THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to what action to take, you should consult your licensed securities dealer, bank manager, solicitor, professional accountant or other independent professional advisers.

If you have sold or transferred all your securities in China Strategic Holdings Limited, you should at once hand this circular, together with the enclosed form of proxy, to the purchaser or the transferee or to the bank manager, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee. This circular is not and does not constitute an offer of, nor is it intended to invite offer for, the securities in China Strategic Holdings Limited.

CHINA STRATEGIC HOLDINGS LIMITED
中策集團有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 235)

MAJOR TRANSACTION –
SUBSCRIPTION OF CONVERTIBLE EXCHANGEABLE NOTES
AND
A POSSIBLE VERY SUBSTANTIAL ACQUISITION

Financial Adviser to China Strategic Holdings Limited

道亨證券有限公司
DaoHeng Securities Ltd.
A Member of the Guoco Group

A notice convening an extraordinary general meeting of China Strategic Holdings Limited to be held at 11th Floor, Paul Y. Centre, 51 Hung To Road, Kwun Tong, Kowloon, Hong Kong on Monday, 5th June, 2006 at 11:00 a.m. is set out on pages 266 to 267 of this circular.

If you are unable to attend the extraordinary general meeting, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and return the same to Standard Registrars Limited at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the extraordinary general meeting or any adjournment thereof. Completion and return of the enclosed form of proxy will not preclude you from attending and voting in person at the special general meeting or any adjournment thereof should you so wish.

19th May, 2006

CONTENT

In this circular, unless the context otherwise requires, the following expressions shall have the same meanings when used herein.

"Announcement"	the joint announcement dated 27th March, 2006 published by the Company and Wing On in respect of, amongst other things, the issue of the Notes
"associates"	has the meaning ascribed to it under the Listing Rules
"Board"	the board of Directors
"Capital Reorganisation"	the capital reorganisation of the Company which is expected to become effective on or before 19th May, 2006, details of which are set out in the joint announcement of the Company dated 19th April, 2005 and 2nd May, 2006 and the circular of the Company dated 10th September, 2005
"CEL"	China Enterprises Limited, a company incorporated in Bermuda with limited liability, the shares of which are traded on the OTC (over-the-counter) Bulletin Board in the United States of America and is owned as to approximately 55.22% effective equity interest and approximately 88.79% effective voting interest by the Company
"CEL Conversion Shares"	the 379,746,835 new Wing On Shares which fall to be issued upon exercise in full of the conversion rights attaching to the CEL Notes at the Initial Conversion Price
"CEL Notes"	the HK$300 million 2% convertible exchangeable notes due 2011 proposed to be issued by Wing On and subscribed by CEL pursuant to the CEL Subscription Agreement, which entitle the holders thereof to convert the outstanding principal amount into the CEL Conversion Shares at the Initial Conversion Price
"CEL Subscription"	the subscription of the CEL Notes by CEL pursuant to the CEL Subscription Agreement

"CEL Subscription Agreement"	a conditional subscription agreement dated 23rd March, 2006 entered into between CEL and Wing On in relation to the CEL Subscription, subject to the terms and conditions contained therein
"Company"	China Strategic Holdings Limited, a company incorporated in Hong Kong with limited liability and the shares of which are listed on the main board of the Stock Exchange
"Completion"	completion of the CEL Subscription Agreement
"Concert Parties"	has the meaning ascribed thereto under the Takeovers Code
"connected persons"	has the meaning ascribed to it under the Listing Rules
"Conversion Shares"	the 1,265,822,784 new Wing On Shares which fall to be issued upon exercise in full of the conversion rights attaching to the Notes at the Initial Conversion Price
"Directors"	the directors of the Company
"EGM"	the extraordinary general meeting of the Company to be held at 11th Floor, Paul Y. Centre, 51 Hung To Road, Kwun Tong, Kowloon, Hong Kong at 11:00 a.m. on Monday, 5th June, 2006 to consider and approve the CEL Subscription Agreement and the transactions contemplated thereunder
"Enlarged Group"	the Group as enlarged as a result of the conversion of the CEL Notes by CEL and the Wing On Group becoming a subsidiary of CEL
"Exchange Rights"	the rights to exchange all or part of the Notes into Exchange Shares pursuant to the instruments of the Notes

"Exchange Shares"	the ordinary shares comprised in the share capital of the Spin-off Entity held by Wing On or its wholly-owned subsidiaries which are to be transferred to the Noteholder upon the exercise of its Exchange Rights
"Executive"	the Executive Director of the Corporate Finance Division of the SFC and any delegate of the Executive Director
"Group"	the Company and its subsidiaries
"Hong Kong"	Hong Kong Special Administrative Region of the PRC
"Independent Wing On Shareholders"	Wing On Shareholders other than CEL and its associates
"Initial Conversion Price"	the initial conversion price of HK$0.79 per Wing On Share (subject to adjustment) of the Notes
"Last Full Trading Day"	22nd March, 2006, being the last full trading day for the Wing On Shares prior to the suspension of dealings of the Wing On Shares on the Stock Exchange pending the issue of the Announcement
"Latest Practicable Date"	16th May, 2006, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information for inclusion in this circular
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Maturity Date"	the fifth anniversary of the date of issue of the Notes
"Noteholder"	holder of the CEL Notes
"Notes"	the HK$1,000 million 2% convertible exchangeable note (including CEL Notes) due 2011 proposed to be issued by Wing On and subscribed by CEL and Other Subscribers pursuant to the relevant Subscription Agreements, which entitle the holders thereof to, among others, convert the principal amount outstanding into the Conversion Shares at the Initial Conversion Price, subject to adjustments

"Offers"	the possible voluntary offer to acquire all the shares of Group Dragon Investments Limited not already held by Well Orient Limited and its Concert Parties; and the possible mandatory cash offer to acquire all the shares of the Company not already held or agreed to be acquired by Nation Field Limited and its Concert Parties, details of which are set out in the joint announcement of the Company dated 19th April, 2005 and the circular of the Company dated 10th September, 2005
"Other Subscribers"	ten subscribers (other than CEL) of the Notes including Hutchison International Limited and funds managed by global asset management firms and/or professional investor
"PRC"	the People's Republic of China
"RMB"	Renminbi, the lawful currency of the PRC
"SFC"	the Securities and Futures Commission of Hong Kong
"SFO"	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong
"Shareholder(s)"	holder(s) of the Share(s)
"Share(s)"	ordinary share(s) of HK$0.10 each of the share capital of the Company
"Spin-off Entity"	any company which is an affiliated company (as defined in Rule 13.11(2)(a) of the Listing Rules) or subsidiary of Wing On that is to be listed on a stock exchange through an initial public offering
"Spin-off Shares"	shares in the share capital of the Spin-off Entity
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Subscriber(s)"	subscribers of the Notes, including CEL and the Other Subscribers

"Subscription Agreement(s)"	a total of 8 subscription agreements dated 23rd March, 2006 entered into between Wing On and Other Subscribers in relation to the subscription of the relevant Notes by the relevant subscribers pursuant to the respective Subscription Agreements, subject to the terms and conditions contained therein
"subsidiary"	has the meaning ascribed to it under the Listing Rules
"Takeovers Code"	the Hong Kong Code on Takeovers and Mergers
"Wing On"	Wing On Travel (Holdings) Limited, a company incorporated in Bermuda with limited liability and the shares of which are listed on the main board of the Stock Exchange
"Wing On Capital Reorganisation"	the proposed reduction in the nominal value of the issued share capital of Wing On from HK$1.00 each per existing share to HK$0.10 per adjusted share by cancelling HK$0.90 paid-up capital on each issued existing share, and the proposed subdivision of each authorised but unissued existing share of HK$1.00 in the capital of Wing On into 10 adjusted shares of HK$0.10 each, details of which are set out in the announcement of Wing On dated 1st March, 2006 and the circular of Wing On dated 17th March, 2006
"Wing On Group"	Wing On and its subsidiaries
"Wing On Shareholders"	holders of the Wing On Shares
"Wing On Share(s)"	the ordinary share(s) of HK$0.10 each in the capital of Wing On
"AUD" or "A$"	Australian dollars, the lawful currency of Australia
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"RMB" or "Rmb"	Renminbi, the lawful currency of the PRC
"%"	per cent.

Conversion of RMB into HK$ is based on the exchange rate of RMB1.04 = HK$1.00.

CHINA STRATEGIC HOLDINGS LIMITED
中策集團有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 235)

Executive Directors:
Dr. Chan Kwok Keung, Charles
Dr. Yap, Allan
Ms. Chau Mei Wah, Rosanna
Ms. Chan Ling, Eva
Mr. Li Bo
Mr. Chan Kwok Hung
(alternate to Dr. Chan Kwok Keung, Charles)
Mr. Lui Siu Tsuen, Richard
(alternate to Dr. Yap, Allan)

Independent non-executive Directors:
Mr. David Edwin Bussmann
Mr. Wong King Lam, Joseph
Mr. Sin Chi Fai

Registered office:
8th Floor
Paul Y. Centre
51 Hung To Road
Kwun Tong
Kowloon
Hong Kong

19th May, 2006

To the Shareholders

Dear Sir or Madam,

MAJOR TRANSACTION – SUBSCRIPTION OF CONVERTIBLE EXCHANGEABLE NOTES AND A POSSIBLE VERY SUBSTANTIAL ACQUISITION

INTRODUCTION

On 27th March, 2006, Wing On and the Company jointly announced that Wing On had entered into the Subscription Agreements with 11 Subscribers of the 2% convertible exchangeable notes with an aggregate principal amount of HK$1,000 million. Wing On and CEL, being a subsidiary of the Company, had entered into the CEL Subscription Agreement pursuant to which, CEL had conditionally agreed to subscribe for the CEL Notes with a principal amount of HK$300 million. Save for the principal value of the Notes to be subscribed and the identity of the Subscribers, the principal terms of each of the Subscription Agreements are identical.

SUBSCRIPTION OF THE CEL NOTES

1. CEL Subscription Agreement

Date: 23rd March, 2006

Parties to the CEL Subscription Agreement:

Issuer: Wing On

Subscriber: CEL

CEL is the single largest shareholder of Wing On holding 121,386,481 Wing On Shares (representing approximately 19.81% of the total issued Wing On Shares) as at the Latest Practicable Date. Save for this connection, to the best of the knowledge, information and belief of the Directors, having made all reasonable enquiries, Wing On is a third party independent of the Company and its connected persons.

Information on CEL:

CEL is a company incorporated in Bermuda with limited liability, the shares of which are traded on the OTC (over-the-counter) Bulletin Board in the United States of America and is owned as to approximately 55.22% effective equity interest and approximately 88.79% effective interest of voting right by the Company. CEL is an investment holding company. Through its subsidiaries, CEL is engaged in the business of property investment and development in the PRC and has substantial interests in investment holding companies, the subsidiaries of which are principally engaged in manufacturing and marketing of tires in the PRC and other countries aboard, and the business of providing package tour, travel and other related services and hotel operations.

Conditions of the CEL Subscription Agreement:

Completion of the CEL Subscription Agreement is conditional upon:

(i) the passing by the requisite majority of Independent Wing On Shareholders in general meeting of all necessary resolutions to ratify Wing On's entering into the CEL Subscription Agreement and performance of the transaction contemplated in the CEL Subscription Agreement including the issue of the CEL Notes and the CEL Conversion Shares which fall to be issued and allotted on exercise of conversion rights attached to the CEL Notes;

(ii) the Listing Committee of the Stock Exchange having granted the listing of and permission to deal in the CEL Conversion Shares;

(iii) the passing by the requisite majority required under the Listing Rules of the Shareholders in general meeting of a resolution to approve the terms of the CEL Subscription Agreement (including the exercise of conversion rights and exchange rights attached to the CEL Notes);

(iv) the obtaining of all consents (including shareholders' approval) that may be required under the Takeovers Code or the Executive in connection with the Offers;

(v) if required, an increase of authorised share capital of Wing On to facilitate the issue of the CEL Conversion Shares and the Bermuda Monetary Authority having approved the issue of shares of Wing On permitted by such increased authorised capital, the issue of the CEL Notes and the CEL Conversion Shares and the transferability of the CEL Notes and the CEL Conversion Shares;

(vi) the completion of the Wing On Capital Reorganisation;

(vii) the warranties made by Wing On in the CEL Subscription Agreement are complete and accurate and not misleading when made and shall be true, complete and accurate, and not misleading as at Completion as if made at Completion;

(viii) CEL having received legal opinions issued by the Bermuda and Hong Kong counsel of Wing On in respect of matters relating to Wing On and transaction documents in form and substance reasonably satisfactory to CEL; and

(ix) the trust deed constituting the CEL Notes and the paying and conversion agency agreement, in a form reasonably satisfactory to CEL, shall have been executed by all parties thereto on or prior to Completion.

The completion of the CEL Subscription Agreement is inter-conditional upon the completion of the remaining Subscription Agreements as referred in the Announcement. If any of the above conditions precedent have not been fulfilled or waived by CEL (in respect of the conditions (vii), (viii) and (ix) above) on or before the day which falls on the expiry of 120 calendar days immediately following the date of the CEL Subscription Agreement (or such later date as may be agreed by the parties to the Subscription Agreement in writing), then the CEL Subscription Agreement shall lapse immediately thereafter and be of no further effect and neither party to the CEL Subscription Agreement shall have any claim against or liability or obligation to other party under the CEL Subscription Agreement.

Completion:

Completion shall take place on the third business day next following the date of fulfilment or waiver (as the case may be) of the conditions precedent stated in the section headed "Conditions of the CEL Subscription Agreement" above, or such other date as CEL and Wing On may agree.

2. Principal terms of the CEL Notes

Principal amount:	HK$300 million
Initial Conversion Price:	HK$0.79 per Wing On Share, subject to usual anti-dilution adjustments in certain events such as share consolidation, share subdivision, capitalisation issue, capital distribution, rights issue and other equity or equity derivatives issues by Wing On. The Initial Conversion Price of HK$0.79 per Wing On Share represents: • a premium of approximately 11.3% over the closing price of HK$0.71 per Wing On Share as quoted on the Stock Exchange on 23rd March, 2006, being the last trading day immediately before trading in the Wing On Shares was suspended pending the release of the Announcement;

- a premium of approximately 12.9% over the closing price of HK$0.70 per Wing On Share as quoted on the Stock Exchange for the Last Full Trading Day; and

- a premium of approximately 10.6% over the average closing price of HK$0.714 per Wing On Share as quoted on the Stock Exchange for the last 10 trading days up to and including the last 10 trading days prior to the release of the Announcement.

The Initial Conversion Price was determined after arm's length negotiations between CEL and Wing On with reference to the prevailing market price of the Wing On Shares.

Interest rate:	2.0% per annum
Maturity:	The fifth anniversary from the date of issue of the CEL Notes
Redemption:	Unless previously converted or lapsed or redeemed by Wing On, Wing On will redeem the CEL Notes on the Maturity Date at the redemption amount which is 110% of the principal amount of the CEL Notes outstanding. In the event of a change of control of Wing On (where person(s) other than CEL and/or its Concert Parties acquire more than 50% equity interests of Wing On or the consolidation or merger of substantially all of the assets of Wing On with such person(s)) prior to the Maturity Date, the Noteholder may require Wing On to redeem at the redemption amount which is 110% of the principal amount of the CEL Notes then outstanding plus interest accrued. In the event of the occurrence of events of default specified in the CEL Notes instrument, the Noteholder may also require Wing On to redeem the principal amount of the CEL Notes then outstanding plus interest accrued.

Transferability:	The CEL Notes are freely transferable but may not be transferred to a connected person of Wing On (unless the Noteholder is already a connected person and the transferee is its associates) without the prior written consent of Wing On. Wing On undertakes to the Stock Exchange that it will promptly notify the Stock Exchange upon becoming aware of any dealings in the CEL Notes by any connected persons of Wing On.
Conversion period:	The Noteholder shall have the right to convert, on any business day commencing from the 7 day after the date of issue of the CEL Notes up to and including the date which is 7 days prior to the Maturity Date, the whole or any part (in an amount or integral multiple of HK$1,000,000) of the principal amount of the CEL Notes into Wing On Shares at the then prevailing conversion price.
Exchange Rights:	Subject to certain restrictions which are intended to facilitate compliance of relevant rules and regulations, the Noteholder shall have the right to exchange from time to time all or part (in the amount of HK$10,000,000 or integral multiples thereof) of 50% of the initial principal amount of the CEL Notes for Spin-off Shares at the price (subject to adjustment for sub-division or consolidation of Spin-off Shares if the Exchange Rights are exercised after the listing date of the Spin-off Shares) at which the Spin-off Shares are actually issued to the public (as defined by the rules of the relevant stock exchange) at the time of the listing on that stock exchange. As stated in the Announcement, Wing On did not have any concrete plan as regards any spin-off proposal as at the date of the Announcement. Shareholders and potential investors should note that the spin-off by Wing On may or may not proceed.
Voting:	The Noteholder will not be entitled to receive notice of, attend or vote at any general meeting of Wing On by reason only of it being a Noteholder.

Listing:	No application will be made for the listing of the CEL Notes on the Stock Exchange or any other stock exchange. An application will be made by Wing On for the listing of, and permission to deal in, amongst other things, the CEL Conversion Shares to be issued as a result of the exercise of the conversion rights attached to the CEL Notes.
Ranking:	The CEL Notes will rank pari passu with all other present and future unsecured and un-subordinated obligations of Wing On. The CEL Conversion Shares to be issued as a result of the exercise of the conversion rights attached to the CEL Notes will rank pari passu in all respects with all other Wing On Shares in issue at the date on which the conversion rights attached to the CEL Notes are exercised.

Based on the terms of the CEL Notes, the expected yield to maturity of the CEL Notes is approximately 3.85% per annum.

INFORMATION ON WING ON

The following table sets out a summary of the audited consolidated results of the Wing On Group for each of the three years ended 31st December, 2003, 2004 and 2005 extracted from Appendix II to this circular:

	Year ended 31st December, 2005	**Year ended 31st December, 2004**	**Year ended 31st December, 2003**
	HK$'000	*HK$'000*	*HK$'000*
		(restated)	(originally stated)
Turnover	1,815,718	1,722,177	1,416,235
Profit (loss) before taxation	30,126	(2,852)	(373,047)
Taxation credit	2,108	23	2,075
Profit (loss) for the year/period	32,234	(2,829)	(370,972)
Attributable to:			
Shareholders of the parent	31,109	8,556	(370,972)
Minority interests	1,125	(11,385)	–
	32,234	(2,829)	(370,972)
Dividends	8,752	–	–

The following table sets out a summary of the audited consolidated balance sheets of the Wing On Group as at 31st December, 2003, 2004 and 2005, extracted from Appendix II to this circular:

ASSETS AND LIABILITIES	As at 31st December, 2005 *HK$'000*	As at 31st December, 2004 *HK$'000* (restated)	As at 31st December, 2003 *HK$'000* (originally stated)
Total assets	3,031,623	2,572,322	1,107,351
Total liabilities	1,617,579	1,643,878	784,252
	1,414,044	928,444	323,099
Equity attributable to shareholders of the parent	978,976	630,142	293,321
Minority interests	435,068	298,302	29,778
	1,414,044	928,444	323,099

Note:

The audited financial statements of the Wing On Group for the years ended 31st December, 2003, 2004 and 2005 have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards ("HKFRSs") and Hong Kong Accounting Standards ("HKASs") which are effective for accounting periods beginning on or after 1st January, 2005.

The adoption of the new and revised HKFRSs had no significant impact on the Group's financial position as at 31st December, 2003 and result of operations for the year ended 31st December, 2003 except for the following:

The principal impact of HKAS 32 "Financial instruments: disclosure and presentation" ("HKAS 32") on the Wing On Group is in relation to convertible notes issued by Wing On that contain both liability and equity components. Previously, convertible notes were classified as liabilities on the consolidated balance sheet. HKAS 32 requires an issuer of a compound financial instrument that contains both financial liability and equity components to separate the compound financial instrument into the liability and equity components on initial recognition and to account for these components separately. In subsequent periods, the liability component is carried at amortised cost using the effective interest method.

In the current year, the Wing On Group has, for the first time, applied HKAS 40 "Investment property" ("HKAS 40"). The Wing On Group has elected to use the fair value model to account for its investment properties which requires gains or losses arising from changes in the fair value of investment properties to be recognised directly in the profit or loss for the year in which they arise. In previous years, investment properties under the predecessor standards were measured at open market values, with revaluation surplus or deficit credited or charged to investment property revaluation reserve unless the balance on this reserve was insufficient to cover a revaluation decrease, in which case the excess of the revaluation decrease over the balance on the investment property revaluation reserve was charged to the income statement. Where a decrease had previously been charged to the income statement and a revaluation surplus subsequently arose, that increase was credited to the income statement to the extent of the decrease previously charged. The Wing On Group has applied the relevant transitional provisions in HKAS 40 and elected to apply HKAS 40 retrospectively.

The management of the Wing On Group estimated the financial impact in the adoption of such new and revised HKFRSs for the year ended 31st December, 2003 is as follow:

	As at 31st December, 2003
	HK$'000
Decrease in convertible notes	(3,065)
Increase in convertible notes reserve	20,468
Increase in accumulated losses	(17,403)

	For the year ended 31st December, 2003
	HK$'000
Increase in fair value of investment property	163
Increase in finance costs	(9,871)

Details of the financial information of the Wing On Group for each of the two years ended 31st December, 2005 and the management discussion and analysis of the Wing On Group for each of the three years ended 31st December, 2005 are set out in Appendix II to this circular.

PROSPECTS OF THE ENLARGED GROUP

In April 2002, the Group acquired a controlling stake in Wing On, a then loss-making group of companies engaged in providing packaged tours, hotel operations and transportation in Hong Kong. After being inspired by the endurance and hard working culture of the Group and under the astounding management experience of the Group, the once loss-making enterprise has now turned around and successfully resumed its profitability and vitality.

Given the improving financial performance of the Wing On Group, the Directors are positive about the prospects of the Wing On Group and consider it an opportune time to increase its investment in Wing On. The Directors consider that the CEL Subscription represents a good opportunity for the Group to expand its investments in the hotel and leisure business by leveraging on the extensive experience of the management of Wing On in the tourism and the hotel industry.

According to the announcements dated 1st March, 2006 and 27th April, 2006 published by Wing On, Wing On had undergone an exercise of placing of 175,000,000 new Wing On Shares at a price of HK$0.69 each to not less than six placees who are independent third parties to Wing On. The net proceeds from such placing of approximately HK$119.7 million was intended to be used as general working capital of the Wing On Group.

The Enlarged Group will continue to seize all potential investment opportunities that will create long-term values for its Shareholders. The Enlarged Group will also maintain its conservative and cautious investment posture towards every strategic decision to ensure superior results of the Enlarged Group.

It is stated in the circular of the Company dated 10th September, 2005 that it is proposed an internal group reorganisation ("Group Reorganisation") of the Company which will result in (i) the Company continuing as a public listed company concentrating on the manufacturing and trading of battery products, investments in securities and property and investment in unlisted investments; (ii) Group Dragon Investments Limited ("GDI") concentrating on property development, manufacturing and marketing of tires, vessels for sand mining, business of providing package tour, travel and other related services and other investment holding business; and (iii) the Shareholders receiving by way of distribution in specie of the shares of GDI. The Company's interests in, amongst others, CEL and Wing On will be transferred to GDI upon the Group Reorganisation becoming effective. According to the joint announcement of the Company dated 2nd May, 2006, it is expected that the Group Reorganisation will become effective on 19th May, 2006 and further announcement(s) will be made should there be any change on the timetables stated in such announcement.

REASONS FOR AND BENEFITS OF ENTERING INTO THE CEL SUBSCRIPTION AGREEMENT

The principal activity of Wing On is investment holding, with its subsidiaries mainly engaged in the provision of package tours, travel and related services, and hotel operations.

The principal activity of the Company is investment holding, with its subsidiaries mainly engaged in the business of manufacturing and trading of battery products, investments in securities and property, and investment in unlisted investments.

Given the improving financial performance of the Wing On Group, the Directors are positive about the prospects of the Wing On Group and consider it an opportune time to increase its investment in Wing On. The Directors consider that the CEL Subscription represents a good opportunity for the Group to expand its investments in the hotel and leisure business by leveraging on the extensive experience of the management of Wing On in the tourism and hotel industry. The conversion rights attached to the CEL Notes give the Company the flexibility to acquire further equity interests in Wing On should the Directors consider it appropriate. Based on the above, the Directors consider that the CEL Subscription is in the interests of the Company and its Shareholders as a whole and the terms of the CEL Subscription Agreement to be fair and reasonable so far as the Shareholders are concerned. The Group intends to fund the subscription of the CEL Notes by its internal resources and/or debt financing.

SHAREHOLDING STRUCTURE OF WING ON

Set out below is the shareholding structure of Wing On as at the Latest Practicable Date, and assuming conversion of the Notes including the CEL Notes:

	As at 31st December, 2005 *Wing On Shares*	*%*	**As at the Latest Practicable Date** *Wing On Shares*	*%*	**Assuming full conversion of the Notes** *Wing On Shares*	*%*
CEL *(Note 1)*	121,386,481	27.74	121,386,481	19.81	501,133,316	26.68
Other Subscribers *(Note 2)*	–	–	–	–	886,075,949	47.17
Public Wing On Shareholders	316,199,627	72.26	491,199,627	80.19	491,199,627	26.15
Total	437,586,108	100.00	612,586,108	100.00	1,878,408,892	100.00

Notes:

1. As at the Latest Practicable Date, CEL, through its wholly-owned subsidiary Million Good Limited, is beneficially interested in 121,386,481 Wing On Shares.

