the Directors had any interest, either direct or indirect, in any assets which have, since 31 December 2005 (being the date to which the latest published audited accounts of the Group were made up), been acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group; and
- (b) none of the Directors was materially interested in any contract or arrangement entered into by any member of the Group which is subsisting as at the Latest Practicable Date and is significant in relation to the business of the Group.

**8. MISCELLANEOUS**

- (i) The company secretary of the Company is Mr. Goh Choo Hwee who is a practicing solicitor in Hong Kong and a member of the Hong Kong Law Society.
- (ii) The qualified accountant of the Company is Mr. Lee Tao Wai, Edward who is a member of The Hong Kong Institute of Certified Public Accountants.

- (iii) The Hong Kong branch share register and transfer office of the Company is Tengis Limited situated at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.
- (iv) The English texts of this circular and the accompanying form of proxy shall prevail over the Chinese texts.

## **9. 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 in Hong Kong from the date of this circular up to and including 28 December 2006.

- (i) the memorandum of association and bye-laws of the Company;
- (ii) the annual report of the Company for the year ended 31 December 2005;
- (iii) the interim report of the Company for the six months ended 30 June 2006; and
- (iv) the material contracts referred to in the paragraph of this appendix headed "Material contracts".

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# NOTICE OF SPECIAL GENERAL MEETING

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## 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 Joint Professional Centre, Unit 1, Ground Floor, The Center, 99 Queen’s Road Central, Hong Kong at 11:00 a.m. on 28 December 2006 for the purpose of considering and, if thought fit, passing, with or without modifications, the following resolution as an ordinary resolution:

### ORDINARY RESOLUTION

“**THAT** the conditional sale and purchase agreement dated 6 November 2006 entered into by China Land Realty Investment (B.V.I.) Limited, a wholly-owned subsidiary of the Company, as vendor, Gain Idea Investments Limited as purchaser, and Mr. Luo Xing as guarantor, in relation to the sale and purchase of (i) the entire issued share capital of Telesuccess International Limited; and (ii) the benefit of a related loan, a copy of which has been produced at this meeting and signed by the chairman of this meeting for identification (the “Agreement”) be and is hereby approved, ratified and confirmed and that the directors of the Company be and are hereby authorised to implement all transactions referred to in the Agreement and to do all such acts and things and execute all such documents as may in their opinion may be necessary, desirable or expedient to carry out or to give effect to the Agreement and the arrangements contemplated thereunder.”

By Order of the Board

**ZHONG HUA INTERNATIONAL HOLDINGS LIMITED**

**Goh Choo Hwee**

*Secretary*

Hong Kong, 8 December 2006

*Head office and principal place*

*of business in Hong Kong:*

Unit 6307, 63rd Floor

The Center

99 Queen’s Road Central

Hong Kong

*Registered office:*

Clarendon House

2 Church Street

Hamilton HM 11

Bermuda

\* *For identification only*

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## NOTICE OF SPECIAL GENERAL MEETING

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*Notes:*

1. Any member entitled to attend and vote at a meeting of the Company shall be entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company. A proxy need not be a member.
2. The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing or, if the appointor is a corporation, either under its seal or under the hand of an officer, attorney or other person authorised to sign the same.
3. To be valid, a form of proxy, together with the relevant power of attorney or other authority (if any) under which it is signed or a certified true copy of such power or authority must be deposited at the Company's branch share registrar in Hong Kong, Tengis Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not later than 48 hours before the time appointed for holding of the meeting.
4. Where there are joint holders of any share, any of such joint holders may vote, either in person or by proxy, in respect of such share as if he were solely entitled thereto, but if more than one of such joint holders be present at any meeting, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders and for this purpose seniority shall be determined by the order in which the names stand in the register of members in respect of the joint holder.