2. Should each of the Other Subscribers hold less than 10% of the issued Wing On Shares upon full conversion of the Notes, each of them will be treated as a public Wing On Shareholder.

As at the date of the CEL Subscription Agreement, CEL was interested in 121,386,481 Wing On Shares, representing approximately 19.81% of the issued Wing On Shares. Depending on the then shareholding structure of Wing On and the extent to which the conversion rights of the Notes are to be exercised by either CEL or Other Subscribers, CEL may become interested in 30% or more of the enlarged issued share capital of Wing On upon conversion of the CEL Notes. Hence, CEL and its Concert Parties will be obliged to make a mandatory offer to the Wing On Shareholders to acquire all the Wing On Shares, other than those already owned or agreed to be acquired by either CEL and its Concert Parties, in accordance with Rule 26 of the Takeovers Code unless a waiver thereto is obtained. CEL and its Concert Parties will comply with the relevant requirements of the Takeovers Code in such event that an obligation for a mandatory general offer arises.

As at the Latest Practicable Date, no decision has been made as to whether or when or the extent to which the conversion rights attached to the CEL Notes are to be exercised by CEL. The extent of exercise of the conversion rights attached to the CEL Notes by CEL would depend on a number of factors such as the future financial position and business prospects of the Wing On Group, the market performance of the Wing On Shares, and the extent to which Other Subscribers exercise the conversion rights attached to their Notes. Accordingly, the Directors are not in a position to state their intention about the extent of conversion rights that would be exercised by CEL and whether Wing On will become a subsidiary of CEL at this stage.

LISTING RULES IMPLICATIONS

The CEL Subscription under the CEL Subscription Agreement constitutes a major transaction for the Company under the Listing Rules. Upon exercise of the conversion rights attached to the CEL Notes, the acquisition of equity interests in Wing On may constitute a very substantial acquisition for the Company under the Listing Rules. Accordingly, the CEL Subscription and the transactions contemplated under the CEL Subscription Agreement (including the possible very substantial acquisition of equity interests in Wing On on conversion of the CEL Notes) are subject to the Shareholders' approval at the EGM. To the best knowledge of the Directors, no Shareholders have material interests in the CEL Subscription Agreement which are different from other Shareholders. Accordingly, no Shareholders will be required to abstain from voting at the EGM.

FINANCIAL EFFECT OF THE CEL SUBSCRIPTION AGREEMENT

Net asset value

The audited consolidated net assets (after deduction of minority interest of approximately HK$330.3 million) of the Group as at 31st December, 2005 as extracted from the latest published annual report of the Group for the year ended 31st December, 2005 was approximately HK$1,325.3 million. Based on the unaudited pro forma assets and liabilities statement of the Enlarged Group (as set out in Appendix III to this circular), the unaudited pro forma net assets as at 31st December, 2005 was approximately HK$1,555.6 million.

Gearing

As disclosed in the annual report for the year ended 31st December, 2005 of the Group, the Group's total borrowings and net assets as (after deduction of minority interest of approximately HK$330.3 million) at 31st December, 2005 were approximately HK$209.2 million and HK$1,325.3 million respectively. The gearing ratio of the Group as at 31st December, 2005 calculated as a percentage of the Group's total borrowings to net assets was approximately 15.8%. Based on the unaudited pro forma bank borrowings and other borrowings of approximately HK$1,411.0 million and the unaudited pro forma net asset of approximately HK$1,555.6 million (as set out in Appendix III to this circular), the pro forma gearing ratio of the Enlarged Group as at 31st December, 2005 was approximately 90.7%.

Earnings

Based on the unaudited pro forma income statement of the Enlarged Group (as set out in Appendix III to this circular), the unaudited pro forma combined turnover for the year ended 31st December, 2005 would increase by approximately HK$1,815.7 million, and the unaudited pro forma combined net profit for the year ended 31st December, 2005 would be approximately HK$101.3 million, turning around from the audited consolidated net loss of the Group of approximately HK$99.9 million for the year ended 31st December, 2005.

The pro forma figures referred to above are calculated on the bases and assumptions set out in details in Appendix III to this circular and should be read in conjunction with them.

The pro forma statements are prepared in accordance with Rule 4.29 of the Listing Rules for the purpose of providing investors information on the effect of the CEL Subscription Agreement and the full conversion of the CEL Notes by CEL. The statements are prepared for illustrative purpose only and because of their nature, they may not give a true picture of the actual financial performance of the Enlarged Group had the CEL Subscription Agreement and the full conversion of the CEL Notes by CEL actually been completed as at the relevant dates as set out on the basis stated.

The unaudited pro forma financial information is prepared on the basis stated in Appendix III to this circular and derived according to a number of adjustments. Although reasonable care has been exercised in preparing the said information, prospective investors who read the information should bear in mind that these figures are for illustrative purpose only and are inherently subject to adjustments and because of its nature, it may not give a complete picture of the actual financial performance of the Group had the CEL Subscription Agreement and the full conversion of the CEL Notes by CEL actually been completed as the relevant dates as set out in the basis stated.

EGM

The EGM will be held to consider and, if thought fit, approve the necessary resolutions in respect of the CEL Subscription and the transactions contemplated under the CEL Subscription Agreement (including the possible very substantial acquisition of equity interests in Wing On on conversion of the CEL Notes). To the best knowledge of the Directors, no Shareholders have material interests in the CEL Subscription Agreement which are different from other Shareholders. Accordingly, no Shareholders will be required to abstain from voting at the EGM.

In order to be valid, the enclosed form of proxy, together with any power of attorney or other authority under which it is signed must be delivered to the office of the Company's share registrar and transfer office, Standard Registrars Limited at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof. Completion and return of the enclosed form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

Pursuant to Article 80 of the articles of association of the Company, at any general meeting a resolution put to the vote of the meeting shall be decided on a show of hands unless a poll is (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) demanded (i) by the chairman of the meeting; or (ii) by at least three members present in person (or, in the case of a Shareholder being a corporation, by its duly authorised representative) or by proxy for the time being entitled to vote at the meeting; or (iii) by any member or members present in person (or, in the case of a Shareholder being a corporation, by its duly authorised representative) or by proxy and representing not less than one-tenth of the total voting rights of all members having the right to vote at the meeting; or (iv) by a member or members present in person (or, in the case of a Shareholder being a corporation, by its duly authorised representative) or by proxy and holding Shares in the Company conferring a right to vote at the meeting being Shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all Shares conferring that right.

RECOMMENDATIONS

The Directors are of the view that the terms of the CEL Subscription Agreement had been negotiated on an arm's length basis and were agreed on normal commercial terms between the parties and is in the interest of the Company and the Shareholders as a whole, and accordingly, recommend the Shareholders to vote in favour of the ordinary resolution approving the CEL Subscription Agreement at the EGM.

ADDITIONAL INFORMATION

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

Shareholders and potential investors should note that the CEL Subscription Agreement is subject to a number of conditions and therefore, the CEL Subscription Agreement may or may not proceed. Shareholders and potential investors are reminded to exercise caution when dealing in the Shares.

Yours faithfully,
For and on behalf of the Board
China Strategic Holdings Limited
Dr. Chan Kwok Keung, Charles
Chairman

A. FINANCIAL SUMMARY

The following is a summary of the audited consolidated results and audited consolidated balance sheet of the Group for the three years ended 31st December, 2005:

	Year ended 31st December, 2005	**Year ended 31st December, 2004**	**Year ended 31st December, 2003**
	HK$'000	*HK$'000*	*HK$'000*
		(restated)	*(originally stated)*
Turnover	38,459	27,141	2,884,493
Loss before taxation	(95,633)	(129,267)	(169,184)
Taxation	(4,247)	(6,464)	(10,935)
Profit for the year from discontinued operations	–	1,511	–
Loss for the year	(99,880)	(134,220)	(180,119)
Attributable to:			
Equity holders of the parent	(95,200)	(179,244)	(189,528)
Minority interests	(4,680)	45,024	9,409
	(99,880)	(134,220)	(180,119)

ASSETS AND LIABILITIES	As at 31st December, 2005	As at 31st December, 2004	As at 31st December, 2003
	HK$'000	*HK$'000*	*HK$'000*
		(restated)	*(originally stated)*
Total assets	1,958,869	1,899,356	2,189,244
Total liabilities	(303,300)	(295,202)	(405,704)
	1,655,569	1,604,154	1,783,540
Equity attributable to equity holders of the parent	1,325,314	1,308,545	1,533,380
Minority interests	330,255	295,609	250,160
	1,655,569	1,604,154	1,783,540

Note:

The audited financial statements of the Group for the years ended 31st December, 2003, 2004 and 2005 have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards which are effective for accounting periods beginning on or after 1st January, 2005.

The adoption of the new Hong Kong Financial Reporting Standards had no significant impact on the Group's financial position as at 31st December, 2003.

2. AUDITED FINANCIAL INFORMATION

The following is a summary of the audited consolidated financial statements of the Group for the two years ended 31st December, 2004 and 2005 as extracted from the relevant annual reports of the Company.

Consolidated Income Statement
For the year ended 31st December, 2005

	Notes	2005 HK$'000	2004 HK$'000 (restated)
Turnover	7	38,459	27,141
Cost of sales		(32,936)	(21,074)
Gross profit		5,523	6,067
Other income	9	83,623	59,762
Distribution costs		(2,974)	(850)
Administrative expenses		(59,948)	(36,662)
Other expenses	10(a)	(67,089)	(40,325)
Allowances for loans and interest receivable	10(b)	(37,445)	(140,889)
Finance costs	11	(17,630)	(17,434)
Change in fair value of conversion option of unlisted convertible note	23(a)(iv)	(39,743)	–
(Loss) gain on dilution/disposal of interests in associates		(2,814)	81,631
Share of results of associates		42,864	(40,567)
Loss before taxation		(95,633)	(129,267)
Taxation	12	(4,247)	(6,464)
Loss for the year from continuing operations		(99,880)	(135,731)
Profit for the year from discontinued operations	15	–	1,511
Loss for the year	13	(99,880)	(134,220)
Attributable to:			
Equity holders of the parent		(95,200)	(179,244)
Minority interests		(4,680)	45,024
		(99,880)	(134,220)
Loss per share	16		
From continuing and discontinued operations			
– Basic		HK$(0.11)	HK$(0.21)
– Diluted		N/A	N/A
From continuing operations			
– Basic		HK$(0.11)	HK$(0.21)
– Diluted		N/A	N/A

Consolidated Balance Sheet

As at 31st December, 2005

	Notes	2005 HK$'000	2004 HK$'000 (restated)
Non-Current Assets			
Property, plant and equipment	17	125,957	14,971
Prepaid lease payments	18	27,763	19,820
Deposit paid for acquisition of interest in properties	19	55,716	47,012
Payment for acquisition of subsidiaries	20	–	40,000
Goodwill	21	34,930	25,807
Interests in associates	23(a)	558,738	425,808
Loans and interest receivables – due after one year	24	–	37,044
Other investments	25	–	194,050
Investments in securities at fair value through profit or loss	25	117,919	–
		921,023	804,512
Current Assets			
Other asset	26	229,288	227,167
Inventories	27	12,409	13,708
Trade receivables	28	4,773	6,980
Prepaid lease payments	18	620	447
Amounts due from associates	23(b)	159,214	57,163
Loans and interest receivable – due within one year	24	464,232	563,666
Other receivables, deposits and prepayments		42,909	86,464
Other investments	25	–	19,849
Investments in securities held for trading	25	7,552	–
Pledged bank deposits	43	1,036	1,012
Bank balances and cash		115,813	118,388
		1,037,846	1,094,844

	Notes	2005 HK$'000	2004 HK$'000 (restated)
Current Liabilities			
Trade payables, other payables and accrued charges	29	56,159	46,075
Amounts due to related companies – due within one year	30	200,287	692
Payables	31	3,379	7,945
Amounts due to associates	23(c)	286	3,737
Income and other tax payable		13,387	9,185
Bank loans and other borrowings – due within one year	32	8,627	42,622
		282,125	110,256
Net Current Assets		755,721	984,588
		1,676,744	1,789,100
Capital and Reserves			
Share capital	33	88,160	88,160
Reserves		1,237,154	1,220,385
Equity attributable to equity holders of the parent		1,325,314	1,308,545
Minority Interests		330,255	295,609
Total equity		1,655,569	1,604,154
Non-Current Liabilities			
Bank loans and other borrowings — due after one year	32	–	3
Amounts due to related companies — due after one year	30	–	184,943
Deferred tax liabilities	38	21,175	–
		21,175	184,946
		1,676,744	1,789,100

Balance Sheet
As at 31st December, 2005

	Notes	**2005** *HK$'000*	**2004** *HK$'000* (restated)
Non-Current Assets			
Property, plant and equipment	*17*	2,426	2,285
Prepaid lease payments	*18*	3,862	3,980
Amounts due from subsidiaries	*22*	1,937,683	1,835,579
Investments in subsidiaries	*22*	145,034	145,034
Interests in associates	*23(a)*	2	2
Investments in securities at fair value through profit or loss	*25*	825	–
Investments in securities	*25*	–	825
		2,089,832	1,987,705
Current Assets			
Prepaid lease payments	*18*	117	117
Amounts due from associates	*23(b)*	2,989	563
Loans and interest receivables – due within one year	*24*	9,292	6,735
Other receivables, deposits and prepayments		3,008	3,122
Bank balances and cash		8,745	43,550
		24,151	54,087
Current Liabilities			
Other payables and accrued charges		3,453	8,013
Amounts due to related companies – due within one year	*30*	199,731	275
Amounts due to subsidiaries	*22*	737,054	–
Bank loans and other borrowings – due within one year	*32*	3	10
		940,241	8,298
Net Current (Liabilities) Assets		(916,090)	45,789
		1,173,742	2,033,494
Capital and Reserves			
Share capital	*33*	88,160	88,160
Reserves	*35*	1,085,582	920,163
		1,173,742	1,008,323
Non-Current Liabilities			
Bank loans and other borrowings – due after one year	*32*	–	3
Amounts due to subsidiaries	*22*	–	840,225
Amounts due to related companies – due after one year	*30*	–	184,943
		–	1,025,171
		1,173,742	2,033,494

Consolidated Statement of Changes in Equity
For the year ended 31st December, 2005

	Attributable to equity holders of the parent										
	Share capital	Share premium	Special capital reserve	Capital redemption reserves	Goodwill on consolidation	Exchange reserve	Other non-distributable reserve	Deficit	Total	Minority interests	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1st January, 2004	85,660	1,898,976	414,881	233	110,472	(8,468)	18,905	(987,279)	1,533,380	250,160	1,783,540
Exchange adjustment	–	–	–	–	–	(588)	–	–	(588)	(756)	(1,344)
Share of net reserves movement of associates	–	–	–	–	–	(99)	(307)	–	(406)	–	(406)
Net expenses recognised directly in equity	–	–	–	–	–	(687)	(307)	–	(994)	(756)	(1,750)
Loss for the year – as restated	–	–	–	–	–	–	–	(179,244)	(179,244)	45,024	(134,220)
Total recognised income (expenses) for the year	–	–	–	–	–	(687)	(307)	(179,244)	(180,238)	44,268	(135,970)
Issue of shares on exercise of share options	2,500	1,940	–	–	–	–	–	–	4,440	–	4,440
Arising on acquisition of a subsidiary	–	–	–	–	–	–	–	–	–	1,181	1,181
Realised on disposal/ dilution of interests in associates	–	–	–	–	(48,225)	(825)	–	–	(49,050)	–	(49,050)
Realised on disposal/ dilution of interests in subsidiaries	–	–	–	–	–	13	–	–	13	–	13
At 31st December, 2004 – as restated	88,160	1,900,916	414,881	233	62,247	(9,967)	18,598	(1,166,523)	1,308,545	295,609	1,604,154
Effects of changes in accounting policies *(Note 3)*	–	–	–	–	(62,247)	–	–	155,451	93,204	21,942	115,146
At 1st January, 2005 – as restated	88,160	1,900,916	414,881	233	–	(9,967)	18,598	(1,011,072)	1,401,749	317,551	1,719,300
Exchange adjustment	–	–	–	–	–	(763)	–	–	(763)	(1,027)	(1,790)
Share of net reserves movement of associates	–	–	–	–	–	–	35,365	–	35,365	–	35,365

	Attributable to equity holders of the parent										
	Share capital	Share premium	Special capital reserve	Capital redemption reserves	Goodwill on consolidation	Exchange reserve	Other non-distributable reserve	Deficit	Total	Minority interests	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Share of other non-distributable reserves by minority shareholders	–	–	–	–	–	–	(15,837)	–	(15,837)	15,837	–
Net (expenses) income recognised directly in equity	–	–	–	–	–	(763)	19,528	–	18,765	14,810	33,575
Loss for the year	–	–	–	–	–	–	–	(95,200)	(95,200)	(4,680)	(99,880)
Total recognised income (expense) for the year	–	–	–	–	–	(763)	19,528	(95,200)	(76,435)	10,130	(66,305)
Arising on acquisition of subsidiaries	–	–	–	–	–	–	–	–	–	2,574	2,574
At 31st December, 2005	88,160	1,900,916	414,881	233	–	(10,730)	38,126	(1,106,272)	1,325,314	330,255	1,655,569

The special capital reserve of the Group represents the amount arising from the capital reduction carried out by the Company during the year ended 31st December, 2001.

The other non-distributable reserves of the Group include statutory reserves required to be appropriated from the profit after taxation of the Company's subsidiaries and associates of the PRC under PRC laws and regulations. The amount of the appropriation is at the discretion of the PRC subsidiaries' board of directors.

Consolidated Cash Flow Statement

For the year ended 31st December, 2005

	2005	**2004**
	HK$'000	*HK$'000*
		(restated)
OPERATING ACTIVITIES		
Loss before taxation	(95,633)	(129,267)
Adjustments for:		
Finance costs	17,630	17,434
Change in fair value of conversion option of unlisted convertible note	39,743	–
Loss (gain) on dilution of interests in associates	2,814	(81,631)
Share of results of associates	(42,864)	40,567
Profit from discontinued operations	–	1,511
Loss on disposal of interests in subsidiaries	–	5,266
Dividend income	(8,402)	(1,542)
Interest income	(58,084)	(54,591)
Amortisation of prepaid lease payments	519	447
Depreciation of property, plant and equipment	8,102	3,798
Amortisation of goodwill	–	1,160
Changes in fair value on investment in securities at fair value through profit or loss	34,652	–
Changes in fair value of investments in securities held for trading	9,429	12,549
(Gain) loss on disposal of investments in securities are fair value through profit or loss	(10,575)	5,478
Allowances for bad and doubtful debts	18,575	17,286
Allowances for amounts due from associates	–	4,989
Allowances for loan and interest receivables	37,445	140,889
Loss (gain) on disposal of property, plant and equipment	128	(17)
Operating cash flows before movements in working capital	(46,521)	(15,674)
Decrease in inventories	1,305	14,028
Decrease in trade receivables	2,282	3,386
Decrease (increase) in other receivables, deposits and prepayments	23,437	(43,778)
Increase (decrease) in trade payables, other payables and accrued charges	9,840	(32,641)
Increase in amounts due from associates	(4,650)	(1,611)

	Notes	2005 HK$'000	2004 HK$'000 (restated)
Decrease in payables		–	(7,919)
Increase in other asset		(2,121)	(449)
Net cash outflow from operations		(16,428)	(84,658)
Tax paid in other jurisdictions		(45)	(313)
NET CASH USED IN OPERATING ACTIVITIES		(16,473)	(84,971)
INVESTING ACTIVITIES			
Repayment of loans and interest receivables		384,736	204,919
Repayment from associates		99,500	140,182
Proceeds from disposal of investments in securities		134,734	204,740
Proceeds from disposal of property, plant and equipment		–	569
Increase in pledged bank deposits		(24)	(1,012)
Interest received		5,661	3,478
Proceeds from disposal/dilution of interests in associates		–	110,341
Proceeds from disposal/dilution of subsidiaries (net of cash and cash equivalents disposed of)	*36*	–	13,324
Dividend income received from investments in securities		8,402	1,542
Dividend income received from associates		2,427	–
Amount advanced to loans and interest receivables		(293,922)	(519,573)
Amount advanced to associates		(107,708)	(163,828)
Purchase of investments in securities		(78,377)	(43,304)
Payment of prepaid lease payments		(8,635)	–
Purchase of property, plant and equipment		(3,765)	(4,330)
Deposit paid for acquisition of interests in property		(8,704)	(326)
Investment in associates		(63,152)	–
Purchase of subsidiaries (net of cash and cash equivalents acquired)	*37*	(9,651)	(26,744)
NET CASH FROM (USED IN) INVESTING ACTIVITIES		61,522	(80,022)

	2005	2004
	HK$'000	*HK$'000*
		(restated)
FINANCING ACTIVITIES		
Advance from payables	469	18,979
New bank loans and other borrowings raised	–	57,257
Proceeds from issue of shares	–	4,440
Repayment of bank loans and other borrowings	(34,400)	(4,827)
Repayment to payables	(4,611)	(111,713)
(Repayment to) advance from associates	(3,451)	1,354
Repayment of obligations under finance leases	(10)	(9)
Interest paid	(3,402)	(2,282)
NET CASH USED IN FINANCING ACTIVITIES	(45,405)	(36,801)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(356)	(201,794)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	111,588	314,744
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	(2,631)	(1,362)
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	108,601	111,588
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Bank balances and cash	115,813	118,388
Bank overdrafts	(7,212)	(6,800)
	108,601	111,588

Notes to the Financial Statements

For the year ended 31st December, 2005

1. GENERAL

The Company is a public limited company incorporated in Hong Kong with its shares listed on The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange"). The address of the registered office and principal place of business of the Company are 8th Floor, Paul Y. Centre, 51 Hung To Road, Kwun Tong, Kowloon, Hong Kong.

The financial statements are presented in Hong Kong dollars, which is the same as the functional currency of the Company.

The Company is an investment holding company. The principal activities of its subsidiaries and associates are set out in notes 46 and 23.

On 19th April, 2005, the Company announced a proposed group reorganization ("Group Reorganization") which, if approved and implemented, will result in, (i) the Company continuing to be a public listed company with its subsidiaries concentrating on its business of manufacturing and trading of battery products, investments in securities and property and investment in unlisted investment; (ii) all other subsidiaries of the Group carrying on property development and investment holding business, and all other associates of the Group carrying on manufacturing and marketing of tires and business of providing package tour, travel and other related services being grouped under the Group Dragon Investments Limited ("GDI") (a wholly-owned subsidiary of the Company) and its subsidiaries upon completion of the Group Reorganization; and (iii) the distribution in specie of shares in GDI to the then shareholders of the Company on a record date to be fixed, on the basis of one GDI shares for every share in the Company after consolidation under the capital reorganization ("Capital Reorganization") as described in note 33.

Details of the Group Reorganization and Capital Reorganization are set out in a circular of the Company dated 10th September, 2005. The Group Reorganization and Capital Reorganization have not yet been completed at the date of this report.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/ CHANGES IN ACCOUNTING POLICIES

In the current year, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRS(s)"), Hong Kong Accounting Standards ("HKAS(s)") and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are effective for accounting periods beginning on or after 1st January, 2005. The application of these new HKFRSs has resulted in a change in the presentation of the consolidated income statement, consolidated balance sheet and consolidated statement of changes in equity. In particular, the presentation of minority interests have been changed. The changes in presentation has been applied retrospectively. The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current and prior accounting periods are prepared and presented:

Business combinations

In the current year, the Group has applied HKFRS 3 Business Combinations which is effective for business combinations for which the agreement date is on or after 1st January, 2005. The principal effects of the application of HKFRS 3 to the Group are summarised below:

Goodwill

In previous periods, goodwill arising on acquisitions prior to 1st January, 2001 was held in reserves, and goodwill arising on acquisitions after 1st January, 2001 was capitalised and amortised over its estimated useful life.

The Group has applied the relevant transitional provisions in HKFRS 3. Goodwill previously recognised in reserves of HK$9,492,000 have been transferred to the Group's deficit on 1st January, 2005. With respect to goodwill previously capitalised on the balance sheet, the Group on 1st January, 2005 eliminated the carrying amount of the related accumulated amortisation of HK$1,005,000 with a corresponding decrease in the cost of goodwill *(see note 21)*. The Group has discontinued amortising such goodwill from 1st January, 2005 onwards and goodwill will be tested for impairment at least annually or in the financial year in which the acquisition takes place. Goodwill arising on acquisitions after 1st January, 2005 is measured at cost less accumulated impairment losses after initial recognition. As a result of this change in accounting policy, no amortisation of goodwill has been charged in the current period. Comparative figures for 2004 are not required to be restated.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/ CHANGES IN ACCOUNTING POLICIES *(Cont'd)*

Excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost (previously known as "negative goodwill")

In accordance with HKFRS 3, any excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition ("discount on acquisition") is recognised immediately in profit or loss in the period in which the acquisition takes place. In previous periods, negative goodwill arising on acquisitions prior to 1st January, 2001 was held in reserves, and negative goodwill arising on acquisitions after 1st January, 2001 was presented as a deduction from assets and released to income based on an analysis of the circumstances from which the balance resulted. In accordance with the relevant transitional provisions in HKFRS 3, the Group derecognised all negative goodwill on 1st January, 2005, of which negative goodwill of approximately HK$71,739,000 was previously recorded in reserves and approximately HK$47,058,000 was previously presented as a deduction from interests in associates), with a corresponding decrease to deficits as at 1st January, 2005.

Contingent liabilities of acquirees

In accordance with HKFRS 3, contingent liabilities of an acquiree are recognised at the date of the acquisition if the fair value of the contingent liabilities can be measured reliably. Previously, contingent liabilities of acquirees were not recognised separately from goodwill. As no material contingent liabilities of the acquirees were identified in relation to acquisitions that took place in the current year, this change in accounting policy has had no material effect on the goodwill calculation. In addition, because the revised accounting policy has been applied prospectively to acquisitions for which the agreement date is on or after 1st January, 2005, comparative figures for 2004 have not been restated.

Financial instruments

In the current year, the Group has applied HKAS 32 "Financial Instruments: Disclosure and Presentation" and HKAS 39 Financial Instruments: Recognition and Measurement. HKAS 32 requires retrospective application. HKAS 39, which is effective for annual periods beginning on or after 1st January, 2005, generally does not permit the recognition, derecognition or measurement of financial assets and liabilities on a retrospective basis. The adoption of HKAS 32 has had no material effect on the presentation of financial instruments in the financial statements of the Group. The principal effects on the Group as a result of implementation of HKAS 39 are summarised below:

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/ CHANGES IN ACCOUNTING POLICIES *(Cont'd)*

Classification and measurement of financial assets and financial liabilities

The Group has applied the relevant transitional provisions in HKAS 39 with respect to classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

On or before 31st December, 2004, the Group classified and measured its debt and equity securities in accordance with the benchmark treatment of Statement of Standard Accounting Practice No. 24 "Accounting for Investments in Securities" issued by the HKICPA ("SSAP 24"). Under SSAP 24, investments in debt or equity securities are classified as "investment securities" or "other investments" as appropriate. "Investment securities" are carried at cost less impairment losses while "other investments" are measured at fair value, with unrealised holding gains or losses included in the profit or loss. From 1st January, 2005 onwards, the Group classifies and measures its debt and equity securities in accordance with HKAS 39. Under HKAS 39, financial assets are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables", or "held-to-maturity financial assets". The classification depends on the purpose for which the assets are acquired. "Financial assets at fair value through profit or loss" and "available-for-sale financial assets" are carried at fair value with changes in fair values recognised in profit or loss and equity respectively. "Loans and receivables" and "held-to-maturity financial assets" are measured at amortised cost using the effective interest method.

From 1st January, 2005 onwards, the Group classified and measured its debt and equity securities in accordance with the requirements of HKAS 39. Other investments classified under non-current assets with carrying amounts of approximately of HK$194,050,000 were reclassified to investments in securities at fair value through profit or loss, which are designated to be stated at fair value through profit or loss. Other investments classified under current assets with carrying amount of approximately of HK$19,849,000 was also reclassified as investments in securities held for trading on 1st January, 2005.

Investments in securities of the Company classified under non-current assets with carrying amounts of approximately HK$825,000 were reclassified to investments in securities at fair value through profit or loss, which are designated to be stated of fair value through profit or loss on 1st January, 2005.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/ CHANGES IN ACCOUNTING POLICIES *(Cont'd)*

Financial assets and financial liabilities other than debt and equity securities

From 1st January, 2005 onwards, the Group classifies and measures its financial assets and financial liabilities other than debt and equity securities (which were previously outside the scope of SSAP 24) in accordance with the requirements of HKAS 39. As mentioned above, financial assets under HKAS 39 are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables" or "held-to-maturity financial assets". Financial liabilities are generally classified as "financial liabilities at fair value through profit or loss" or "other financial liabilities". "Financial liabilities at fair value through profit or loss" are measured at fair value, with changes in fair value being recognised in profit or loss directly. "Other financial liabilities" are carried at amortised cost using the effective interest method after initial recognition.

Prior to the application of HKAS 39, the Company has non-current interest-free amounts due from subsidiaries stated at the nominal amount. HKAS 39 requires all financial assets and financial liabilities to be measured at fair value on initial recognition. Such interest-free amounts due from subsidiaries are measured at amortised cost determined using the effective interest method at subsequent balance sheet dates. The Company has applied the relevant transitional provisions in HKAS 39. As a result of this change in the accounting policy, an adjustment on HK$279,987,000 had been made on 1st January, 2005 to increase the Company's investments in subsidiaries and to reduce the balance of amounts due from subsidiaries by the same amount, which represents the deemed capital contribution to subsidiaries upon initial recognition of advances made to them. As the directors consider that this deemed capital contribution will not be recovered, a full impairments loss was made on this deemed capital contribution as at 1st January, 2005. Accordingly, there was no impact on the results of the Company upon application of HKAS 39.

Prior to the application of HKAS 39, an interest-free non-current loan from the subsidiaries was stated at the nominal amount. HKAS 39 requires all financial assets and financial liabilities to be measured at fair value on initial recognition. Such interest-free loan is measured at amortised cost determined using the effective interest method at subsequent balance sheet dates. The Company has applied the relevant transitional provisions in HKAS 39. As a result of this change in the accounting policy, the carrying amount of the loan as at 1st January, 2005 has been decreased by HK$62,239,000 in order to state the loan at amortised cost in accordance with HKAS 39. The Company's deficits as at 1st January, 2005 has been increased by HK$62,239,000.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/ CHANGES IN ACCOUNTING POLICIES *(Cont'd)*

Embedded derivatives

On or before 31st December, 2004, embedded derivatives of the conversion option of convertible note invested by the Group were not recorded on the balance sheet.

In accordance with HKAS 39 "Financial Instruments: Recognition and Measurement" issued by the HKICPA, the conversion option element of the convertible note represents an embedded derivative instrument which is accounted for separately from the convertible notes and, as such, to be measured at fair value when initially recorded and at subsequent reporting dates. The fair value of this conversion option, representing a discount on subscription of the convertible note, was estimated using the relevant option pricing model at the date of subscription of the convertible note, and as at subsequent reporting dates. From 1st January, 2005 onwards, the Group measured the fair value of the embedded derivatives in accordance with the requirements under HKAS 39 and recognised the changes in fair value of the conversion option of the unlisted convertible note as at 1st January, 2005 and the impact of taking into account of the portion of the conversion option exercised prior to 31st December, 2004, which increase the derivative instruments of approximately HK$64,410,000 share of net assets of HK$16,961,000 and decrease the carrying amount of unlisted convertible note of HK$13,283,000 included in interests in associates and decrease the deficit of HK$68,088,000 as at 1st January, 2005 accordingly. The impact of changes in fair value of this conversion option, taking into account the portion of the conversion option exercised during the year ended 31st December, 2005, was loss of HK$39,743,000, which have been recognised in the consolidated income statement. Comparative figures for 2004 are not required to be restated.

Owner– occupied leasehold interest in land

In previous years, owner-occupied leasehold land and buildings were included in property, plant and equipment and is stated at cost or valuation less depreciation and amortisation at the balance sheet date and any accumulated impairment losses. In the current year, the Group has applied HKAS 17 "Leases". Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to lease premium for land under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis. This change in accounting policy has been applied retrospectively (See note 3 for the financial impact).

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/ CHANGES IN ACCOUNTING POLICIES *(Cont'd)*

Hotel properties

HK Interpretation 2 ("HK-Int 2") "The Appropriate Accounting Policies for Hotel Properties" clarifies the accounting policy for owner-operated hotel properties. In previous periods, the self-operated hotel properties of the Group's associate were carried at cost less impairment amounts and were not subject to depreciation. HK-Int 2 requires owner-operated properties to be classified as property, plant and equipment in accordance with HKAS 16, "Property, Plant and Equipment" and therefore be accounted for either using the cost model or the revaluation model. The Group's associate has resolved to account for these hotel properties using the cost model. In the absence of any specific transitional provisions in HK-Int 2, the new accounting policy has been applied retrospectively. Comparative figures have been restated. An adjustment of HK$3,192,000 has been made to decrease the share of net assets of associates and to increase the deficits at 31st December, 2004 after the application of HKAS 16 by the associates.

Discontinued operations

In accordance with the application of HKFRS 5 "Non-current assets held for sale and discontinued operations" issued by the HKICPA, certain income statement items for the year ended 31st December, 2004 have been regrouped under profit for the year from discontinued operations for the year ended as 31st December, 2004.

3. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES

The effects of the changes in accounting policies described in note 2 on the results for the current and prior years are as follows:

(i) On results

	2005	**2004**
	HK$'000	*HK$'000*
Non-amortisation of goodwill	3,137	–
Increase in interest income on unlisted convertible note	72	–
Changes in fair value of conversion option of unlisted convertible note	(39,743)	–
Share of results of associates		
– Decrease in release of negative goodwill to income	(4,952)	–
– Non-amortisation of goodwill	1,153	–
– Depreciation for hotel properties	(8,252)	(3,192)
Increase in loss for the year	(48,585)	(3,192)

3. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES *(Cont'd)*

(ii) On income statement line items

	2005	2004
	HK$'000	*HK$'000*
Decrease in administrative expenses	3,137	–
Increase in other income	72	–
Changes in fair value of conversion option of unlisted convertible note	(39,743)	–
Decrease in share of results of associates	(12,051)	(3,192)
	(48,585)	(3,192)

(iii) On balance sheet items

The cumulative effects of the application of the new HKFRSs as at 31st December, 2004 and 1st January, 2005 are summarised below:

THE GROUP	As at 31st December, 2004 (originally stated)	Effect of HK(SIC) - INT 2	Effect of HKAS 17	Effect of HKAS 1	As at 31st December, 2004 (restated)	Effect of HKFRS 3	Effect of HKAS 39	As at 1st January, 2005 (restated)
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Balance sheet items								
Interests in associates								
– Share of net assets	337,212	(3,192)	–	–	334,020	–	16,961	350,981
– Goodwill	2,006	–	–	–	2,006	–	–	2,006
– Negative goodwill	(47,058)	–	–	–	(47,058)	47,058	–	–
– Unlisted convertible note	55,000	–	–	–	55,000	–	(13,283)	41,717
– Derivative instrument	–	–	–	–	–	–	64,410	64,410
– Loan receivable due from an associate	81,840	–	–	–	81,840	–	–	81,840
	429,000	(3,192)	–	–	425,808	47,058	68,088	540,954

3. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES *(Cont'd)*

THE GROUP	As at 31st December, 2004 (originally stated)	Effect of HK(SIC) - INT 2	Effect of HKAS 17	Effect of HKAS 1	As at 31st December, 2004 (restated)	Effect of HKFRS 3	Effect of HKAS 39	As at 1st January, 2005 (restated)
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Property, plant and equipment	35,238	–	(20,267)	–	14,971	–	–	14,971
Prepaid lease payments – non-current	–	–	19,820	–	19,820	–	–	19,820
Investments in securities – non-current	194,050	–	–	–	194,050	–	(194,050)	–
Other investments – current	19,849	–	–	–	19,849	–	(19,849)	–
Investments in securities at fair value through profit or loss	–	–	–	–	–	–	194,050	194,050
Investments in securities held for trading	–	–	–	–	–	–	19,849	19,849
Prepaid lease payments – current	–	–	447	–	447	–	–	447
Total effects on assets	678,137	(3,192)	–	–	674,945	47,058	68,088	790,091
Goodwill on consolidation	(62,247)	–	–	–	(62,247)	62,247	–	–
Other non-distributable reserves	(18,598)	–	–	–	(18,598)	–	–	(18,598)
Deficit	1,163,331	3,192	–	–	1,166,523	(109,305)	(46,146)	1,011,072
Minority interests	–	–	–	(295,609)	(295,609)	–	(21,942)	(317,551)
Total effects on equity	1,082,486	3,192	–	(295,609)	790,069	(47,058)	(68,088)	674,923
Minority interests	(295,609)	–	–	295,609	–	–	–	–

3. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES *(Cont'd)*

THE COMPANY	31st December, 2004 (originally stated)	Effect of HKAS 1	Effect of HKAS 17	As at 31st December, 2004 (restated)	Effect of HKAS 39 (restated)	As at 1st January, 2005
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Balance sheet items						
Investments in subsidiaries	1,980,613	(1,835,579)	–	145,034	–	145,034
Investment in securities	825	–	–	825	(825)	–
Investments in securities at fair value through profit or loss	–	–	–	–	825	825
Amounts due from subsidiaries	–	1,835,579	–	1,835,579	–	1,835,579
Property, plant and equipment	6,382	–	(4,097)	2,285	–	2,285
Prepaid lease payments – non-current	–	–	3,980	3,980	–	3,980
Prepaid lease payments – current	–	–	117	117	–	117
Amounts due to subsidiaries	(840,225)	–	–	(840,225)	62,239	(777,986)
	1,147,595	–	–	1,147,595	62,239	1,209,834
Deficit	(1,395,867)	–	–	(1,395,867)	62,239	1,333,628

3. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES *(Cont'd)*

The financial effects of the application of the new HKFRSs to the Group's equity on 1st January, 2004 are summarised as follows:

	As originally stated	Effect of HKAS 1	As restated
	HK$'000	*HK$'000*	*HK$'000*
Share capital and other reserves	1,533,380	–	1,533,380
Minority interests	–	250,160	250,160
Total effects on equity	1,533,380	250,160	1,783,540
Minority interests	250,160	(250,160)	–

The Group has not early applied the following new standards and interpretations that have been issued but are not yet effective. The directors of the Group anticipate that the application of these standards or Interpretations will have no material impact on the financial statements of the Group except that HKAS 39 (Amendment) – The fair value option require the Group shall de-designate any financial asset or financial liability previously designated as at fair value through profit or loss only if it does not qualify for such designation in accordance with those new and amended paragraphs. When a financial asset or financial liability will be measured at amortised cost after de-designation, the date of de-designation is deemed to be its date of initial recognition.

HKAS 1 (Amendment)	Capital disclosures [1]
HKAS 19 (Amendment)	Actuarial gains and losses, group plans and disclosures [2]
HKAS 21 (Amendment)	The effects of change in foreign exchange rates – net investment in a foreign operation [2]
HKAS 39 (Amendment)	Cash flow hedge accounting of forecast intragroup transactions [2]
HKAS 39 (Amendment)	The fair value option [2]
HKAS 39 & HKFRS 4 (Amendments)	Financial guarantee contracts [2]

3. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES *(Cont'd)*

HKFRS 6	Exploration for and evaluation of mineral resources [2]
HKFRS 7	Financial Instruments: Disclosures [1]
HK(IFRIC) – INT 4	Determining whether an arrangement contains a lease [2]
HK(IFRIC) – INT 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds [2]
HK(IFRIC) – INT 6	Liabilities arising from participating in a specific market-waste electrical and electronic equipment [3]
HK(IFRIC) – INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies [4]

1. *Effective for annual periods beginning on or after 1st January, 2007.*
2. *Effective for annual periods beginning on or after 1st January, 2006.*
3. *Effective for annual periods beginning on or after 1st December, 2005.*
4. *Effective for annual periods beginning on or after 1st March, 2006.*

4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for financial instruments which are measured at fair values as explained in the accounting policies set out below. The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31st December each year.

The results of subsidiaries which are acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intra-group transactions and balances have been eliminated on consolidation.

4. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Goodwill

Goodwill arising on acquisitions prior to 1st January, 2005

Goodwill arising on acquisition of a subsidiary or an associate for which the agreement date is before 1st January, 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of the relevant subsidiary or associate at the date of acquisition.

As explained in note 2, goodwill arising on acquisition prior to 1st January, 2001 previously recognised in reserves, have been transferred to the Group's deficit on 1st January, 2005.

For previously capitalised goodwill arising on acquisition after 1st January, 2001, the Group has discontinued amortisation from 1st January, 2005 onwards, and such goodwill is tested for impairment annually, and whenever there is an indication that the cash generating unit to which the goodwill relates may be impaired (see the accounting policy below).

Goodwill arising on acquisitions on or after 1st January, 2005

Goodwill arising on an acquisition of a subsidiary or an associate for which the agreement date is on or after 1st January, 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant subsidiary or associate at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Capitalised goodwill arising on an acquisition of a subsidiary is presented separately in the balance sheet. Capitalised goodwill arising on an acquisition of an associate (which is accounted for using the equity method) is included in the cost of the investment of the associate.

4. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of a subsidiary or an associate, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

Excess of an acquirer's interest in the net fair value of an acquiree's identifiable assets, liabilities and contingent liabilities over cost ("discount on acquisitions", formerly known as negative goodwill)

A discount on acquisition arising on an acquisition of a subsidiary or an associate for which an agreement date is on or after 1st January, 2005 represents the excess of the net fair value of an acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the business combination. Discount on acquisition is recognised immediately in profit or loss. A discount on acquisition arising on an acquisition of an associate (which is accounted for using the equity method), is included as income in the determination of the investor's share of results of the associate in the period in which the investment is acquired.

As explained in note 2 above, all negative goodwill as at 1st January, 2005 has been derecognised with a corresponding adjustment to the Group's deficit.

Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss.

4. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Investments in associates

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the profit or loss and of changes in equity of the associate, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Where a group entity transactions with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

Revenue recognition

Turnover represents the fair value of amounts received and receivable for goods sold by the Group less discount allowances, and goods returned.

Sales of goods recognised when goods are delivered and title has passed.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

Property, plant and equipment

Property, plant and equipment (other than properties under development) are stated at cost or fair value less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment other than properties under development over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

4. **SIGNIFICANT ACCOUNTING POLICIES** *(Cont'd)*

Property, plant and equipment *(Cont'd)*

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year in which the item is dereognised.

Leasehold land and buildings under development for future owner– occupied purpose

When the leasehold land and buildings are in the course of development for production, rental or for administrative purposes, the leasehold land component is classified as a prepaid lease payment and amortised over a straight-line basis over the lease term. During the construction period, the amortisation charge provided for the leasehold land is included as part of costs of buildings under construction. Buildings under construction are carried at cost, less any identified impairment losses. Depreciation of buildings commences when they are available for use (i.e. when they are in the location and condition necessary for them to be capable of operating in the manner intended by management).

Construction in progress

Construction in progress are stated at cost, which includes land cost and the related construction cost in accordance with the Group's accounting policies, less accumulated impairment losses. No depreciation or amortisation is provided on properties under construction and construction in progress until the construction is completed and the properties and assets are ready for use.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Leasing *(Cont'd)*

The Group as lessee (Cont'd)

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Group's net investment in a foreign operation, in which case, such exchange differences are recognised in equity in the consolidated financials statements. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Company (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the exchange reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

4. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Foreign currencies *(Cont'd)*

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation on or after 1st January, 2005 are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the balance sheet date. Exchange differences arising are recognised in the translation reserve.

Impairment (other than goodwill)

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as expenses immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Other asset

Other asset are stated at the lower of cost and net realisable value.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average cost method.

Retirement benefit costs

Payments to state-managed retirement benefit schemes and Mandatory Provident Fund Scheme are charged as expense as they fall due.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

4. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Taxation *(Cont'd)*

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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 asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Financial instruments *(Cont'd)*

Financial assets

The Group's financial assets are classified into one of the four categories, including financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The Group's major financial assets are category of loans and receivables and finance assets at fair value through profit or loss and the accounting policies adopted for loans and receivables and financial assets at fair value through profit or loss are set out below.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition loans and receivables (including loans and interest receivables, amounts due from associates, trade receivables, other receivables and deposits and amounts due from subsidiaries for the Company) are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss has two subcategories, including financial assets held for trading and those designated at fair value through profit or loss on initial recognition. At each balance sheet date subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

4. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Financial instruments *(Cont'd)*

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The Group's financial liabilities are generally classified into financial liabilities at fair value through profit or loss and other financial liabilities. The Group's major financial liabilities are other financial liabilities and the accounting policies adopted are set out below.

Other financial liabilities

Other financial liabilities including trade payables, other payables and accrued charges, payables, amounts due to associates, amounts due to related companies and bank and other borrowings are subsequently measured at amortised cost, using the effective interest rate method.

Embedded derivatives

The conversion option element of the convertible note represents an embedded derivative instrument which is accounted for separately from the convertible note and, as such, to be measured at fair value when initially recorded and at subsequent reporting dates. The fair value of this conversion option is estimated using a relevant option pricing model at the date of subscription of the convertible note, and as at subsequent reporting dates. Changes in fair value of the conversion option of the unlisted convertible note are recognized directly in profit and loss.

Share-based payment transactions

Equity-settled share-based payment transactions

Share options granted to employees of the Company

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share option reserve).

At the time when the share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When the share options are forfeited or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to deficit.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies, management makes various estimates based on past experiences, expectations of the future and other information. The key sources of estimation uncertainty that may significantly affect the amounts recognised in the financial statements are disclosed below:

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. During the year ended 31st December, 2005, management of the Group determined that there were no impairment on goodwill. Details of the impairment testing on goodwill are disclosed in note 21.

Estimated impairment on loans and interests receivable

Management regularly reviews the recoverability of loans and interests receivables. Appropriate impairment for estimated irrecoverable amounts are recognised in profit and loss when there is objective evidence that the asset is impaired.

In determining whether impairment for bad and doubtful debts is required, the Group takes into consideration the aged status and likelihood of collection. Specific allowance is only made for receivables that are unlikely to be collected and is recognised based on the estimation of the future cash flow expected to receive and a suitable discounted rate in order to calculate the present value. During the year, allowance for loans and interest receivables of HK$37,445,000 has been made.

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include loans and interest receivables, amounts due from associate, trade receivables, other receivables and deposits, investments in securities at fair value through profit and loss and investment in securities held for trading, trade payable, payables, amounts due to associates, amounts due to related companies and bank and other borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Cont'd)*

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31st December, 2005 is in relation to is the carrying amount of loans and interests receivables, and trade receivables as stated in the consolidated balance sheet. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow– up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

Other price risk

The Group's investments in securities at fair value through profit or loss and investments in securities held for trading are measured at fair value at each balance sheet date. Therefore, the Group is exposed to equity security price risk. Management manages this exposure by maintaining a portfolio of investments with different risk profiles.

7. TURNOVER

	2005	**2004**
	HK$'000	*HK$'000*
Sales of goods, net of returns and sales taxes	38,459	27,141

The Group carries out its activities primarily in The People's Republic of China ("PRC") including Hong Kong, details of the analysis of the Group's turnover and contribution to results from operations by principal business segment and geographical market are set out in note 8.

8. SEGMENT INFORMATION

Business segments

During the year, the Group acquired 88% and 100% of the issued capital of東莞市江海貿易有限公司(東莞市江海) and廣州耀陽實業有限公司(廣州耀陽) respectively for an aggregate cash consideration of HK$50 million. The two newly acquired subsidiaries are engaged in the business of sand mining. The segment of sand mining is regarded as a new business segment of the Group upon completion of the acquisition.

For management purposes, the Group is currently organised into the following four major divisions – battery products, investment in securities and advance, sand mining and others. These divisions are the basis on which the Group reports its primary segment information.

Battery products	–	Manufacturing and trading of battery products and related accessories
Investments in securities and advance	–	Investments in securities holding and advance of receivables
Sand mining	–	Sand mining activities
Others	–	Corporate and investment holding

An analysis of the Group's turnover and contribution to operating results and segment assets and liabilities by business segments is as follows:

	Investments in securities and advance	**Battery products**	**Sand mining**	**Others**	**Elimination**	**Consolidated**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
For the year ended 31st December, 2005						
REVENUE						
(i) Turnover						
– External	–	33,161	5,298	–	–	38,459
– Inter-segment	473	–	–	1,200	(1,673)	–
	473	33,161	5,298	1,200	(1,673)	38,459

8. SEGMENT INFORMATION *(Cont'd)*

	Investments in securities and advance *HK$'000*	Battery products *HK$'000*	Sand mining *HK$'000*	Others *HK$'000*	Elimination *HK$'000*	Consolidated *HK$'000*
(ii) Other income						
– Interest income	52,423	33	–	5,628	–	58,084
– Gain on disposal of investments in securities at fair value through profit or loss	10,575	–	–	–	–	10,575
– Dividend income from listed investment	8,402	–	–	–	–	8,402
– Others	2,888	179	2,059	1,436	–	6,562
	74,288	212	2,059	7,064	–	83,623
RESULT						
Segment result	12,754	(5,907)	1,576	(64,497)	(1,673)	(57,747)
Unallocated corporate expenses						(20,563)
Change in fair value of conversion option of unlisted convertible notes						(39,743)
Finance costs						(17,630)
Loss on liquidation/ disposal of interests in associates	–	–	–	(2,814)	–	(2,814)
Share of results of associates	–	(239)	–	43,103	–	42,864
Loss before taxation						(95,633)
Taxation						(4,247)
Loss for the year						(99,880)

Inter–segment sales are charged at terms determined and agreed between the group companies.

8. SEGMENT INFORMATION *(Cont'd)*

	Investments in securities and advance *HK$'000*	Battery products *HK$'000*	Sand mining *HK$'000*	Others *HK$'000*	Consolidated *HK$'000*
Assets and liabilities at 31st December, 2005					
ASSETS					
Segment assets	592,978	67,314	110,716	364,905	1,135,913
Interests in associates	–	–	–	558,738	558,738
Unallocated total assets					264,218
Consolidated total assets					1,958,869
LIABILITIES					
Segment liabilities	(33,660)	(27,769)	(736)	(18,834)	(80,999)
Unallocated corporate liabilities					(222,301)
Consolidated total liabilities					(303,300)
Other information for the year ended 31st December, 2005					
Capital expenditure					
– Property, plant and equipment	332	2,835	113,184	598	116,949
– Deposit paid for acquisition of interest in properties	–	–	–	8,704	8,704
– Goodwill arising from acquisition of subsidiaries	–	–	9,123	–	9,123
– Goodwill arising from acquisition of associates	–	–	–	10,181	10,181
Depreciation and amortisation	–	2,132	5,811	678	8,621
Impairment loss on investments in securities at fair value through profit or loss	34,652	–	–	–	34,652
Allowances for loan and interest receivables	36,933	–	–	512	37,445
Change in fair value of investment in securities held for trading	9,429	–	–	–	9,429
Allowance for bad and doubtful debts	7,823	–	–	10,752	18,575

8. SEGMENT INFORMATION *(Cont'd)*

	Continuing operations					Discontinued operation	
	Investments in securities and advance	Battery products	Others	Elimination	Sub– total	Phar– maceutical products	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000* (Note a)	*HK$'000*
For the year ended 31st December, 2004							
REVENUE							
(i) Turnover							
– External	–	27,141	–	–	27,141	96,262	123,403
– Inter-segment	–	–	2,184	(2,184)	–	–	–
	–	27,141	2,184	(2,184)	27,141	96,262	123,403
(ii) Other income							
– Interest income	48,539	–	6,018	–	54,557	17	54,574
– Gain on disposal of investments in securities at fair value through profit or loss	–	–	–	–	–	–	–
– Dividend income from listed investment	1,542	–	–	–	1,542	–	1,542
– Others	–	150	3,050	–	3,200	446	3,646
	50,081	150	9,068	–	59,299	463	59,762
RESULT							
Segment result	(110,631)	(2,004)	(10,818)	(2,184)	(125,637)	6,777	(118,860)
Unallocated corporate expenses							(27,260)
Finance costs							(17,434)
Loss on disposal/dilution of interests in subsidiaries	–	–	–	–	–	(5,266)	(5,266)
Gain on disposal/liquidation of interests in associates	–	–	81,631	–	81,631	–	81,631
Share of results of associates	–	(147)	(40,420)	–	(40,567)	–	(40,567)
Profit (loss) before taxation						1,511	(127,756)
Taxation						–	(6,464)
Profit (loss) for the year						1,511	(134,220)

Inter-segment sales are charged at terms determined and agreed between the group companies.

8. SEGMENT INFORMATION *(Cont'd)*

	Continuing operations				Discontinued operation	
	Investments in securities and advance	**Battery products**	**Others**	**Sub– total**	**Phar– maceutical products**	**Consolidated**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000* *(Note a)*
Assets and liabilities at 31st December, 2004						
ASSETS						
Segment assets	1,095,673	79,226	62,187	1,237,086	–	1,237,086
Interests in associates	–	–	425,808	425,808	–	425,808
Unallocated total assets						236,462
Consolidated total assets						1,899,356
LIABILITIES						
Segment liabilities	(4,258)	(10,738)	(34,816)	(49,812)	–	(49,812)
Unallocated corporate liabilities						(245,390)
Consolidated total liabilities						(295,202)
Other information for the year ended 31st December, 2004						
Capital expenditure						
– Property, plant and equipment	–	13,674	251	13,925	1,370	15,295
– Deposit paid for acquisition of interest in properties	–	–	47,012	47,012	–	47,012
– Goodwill arising on acquisition of interests in subsidiaries	–	26,812	–	26,812	–	26,812
– Goodwill arising on acquisition of interest in associates	3,931	–	–	3,931	–	3,931
Depreciation and amortisation	–	61	1,892	1,953	1,845	3,798
Amortisation of prepaid lease payment	–	447	–	447	–	447
Amortisation of goodwill	–	1,005	–	1,005	155	1,160
Loss on disposal of investments in securities	5,478	–	–	5,478	–	5,478
Loss on disposal of interests in subsidiaries	–	–	–	–	5,266	5,266
Allowances for loans and interest receivables	140,889	–	–	140,889	–	140,889
Change in fair value investment in securities held for trading	12,549	–	–	12,549	–	12,549
Allowance for bad and doubtful debts	–	–	17,286	17,286	–	17,286
Allowance for amounts due from associates	–	–	4,989	4,989	–	4,989

8. SEGMENT INFORMATION *(Cont'd)*

Note:

(a) Following the disposal of Tung Fong Hung Investment Limited and its subsidiaries which are engaged in the manufacturing and trading of pharmaceutical products in May 2004, the business segment of manufacturing and trading of pharmaceutical products was regarded as discontinued operations during the year ended 31st December, 2004.

Geographical segments

The following provides an analysis of the Group's turnover by geographic market, irrespective of the origin of the goods/ services:

	Turnover	
	2005	**2004**
	HK$'000	*HK$'000*
Continuing operations:		
PRC, other than Hong Kong	36,519	27,141
Hong Kong	1,940	–
	38,459	27,141
Discontinued operations:		
PRC, other than Hong Kong	–	–
Hong Kong	–	96,262
	–	96,262

8. SEGMENT INFORMATION *(Cont'd)*

The following is an analysis of the carrying amount of segment assets and capital additions analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets At 31st December,		Capital additions For the year ended 31st December,	
	2005	**2004**	**2005**	**2004**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
PRC	212,960	29,012	135,323	91,429
Hong Kong	1,021,515	1,278,734	9,634	1,621
Overseas	165,656	165,802	–	–
	1,400,131	1,473,548	144,957	93,050

9. OTHER INCOME

	2005	**2004**
	HK$'000	*HK$'000*
Interest income from loans and interest receivable	52,423	47,119
Interest income from banks	640	3,461
Interest income from unlisted convertible bonds	5,021	3,994
Net exchange gain	–	3,151
Gain on disposal of investments in securities at fair value through profit or loss	10,575	–
Dividend income from listed investments	8,402	1,542
Gain on disposal of property, plant and equipment	–	17
Others	6,562	478
	83,623	59,762

10. (a) OTHER EXPENSES

	2005	2004
	HK$'000	*HK$'000*
Changes in fair value on investment in securities at fair value through profit and loss	34,652	–
Allowances for bad and doubtful debts	18,575	17,286
Changes in fair value of investments in securities held for trading	9,429	12,549
Loss on disposal of investment in securities at fair value through profit or loss	–	5,478
Allowances for amounts due from associates	–	4,989
Net exchange loss	3,709	–
Others	724	23
	67,089	40,325

(b) ALLOWANCES FOR LOANS AND INTEREST RECEIVABLE

During the year, the directors have reviewed the carrying value of the Group's loans and interest receivables and determined that the recoverable amount of certain loans and interest receivables is below their carrying value with reference to present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition. Accordingly, an impairment loss at the amount of approximately HK$37,445,000 had been charged to the income statement.

11. FINANCE COSTS

	2005	2004
	HK$'000	*HK$'000*
Interest on borrowings wholly repayable within five years:		
Bank borrowings	613	943
Other borrowings and payables	17,014	16,488
Obligations under finance leases	3	3
	17,630	17,434

12. TAXATION

	Continuing operations		Discontinued operations		Consolidated	
	2005	**2004**	**2005**	**2004**	**2005**	**2004**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
The charge comprises:						
Taxation in other jurisdictions						
– Current year	1,010	1,340	–	–	1,010	1,340
– Overprovision in prior years	(663)	–	–	–	(663)	–
Hong Kong Profits Tax						
– Current year	1,300	5,124	–	–	1,300	5,124
– Underprovision in prior years	2,600	–	–	–	2,600	–
Taxation attributable to the Company and its subsidiaries	4,247	6,464	–	–	4,247	6,464

Hong Kong Profits Tax is calculated at 17.5% (2004: 17.5%) of the estimated assessable profit for the year.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions. Pursuant to the relevant laws and regulations in the PRC, certain PRC subsidiaries of the Company are exempted from PRC income tax for two years starting from their first profit-making year, followed by a 50% reduction for the next three years.

12. TAXATION *(Cont'd)*

The tax charge for the year can be reconciled to the loss before taxation as per the consolidated income statement as follows:

	2005	2004
	HK$'000	*HK$'000*
Loss before taxation		
– Continuing operations	(95,633)	(136,044)
– Discontinued operations	–	6,777
Loss before taxation	(95,633)	(129,267)
Tax at the average income tax rate of 18.8% (2004: 17.7%) *(note a)*	(17,953)	(22,921)
Tax effect of share of results of associates	10,182	6,006
Tax effect of income not taxable in determining taxable profit	(37,430)	(34,334)
Tax effect of expenses not deductible for tax purpose	37,003	25,679
Tax effect of deductible temporary differences not recognised	10,504	23,849
Tax effect of tax losses not recognised	4	6,280
Underprovision in respect of prior year	1,937	–
Effect of tax exemption granted to PRC subsidiaries	–	(485)
Effect of different tax rates of subsidiaries operating in other jurisdictions	–	2,139
Others	–	251
Tax expense for the year	4,247	6,464

Notes:

(a) The average income tax rate for both years represents the weighted average income tax rate of the operations in different jurisdictions on the basis of the relative amounts of net profits before taxation and the related statutory rates.

(b) As at 31st December, 2005, the Group had unused tax loss of approximately HK$29,704,000 (2004: HK$29,682,000) available to offset against future profits. No deferred tax asset has been recognised in respect of the unused tax losses due to the unpredictability of future profits streams.

12. TAXATION *(Cont'd)*

(c) As at 31st December, 2005, the Group had deductible temporary differences in respect of allowances on doubtful debts of approximately HK$364,786,000 (2004: HK$308,765,000). No deferred tax asset has been recognised in relation to such deductible temporary differences as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

13. LOSS FOR THE YEAR

	Continuing operations		Discontinued operations		Consolidated	
	2005	**2004**	**2005**	**2004**	**2005**	**2004**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Loss for the year has been arrived at after charging:						
Staff costs						
– directors remuneration *(note 14(a))*	2,092	3,413	–	–	2,092	3,413
– other staff costs *(note 14(b))*	14,724	10,799	–	11,619	14,724	22,418
– retirement benefits scheme contributions, excluding directors	405	382	–	469	405	851
Total staff costs	17,221	14,594	–	12,088	17,221	26,682
Auditors' remuneration						
Current year	6,622	4,327	–	427	6,622	4,754
Underprovision in prior years	–	–	–	392	–	392
Depreciation and amortisation of property, plant and equipment	8,102	1,953	–	1,845	8,102	3,798
Loss on disposal of property, plant and equipment	128	–	–	–	128	–
Amortisation of prepaid lease payments	519	447	–	–	519	447
Amortisation of goodwill included in administrative expenses	–	1,005	–	155	–	1,160

14. DIRECTORS' AND EMPLOYEE REMUNERATION

(a) Directors' remuneration

	2005	2004
	HK$'000	*HK$'000*
Fees		
Executive directors	–	–
Independent non-executive directors		
– Mr. David Edwin Bussman	257	217
– Mr. Wong King lam, Joseph	50	–
– Mr. Sin Chi Fai	47	–
– Ms. Fung Wan Yiu, Agnes	–	100
	354	317
Other emoluments		
Executive directors		
(i) Salaries and other benefits		
– Dr. Chan Kwok Keung, Charles	–	104
– Dr. Yap, Allan	229	117
– Ms. Chau Mei Wah, Rosanna	–	–
– Ms. Chan Ling, Eva	1,497	1,261
– Mr. Li Bo	–	–
– Mr. Chan Kwok Hung	–	–
– Mr. Lui Siu Tsuen, Richard	–	–
– Mr. Li Wa Kin	–	1,589
	1,726	3,071
(ii) Retirement benefits scheme contributions		
– Dr. Chan Kwok Keung, Charles	–	–
– Dr. Yap, Allan	–	–
– Ms. Chau Mei Wah, Rosanna	–	–
– Ms. Chan Ling, Eva	12	12
– Mr. Li Bo	–	–
– Mr. Chan Kwok Hung	–	–
– Mr. Lui Siu Tsuen, Richard	–	–
– Mr. Li Wa Kin	–	13
	12	25
Independent non-executive directors	–	–
	1,738	3,096
Total director's emoluments	2,092	3,413

14. DIRECTORS' AND EMPLOYEE REMUNERATION *(Cont'd)*

During the year, no emoluments were paid by the Group to any director as an inducement to join or upon joining the Group or as compensation for loss of office.

(b) Employees' remuneration

The five highest paid individuals in the Group included one (2004: two) director(s) of the Company, details of whose salaries and other benefits are set out above. The aggregate remuneration of the remaining highest paid individuals, who are employees of the Group, is as follows:

	2005	**2004**
	HK$'000	*HK$'000*
Salaries and other benefits	1,950	1,482
Retirement benefit scheme	48	36
	1,998	1,518

	2005 Number of employees	**2004 Number of employees**
Nil to HK$1,000,000	4	3

15. DISCONTINUED OPERATIONS

In May 2004, the Group disposed of the 100% interests in Tung Fong Hung Investment Limited and its subsidiaries which are engaged in the manufacturing and trading of pharmaceutical products, was regarded as discontinued operation during the year ended 31st December, 2004.

The profit for the year ended 31st December, 2004 from the discontinued operations was anlaysed as follows:

	2004
	HK$'000
Profit of pharmaceutical products segment for the year	6,777
Loss on disposal of pharmaceutical products segment	(5,266)
	1,511

The profit of pharmaceutical products segment for the period from 1st January, 2004 to 30th April, 2004, which have been included in the consolidated income statements and analysed as follows:

	1st January, 2004 to 30th April, 2004
	HK$'000
Turnover	96,262
Cost of sales	(60,381)
Other income	419
Distribution costs	(21,056)
Administrative expenses	(8,467)
Profit before tax	6,777
Taxation	–
Profit for the period	6,777

The carrying amounts of the assets and liabilities of Tung Fong Hung Investment Limited and its subsidiaries at the date of disposal are disclosed in note 36.

16. LOSS PER SHARE

From continuing and discontinued operations

The calculation of the basic loss per share attributable to the equity holders of the parent for the year is based on the following data:

	2005	2004
	HK$'000	*HK$'000*
Loss for the year attributable to the equity holders of the parent for the purposes of basic loss per share	(95,200)	(179,244)

	Number of share	
	2005	2004
Weighted average number of ordinary shares for the purposes of basic loss per share	881,595,087	877,471,799

From continuing operations

The calculation of the basic loss per share from continuing operations attributable to equity holders of the parent for the year is based on the following data:

	2005	2004
	HK$'000	*HK$'000*
Loss for the year attributable to equity holders of the parent	(95,200)	(179,244)
Add: Net profit for the year from discontinued operations	–	(1,511)
Loss for the year for the purpose of basic loss per share from continuing operations	(95,200)	(180,755)

16. LOSS PER SHARE *(Cont'd)*

From continuing operations *(Cont'd)*

	Number of shares 2005	2004
Weighted average number of ordinary shares for the purposes of basic loss per share	881,595,087	877,471,799

The calculation of the basic earnings per share for the year ended 31st December, 2005 and 2004 have been adjusted as a result of the application of new HKFRSs and details are shown below:

	2005 Basic earnings per share *HK$*	2004 Basic earnings per share *HK$*
Reported figures before adjustments	(0.06)	(0.20)
Adjustment arising from application of new HKFRSs	(0.05)	(0.01)
Restated	(0.11)	(0.21)

For the year ended 31st December, 2005, no diluted loss per share has been presented as there were no dilutive potential ordinary shares in issue.

For the year ended 31st December, 2004, no disclosure of diluted loss per share has been shown as the exercise of the share option would result in a decrease in loss per share.

17. PROPERTY, PLANT AND EQUIPMENT

	Buildings	**Furniture and fixtures**	**Machinery and equipment**	**Sand vessels**	**Motor vehicles**	**Construction in progress**	**Buildings under development**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
THE GROUP								
COST								
At 1st January, 2004	63,245	33,096	158,767	–	3,605	760	–	259,473
Exchange adjustments	–	8	–	–	–	–	–	8
Reclassification	–	205	–	–	–	(205)	–	–
Arising from acquisition of subsidiaries	–	614	9,800	–	551	–	–	10,965
Additions	–	1,011	2,206	–	596	187	330	4,330
Disposals	–	(1,263)	(26)	–	–	–	–	(1,289)
Disposal of subsidiaries	(61,120)	(31,389)	(1,526)	–	(3,191)	(742)	–	(97,968)
At 1st January, 2005	2,125	2,282	169,221	–	1,561	–	330	175,519
Exchange adjustments	–	19	217	2,062	7	–	–	2,305
Reclassification	–	–	–	–	–	–	–	–
Arising from acquisition of subsidiaries	–	–	165	113,019	–	–	–	113,184
Additions	–	3	827	–	942	1,663	330	3,765
Disposals	–	–	(171)	–	(13)	–	–	(184)
At 31st December, 2005	2,125	2,304	170,259	115,081	2,497	1,663	660	294,589
DEPRECIATION, AMORTISATION AND IMPAIRMENT LOSS								
At 1st January, 2004	57,126	3,615	157,533	–	2,257	–	–	220,531
Provided for the year	78	2,257	1,100	–	363	–	–	3,798
Eliminated on disposals	–	(732)	(5)	–	–	–	–	(737)
Eliminated on disposals of subsidiaries	(56,932)	(4,061)	(483)	–	(1,568)	–	–	(63,044)
At 1st January, 2005	272	1,079	158,145	–	1,052	–	–	160,548
Exchange adjustments	–	6	31	–	1	–	–	38
Provided for the year	53	506	1,483	5,754	306	–	–	8,102
Eliminated on disposals	–	–	(47)	–	(9)	–	–	(56)
At 31st December, 2005	325	1,591	159,612	5,754	1,350	–	–	168,632
NET BOOK VALUES								
At 31st December, 2005	1,800	713	10,647	109,327	1,147	1,663	660	125,957
At 31st December, 2004	1,853	1,203	11,076	–	509	–	330	14,971

17. PROPERTY, PLANT AND EQUIPMENT *(Cont'd)*

	Buildings	Furniture and fixtures	Machinery and equipment	Sand vessels	Motor vehicles	Construction in progress	Buildings under development	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
THE COMPANY								
COST								
At 1st January, 2004 and 31st December, 2004	2,125	1,488	1,338	–	541	–	–	5,492
Additions	–	–	–	–	599	–	–	599
At 31st December, 2005	2,125	1,488	1,338	–	1,140	–	–	6,091
DEPRECIATION, AMORTISATION AND IMPAIRMENT LOSS								
At 1st January, 2004	219	888	1,181	–	338	–	–	2,626
Provided for the year	53	285	109	–	134	–	–	581
At 1st January, 2005	272	1,173	1,290	–	472	–	–	3,207
Provided for the year	53	262	37	–	106	–	–	458
At 31st December, 2005	325	1,435	1,327	–	578	–	–	3,665
NET BOOK VALUES								
At 31st December, 2005	1,800	53	11	–	562	–	–	2,426
At 31st December, 2004	1,853	315	48	–	69	–	–	2,285

The above items of property, plant and equipment were depreciated on a straight line basis at the following rates per annum:

Buildings	2% or the term of the lease or land use rights, if shorter.
Furniture and fixtures	10% – 25%
Machinery and equipment	10% – 20%
Sand vessels	10%
Motor vehicles	12.5% – 25%

At the balance sheet dates, the buildings of the Group are held under medium– term land use rights in the PRC.

As at 31st December, 2005, no property, plant and equipment were held under finance leases. The net book value of furniture and fixtures as at 31st December, 2004 included an amount of approximately HK$3,000 in respect of assets held under finance leases.

18. PREPAID LEASE PAYMENTS

	THE GROUP *HK$'000*	THE COMPANY *HK$'000*
COST		
At 1st January, 2004	4,699	4,699
Arising from acquisition of subsidiaries	16,500	–
At 1st January, 2005	21,199	4,699
Additions	8,635	–
At 31st December, 2005	29,834	4,699
AMORTISATION		
At 1st January, 2004	485	485
Provided for the year	447	117
At 1st January, 2005	932	602
Provided for the year	519	118
At 31st December, 2005	1,451	720
NET BOOK VALUES		
At 31st December, 2005	28,383	3,979
At 31st December, 2004	20,267	4,097

The Group

The carrying value of prepaid lease payment as at 31st December, 2005 which amounted to HK$15,840,000 (2004: HK$16,170,000) represented the amount paid to acquire a land use right with medium lease term relating to land located in the Zhuhai, the PRC for a consideration of HK$16,500,000 for the construction of a factory. The land use right has not yet been obtained by the Group as at 31st December, 2005. The directors are of the opinion that the land use right will be obtained in due course.

18. PREPAID LEASE PAYMENTS *(Cont'd)*

The Company

The prepaid lease payments are leasehold lands under medium– term lease located in PRC.

	THE GROUP		THE COMPANY	
	2005	**2004**	**2005**	**2004**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Analysed for reporting purpose as:				
Current assets	620	447	117	117
Non– current asset	27,763	19,820	3,862	3,980
	28,383	20,267	3,979	4,097

19. DEPOSIT PAID FOR ACQUISITION OF INTEREST IN PROPERTIES

During the year ended 31st December, 2004, the Group entered into a conditional agreement with a third party ("Vendor") to acquire the properties interest in a parcel of land situated in Shanghai, the PRC (the "Land") and the 24-storey building being erected upon the land together with 2 levels of underground carparks (the "Building") (collectively referred to as to the "Properties") for a consideration of RMB450,000,000 (approximately HK$424,528,000). A deposit of RMB50,000,000 (HK$47,012,000) was paid upon the entering into the conditional agreement.

According to the conditional agreement, prior to the completion of acquisition, the Vendor should (i) obtain the certificate in respect of the land use rights of the Land and the ownership of the Building; (ii) obtain an approval from 上海市計劃委員會 that the use of the Properties be changed from office to both commercial and residential and that all relevant fee and charges arising from the sale of the Land payable to the relevant authorities including 上海市國土局 having been settled in full; (iii) agree with the Group on the specification of installation, fixtures and furniture and other internal decoration of the Properties; (iv) procure all the contractors engaged in the development/construction of the Properties to enter into agreements with the Group to bind these contractors with obligations to the Group to rectify all defects of the Properties which may arise after the completion of the development/construction; and (v) procure the granting of a loan ("Loan") to be granted by PRC banks to the Group to finance the remaining consideration.

The remaining consideration will be settled upon the grant of the Loan and the transfer of the ownership of the Land and Buildings to the Group.

19. DEPOSIT PAID FOR ACQUISITION OF INTEREST IN PROPERTIES *(Cont'd)*

It is one of the conditions for completion of the acquisition that the Vendor should obtain approval for the change of use of the Properties from office to both commercial and residential. Should the Vendor fail to obtain such approval within 150 days from the date of the agreement, the Group is entitled to either (i) to proceed with the agreement in accordance with the existing terms and conditions; or (ii) to acquire the 1st to 7th floors and the 23rd floor of the Properties together with the two levels underground carparks for a consideration of RMB70,000,000 (HK$65,817,000).

Provided that if the conditions are not fulfilled on or before 1st June, 2005, the Group shall agree to a further extension of not less than 60 days without imposing any fine on the Vendor. If the conditions are not fulfilled within the extended period, the Group shall be entitled to terminate the agreement and the Vendor shall refund the deposit to the Group together with interests accrued during the period from the date of the agreement to the date the deposit is refunded and calculated on the relevant prevailing market interest rate.

However, the conditions stated above for the change of the use of the Properties has not yet been fulfilled within the said period and accordingly the Vendor and the Group had entered into another agreement dated 3rd February, 2005 pursuant to which, among other things, (i) the Group will pay, on behalf of the Vendor, RMB22,000,000 (approximately HK$20,663,000) to the main contractor of the Properties (the "Main Contractor"); and (ii) the amount paid by the Group in (i) will be deducted from the sales consideration.

Further, the Group had made an additional RMB8,000,000 deposit (approximately HK$7,512,000) to the Vendor pursuant to this additional agreement and the aggregate sum paid by the Group to the Vendor amounted to RMB58,000,000 (approximately HK$55,716,000) as of 31st December, 2005.

In June 2005, the Group had commenced legal proceedings against the Vendor, among other things, to demand the Vendor to fulfill its obligations under the above two agreements and applied to a PRC court an injunction order on the Properties to stop the Properties from being transferred (the "Injunction Orders"). It had also come to the attention of the Group that one of the three secured creditors of the Vendor and the Main Contractor had already applied to and being granted the Injunction Orders and they, together with the other two secured creditors, had priority over the Group on the Properties.

As a condition precedent to the application of the Injunction Orders, the Group had issued a counter guarantee of RMB402,000,000 (approximately HK$377,500,000) to an institution in the PRC which provided a guarantee of the same amount to the PRC court on behalf of the Group.

19. DEPOSIT PAID FOR ACQUISITION OF INTEREST IN PROPERTIES *(Cont'd)*

At the same time, the directors of the Group are also in discussion with the Vendor for settlement of the above matters; however, there can be no assurance that such matters can be resolved and settled with the Vendor eventually. Despite the above developments, the directors of the Group have consulted its legal counsel and decided to proceed with the acquisition of the Properties in consideration of the following:

(a) the transaction can be continued with the payment of outstanding consideration of RMB392 million (approximately to HK$376 million) and the legal title of the Properties can be transferred to the Group when the debts of the Vendor owed to the three secured creditors and the Main Contractor are settled by the Group;

(b) the usage of the Properties can be changed to both commercial and residential when the Group obtains the legal title to the Properties and makes the application to the relevant authority;

(c) the acquisition of the Properties, on a completion basis, is expected to bring economic benefits to the Group taking into account of the estimated market value of the Properties as of 31st December, 2005; and the ability of the Group to meet the cash flow requirements to finance the acquisition and completion of the Properties, given the current financial position of the Group and financial resources available to the Group from internally generated funds, advances from its holding companies and/or financial institutions.

The directors of the Company are of the view that the carrying amount of deposit is not less than its recoverable amount at the balance sheet dates.

20. PAYMENT FOR ACQUISITION OF SUBSIDIARIES

During the year ended 31st December, 2004, the Group entered into conditional agreements with third parties ("Vendor Parties") to acquire the entire interest in 廣州耀陽實業有限公司（"廣州耀陽"）and 88% interest in 東莞市江海貿易有限公司（"東莞市江海"）for an aggregate consideration of approximately HK$50,000,000. 廣州耀陽 and 東莞市江海 are companies incorporated in the PRC and engaged in the business of sand mining. According to the conditional agreements, the Vendor Parties should procure the Group to obtain all necessary approval from relevant government authorities for the proper transfer of ownership in廣州耀陽and東莞市江海. A deposit of HK$40,000,000 was paid upon entering into the conditional agreements. During the year, the conditions have been fulfilled and the acquisition was completed.

21. GOODWILL

	HK$'000
COST	
At 1st January, 2004	33,469
Arising from acquisition of subsidiaries	26,812
Eliminated on disposal of subsidiaries	(33,469)
At 31st December, 2004	26,812
Elimination of accumulation amortisation upon the application of HKFRS	(1,005)
At 1st January, 2005	25,807
Arising from acquisition of subsidiaries	9,123
At 31st December, 2005	34,930
AMORTISATION AND IMPAIRMENT	
At 1st January, 2004	24,144
Provided for the year	1,160
Eliminated on disposal of subsidiaries	(24,299)
At 31st December, 2004	1,005
Elimination of accumulation amortisation upon the application of HKFRS 3	(1,005)
At 31st December, 2005	–
CARRYING VALUE	
At 31st December, 2005	34,930
At 31st December, 2004	25,807

Prior to 31st December, 2004, goodwill was amortised over its estimated life of 10 years.

21. GOODWILL *(Cont'd)*

Particulars regarding impairment testing on goodwill are disclosed below:

The carrying value of goodwill as at 31st December, 2005 is attributable to the acquisition of Talent Cosmos Limited of HK$25,807,000 and acquisition of廣州耀陽and東莞市江海of HK$9,123,000 respectively. Talent Cosmos Limited and its subsidiaries are engaged in the business of manufacturing and trading of battery products ("Cash Generating Unit of Battery Products).廣州耀陽and東莞市江海are engaged in the business segment of sand mining activities ("Cash Generating Unit of Sand Mining).

During the year ended 31st December, 2005, management of the Group determines that there is no impairments of goodwill of the Group to these two cash generating units.

The basis of the recoverable amounts of these cash generating units and their major underlying assumptions are summarised below:

Cash Generating Unit of Battery Products

The recoverable amount of this unit has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a 20-year period, and discount rate of 8%. This cash generating unit's cash flow within the first 5-year period are extrapolated using a steady 10% growth rate and no growth rate for the remaining years of the cash flows. Another key assumption for the value in use calculations is the budgeted gross margin, which is determined based on the unit's past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of this cash generating unit to exceed the aggregate recoverable amount of this cash generating unit.

21. GOODWILL *(Cont'd)*

Cash Generating Unit of Sand mining

The recoverable amount of this unit has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a 10-year period, and discount rate of 8%. This cash generating unit's cash flow within the first 5-year period are extrapolated using a steady 10% growth rate and no growth rate for the remaining years of the cash flows. Another key assumption for the value in use calculations is the budgeted gross margin, which is determined based on the unit's past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of this cash generating unit to exceed the aggregate recoverable amount of this cash generating unit.

22. INVESTMENTS IN SUBSIDIARIES/AMOUNTS DUE FROM SUBSIDIARIES/ AMOUNTS DUE TO SUBSIDIARIES

	2005	**2004**
	HK$'000	*HK$'000*
Investments in subsidiaries		
Shares listed overseas, at cost	139,703	139,703
Unlisted shares, at cost	85,037	85,037
Deemed capital contribution	1,858,032	–
Accumulated impairment losses	(1,937,738)	(79,706)
	145,034	145,034
Market value of listed shares	15,122	37,344
Amounts due from subsidiaries		
Amounts due from subsidiaries	2,008,674	3,779,832
Less: Allowances	(70,991)	(1,944,253)
	1,937,683	1,835,579
Amounts due to subsidiaries		
Amounts due to subsidiaries		
– shown under current liabilities	737,054	–
Amounts due to subsidiaries		
– shown under non-current liabilities	–	840,225

22. INVESTMENTS IN SUBSIDIARIES/AMOUNTS DUE FROM SUBSIDIARIES/ AMOUNTS DUE TO SUBSIDIARIES *(Cont'd)*

The amounts due from subsidiaries as at 31st December, 2005 are unsecured and repayable in nine years and the amounts have been classified as non-current. Of the amounts, approximately HK$346,720,000 (2004: HK$228,449,000) bears interest at prevailing market rate and the remaining balance is non-interest bearing.

The fair values of the amounts due from subsidiaries at 31st December, 2005, determined based on the present value of the estimated future cash flows discounted using the effective interest rate of 8% at the balance sheet date, approximate to the corresponding carrying amount.

As at 31st December, 2004, the amounts due to subsidiaries were unsecured, non-interest bearing and had no fixed repayment terms. In the opinion of the directors, the amounts due to subsidiaries will not be repayable in the next twelve months accordingly, the amounts have been classified as non-current as at 31st December, 2004. As at 31st December, 2005, the amounts due to subsidiaries are unsecured, non-interest bearing and repayable on demand, the carrying value of the amounts due to subsidiaries as at 31st December, 2005 approximated to its fair value.

The principal activities of the subsidiaries are set out in note 46.

23. INTERESTS IN ASSOCIATES/AMOUNTS DUE FROM ASSOCIATES/AMOUNTS DUE TO ASSOCIATES

(a) Interests in associates

		THE GROUP		THE COMPANY	
		2005	**2004**	**2005**	**2004**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Share of net assets		546,551	334,020	–	–
Goodwill	*(i)*	12,187	2,006	–	–
Negative goodwill	*(ii)*	–	(47,058)	–	–
Unlisted convertible notes due from an associate	*(iii)*	–	55,000	–	–
Embedded derivative – conversion option	*(iv)*	–	–	–	–
Loans and interest receivables due from associates	*(v)*	–	81,840	–	–
		558,738	425,808	–	–
Unlisted shares, at cost		–	–	2	2
Market value of listed shares in associates		317,752	311,480	N/A	N/A

23. INTERESTS IN ASSOCIATES/AMOUNTS DUE FROM ASSOCIATES/AMOUNTS DUE TO ASSOCIATES *(Cont'd)*

Notes:

(i) The amount represented the goodwill arising on acquisitions of associates in prior years. The movement of goodwill is set out below.

	HK$'000
COST	
1st January, 2004	91,785
Arising on acquisitions of associates	3,931
Realised upon disposal/dilution of interests in associates	(93,710)
At 31st December, 2004	2,006
Arising on acquisitions of associates	10,181
At 31st December, 2005	12,187
AMORTISATION	
At 1st January, 2004	10,326
Charge for the year	3,059
Realised upon disposal/dilution of interests in associates	(13,385)
At 31st December, 2004 and 31st December, 2005	–
CARRYING VALUES	
At 31st December, 2005	12,187
At 31st December, 2004	2,006

Prior to 31st December, 2004, goodwill had been amortised over 10 years.

(ii) During the year, a discount on acquisition of HK$6,601,000 arising on acquisition of additional interests in Wing On has been included as income in the determination of the Group's share of results of associates.

Negative goodwill with carrying amount of HK$47,058,000 as at 31st December, 2004 (1st January, 2004: HK$111,041,000) was presented as a deduction from the cost of investments in associates. In prior years, negative goodwill was released to income on a straight-line basis of 10 years, representing the remaining weighted average useful life of the depreciable assets acquired. The amount of negative goodwill released to the income statement for the year ended 31st December, 2004 was HK$10,598,000. All negative goodwill was derecognised on 1st January, 2005 upon the application of HKFRS 3 (see note 2).

Prior to 31st December, 2004, negative goodwill is released to income over a period of 10 years.

23. INTERESTS IN ASSOCIATES/AMOUNTS DUE FROM ASSOCIATES/AMOUNTS DUE TO ASSOCIATES *(Cont'd)*

(iii) The carrying value of the unlisted convertible notes at 31st December, 2004 represented investments in convertible note issued by Wing On Travel (Holdings) Limited ("Wing On") ("Wing On Note"). The Wing On Note bore interest at 2% per annum and is due for redemption on 14th June, 2007 at HK$55,000,000. It also entitled the holders at any time after the date of the issuance of the Wing On Note and up to 14th June, 2007 to convert the Wing On Note into shares of Wing On at an initial conversion price of HK$0.02 per share (subject to adjustment).

The Group subscribed 8,740,000 new ordinary shares of HK$0.01 each in January and February 2005 and the Group's interest was increased to approximately 21.1%. In April, 2005, the Group further acquired 6,967,700 ordinary shares of HK$0.01 each in Wing On and converted HK$55,000,000 convertible notes of Wing On into ordinary share of HK$1.00 each (being the par value of each share after share consolidation carried that by Wing On) in Wing On at the conversion price of HK$0.02 per share and the interest in Wing On held by the Group was increased to 27.74%. No Wing On Note were held by the Group as at 31st December, 2005.

(iv) In accordance with HKAS 39 "Financial Instruments: Recognition and Measurement" issued by the HKICPA, the conversion option element of the Wing On Note represents an embedded derivative instrument which is accounted for separately from the unlisted convertible notes and, as such, to be measured at fair value when initially recorded and at subsequent reporting dates. The fair value of this conversion option, representing a discount on subscription of the Wing On Note, was estimated using the Black-Scholes option pricing model at the date of subscription of the Wing On Note, and as at 31st December, 2004. Comparative figures for 2004 are not required to be restated. From 1st January, 2005 onwards, the Group measured the fair value of the embedded derivates in accordance with the requirements under HKAS 39 and recognised the fair value of the conversion option of the unlisted convertible note as at 1st January, 2005 of approximately HK$64,410,000, which increase the derivative instruments included in interests in associates and decrease the deficit as at 1st January, 2005 accordingly. The impact of changes in fair value of this conversion option, taking into account the portion of the conversion option exercised during the year ended 31st December, 2005, was loss of HK$39,743,000, which have been recognised in the consolidated income statement.

(v) Loans and interests receivable due from associates are unsecured, carries interest at prevailing market rate and repayable within one year. The fair value of the Group's loans and interest receivables due from associates at 31st December, 2005 approximates to the corresponding carrying amount.

23. INTERESTS IN ASSOCIATES/AMOUNTS DUE FROM ASSOCIATES/AMOUNTS DUE TO ASSOCIATES *(Cont'd)*

(b) Amounts due from associates

	THE GROUP		THE COMPANY	
	2005	**2004**	**2005**	**2004**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Amounts due from associates	159,214	57,163	2,989	563

The amounts due from associate are unsecured and repayable on demand. Except for amount due from associate of approximately HK$151,648,000 (2004: HK$54,247,000) are interest bearing at prevailing market rate, all remaining amount due from associates are non– interest bearing. The fair value of the Group's amount due from associates at 31st December, 2005 approximates to the corresponding carrying amount.

(c) Amounts due to associates

	THE GROUP		THE COMPANY	
	2005	**2004**	**2005**	**2004**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Amounts due to associates	286	3,737	–	–

The amounts due to associates are unsecured, noninterest bearing and repayable on demand. The fair value of the Group's amounts due to associates at 31st December, 2005 approximated to the corresponding carrying amount.

23. INTERESTS IN ASSOCIATES/AMOUNTS DUE FROM ASSOCIATES/AMOUNTS DUE TO ASSOCIATES *(Cont'd)*

Particulars of the principal associates at 31st December, 2005 are as follows:

Name of associate	Place of the incorporation/ registration/ establishment	Place of operation	Proportion of nominal value of issued share capital/registered capital held indirectly by the Company %	Principal activities
China Velocity Group Limited ("China Velocity") *(notes a and b)*	Bermuda	Hong Kong and PRC	22.65	Property investment and development in the PRC
Wing On *(notes a and b)*	Bermuda	Hong Kong	27.74	Business of providing package tours, travel and other related services
Hangzhou Zhongce Rubber Company Limited ("HZ Rubber") *(note c)*	PRC	PRC	26	Manufacturing of tires

Notes:

(a) The shares of China Velocity and Wing On are listed on the Hong Kong Stock Exchange.

(b) These companies are a limited liability company incorporated in the respective jurisdiction.

(c) This is a PRC sino-foreign equity joint venture.

The above table lists the associates of the Group which, in the opinion of the directors, constituted a substantial portion of the share of results or of net assets of the associates. To give details of other associates would, in the opinion of the directors, result in particulars of excessive length.

23. INTERESTS IN ASSOCIATES/AMOUNTS DUE FROM ASSOCIATES/AMOUNTS DUE TO ASSOCIATES *(Cont'd)*

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

	2005	2004
	HK\$'000	*HK\$'000*
Turnover	8,382,622	6,519,685
Profit (loss) for the year	133,498	(102,198)
Profit (loss) for the year attributable to the Group	36,639	(17,266)

	2005	2004
	HK\$'000	*HK\$'000*
Total assets	7,431,386	5,875,595
Total liabilities	(5,037,199)	(4,049,781)
Net assets	2,394,187	1,825,814
Share of net assets by the Group:		
As at 31st December	520,772	333,708
Market value of interest held by the Group	317,752	311,480

24. LOANS AND INTEREST RECEIVABLES

	THE GROUP		THE COMPANY	
	2005	**2004**	**2005**	**2004**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Loans and interest receivables				
– secured *(note a)*	302,061	230,105	–	–
– unsecured *(note b)*	492,967	666,513	35,223	35,223
Promissory note and its interest receivables *(note b)*	9,292	6,735	9,292	6,735
	804,320	903,353	44,515	41,958
Less: Allowances	(340,088)	(302,643)	(35,223)	(35,223)
	464,232	600,710	9,292	6,735
Less: Amounts due within one year and repayable on demand	(464,232)	(563,666)	(9,292)	(6,735)
Amounts due after one year	–	37,044	–	–

Notes:

(a) Included in secured loans and interests receivables were amounts of approximately HK$99,616,000 (2004: HK$109,286,000) and approximately HK$165,422,000 (2004: HK$120,819,000) due from Danwei Limited ("Danwei") and Lucklong Venture Limited ("Lucklong") respectively. Allowances made in the loans receivables due from Danwei and Lucklong as at 31st December, 2005 were approximately HK$180,838,000 (2004: HK$143,905,000) with reference to the market value of the collateral secured to the Group. Shares in certain property holding companies held by Danwei and Lucklong were pledged to the Group as securities to the loans receivables.

The loan receivables carry interest at the prevailing market rate ranging from 8% to 12% and repayable on demand.

(b) The amount are unsecured, carries interest at prevailing market rate ranging from 8% to 12%. Included in unsecured loan and interest receivables were amounts of approximately HK$80,308,000 (2004: HK$80,021,000) due from subsidiaries of investees.

The fair value of the Group's loan and interest receivables as at balance sheet date approximate to the carrying amount of the receivables.

25. INVESTMENTS IN SECURITIES AT FAIR VALUE THROUGH PROFIT OR LOSS/ INVESTMENTS IN SECURITIES HELD FOR TRADING

	THE GROUP		THE COMPANY	
	2005	**2004**	**2005**	**2004**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Equity securities:				
Listed	38,467	91,081	–	–
Unlisted	61,748	76,909	–	–
	100,215	167,990	–	–
Debt securities:				
Unlisted	24,431	45,084	–	–
Club debentures	825	825	825	825
Total	125,471	213,899	825	825
Total and reported as:				
Listed				
Hong Kong	38,467	80,415	–	–
Elsewhere	–	10,666	–	–
	38,467	91,081	–	–
Unlisted	87,004	122,818	825	825
	125,471	213,899	825	825
Classified under				
Investments in securities held for trading included in current assets	7,552	19,849	–	–
Investments in securities at fair value through profit or loss included in non– current asset	117,919	194,050	825	825
	125,471	213,899	825	825
Market value of listed securities	38,467	91,081	–	–

25. INVESTMENTS IN SECURITIES AT FAIR VALUE THROUGH PROFIT OR LOSS/ INVESTMENTS IN SECURITIES HELD FOR TRADING *(Cont'd)*

The carrying value of unlisted equity securities in Hong Kong at 31st December, 2005 included an amount of HK$43,498,000 (2004: HK$43,498,000), representing 9.76% (2004: 9.76%) interest in Apex Quality Group Limited ("Apex"). Apex is incorporated in the British Virgin Islands and engaged in hotel and leisure related business. The fair value of the unlisted equity securities are determined based on the present value of the estimated future cash flow discounted using the effective interest rate at the balance sheet date, approximates to the corresponding carrying amount.

The carrying value of unlisted debt securities at 31st December, 2005 represented a convertible note issued by a company incorporated in Australia which is engaged in the business of fruit trading. The convertible note bears interest at 8% per annum and will be matured on 29th March, 2008. The fair value of the unlisted debt securities are determined based on the present value of the estimated future cash flow discounted using the effective interest rate at the balance sheet date, approximates to the corresponding carrying amount.

The fair value of the Group's investments in securities at fair value through profit or loss and investments in securities held for trading at 31st December, 2005 approximates to the corresponding carrying amount.

The carrying value of investments in securities as at 31st December, 2004 (which previously were classified and measured under benchmark treatment in accordance with SSAP 24 issued by the HKICPA) were reclassified to appropriate categories upon application of HKAS 39 on 1st January, 2005.

26. OTHER ASSET

The amount represents cost incurred in connection with a land development project in the PRC. The project is a land development of 珠海市龍山智業產業園 located in Long Shan Development Area, Doumen District, Zhuhai City and is to be jointly developed with 珠海市龍山工業區管理委員會. The Group is entitled to the exclusive development right to the project and also the right to obtain the land for the development ("Other Asset"). The Group is also entitled to sell the Other Asset to investors at consideration to be agreed among themselves.

The amount of approximately HK$229,288,000 (2004: approximately HK$227,167,000) was paid by the Group for obtaining the exclusive development right to the project and in obtaining certain parts of the right for land development.

As the directors are of the opinion that the Other Asset is held for sale, the cost incurred for the Other Asset is included in current asset accordingly.

26. OTHER ASSET *(Cont'd)*

The directors has assessed the carrying value of the Other Asset with reference to the valuation performed by Norton Appraisal Limited, an independent valuer, on open market value basis and no impairment loss is identified.

27. INVENTORIES

	2005	**2004**
	HK$'000	*HK$'000*
As cost less provision:		
Raw materials	5,358	8,004
Finished goods	7,051	5,704
	12,409	13,708

Included in above are raw materials of HK$5,358,000 and finished goods of HK$7,051,000 which are carried at net realisable value (2004: Finished goods of HK$5,704,000).

The cost of inventories recognised as an expense during the year was approximately HK$26,780,000 (2004: HK$76,066,000).

28. TRADE RECEIVABLES

	2005	**2004**
	HK$'000	*HK$'000*
Trade receivables	5,737	7,441
Less: accumulated impairment	(964)	(461)
	4,773	6,980

28. TRADE RECEIVABLES *(Cont'd)*

The Group allows its trade customers with credit period normally ranging from 90 days to 180 days. The aged analysis of the trade debtors at the balance sheet date is as follows:

	2005	**2004**
	HK$'000	*HK$'000*
0 – 90 days	4,408	6,832
91 – 180 days	365	114
Over 180 days	–	34
	4,773	6,980

The carrying amount of the Group's trade receivables at 31st December, 2005 approximates to the corresponding fair value.

29. TRADE PAYABLES, OTHER PAYABLES AND ACCRUED CHARGES

Included in trade payables, other payables and accrued charges are trade payables of HK$5,336,000 (2004: HK$4,964,000) with the following aged analysis:

	2005	**2004**
	HK$'000	*HK$'000*
0 – 90 days	2,980	1,613
91 – 180	929	2,838
Over 180 days	1,427	513
	5,336	4,964

The carrying amount of the Group's trade payables at 31st December, 2005 approximates to the corresponding fair value.

30. AMOUNTS DUE TO RELATED COMPANIES

Details of the amounts due to related companies are as follows:

		THE GROUP		THE COMPANY	
		2005	**2004**	**2005**	**2004**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Nation Cheer Investment Limited	*(i)*	199,126	184,943	199,126	184,943
Cycle Company Limited and Gunnell Properties Limited	*(i)*	556	417	–	–
ITC Management Limited	*(ii)*	605	275	605	275
		200,287	185,635	199,731	185,218
Less: Amounts shown under current liabilities		(200,287)	(692)	(199,731)	(275)
		–	184,943	–	184,943

Notes:

(i) The companies are wholly-owned subsidiaries of substantial shareholders of the Company.

(ii) ITC Management Limited is a wholly-owned subsidiary of ITC Corporation Limited, a shareholder of the Company's substantial shareholder.

At 31st December, 2005, all amounts are repayable on demand. At 31st December, 2004, other than HK$184,943,000 which was repayable after one year from 31st December, 2004, all remaining balances were repayable on demand.

All amounts are unsecured, carry interest at prevailing market rate ranging from 8% to 10%. The fair value of the Group's amounts due to related companies at 31st December, 2005 approximates to the corresponding carrying amount.

31. PAYABLES

The amounts are unsecured, carry interest at prevailing market rate ranging from 8% to 10% per annum and are repayable on demand. The fair value of the Group's payables at 31st December, 2005 approximates to the corresponding carrying amount.

32. BANK LOANS AND OTHER BORROWINGS

	2005	2004	2005	2004
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Bank loans	1,412	2,245	–	–
Obligations under finance leases *(note a)*	3	13	3	13
Bank overdrafts	7,212	6,800	–	–
Other borrowings *(note b)*	–	33,567	–	–
	8,627	42,625	3	13
Secured	8,627	42,098	3	13
Unsecured	–	527	–	–
	8,627	42,625	3	13
Carrying amount repayable:				
On demand or within one year	8,627	42,622	3	10
More than one year, but not exceeding two years	–	3	–	3
	8,627	42,625	3	13
Less: Amount due within one year shown under current liabilities	(8,627)	(42,622)	(3)	(10)
	–	3	–	3

Bank overdrafts are repayable on demand. The bank loans carries interest at prevailing market rate ranging from 8% to 10% and were secured by the Group's bank deposits and investment in securities. These were no undrawn facilities as at 31st December, 2005 and 2004.

32. BANK LOANS AND OTHER BORROWINGS *(Cont'd)*

The Group's bank and other borrowings are denominated in Hong Kong Dollars.

The fair value of the Group's bank and other borrowings at 31st December, 2005 approximates to the corresponding carrying amount.

Notes:

(a)

	Minimum lease payments				Present value of minimum lease payments			
	THE GROUP		THE COMPANY		THE GROUP		THE COMPANY	
	2005	2004	2005	2004	2005	2004	2005	2004
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Amounts payable under finance leases:								
Within one year	4	14	4	14	3	10	3	10
In the second to fifth years inclusive	–	4	–	4	–	3	–	3
	4	18	4	18	3	13	3	13
Less: Future finance charges	(1)	(5)	(1)	(5)	–	–	–	–
Present value of lease obligations	3	13	3	13	3	13	3	13
Less: Amount due within one year					(3)	(10)	(3)	(10)
Amount due after one year					–	3	–	3

The average lease term is one (2004: two) year. For the year ended 31st December, 2005, the average effective borrowing rate was 3.2% (2004: 9.4%). Interest rate is fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

The Group's obligations under finance leases contract are secured by the lessor's charge on the hired assets.

(b) As at 31st December, 2004, the amount was secured, carried interest at prevailing market rates ranged from 8% to 12% per annum and was fully repaid during the year.

33. SHARE CAPITAL

	Number of shares	Value
		HK$'000
Authorised:		
Ordinary shares of HK$0.10 each at 31st December, 2004 and 2005	8,000,000,000	800,000
Issued and fully paid:		
Ordinary shares of HK$0.10 each at 1st January, 2004	856,595,087	85,660
Issue of shares	25,000,000	2,500
Ordinary shares of HK$0.10 each at 31st December, 2004 and 2005	881,595,087	88,160

As explained in note 1, the Company proposed to carry out the Capital Reorganization which involve, inter alia, the followings:

(i) cancellation of the paid-up capital of HK$0.05 on each issued share of the Company and reduction in the nominal value of each issued share from HK$0.10 to HK$0.05 ("Capital Reduction") and the cancellation of the entire share premium account of the Company;

(ii) subdivision of each authorized but unissued share of the Company into two reduced shares of HK$0.05 each ("Subdivision");

(iii) every two reduced shares of the Company of HK$0.05 each arising from the Capital Reduction and Subdivision will then be consolidated into one ordinary share of HK$0.10; and

(iv) the credits of approximately HK$44,079,000 and HK$1,900,916,000 resulting from the Capital Reduction and the cancellation of the share premium account, respectively to the special capital reserve account of the Company.

The Capital Reorganisation was not yet completed at the date of this report.

34. SHARE OPTIONS

The Company

The 2002 Scheme

On 4th June, 2002, the Company adopted a share option scheme ("2002 Scheme") which is effective for a period of ten years for the primary purpose of providing incentives to directors and eligible employees. Under the 2002 Scheme, the Board of Directors of the Company may grant options to eligible employees, including executive directors of the Company and its subsidiaries, to subscribe for shares in the Company for a consideration of HK$1. Options granted must be taken up within 30 days of the date of grant, upon payment of HK$1 per grant. Options granted are exercisable not later than ten years after the date the options are granted. The exercise price, subject to adjustment, is determined by the Board of Directors of the Company and will not be less than the highest of (i) the closing price of the Company's share on the date of options granted; (ii) the average closing price of the Company's shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's share.

The total number of shares in respect of which options may be granted under the 2002 Scheme is not permitted to exceed 46,097,894 shares, representing 10% of the issued share capital of the Company as at the date of adoption of 2002 Scheme. Subject to the issue of a circular and the approval of the shareholders of the Company in general meeting and/or such other requirements prescribed under the Rules Governing the Listing of Securities of the Stock Exchange (the "Listing Rules") from time to time, the Board may refresh the limit at any time to 10% of the total number of shares in issue as at the date of approval by the shareholders of the Company in general meeting. The number of shares in respect of which options may be granted to any individual is not permitted to exceed 1% of the aggregate number of shares of the Company in issue and issuable under 2002 Scheme at any point in time, without prior approval from the Company's shareholders.

There were no options granted during the year ended 31st December, 2005 under the 2002 Scheme.

34. SHARE OPTIONS *(Cont'd)*

A summary of the movements of share options under the 2002 Scheme during the year ended 31st December, 2004 were as follows:

Employees

			Number of shares under option			
Date of grant	Exercisable period	Exercise price	Outstanding at 1.1.2004	Granted during the year	Exercised during the year	Outstanding at 31.12.2004
		HK$				
8.1.2004	8.1.2004 to 7.1.2009	0.1776	–	25,000,000	(25,000,000)	–

Subsidiary

China Enterprises Limited

Pursuant to the Executive Share Option Scheme adopted on 7th June, 1994 and effective for a period of ten years after the date of the adoption of the scheme, China Enterprises Limited granted options to officers and employees, and directors who are also employees, of China Enterprises Limited and its subsidiaries to subscribe for common stock in China Enterprises Limited for a consideration of HK$1 for the primary purpose of providing incentives to officers, directors and eligible employees, subject to a maximum of 910,000 shares. The Executive Share Option Scheme was expired on 6th June, 2004. Shares of common stock to be issued upon the exercise of options will be authorised and unissued shares. An independent committee (the "Committee") of China Enterprises Limited board of directors was formed to monitor and consider the granting of options under the scheme. The subscription price will be determined by the Committee, and will not be less than 80% of the average closing price of shares of common stock over the five trading days immediately preceding the date of offer of the option.

At 31st December, 2004 and 31st December, 2005, there was no shares issuable under the above scheme. The total number of shares in respect of which options may be granted under the schemes is not permitted to exceed 910,000 of the shares of China Enterprises Limited in issue at any point in time, without prior approval from China Enterprises Limited shareholders. The number of shares in respect of which options may be granted to any individual is not permitted to exceed 25% of the shares of China Enterprises in issue at any point in time, without prior approval from China Enterprises Limited shareholders.

35. RESERVES

	Share premium	Special capital reserve	Capital redemption reserve	Deficit	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
THE COMPANY					
At 1st January, 2004	1,898,976	414,881	233	(1,251,814)	1,062,276
Exercise of share options	1,940	–	–	–	1,940
Loss for the year	–	–	–	(144,053)	(144,053)
At 31st December, 2004	1,900,916	414,881	233	(1,395,867)	920,163
Effect of changes in accounting policies *(note 3)*	–	–	–	62,239	62,239
At 1st January, 2005 (as restated)	1,900,916	414,881	233	(1,333,628)	982,402
Profit for the year	–	–	–	103,180	103,180
At 31st December, 2005	1,900,916	414,881	233	(1,230,448)	1,085,582

The special capital reserve of the Company represents the amount arising from the capital reduction carried out by the Company during the year ended 31st December, 2001.

36. DISPOSAL OF INTERESTS IN SUBSIDIARIES

During the year ended 31st December, 2004, the Group disposed of its 100% interest in Tung Fong Hong Investment Limited ("TFHI"). Details of the assets and liabilities of the subsidiaries disposed of were as follows:

	2004
	HK$'000
Net assets disposed of:	
Property, plant and equipment	34,924
Interests in associates	14,808
Inventories	49,319
Trade debtors	12,112
Other receivables, deposits and prepayments	8,436
Bank balances and cash	22,176
Trade creditors, other payables and accrued charges	(43,316)
Income and other taxes payable	(30)
Bank loans and other borrowings	(60,197)
Obligations under finance leases	(149)
	38,083
Goodwill realised	9,170
Exchange reserve realised	13
	47,266
Loss on disposal/dilution	(5,266)
	42,000
Satisfied by:	
Cash	35,500
Promissory note included in loans receivable	6,500
	42,000
Analysis of the net inflow of cash and cash equivalents in connection with the disposal/dilution of subsidiaries:	
Cash consideration received	35,500
Bank balances and cash disposed of	(22,176)
Net inflow of cash and cash equivalents	13,324

37. ACQUISITION OF SUBSIDIARIES

(a) On 30th June, 2005, the Group acquired 88% and 100% of the issued share capital of 東莞市江海 and 廣州耀陽, respectively, for an aggregate cash consideration of HK$50 million. The two newly acquired subsidiaries are incorporated in the PRC and engaged in the business of sand mining. These transactions have been accounted for using the purchase method of accounting. The directors are of the view that it is impracticable to disclose the revenue and the results for the six months ended 30th June, 2005 as if the acquisition had been effected on 1st January, 2005 since such information was not provided by the vendor.

The assets acquired in the transaction, and the goodwill arising, are as follow:

	2005		
	Acquiree's carrying amount before combination	**Fair value adjustments**	**Fair value**
	HK$'000	*HK$'000*	*HK$'000*
Net assets acquired:			
Property, plant and equipment	50,165	63,019	113,184
Inventories	6	–	6
Trade receivables	75	–	75
Other receivables, deposits and prepayments	647	–	647
Bank balances and cash	349	–	349
Creditors, other payables and accrued charges	(244)	–	(244)
Amounts due to former shareholders	(49,770)	–	(49,770)
Deferred tax liabilities	–	(20,796)	(20,796)
	1,228	42,223	43,451
Minority interests	(48)	(2,526)	(2,574)
	1,180	39,697	40,877
Goodwill on acquisition			9,123
			50,000

37. ACQUISITION OF SUBSIDIARIES *(Cont'd)*

	2005		
	Acquiree's carrying amount before combination	**Fair value adjustments**	**Fair value**
	HK$'000	*HK$'000*	*HK$'000*
Satisfied by:			
– Cash			10,000
– Deposit paid for acquisition of subsidiaries			40,000
			50,000
Net cash outflow arising on acquisition:			
Cash consideration paid			(10,000)
Cash and cash equivalents acquired			349
			(9,651)

The goodwill arising on the acquisition is attributable to the anticipated profitability of the distribution of the Group's products in the new markets and the anticipated future operating synergies from the combination.

東莞市江海 and 廣州耀陽 contributed HK$5,298,000 to the Group's turnover and loss of HK$3,735,000 to the Group's loss before taxation for the period between the date of acquisition and the balance sheet date.

37. ACQUISITION OF SUBSIDIARIES *(Cont'd)*

(b) During the year ended 31st December, 2004, the Group acquired a 80% interest in Talent Cosmos Limited for a consideration of HK$30 million. The effect of the acquisition is summarised as follows:

	2004
	HK$'000
Net assets acquired:	
Property, plant and equipment	27,465
Investment in securities	4,160
Interests in associates	386
Inventories	10,079
Trade debtors	8,760
Bank balances and cash	3,256
Creditors, other payables and accrued charges	(37,086)
Payables due to associates	(2,198)
Bank loans	(10,453)
Minority interests	(1,181)
	3,188
Goodwill arising on acquisition	26,812
	30,000
Satisfied by:	
Cash	30,000

37. ACQUISITION OF SUBSIDIARIES *(Cont'd)*

Analysis of the net cash outflow of cash and cash equivalent in connection with acquisition of subsidiaries:

	2004
	HK$'000
Cash consideration paid	(30,000)
Bank balances and cash acquired	3,256
Net cash outflow of cash and cash equivalent in connection with acquisition of subsidiaries	(26,744)

The subsidiaries acquired during the year ended 31st December, 2004 contributed approximately HK$27,141,000 to the Group's turnover and loss of HK$2,005,000 to the Group's loss before taxation between the date of acquisition and the balance sheet date.

38. DEFERRED TAX LIABILITIES

The following are the major deferred tax liabilities provided by the Group and movements thereon during the current and prior reporting periods:

	Revaluation of property, plant and equipment
	HK$'000
At 1st January, 2004, and 31st December, 2004	–
Arising on acquisition of subsidiaries	20,796
Exchange difference	379
At 31st December, 2005	21,175

39. MAJOR NON-CASH TRANSACTIONS

During the year ended 31st December, 2005, the major non-cash transactions were as follows:

(a) Amount due to former shareholders of HK$50,000,000 were settled by the assignment of loan and interest receivable from outsiders.

(b) Additions to investment in securities of approximately HK$3,256,000 were settled by repayment of loans and interests receivables.

During the year ended 31st December, 2004, the major non-cash transaction are as follows:

(a) Increase in receivables of approximately HK$34,979,000 before allowances of HK$10,686,000 were resulted from reclassification from loans receivables due from associates included in interests in associates upon the completion of dilution of interest in associates.

(b) Addition to deposit paid for acquisition of interest in properties of approximately HK$46,686,000 were repayments of loans receivables due from associates.

(c) Addition to investment in securities of approximately HK$43,588,000 were as result of disposal/dilution of interests in associates.

(d) Loan receivables due from associates of HK$70,200,000 were settled by the issuance of convertible notes by the associates included in interests in associates.

(e) Additions to payment for acquisition of subsidiaries of HK$40,000,000 were repayments from receivables.

(f) Additions to other receivables of approximately HK$10,722,000 were proceeds from disposal of interests in associates.

40. COMMITMENTS

At the balance sheet date, the Group had the following commitments:

	2005	2004
	HK$'000	*HK$'000*
Contracted for but not provided in financial statements in respect of:		
(i) Acquisition of interest in properties *(Note)*	–	377,516
(ii) Other assets	93,301	91,981
(iii) Acquisition of subsidiaries	–	10,000
	93,301	479,497

Note:

In respect of the conditional agreement entered into by the Group in 2004 to acquire properties interest of 香樟花園 located in Shanghai, PRC at a consideration of RMB450 million (of which deposit of RMB58 million was paid by the Group as at 31st December, 2005 set out in note 19), the Group has commenced legal proceedings to demand the vendor of the properties to fulfil its obligations under the agreement. Having consulted the legal counsel and under certain considerations, the Group has at present decided to exercise its discretion to proceed with the acquisition of the properties.

41. OPERATING LEASE COMMITMENTS

The Group has made approximately HK$1,133,000 (2004: HK$8,052,000) minimum lease payments under operating leases during the year in respect of office premises.

The Group as lessee

At the balance sheet date, the Group and the Company had commitments for future minimum lease payments under non-cancellable operating leases in respect of land and buildings which fall due as follows:

	THE GROUP		THE COMPANY	
	2005	**2004**	**2005**	**2004**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Within one year	1,086	64	581	–
In the second to fifth years inclusive	1,661	–	–	–
	2,747	64	581	–

Leases are negotiated for an average term of one year and rentals are fixed for an average of one year.

42. CONTINGENT LIABILITIES

	THE GROUP		THE COMPANY	
	2005	**2004**	**2005**	**2004**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
(a) Corporate guarantee given by the Company for banking facilities granted to:				
(i) subsidiaries	–	–	28,500	28,500
(ii) associates	8,000	15,500	8,000	15,500
Other guarantees issued to associates	30,780	30,780	30,780	30,780
	38,780	46,280	67,280	74,780

42. CONTINGENT LIABILITIES *(Cont'd)*

(b) The Company has granted a guarantee in favour of MTR Corporation Limited ("MTR") in respect of outstanding rent and obligations under the tenancy agreement entered into between Tung Fong Hung Medicine (Retail) Limited, a wholly-owned subsidiary of TFHI (former wholly-owned subsidiary of the Company) and MTR for the leased properties. As at 31st December, 2005 and 31st December, 2004, such guarantee has not yet been released.

43. PLEDGE OF ASSETS

(a) As at 31st December, 2005, bank deposits of HK$1,036,000 (2004: HK$1,012,000) was pledged to banks to secure credit facilities granted to the Group.

(b) At 31st December, 2005, listed equity securities with a carrying value of HK$30,861,000 (2004: HK$72,186,000) were pledged to secure margin account credit facilities and banking facilities granted to the Group. As at 31st December, 2005, no margin loan facility were utilised by the Group. As at 31st December, 2004, the margin loan facility amounting to HK$33,567,000 included in bank loans and other borrowings were utilised by the Group.

44. RELATED PARTY TRANSACTIONS

During the year, the Group entered into the following significant transactions with related parties:

Name of company	**Nature of transactions**	*Notes*	**2005** *HK$'000*	**2004** *HK$'000*
Sing Pao Newspaper Company Limited	Loan interest income received and receivable by the Group	*(a)*	474	390
Hanny Magnetics Limited	Rent expenses paid and payable by the Group	*(b)*	16	16
	Sale of goods made by the Group		–	–
ITC Management Limited	Secondment fee paid and payable by the Group	*(c)*	330	330
	Sales of goods by the Group		–	3

44. RELATED PARTY TRANSACTIONS *(Cont'd)*

Name of company	Nature of transactions	*Notes*	2005 *HK$'000*	2004 *HK$'000*
Paul Y. (E & M) Company Limited	Repair and maintenance fee paid and payable by the Group	*(b)*	–	42
Cycle Company Limited and Gunnell Properties Limited	Rental expenses paid and payable by the Group	*(b)*	138	553
PYI Management Limited (formerly known as "Paul Y. – ITC Management Limited")	Sale of goods made by the Group	*(b)*	–	338
Nation Cheer Investment Limited	Interest expense paid and payable by the Group	*(b)*	14,183	12,428
Wing On	Loan interest income received and receivable by the Group	*(e)*	3,175	1,466
Hong Kong Wing On Travel Service Limited	Air ticketing and travel service expenses paid and payable by the Group	*(d)*	185	260
	Sale of goods made by the Group		–	–
Mass Success International Limited	Rental expenses paid and payable by the Group	*(f)*	581	577
Pacific Century Premium Developments Limited ("PCPD", formerly known as Dong Fang Gas Holdings Limited)	Management fee received and receivable by the Group	*(g)*	–	200

44. RELATED PARTY TRANSACTIONS *(Cont'd)*

Name of company	Nature of transactions	*Notes*	2005 *HK$'000*	2004 *HK$'000*
Apex	Loan interest income received and receivable by the Group	*(g)*	2,931	3,280
Micro-Tech Ltd.	Rental expense of motor vehicles paid and payable by the Group		216	216
Chief Altantic Profits Limited	Loan interest income received and receivable by the Group	*(h)*	–	303

Notes:

(a) Sing Pao Newspaper Company Limited is wholly-owned subsidiary of an investee of the Group.

(b) Hanny Magnetics Limited, Paul Y. (E & M) Company Limited, Cycle Company Limited and Gunnell Properties Limited, PYI Management Limited, Nation Cheer Investment Limited and Micro-Tech Ltd. are wholly-owned subsidiaries of a substantial shareholder of the Company.

(c) ITC Management Limited is the shareholder of a substantial shareholder of the Company.

(d) Hong Kong Wing On Travel Service Limited is wholly-owned subsidiaries of Wing On.

(e) Wing On is an associate of the Group.

(f) Mass Success International Limited is an associate of a substantial shareholder of the Company.

(g) PCPD and Apex ceased to be associates of the Group during the year ended 31st December, 2005.

(h) China Altantic Profits Limited and Rosedale Park Limited are wholly-owned subsidiaries of PCPD and Apex.

During the years ended 31st December, 2004 and 31st December, 2005, the Company issued "all monies" guarantees and indemnity to a bank for the banking facilities granted to a non-wholly owned subsidiary and an associate of the Group and the amount of approximately HK$1,986,941 (2004: HK$1,913,000) was utilised by that non-wholly subsidiary and no amount (2004: Nil) were utilised by an associate respectively as at 31st December, 2005.

44. RELATED PARTY TRANSACTIONS *(Cont'd)*

Details of balances with related parties as at the balance sheet date are set out in the consolidated balance sheet.

In the opinion of the directors, the above transactions were undertaken in the ordinary course of business transactions and the terms were mutually agreed between the Group and the related parties.

45. RETIREMENT BENEFIT SCHEME

The Group operates a Mandatory Provident Fund Scheme ("MPF Scheme") for all qualifying employees in Hong Kong. The assets of the schemes are held separately from those of the Group, in funds under the control of trustees. The Group and employees each contribute 5% of the relevant payroll costs to the Scheme.

The retirement benefit scheme contributions relating to the MPF Scheme charged to the income statement represent contributions payable to the scheme by the Group at rates specified in the rules of the schemes.

The employees in the joint venture subsidiaries in the PRC are members of the state-sponsored pension scheme operated by the government in the PRC. The joint venture companies are required to contribute a certain percentage of their payroll to the pension scheme to fund the benefits. The only obligation of the Group with respect to the pension scheme is to make the required contributions under the scheme. The amount of contributions payable to the pension schemes are charged to the income statement.

At the balance sheet date, there were no significant forfeited contributions which arose upon employees leaving the scheme prior to their interests in the Group's contributions becoming fully vested and which are available to reduce the contributions payable by the Group in future years.

The total cost charged to income statements of approximately HK$417,000 (2004: HK$876,000) represents contribution payable to these schemes by the Group in respect of the current year.

46. PRINCIPAL SUBSIDIARIES

Particulars of the principal subsidiaries at 31st December, 2005 are as follows:

Name of subsidiary	Place of incorporation/ registration and operation	Issued and fully paid ordinary share capital/ registered capital	Proportion of nominal value of issued share capital/ registered capital held by the Company Directly %	Indirectly %	Principal activities
MRI Holdings Limited ("MRI") *(note c)*	Australia *(note a)*	A$31,184,116	–	57.26	Investment holding
China Pharmaceutical Industrial Limited *(note c)*	Hong Kong	HK$2	–	57.26	Investment holding
China Enterprises Limited ("China Enterprises *(note c)*	Bermuda *(note b)*	Supervoting Common Stock US$30,000 Common Stock US$60,173	33.27 *(note b)*	24.84 *(note b)*	Investment holding
Zhuhai Zhongce Property Investment Limited *(note c)*	British Virgin Islands *(note e)*	US$1	–	100	Holding of land development project held for resale
Talent Cosmos Limited *(note c)*	British Virgin Islands	US$13,000	–	80	Investment holding
Super Energy Group Limited *(note c)*	Hong Kong	HK$13,000,000	–	80	Investment holding and trading of battery products
Super Energy Battery Industries Limited *(note c)*	Hong Kong	HK$2,500,000	–	80	Investment holding and trading of battery products
台山市超量電池有限公司 (「台山市超量」) *(note c)*	PRC	RMB9,183,763	–	76 *(note d)*	Manufacturing of battery products
東莞市江海貿易有限公司 *(note f)*	PRC	RMB500,000	–	88%	Sand mining
廣州耀陽實業有限公司 *(note g)*	PRC	RMB1,000,000	–	100%	Sand mining

46. PRINCIPAL SUBSIDIARIES *(Cont'd)*

Notes:

a. MRI operates both in Australia and Hong Kong and its shares are listed on the Australian Stock Exchange. MRI and its subsidiaries are mainly engaged in the investment holding activities.

b. China Enterprises operates in both Hong Kong and the PRC and its shares are trading on the Over the Counter Bulletin Board of the United States of America. The Group holds a 55.2% effective equity interest and an 88.8% effective voting interest in China Enterprises.

c. These companies are limited liability company incorporated in the respective jurisdiction.

d. 台山市超量 is a 95% subsidiary of Super Energy Battery Industries Limited and the Group hold effective 76% interest in 台山市超量.

e. Zhuhai Zhongce Property Investment Limited operates in the PRC.

f. These companies are registered in form of an equity joint venture.

g. There companies are registered in the form of wholly-owned foreign investment enterprises.

None of the subsidiaries had any debt securities subsisting at the end of the year or at any time during the year.

The above table lists the subsidiaries of the Company 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.

47. POST BALANCE SHEET EVENTS

On 23rd March, 2006, Wing On, an associate of the Group, entered into subscription agreement with China Enterprises Limited ("CEL", a non wholly-owned subsidiary of the Group), Hutchison International Limited ("HIL", a wholly owned subsidiary of Hutchison Whampoa Limited whose shares are listed on The Stock Exchange of Hong Kong Limited) and other subscribers in relation to the subscription of 2% convertible exchangeable notes (the "Notes") with principal amount of HK$1,000 million. CEL, HIL and other subscribers have conditionally agreed to subscribe for the Notes with principal amount of HK$300 million, HK$200 million and HK$500 million by cash respectively.

3. MANAGEMENT DISCUSSION AND ANALYSIS

(i) For the year ended 31st December, 2005

Following is the management discussion and analysis extracted from the annual report of the Company for the year ended 31st December, 2005:

"ANALYSIS OF THE GROUP'S PERFORMANCE

During the year, the Group has adopted the newly effective Hong Kong Financial Reporting Standards. As a result, certain comparative figures for the year ended 31st December, 2004 have been restated.

For the year ended 31st December, 2005, the Group recorded a consolidated turnover of approximately HK$38.5 million, an increase of approximately 42.1% as compared to the financial year in 2004 of approximately HK$27.1 million. The turnover for the year was mainly generated from the manufacturing and trading of batteries products and the increase was primarily because the revenue contributed from this segment was included on a full year basis. During the year under review, the operating environment of manufactory industry in the PRC remains difficult due to competitive economy and sluggish battery market. Keen competition in the battery industry also exerted downward pressure on prices of battery products. Despite the unfavorable environment in the battery market, the Group's business in the People's Republic of China (the "PRC") still manages to progress well.

The audited consolidated loss for the year ended 31st December, 2005 decreased from approximately HK$134.2 million for the last financial year to approximately HK$99.9 million in the current financial year. The notable improvement was mainly a result of the significant reduction in the allowance for loans and interests receivable which reflected the positive outcome of the management effort to closely assess and monitor the repayment status on the Group's loans and receivables. The net loss incurred for the current financial year was mainly attributable to the allowances for loans and receivables as well as the changes in fair value on investment in securities and the conversion right attached to the unlisted convertible note issued by Wing On Travel (Holdings) Limited ("Wing On"), of which the Group owns an effective interest of approximately 15.32%.

LIQUIDITY AND FINANCIAL RESOURCES

During the financial year of 2005, the Group financed its operations mainly through cash generated from its business activities, banking facilities provided by its principal bankers and proceeds from disposal of investments.

As at 31st December, 2005, the Group had net current assets of approximately HK$755.7 million (31st December, 2004: net current assets of approximately HK$984.6 million) and a current ratio of 3.68 (31st December, 2004: 9.93).

The Group's short-term bank loans and other borrowings decreased from approximately HK$42.6 million as at 31st December, 2004 to approximately HK$8.6 million as at 31st December, 2005, representing a decrease of 79.8%. There was no long-term bank loans and other borrowings at 31st December, 2005 compared with approximately HK$3,000 at 31st December, 2004. Gearing ratio which is expressed as a ratio of total long-term liabilities and other borrowings to the shareholders' funds, remains nil as at 31st December, 2005 (31st December, 2004: 0.000002). As at 31st December, 2005, the Group's total borrowings of approximately HK$8.6 million were mainly denominated in Hong Kong dollar, the maturity profile were all within one year, and bear interest at floating rates.

Capital expenditure aggregated to approximately HK$145.0 million for the year ended 31st December, 2005 was mainly used primarily for purchasing of property, plant and equipment. The Group's capital expenditures will continue to be funded primarily by internal resources or external borrowings or a combination of both as required.

Cash and bank balances amounted to approximately HK$116.9 million, and is mainly denominated in Hong Kong dollars and Australian dollars. During the financial year, the Group did not experience significant exposure to exchange rate and interest rate fluctuations. As a result, the Group did not enter into any material foreign exchange contracts, currency swaps or other financial derivatives.

SIGNIFICANT INVESTMENTS

China Enterprises Limited (carried on business in Hong Kong as China Tire Holdings Limited)

For the year under review, China Enterprises Limited ("China Enterprises") continues to be an investment holding company. Through its subsidiaries, China Enterprises is engaged in the business of property investment and development in the PRC and has substantial interests in Hangzhou Zhongce Rubber Company Limited ("Hangzhou Zhongce") and Wing On, which are principally engaged in manufacturing and marketing of tires in the PRC and other countries aboard, and the business of providing package tour, travel and other related services and hotel operations, respectively. Wing On continues to benefit from the notable growth momentum of the Hong Kong economy and coupled with the upsurge on both inbound arrivals and outbound departures, the prospect for the tourism industry remain promising.

After disposing of its significant interest of investment in manufacturing and trading of tires products in the PRC and other countries aboard in 2003, China Enterprises maintains minimal involvement in the manufacturing and trading of tires products through its 26% held interest in Hangzhou Zhongce. The operating result of Hangzhou Zhongce have shown a continuing strong in the financial year 2005 as the overall tire market in the PRC improved.

Throughout the financial year 2005, both of associated companies, Wing On and Hangzhou Zhongce have contributed encouraging and positive results to the Group and China Enterprises will continue to look at strategic investment opportunities with a view of the positive outlooks on PRC in the coming future to expanding business portfolios.

MRI Holdings Limited

During the financial year of 2005, MRI Holdings Limited ("MRI") successfully negotiated the investment of A$4 million into the highly successful Zest Health Clubs, Australia's second largest health and fitness chain, and number 1 in market share in 3 of Australia's 5 largest fitness markets. With the recent success of the fitness and health clubs in overseas markets, combined with the increasing awareness and rapid growth of the industry in Australia, MRI feels the investment in a successful group in a dynamic market is both opportune and timely. Following the completion of the aforementioned investment, the Directors were pleased that the trading in the MRI's shares on the Australian Stock Exchange recommenced.

MRI will continue to identify appropriate, strategic investment opportunities that maximise returns to the shareholders, within the clear mandate determined by the shareholders.

Super Energy Group Limited

Super Energy Group Limited ("Super Energy") is a principally engaged in the production and sales of batteries and battery-related accessories. Its major products are the primary battery and the re-chargeable battery. Super Energy is also actively engaged in new product development by introducing the latest technology into its products. The invention of "No Mercury Button Cell Battery" has obtained the patent in Beijing, the PRC; moreover, an International Organisation for Standardisation quality control system had been adopted in all aspect of products, which Super Energy has achieved reputation for premium quality as result of continuous research and development.

A new factory will be set up by the end of 2006 and occupies an area of over 110,000 square meters. The new factory is fully equipped with advanced machineries based on the best combination of Japanese and European technologies and facilities. Direct and onsite supervision from our technical experts will ensure that the highest quality and efficiency are achieved.

With a view to improve its financial position, Super Energy has implemented a series of measures to enhance cost competitiveness and operational efficiency. During the financial year of 2005, Super Energy has not only divested its non-profitable products and adopted stringent cost control, it has also been exploring new product opportunities to generate revenue and cash flow stream. As the battery industry in the PRC is under active growth, the Directors believe that investment in the battery market in the PRC is an excellent opportunity to bring in high quality and sustainable income for the Group.

NUMBER OF EMPLOYEES, REMUNERATION POLICIES AND SHARE OPTION SCHEME

As at 31st December, 2005, the Group employed approximately 179 staff, remuneration packages comprised of salary and year-end bonuses based on individual merits.

No options were granted and then exercised during the year ended 31st December, 2005.

CORPORATE DEVELOPMENTS

On 4th February, 2005, the Group entered into a placing and subscription agreement with Wing On and the placing agent pursuant to which the placing agent agreed to place, on a best efforts basis, up to 6,400 million shares of Wing On at a price of HK$0.022 per Wing On share and the Group would subscribe for up to 6,400 million new shares of Wing On at the price of HK$0.022 per share. The above transactions were completed in February, 2005. The Group's interest in Wing On was decreased to approximately 21.11%.

The Company had been informed by PYI Corporation Limited ("PYI") and Hanny Holdings Limited ("Hanny") that they have entered into the share sale agreement on 10th March, 2005 pursuant to which and subject to, inter alia, the implementation of the Group Reorganisation as stated below in full each of PYI and Hanny agreed to dispose 135,000,000 shares (equivalent to 67,500,000 consolidated shares of the Company upon the Capital Reorganisation as stated below having become effective) which shares represent approximately an aggregate of 30.6% of the issued share capital of the Company, for an aggregate consideration of HK$52,110,000, equivalent to about HK$0.193 per share (or HK$0.386 per consolidated share).

As stated in the joint announcement of the Company dated 19th April, 2005, the Company announced the following proposals, if approved and implemented, will result in below.

Group Reorganisation

(i) the Company continues to be a public listed company with its subsidiaries concentrating on its business of manufacturing and trading of battery products, investments in securities and property and investment in unlisted investments;

(ii) all other subsidiaries of the Company carrying on property development and investment holding business, and all other associates of the Company carrying on manufacturing and marketing of tires and business of providing package tour, travel and other related services being grouped under Group Dragon Investments Limited ("GDI"), a wholly-owned subsidiary of the Company, and its subsidiaries; and

(iii) the distribution in specie of the GDI shares to the shareholders of the Company whose names appear on the register of members of the Company on the record date on the basis of one GDI share for one consolidated share of the Company.

Capital Reorganisation

(i) the cancellation of the paid-up capital of HK$0.05 on each issued share of the Company and reduction in the nominal value of each issued share of the Company from HK$0.10 to HK$0.05;

(ii) the cancellation of the entire share premium account of the Company;

(iii) the subdivision of each authorised but unissued share of the Company into two reduced shares of the Company of HK$0.05 each; and

(iv) consolidate every two reduced shares of the Company of HK$0.05 each into one consolidated share of the Company of HK$0.10.

The abovementioned proposals relating to the Capital Reorganisation; and the Group Reorganisation were duly approved by the shareholders of the Company at the extraordinary general meeting held on 6th October, 2005.

The Company attended the hearing of the Summons for Directions before the Court on 28th March, 2006 and pursuant to the directions given by the Court at the said hearing, among other things, the Petition is now scheduled to be heard by the Court on 27th April, 2006. Assuming the Court makes the Confirming Order and all the other conditions in respect of the Capital Reorganisation set out in the circular dated 10th September, 2005 of the Company have been fulfilled, the Capital Reorgainsation will take effect upon the registration of the Confirming Order and the Minute.

In April, 2005, the Group converted approximately HK$55 million convertible note of Wing On into ordinary shares of HK$1.00 each of Wing On at conversion price of HK$1.97 per share. The interest of Wing On held by the Group was accordingly increased to approximately 27.74% upon conversion of the convertible note into shares of HK$1.00 each in Wing On by the Group.

On 23rd March, 2006, the Group entered into an agreement with Wing On for the subscription of the 2% convertible exchangeable note to be issued by Wing On to the Group for the consideration of HK$300 million (the "Subscription"). The Subscription under an agreement constitutes a major transaction for the Company under the Rules Governing the Listing Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). Accordingly, the Subscription and the transactions contemplated under the agreement are subject to the approval of the shareholders of the Company at general meeting. Further details can be found in a joint announcement dated 27th March, 2006 issued by the Company and Wing On."

(ii) For the year ended 31st December, 2004

Following is the management discussion and analysis extracted from the annual report of the Company for the year ended 31st December, 2004:

"ANALYSIS OF THE GROUP'S PERFORMANCE

The Group's turnover for the year ended 31st December, 2004 totaled approximately HK$123.4 million, representing a decrease of 95.7% from approximately HK$2.9 billion compared to the financial year 2003. There was no contribution to turnover in this current year from the segment relating to the manufacturing and trading of tire products following the group disposal of interests in subsidiaries engaged in this operation. The turnover for the year was mainly generated from manufacturing and trading of battery products and the pharmaceutical products operation, the business segment of pharmaceutical products operation was treated as discontinuing operations during the year following the disposal of this operation in May 2004.

The Group's audited consolidated loss for the year ended 31st December, 2004 reduced by HK$13.4 million to approximately HK$176.1 million as compared to approximately HK$189.5 million in last financial year. The net loss for the year was mainly attributable to the allowance for the loans and interest receivables and provision for unrealized loss in investments in securities.

During the year, the management continued to maintain a sharp focus in the monitoring of its investment portfolios to better restructure and rationalize its existing investments to the best interests of the shareholders. At the same time, stringent cost control measures continued to be in place in its manufacturing operations to ensure maximum returns to the Group.

CAPITAL STRUCTURE, LIQUIDITY AND FINANCIAL RESOURCES

During the financial year 2004, the Group financed its operations mainly through cash generated from its business activities, banking facilities provided by its principal bankers and proceeds from disposal of investments.

For the year under review, the Group's short-term bank loans and other borrowings increased from approximately HK$38.3 million as at 31st December, 2003 to approximately HK$42.6 million as at 31st December, 2004. Long-term bank loans and other borrowings reduced from approximately HK$144,000 as at 31st December, 2003 to approximately HK$3,000 as at 31st December, 2004. As a result, the Group's total bank loans and other borrowings increased from approximately HK$38.4 million as at 31st December, 2003 to approximately HK$42.6 million as at 31st December, 2004 representing an increase of 10.9%. The gearing ratio, calculated to the total long-term borrowing bank loans and other borrowing divided by total shareholders funds reduced from 0.00009 to 0.000002. The Group's total borrowings of approximately HK$42.6 million were mainly denominated in HK dollars, and the maturity profile spread over a period of five years with HK$42.6 million repayable within one year, HK$3,000 repayable two to five years.

As at 31st December, 2004, total bank borrowings of the Group amounted to approximately HK$9 million and most of the Group's bank borrowings bear interest at floating rates.

Capital expenditure aggregated to approximately HK$149.2 million for the year was used primarily for purchasing of property, plant and equipment. The Group's capital expenditures will continue to be funded primarily by internal resources or external borrowings or a combination of both as required.

Cash and bank balances amounted to approximately HK$119.4 million, and is mainly denominated in Hong Kong dollars and Australian dollars. During the year, the company did not experience significant exposure to exchange rate and interest rate fluctuations. As a result, the Group did not enter into any material foreign exchange contracts, currency swaps or other financial derivatives.

SIGNIFICANT INVESTMENTS

China Enterprises Limited (carried on business in Hong Kong as China Tire Holdings Limited)

For the year under review, China Enterprises Limited ("China Enterprises") continued to look at strategic investment opportunities with a view to expanding business portfolios. Wing On Travel Holdings Limited is a travel business related affiliate which continues to benefit from the upward rebound to the travel business of Hong Kong after the negative impacts brought by the outbreak of the Severe Acute Respiratory Syndrome ("SARS") subsided over the corresponding period. After disposing of its investment in Yinchuan C.S.I. (Greatwall) Rubber Company Limited, *Double Happiness Tire Industries Corporation Limited and 25% interest in Hangzhou Zhongce Rubber Company Limited ("Hangzhou Zhongce") which are principally engaged in the manufacturing and trading of tires products in the PRC and other countries aboard in 2003, China Enterprises maintains minimal involvement in the manufacturing and trading of tires products through its 26% held interest in Hangzhou Zhongce.*

During 2004, China Enterprises entered into a conditional agreement for the proposed acquisition of a property situation in Shanghai, the PRC and the property being erected thereon which comprises two levels of underground carparks and a 24-storey building for a consideration of RMB450 million. Under the result of the Closer Economic Partnership Arrangement would have largely considerable potential on economic cooperation and integration between Hong Kong and the PRC, and with the gradual easing of restrictions on the individual mainland visitors traveling to Hong Kong, we expect a great increase in arrivals once more parts of the PRC are opened up to individual travelers. It is the intention of the management of China Enterprises to continue seeking appropriate investment opportunities in the hotel and travel related businesses in the PRC in view of the positive outlooks in the coming future so as to further expand.

MRI Holdings Limited

MRI Holdings Limited ("MRI") (ASX code: MRI) continues as an investment company under the ASX guidelines.

Throughout 2004, MRI continued to actively seek suitable investment opportunities to meet the strategic goals of MRI.

A number of possible investment opportunities were considered during the year, however none were considered suitable to meeting MRI's objectives, and the directors continue to seek appropriate potential investment opportunities.

Super Energy Group Limited

Super Energy Group Limited ("Super Energy") is a manufacturing company engaged principally in the production and sales of batteries and related accessories. Its major products are the primary battery and the re-chargeable battery. Benefited from the worldwide economic growth, demand for battery products has substantially increased. Having conducted research and development on many new products, some of them have already been produced, used and accepted in the market.

The invention of "No Mercury Button Cell Battery" has obtained the patent in Beijing, the PRC. With the concept of "Friendly Environment" being widely pursued in the USA and many European countries, Super Energy believes that this product will be widely accepted worldwide. Super Energy has also cooperated with sizeable Korean battery manufacturing companies to produce the "Lithium-Ion battery". Application for patent is being sought for this product in the USA, UK, Korea and the PRC, etc., and is commonly used in digital camera. Super Energy believes that "Lithium-Ion battery" is an invention representing high quality, high capacity and advance technology. Super Energy has confidence that this battery can become one of the leading battery products in the market.

Meanwhile, Super Energy is concentrating to enlarge its market share and it believes it will generate ample returns to the Group in the near future.

CORPORATE DEVELOPMENTS

On 13th January, 2004, the Group entered into an agreement ("CN Agreement") (as subsequently amended on 17th March, 2004 and further amended by the supplement agreement dated 4th May, 2004) with Wing On Travel (Holdings) Limited ("Wing On Travel") for the issue of convertible note by Wing On Travel to the Group for a consideration of HK$155,000,000. Completion of the CN Agreement had taken place on 14th June, 2004.

In March 2004, the Company entered into the conditional sale and purchase agreement Cheung Tai Hong (B.V.I.) Limited ("Cheung Tai Hong"), a wholly-owned subsidiary of Cheung Tai Hong Holdings Limited, in relation to the disposal of the entire issued equity interests in Tung Fong Hung Investment Limited to Cheung Tai Hong for a total consideration of HK$42,000,000. The transaction was completed in May, 2004.

As stated in the joint announcement dated 8th March, 2004 of Pacific Century Premium Developments Limited ("PCPD" formerly known as Dong Fang Gas Holdings Limited an associated company of the Company at that time), and PCCW Limited ("PCCW"), PCPD conditionally agreed to purchase (i) the entire issued share capital of Ipswich Holdings Limited and its subsidiaries ("Property Group"), being the group of companies holding PCP Beijing, PCCW Tower, other investment properties and related property and facilities management companies of PCCW and its subsidiaries and (ii) the loans of approximately HK$3,529 million, in aggregate, of interest-bearing loans owing by the relevant members of the Property Group to PCCW (comprising of HK$2,359 million and US$150 million of such loans and (iii) certain property interests. The consideration for the above transaction amounting to HK$6,557 million will be satisfied (a) as to HK$2,967 million by the allotment and issue of approximately 1,648 million new shares of PCPD to PCCW credited as fully paid at an issue price of HK$1.80 per share; and (b) as to the remaining HK$3,590 million by the issue of the convertible note by PCPD to PCCW or as it may direct. The above transaction was completed in May, 2004. PCPD then became the flagship of PCCW for property development business in Hong Kong and the People's Republic of China (the "PRC") and thereafter PCPD ceased to be an associated company of the Company.

On 18th March, 2004, the Company entered into a sale and purchase agreement in respect of the disposal of 12.88% interests in the share capital of Apex Quality Group Limited at the consideration of HK$10,722,600. On 5th August, 2004, the Company entered into a supplemental Agreement to extend the completion date of the transaction. The above transaction was completed in September, 2004.

On 31st March, 2004, the Group entered into a conditional agreement to acquire 80% interests of the issued share capital of and the shareholder's loan to Talent Cosmos Limited for a consideration of HK$30 million. Talent Cosmos Limited is an investment holding company and its subsidiaries are principally engaged in the manufacturing and trading of battery products.

The sale and purchase agreement dated 16th June, 2004 has been entered into between the Group and Shanghai Jiu Sheng Investment Company Limited in relation to the acquisition of the interest in a parcel of land situated at Nos. 219 and 229, Jiang Ning Road, Jing An District, Shanghai, the PRC and the building being erected thereon which comprises two levels of underground carparks and a 24-storey building for the total consideration of RMB450,000,000.

The Company had been notified on 15th October, 2004 that Hanny Holdings Limited ("Hanny") and Paul Y. – ITC Construction Holdings Limited ("Paul Y.") had been approached by a third party (the "First Potential Purchaser") in connection with the possible acquisition by the third party of interests in the shares of the Company from Hanny and/or Paul Y., which might or might not result in a general offer for all the shares of the Company (other than those already owned or purchased) (the "Possible Acquisition").

As stated in the announcement of the Company dated 4th November, 2004, the Group entered a memorandum of undertaking (the "MOU") regarding the intention of the acquisition of the entire issued share capital of Asso Limited ("Asso") or such assets owned by Asso and/or its subsidiaries (including Boading Yimian Group Co., Ltd.) for a consideration of HK$200,000,000. Since the formal agreement was not signed on or before the expiry date, the MOU was terminated and had no further effect.

In October and November, 2004, the Group converted approximately HK$100 million convertible note of Wing On Travel into ordinary shares of HK$0.01 each of Wing On Travel at conversion price of HK$0.020 per share. The interest of Wing On Travel held by the Group was accordingly interested from approximately 32.2% to approximately 38.6% upon conversion of the convertible notes into shares of HK$0.01 each in Wing On Travel by the Group and other convertible note holder. The Group also disposed of approximately 7.9% interest in Wing On Travel on market for a consideration of approximately HK$45 million and the interest in Wing On Travel held by the Group was decreased to approximately 30.3%.

On 30th November, 2004, the Group entered into two placing and subscription agreements with Wing On Travel and the placing agent pursuant to which the placing agent agreed to place 6,000 million shares of Wing On Travel at the price of HK$0.028 per share and the Group would subscribe for up to 6,000 million new shares of Wing On Travel at the same price of HK$0.028 per share. The placing of 6,000 million shares of Wing On Travel and subscription 3,660 million new shares of Wing On Travel issued to the Group under the general mandate of Wing On Travel were completed in December, 2004. The subscription of 2,340 million new shares of Wing On Travel issued to the Group pursuant to the approval of independent shareholders of Wing On Travel were completed in January, 2005. Upon completion of the above transactions, the Group held approximately 25.0% interest in Wing On Travel.

On 4th February, 2005, the Group further entered into a placing and subscription agreement with Wing On Travel and the placing agent pursuant to which the placing agent agreed to place, on a best efforts basis, up to 6,400 million shares of Wing On Travel at a price of HK$0.022 per Wing On Travel share and the Group would subscribe for up to 6,400 million new shares of Wing On Travel at the price of HK$0.022 per share. The above transactions were completed in February, 2005. The Group's interest in Wing On Travel was decreased to 21.1%.

On 3rd March, 2005, the Company had been informed by each of Hanny and Paul Y. that its negotiation with the First Potential Purchaser regarding the Possible Acquisition was terminated on 2nd March, 2005. However, Hanny and Paul Y. had commenced negotiation with another interested party (the "Second Potential Purchaser") on a possible acquisition of a controlling stake in the Company by the Second Potential Purchaser.

On 10th March, 2005, the Company had been informed by Paul Y. and Hanny that they have entered into the share sale agreement pursuant to which and subject to, inter alia, the implementation of the Group Reorganisation as stated below in full each of Paul Y. and Hanny agreed to dispose 135,000,000 shares (equivalent to 67,500,000 consolidated shares of the Company upon the Capital Reorganisation as stated below having become effective) which shares represent approximately an aggregate of 30.6% of the issued share capital of the Company, for an aggregate consideration of HK$52,110,000, equivalent to about HK$0.193 per share (or HK$0.386 per consolidated share).

As stated in the joint announcement of the Company dated 19th April, 2005, the Company announced the following proposals, if approved and implemented, would result in below:

(a) Group Reorganisation

(i) the Company continuing to be a public listed company with its subsidiaries concentrating on its business of manufacturing and trading of battery products, investments in securities and property and investment in unlisted investments;

(ii) *all other subsidiaries of the Company carrying on property development and investment holding business, and all other associates of the Company carrying on manufacturing and marketing of tires and business of providing package tour, travel and other related services being grouped under Group Dragon Investments Limited ("GDI"), a wholly-owned subsidiary of the Company, and its subsidiaries; and*

(iii) *the distribution in specie of the GDI shares to the shareholders of the Company whose names appear on the register of members of the Company on the record date on the basis of one GDI share for one consolidated share of the Company.*

(b) Capital Reorganisation

(i) *the cancellation of the paid-up capital of HK$0.05 on each issued share of the Company and reduction in the nominal value of each issued share of the Company from HK$0.10 to HK$0.05;*

(ii) *the cancellation of the entire share premium account of the Company;*

(iii) *the subdivision of each authorised but unissued share of the Company into two reduced shares of the Company of HK$0.05 each; and*

(iv) *consolidate every two reduced shares of the Company of HK$0.05 each into one consolidated share of the Company of HK$0.10."*

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

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

"ANALYSIS OF THE GROUP'S PERFORMANCE

The Group's turnover for the year ended 31st December, 2003 totaled approximately HK$2.9 billion, representing a decrease of 19.4% from approximately HK$3.6 billion compared to the financial year 2002. The turnover in toll highway operation, property investment, hotel operation and heavy industry were no longer consolidated following the disposal or restructuring of these operations. The turnover for the year mainly comprised of sales of goods (including tires and pharmaceutical products).

The Group's audited consolidated loss for the year ended 31st December, 2003 reduced by 60.0% to approximately HK$189.5 million as compared to approximately HK$474.1 million in last financial year. The improvement in the performance of the Group reflected the positive outcomes from the continuing management efforts to dispose of and restructure non-performing businesses or assets on the one hand, as well as the streamlining and rationalisation of existing businesses and assets on the other. As a result, there was significant reduction in other expenses from approximately HK$760.5 million to approximately HK$118.4 million which included impairment loss on the Group's assets as well as unrealised holding losses on investment in securities.

CAPITAL STRUCTURE, LIQUIDITY AND FINANCIAL RESOURCES

During the financial year 2003, the Group financed its operations mainly through cash generated from its business activities, banking facilities provided by its principal bankers and proceeds from disposal of investments.

For the year under review, the Group's short-term bank loans and other borrowings decreased from approximately HK$996.9 million as at 31st December, 2002 to approximately HK$38.3 million as at 31st December, 2003. Long-term bank loans and other borrowings reduced from approximately HK$86.9 million as at 31st December, 2002 to approximately HK$0.1 million as at 31st December, 2003. As a result, the Group's total bank loans and other borrowings decreased from approximately HK$1,083.8 million as at 31st December, 2002 to approximately HK$38.4 million as at 31st December, 2003, representing a decrease of 96.5%. The gearing ratio, calculated to the total long-term borrowing bank loans and other *borrowing divided by total shareholders funds reduced from 0.05 to 0.00009. The Group's total borrowings of approximately HK$38.4 million were mainly denominated in HK dollars, and the maturity profile spread over a period of five years with HK$38.3 million repayable within one year, HK$0.1 million repayable between two to five years.*

As at 31st December, 2003, total bank borrowings of the Group amounted to approximately HK$18.3 million and most of the Group's bank borrowings bear interest at floating rates.

Capital expenditure aggregated to approximately HK$268.9 million for the year under review and was used primarily for expansion of existing facilities. The Group's capital expenditures will continue to be funded primarily by internal resources or external borrowings or a combination of both as required.

Cash and bank balances amounted to approximately HK$319.9 million, and is mainly denominated in Hong Kong dollars and Australian dollars. During the year, the Company did not experience significant exposure to exchange rate and interest rate fluctuations. As a result, the Group did not enter into any material foreign exchange contracts, currency swaps or other financial derivatives.

COMMENTS ON SIGNIFICANT INVESTMENTS

China Enterprises Limited ("China Enterprises") (carried on business in Hong Kong as China Tire Holdings Limited)

The tire market in the People's Republic of China ("PRC") continued strong growth in fiscal year 2003. Along with the rapid development of the PRC economy, the construction of "five vertical and seven horizontal" National Trunks System accelerated in 2003 and resulted in increased demand for motor vehicles and vehicle related components, including tires.

For the year under review, China Enterprises disposed of all its interests in those non-performing subsidiaries, including Yinchuan C.S.I. (Greatwall) Rubber Company Limited ("Yinchuan C.S.I.") and the remaining interests in Double Happiness Tyre Industries Corporation Limited. The disposals made China Enterprises to deploy its resources released and to seek other investment opportunity.

MRI Holdings Limited ("MRI")

Throughout 2003, MRI continued to actively seek for suitable investment opportunities to meet the strategic goals of the Company.

In this regard, in July 2003, the shareholders of MRI approved the change in the status of MRI to that of an investment entity. The nature of MRI's business is now focused on investment opportunities.

The first investment in its new form, being a AUD4 million convertible note with Fruit Projects Australia Limited, was approved by the shareholders of MRI in July 2003.

The structural move to an investment vehicle will allow MRI to identify, consider and invest in appropriate strategic investment opportunities that will provide an income generating investment portfolio offering maximum returns to its shareholders, within a clear investment mandate in terms of investment criteria as approved by its shareholders.

To the date of this report no further investments assessed had been considered suitable to meet MRI's objectives, and MRI's Directors continue to seek appropriate potential investment opportunities.

Tung Fong Hung Investment Limited ("Tung Fong Hung")

Tung Fong Hung recorded a profit of approximately HK$4.5 million in 2003, compared with a loss of approximately HK$28.3 million in 2002, which is a significant improvement for Tung Fong Hung. In the first half of 2003, the local retail sector and most of the economies in the region were affected by the outbreak of SARS. However, Tung Fong Hung launched a product called "清肺抗炎茶", was highly accepted by the community, which helped sustaining Tung Fong Hung's business during the outbreak. The implementation of "Individual Visit Scheme" provided a great boost in Tung Fong Hung's travel and retail sector. This in turn resulted in stimulation of local consumption, and hence the turnover of Tung Fong Hung has sharply increased in the second half of the year. To cope with the business development in Hong Kong, 2 new outlets were opened to consolidate Tung Fong Hung's position as a market leader. On the other hand, the measures of "cost saving" and "operational efficiency enhancement" were successfully adopted, which not only fully utilised resources in Tung Fong Hung, but also increased Tung Fong Hung's competitiveness.

On 30th July, 2003, Tung Fong Hung disposed of its 50% interest in Pacific Wins Development Ltd., which holds entire interest in Jean-Marie Pharmacal Co., Ltd., a western pharmaceutical manufacturer, to a strategic business partner.

CORPORATE DEVELOPMENTS

In January 2003, China Enterprises, a non-wholly owned subsidiary of the Company, and Ningxia Yinchuan Rubber Manufacturing ("Ningxia Yinchuan") entered into a conditional sale and purchase agreement (as subsequently amended in September 2003) pursuant to which China Enterprises agreed to sell its entire 51% interest in Yinchuan C.S.I. to Ningxia Yinchuan for the consideration of Rmb29 million (equivalent to approximately HK$27 million).

Upon completion of the group reorganisation of the Company in 2002, the Company as the controlling shareholder of China Velocity Group Limited ("China Velocity") (formerly known as Rosedale Hotel Group Limited) disposed of 26,500,000 consolidated shares of China Velocity at a consideration of HK$0.72 per share in May 2003 in order to maintain adequate public float of shares of China Velocity. The shareholding interest in China Velocity held by the Company has reduced to approximately 22.65% of the issued shares of China Velocity, and approximately 28.1% of issued share capital of China Velocity are held in the hands of the public which was in compliance with Rule 8.08 of the Listing Rules on the Stock Exchange.

In June 2003, China Enterprises and Hangzhou Industrial & Commercial Trust & Investment Co., Ltd. ("Hangzhou I&C") entered into an agreement, pursuant to which China Enterprises agreed to dispose of its 25% interests in Hangzhou Zhongce Rubber Co., Ltd. to Hangzhou I&C for the consideration of approximately Rmb164.7 million (equivalent to approximately HK$155.2 million).

In July 2003, Hanny Holdings Limited ("Hanny") and Paul Y. — ITC Construction Holdings Limited ("Paul Y.") announced that Well Orient Limited ("Well Orient") and Calisan Developments Limited ("Calisan"), each being indirect wholly-owned subsidiary of Hanny and Paul Y. respectively, to make a voluntary conditional cash offer at the price of HK$0.10 for each share of the Company (the "Shares") and HK$0.001 for each warrant of the Company (the "Warrants") respectively, other than those presently owned by Well Orient and Calisan (the "Offerors") and their concert parties, in order to increase the aggregate shareholdings of the Offerors in the Company to over 50% of the issued share capital of the Company, Kingsway SW Securities Limited ("Kingsway SW Securities") has been appointed by the Offerors to stand in the market to acquire Shares at a price of no more than HK$0.10 per Share. On 9th July, 2003, Kingsway SW Securities, on behalf of the Offerors, purchased 49,665,000 Shares, representing 5.98% of the issue share capital of the Company, at the open market at a price of HK$0.10 per Share. After the purchase on 9th July, *2003, the Offerors and their concert parties were interested in 291,675,000 Shares, representing approximately 35.16% of the issued share capital of the Company, thus triggering a mandatory offer during the offer period of a voluntary offer under Rule 26 of the Takeovers Code.*

The Offerors notified the Company on 21st July, 2003 that the offer price under the Share offer would be increased from HK$0.10 to HK$0.139 per Share and the Offerors, through Kingsway SW Securities, would make a mandatory conditional cash offer at the price of HK$0.139 for each Share and HK$0.001 for each Warrant respectively, other than Shares and Warrants presently owned by the Offerors and parties acting in concert with the Offerors, and to cancel all outstanding options (the "Options") at HK$0.001 per Option.

In addition to the acquisition of 49,665,000 Shares on 9th July, 2003, the Offerors also jointly purchased 161,680,000 Shares, representing 19.49% of the voting rights in the Company, at a price of HK$0.139 per Share on 11th August, 2003. Including the valid acceptances of the Share offer in respect of 77,510 Shares received by the Offerors as at 11th August, 2003, the Offerors and their concert parties hold 453,432,510 Shares, representing 54.67% of the voting rights in the Company on 11th August, 2003 and thus, the condition to which the offers are subject has been satisfied and the offers have become unconditional on 11th August, 2003.

Upon close of the offers, the Offerors and their concert parties are interested in 518,329,589 Shares, representing approximately 62.49% of the existing issued shares of the Company and 48,285,900 units of Warrants, representing approximately 29.11% of the outstanding Warrants. All outstanding Options were cancelled on 29th August, 2003. The Company became an associated company of Paul Y. and Hanny.

In August 2003, China Velocity and Wing On Travel (Holdings) Limited ("Wing On") (formerly known as Ananda Wing On Travel (Holdings) Limited), both associated companies of the Company, announced that the shareholders of China Velocity whose names appear on the register of members of China Velocity on 11th December, 2003 would receive by way of distribution in specie of shares of Apex Quality Group Limited ("Apex") on a one Apex share for one consolidated China Velocity share basis. Upon completion, the Company received 62,821,662 Apex shares of which became an associate of the Company.

China Enterprises entered into a conditional agreement dated 13th January, 2004 with Wing On in relation to the issue of 2% convertible note to China Enterprises or its nominee for a consideration of HK$155,000,000. The convertible note provides China Enterprises with the right to convert into Wing On shares during a period of three years from the date of issue of the convertible note, at an initial conversion price of HK$0.20 per Wing On share, subject to adjustment.

In March 2004, the Company entered into the conditional sale and purchase agreement with Cheung Tai Hong (B.V.I.) Limited ("Cheung Tai Hong") in relation to the acquisition by Cheung Tai Hong of the entire equity interest in Tung Fong Hung from the Company for a total consideration of HK$42,000,000.

As stated in the joint announcement dated 5th March, 2004 of Dong Fang Gas Holdings Limited ("Dong Fang Gas"), an associated company of the Company, and PCCW Limited ("PCCW"), Dong Fang Gas conditionally agreed to purchase (i) the entire issued share capital of Ipswich Holdings Limited and its subsidiaries ("Property Group"), being the group of companies holding PCP Beijing, PCCW Tower, other investment properties and related property and facilities management companies of PCCW Limited and its subsidiaries and (ii) the loans of approximately HK$3,529 million, in aggregate, of interest-bearing loans owing by the relevant members of the Property Group to PCCW (comprising of HK$2,359 million and US$150 million of such loans) and (iii) certain property interests. The consideration for the above transaction amounting to HK$6,557 million will be satisfied (a) as to HK$2,967 million by the allotment and issue of approximately 1,648 million new shares of Dong Fang Gas to PCCW (or as it may direct) credited as fully paid at an issue price of HK$1.80 per share; and (b) as to the remaining HK$3,590 million by the issue of the convertible notes by Dong Fang Gas to PCCW or as it may direct. Upon completion of the foresaid proposals, Dong Fang Gas will become the flagship of PCCW for property development business in Hong Kong and the PRC and thereafter Dong Fang Gas will cease to be an associate of the Company."

INDEBTEDNESS

Borrowings of the Group

As at the close of business on 31st March, 2006, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Group had outstanding borrowings of approximately HK$216,909,000 comprising secured bank borrowings of approximately HK$8,982,000, amounts due to related companies of approximately HK$204,571,000, payables of approximately HK$3,353,000 and a secured margin loan payable of approximately HK$3,000.

Securities and guarantees of the Group

The secured bank borrowings as shown above were guaranteed by personal guarantees given by the directors of a non-wholly owned subsidiary. The secured margin loan payable and secured bank borrowings were secured by investment in securities held for trading of approximately HK$56,397,000 and bank deposit of approximately HK$1,045,000 respectively.

At the close of business on 31st March, 2006, the Group had contingent liabilities in respect of guarantees in favour of banks for facilities granted to independent third parties of approximately HK$30,780,000 and an associate of approximately HK$8,000,000.

Debt securities of the Group

At the close of the business on 31st March, 2006, the Group had no debt securities.

Commitment of the Group

At the close of business on 31st March, 2006, the Group had commitment of approximately HK$113,273,000, in respect of the acquisition of property, plant and equipment and acquisition of interest in other assets.

Save as aforesaid or as otherwise disclosed herein, and apart from intra-group liabilities, the Group did not have outstanding at the close of business on 31st March, 2006 any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptable credits, debentures, mortgages, charges, hire purchases or finance lease commitments, guarantees or other material contingent liabilities.

Borrowings of the Wing On Group

As at the close of business on 31st March, 2006, being the latest practicable date prior to the printing of this circular, the Wing On Group had secured borrowings of approximately HK$666.0 million comprising bank loans of approximately HK$293.0 million, other loans of approximately HK$7.9 million, promissory note of HK$365.0 million and obligations under finance lease of approximately HK$0.1 million; and unsecured borrowings of approximately HK$361.8 million comprising other loans of HK$3.0 million and loans from related companies of approximately HK$358.8 million.

Securities and guarantees of the Wing On Group

The secured borrowings are secured by certain of the Wing On Group's assets of approximately HK$639 million.

Save as aforesaid or as otherwise disclosed herein, and apart from intra-group labilities, the Wing On Group did not have outstanding at the close of business on 31st March, 2006 any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptable credits, debentures, mortgages, charges, hire purchase or finance lease commitments, guarantees or other material contingent liabilities.

Foreign currency amounts have been translated into Hong Kong dollars at the exchange rates prevailing at the close of business on 31st March, 2006.

The Directors have confirmed that there has been no material change in the indebtedness and contingent liabilities of the Enlarged Group since 31st March, 2006 and up to the Latest Practicable Date.

MATERIAL CHANGES

The Directors are not aware of any material changes in the financial or trading position of the Group since 31st December, 2005, the date to which the latest published audited consolidated financial statements of the Company were made up.

WORKING CAPITAL STATEMENT

The Directors are of the opinion that, after taking into account the effect of the CEL Subscription, the possible very substantial acquisition as a result of the conversion of the CEL Notes, the present available banking and other borrowing facilities and the internal resources, the Enlarged Group have sufficient working capital for its present requirement and for the next twelve months from the date of this circular.

A. FINANCIAL SUMMARY

Following is the summary of the audited consolidated results and audited consolidated balance sheets of the Wing On Group for each of the three years ended 31st December, 2005.

(i) RESULTS

	Year ended 31st December,		
	2005	**2004**	**2003**
	HK$'000	*HK$'000*	*HK$'000*
		(restated)	(originally stated)
Turnover	1,815,718	1,722,177	1,416,235
Profit (loss) before taxation	30,126	(2,852)	(373,047)
Taxation credit	2,108	23	2,075
Profit (loss) for the year	32,234	(2,829)	(370,972)
Attributable to:			
Shareholders of the parent	31,109	8,556	(370,972)
Minority interests	1,125	(11,385)	–
	32,234	(2,829)	(370,972)
Dividends	8,752	–	–

(ii) ASSETS AND LIABILITIES

	As at 31st December,		
	2005	**2004**	**2003**
	HK$'000	*HK$'000*	*HK$'000*
		(restated)	(originally stated)
Total assets	3,031,623	2,572,322	1,107,351
Total liabilities	1,617,579	1,643,878	784,252
	1,414,044	928,444	323,099
Equity attributable to shareholders of the parent	978,976	630,142	293,321
Minority interests	435,068	298,302	29,778
	1,414,044	928,444	323,099

Note:

The audited financial statements of the Wing On Group for the years ended 31st December, 2003, 2004 and 2005 have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards ("HKFRSs") and Hong Kong Accounting Standards ("HKASs") which are effective for accounting periods beginning on or after 1st January, 2005.

The adoption of the new and revised HKFRSs had no significant impact on the Group's financial position as at 31st December, 2003 and result of operations for the year ended 31st December, 2003 except for the following:

The principal impact of HKAS 32 "Financial instruments: disclosure and presentation" ("HKAS 32") on the Wing On Group is in relation to convertible notes issued by Wing On that contain both liability and equity components. Previously, convertible notes were classified as liabilities on the consolidated balance sheet. HKAS 32 requires an issuer of a compound financial instrument that contains both financial liability and equity components to separate the compound financial instrument into the liability and equity components on initial recognition and to account for these components separately. In subsequent periods, the liability component is carried at amortised cost using the effective interest method.

In the current year, the Wing On Group has, for the first time, applied HKAS 40 "Investment property" ("HKAS 40"). The Wing On Group has elected to use the fair value model to account for its investment properties which requires gains or losses arising from changes in the fair value of investment properties to be recognised directly in the profit or loss for the year in which they arise. In previous years, investment properties under the predecessor standards were measured at open market values, with revaluation surplus or deficit credited or charged to investment property revaluation reserve unless the balance on this reserve was insufficient to cover a revaluation decrease, in which case the excess of the revaluation decrease over the balance on the investment property revaluation reserve was charged to the income statement. Where a decrease had previously been charged to the income statement and a revaluation surplus subsequently arose, that increase was credited to the income statement to the extent of the decrease previously charged. The Wing On Group has applied the relevant transitional provisions in HKAS 40 and elected to apply HKAS 40 retrospectively.

The management of the Wing On Group estimated the financial impact in the adoption of such new and revised HKFRSs for the year ended 31st December, 2003 is as follow:

	As at 31st December, 2003
	HK$'000
Decrease in convertible notes	(3,065)
Increase in convertible notes reserve	20,468
Increase in accumulated losses	(17,403)

	For the year ended 31st December, 2003
	HK$'000
Increase in fair value of investment property	163
Increase in finance costs	(9,871)

B. AUDITED FINANCIAL INFORMATION

The information set out below was extracted from the annual report of Wing On for the year ended 31st December, 2005.

Consolidated Income Statement
For the year ended 31 December 2005

	Notes	**2005** *HK$'000*	**2004** *HK$'000* (Restated)
Turnover	*7*	1,815,718	1,722,177
Direct operating costs		(1,469,298)	(1,426,652)
Gross profit		346,420	295,525
Other operating income	*9*	20,415	20,784
Distribution costs		(53,041)	(51,039)
Administrative expenses		(259,810)	(241,063)
Discount on acquisition of subsidiaries	*43(a)*	34,574	–
Decrease in fair value of investments held for trading		(14,761)	–
Net unrealised holding loss on other investments		–	(127)
Increase in fair value of investment property	*17*	619	2,000
Realised gain on derivative financial instruments		5,650	–
Reversal of impairment loss in respect of leasehold land and buildings	*16*	4,874	4,511
Reversal of impairment loss (impairment loss recognised) in respect of properties under construction	*16*	900	(1,100)
Impairment loss recognised in respect of available-for-sale investments	*19(b)*	(1,167)	–
Impairment loss recognised in respect of investments in securities		–	(5,659)
Release of negative goodwill arising from acquisition of subsidiaries	*22*	–	1,863
Finance costs	*10*	(59,376)	(66,282)
Share of results of associates	*18*	8,006	(195)
Loss on partial disposal of subsidiaries		(3,177)	–
Gain on disposal of associates		–	37,930
Profit (loss) before taxation	*11*	30,126	(2,852)
Taxation credit	*13*	2,108	23
Profit (loss) for the year		32,234	(2,829)
Attributable to:			
Shareholders of the parent		31,109	8,556
Minority interests		1,125	(11,385)
		32,234	(2,829)
Dividends	*14*	8,752	–
		HK$	*HK$* (Restated)
Earnings per share	*15*		
Basic		0.07	0.04
Diluted		N/A	N/A

Consolidated Balance Sheet
At 31 December 2005

	Notes	**2005** *HK$'000*	**2004** *HK$'000* (Restated)
Non-current assets			
Property, plant and equipment	*16*	1,702,860	1,708,682
Investment property	*17*	–	3,400
Interest in associates	*18*	220,422	1,989
Available-for-sale investments	*19*	92,625	–
Investments in securities	*20*	–	93,789
Goodwill	*21*	50,862	50,215
Negative goodwill	*22*	–	(72,651)
Investment deposits	*24*	201,419	221,695
Club debenture, at cost		713	713
		2,268,901	2,007,832
Current assets			
Property held for sale, at cost		98	98
Inventories	*25*	6,113	5,807
Amounts due from related companies	*26*	65,177	6,522
Amounts due from associates	*27*	122,449	391
Trade and other receivables	*28*	324,505	276,500
Loan receivables	*29*	180,926	131,000
Investments held for trading	*30*	9,086	–
Investments in securities	*20*	–	2,778
Tax recoverable		37	31
Pledged bank deposits	*46*	6,925	6,800
Trading cash balances	*31*	284	246
Bank balances and cash		43,103	134,317
		758,703	564,490
Asset classified as held for sale	*17*	4,019	–
		762,722	564,490
Current liabilities			
Trade and other payables	*32*	277,368	234,441
Loans from related companies	*33*	361,500	260,778
Amounts due to associates	*27*	11,016	11,327
Amounts due to related companies	*34*	48,289	17,598
Obligations under finance leases			
– amount due within one year	*35*	62	378
Borrowings			
– amount due within one year	*36*	38,325	57,066
		736,560	581,588
Net current assets (liabilities)		26,162	(17,098)
Total assets less current liabilities		2,295,063	1,990,734

	Notes	2005 HK$'000	2004 HK$'000 (Restated)
Non-current liabilities			
Loans from related companies	33	–	112,098
Obligations under finance leases			
– amount due after one year	35	31	93
Borrowings			
– amount due after one year	36	271,308	300,395
Convertible notes	37	–	41,350
Promissory note	38	365,000	365,000
Deferred taxation	39	244,680	243,354
		881,019	1,062,290
Net assets		1,414,044	928,444
Capital and reserves			
Share capital	40	437,586	322,267
Reserves	42	541,390	307,875
Equity attributable to shareholders of the parent		978,976	630,142
Minority interests		435,068	298,302
Total equity		1,414,044	928,444

Consolidated Statement of Changes in Equity

For the year ended 31 December 2005

	Share capital HK$'000	Share premium HK$'000	Special reserve HK$'000 (Note 42b)	Investment property revaluation reserve HK$'000	Convertible notes reserve HK$'000	Translation reserve HK$'000	Statutory reserves HK$'000	Accumulated (losses) profits HK$'000	Attributable to shareholders of the parent HK$'000	Minority interests HK$'000	Total HK$'000
At 1 January 2004											
– as originally stated	183,167	1,019,606	55,554	736	–	(324)	150	(965,568)	293,321	29,778	323,099
– effects of changes in accounting policies *(notes 2 and 3)*	–	–	–	(736)	20,468	–	–	(16,667)	3,065	–	3,065
– as restated	183,167	1,019,606	55,554	–	20,468	(324)	150	(982,235)	296,386	29,778	326,164
Exchange difference arising on translation of financial statements of operations outside Hong Kong	–	–	–	–	–	(757)	–	–	(757)	–	(757)
Profit (loss) for the year	–	–	–	–	–	–	–	8,556	8,556	(11,385)	(2,829)
Total recognised income and expense for the year	–	–	–	–	–	(757)	–	8,556	7,799	(11,385)	(3,586)
	183,167	1,019,606	55,554	–	20,468	(1,081)	150	(973,679)	304,185	18,393	322,578
Recognition of equity component of convertible notes	–	–	–	–	75,863	–	–	–	75,863	–	75,863
Conversion into shares from convertible notes	102,500	102,500	–	–	(62,213)	–	–	9,506	152,293	–	152,293
Issue of shares	36,600	65,880	–	–	–	–	–	–	102,480	–	102,480
Share issue expenses	–	(3,832)	–	–	–	–	–	–	(3,832)	–	(3,832)
Acquisition of subsidiaries	–	–	–	–	–	–	–	–	–	279,909	279,909
Realisation on liquidation of a subsidiary	–	–	–	–	–	(847)	–	–	(847)	–	(847)
Transfer due to redemption of convertible notes	–	–	–	–	(20,468)	–	–	20,468	–	–	–
At 31 December 2004	322,267	1,184,154	55,554	–	13,650	(1,928)	150	(943,705)	630,142	298,302	928,444
Opening balance adjustments arising from adoption of new accounting policies *(notes 2 and 3)*	–	–	–	–	–	–	–	72,651	72,651	–	72,651
At 1 January 2005, as restated	322,267	1,184,154	55,554	–	13,650	(1,928)	150	(871,054)	702,793	298,302	1,001,095
Exchange difference arising on translation of financial statements of operations outside Hong Kong	–	–	–	–	–	11,015	–	–	11,015	4,724	15,739
Profit for the year	–	–	–	–	–	–	–	31,109	31,109	1,125	32,234
Total recognised income and expense for the year	–	–	–	–	–	11,015	–	31,109	42,124	5,849	47,973
	322,267	1,184,154	55,554	–	13,650	9,087	150	(839,945)	744,917	304,151	1,049,068
Conversion into shares from convertible notes	27,919	27,081	–	–	(13,650)	–	–	1,623	42,973	–	42,973
Issue of shares	87,400	118,920	–	–	–	–	–	–	206,320	–	206,320
Share issue expenses	–	(6,482)	–	–	–	–	–	–	(6,482)	–	(6,482)
Acquisition of subsidiaries	–	–	–	–	–	–	–	–	–	110,945	110,945
Partial disposal of subsidiaries	–	–	–	–	–	–	–	–	–	25,977	25,977
Cancellation of share premium *(note 42a)*	–	(1,323,673)	1,323,673	–	–	–	–	–	–	–	–
Set off against accumulated losses	–	–	(1,120,764)	–	–	–	–	1,120,764	–	–	–
Dividends	–	–	–	–	–	–	–	(8,752)	(8,752)	–	(8,752)
Dividends paid to minority shareholders of subsidiaries	–	–	–	–	–	–	–	–	–	(6,005)	(6,005)
At 31 December 2005	437,586	–	258,463	–	–	9,087	150	273,690	978,976	435,068	1,414,044

Consolidated Cash Flow Statement

For the year ended 31 December 2005

	2005	2004
	HK$'000	*HK$'000*
		(Restated)
Cash flows from operating activities		
Profit (loss) before taxation	30,126	(2,852)
Adjustments for:		
Share of results of associates	(8,006)	195
Depreciation and amortisation of property, plant and equipment	60,743	57,057
Interest income	(4,722)	(3,381)
Interest expenses	59,358	66,149
Finance lease charges	18	133
Loss on disposal of property, plant and equipment	480	220
Loss on partial disposal of subsidiaries	3,177	–
Gain on disposal of associates	–	(37,930)
Loss on disposal of other investments	–	11
Allowance for irrecoverable trade debts	476	1,262
Increase in fair value of investment property	(619)	(2,000)
Impairment loss recognised in respect of available-for-sale investments	1,167	–
Impairment loss recognised in respect of investments in securities	–	5,659
(Reversal of impairment loss) impairment loss recognised in respect of properties under construction	(900)	1,100
Reversal of impairment loss in respect of leasehold land and buildings	(4,874)	(4,511)
Discount on acquisition of subsidiaries	(34,574)	–
Release of negative goodwill arising from acquisition of subsidiaries	–	(1,863)
Decrease in fair value of investments held for trading	14,761	–
Net unrealised holding loss on other investments	–	127
Operating cash flows before movement in working capital	116,611	79,376

	Notes	2005 HK$'000	2004 HK$'000 (Restated)
Movement in working capital			
(Increase) decrease in inventories		(306)	254
Decrease (increase) in amounts due from related companies		1,439	(3,594)
Decrease in amounts due from associates		8,980	1,916
(Increase) decrease in trade and other receivables		(47,407)	139,499
(Increase) decrease in trading cash balances		(38)	170
Increase (decrease) in trade and other payables		40,697	(111,100)
Decrease in amounts due to associates		(481)	(807)
Increase (decrease) in amounts due to related companies		30,113	(77,065)
		32,997	(50,727)
Cash generated from operations		149,608	28,649
Interest paid		(57,735)	(53,578)
Finance lease charges paid		(18)	(133)
Taxation in other jurisdictions (paid) refunded		(63)	28
Net cash from (used in) operating activities		91,792	(25,034)
Cash flows from investing activities			
Proceed on partial disposal of subsidiaries		22,800	–
Interest received		4,722	3,381
Proceeds from disposal of property, plant and equipment		1,671	9,908
Acquisition of subsidiaries	43	(151,298)	(47,387)
Advances to related companies		(60,090)	–
Net cash outflow of loans advanced to certain companies and individuals		(49,926)	(36,050)
Purchase of property, plant and equipment		(30,040)	(18,669)
Capital contribution to an associate		(24,038)	–
Purchase of investments held for trading		(21,069)	–
Payment for investment deposits		(474)	(221,695)
Increase in pledged bank deposits		(125)	(6,410)
Proceeds from disposals of associates and advances		–	188,988
Acquisition of associates and advances		–	(82,135)
Purchase of other investments		–	(58)
Purchase of investment securities		–	(1)
Refund of other long term investment		–	70,500
Proceeds from disposal of other investments		–	12
Net cash used in investing activities		(307,867)	(139,616)

	Notes	2005 HK$'000	2004 HK$'000 (Restated)
Cash flows from financing activities			
Proceeds from issue of new shares for cash, net of expenses of HK$6,482,000 (2004: HK$3,832,000)		199,838	98,648
New bank loans and other loans raised		14,424	5,569
Repayment of bank loans and other loans		(34,071)	(89,599)
Net cash (outflow) inflow from loans from related companies		(11,376)	141,564
Dividends paid		(8,752)	–
Dividends paid to minority shareholders of subsidiaries		(6,005)	–
Repayment of obligations under finance leases		(378)	(1,182)
Proceeds from issue of convertible notes		–	70,200
Redemption of convertible notes		–	(64,325)
Net cash from financing activities		153,680	160,875
Net decrease in cash and cash equivalents		(62,395)	(3,775)
Cash and cash equivalents at beginning of the year		106,136	111,709
Effect of foreign exchange rate changes		(638)	(1,798)
Cash and cash equivalents at end of the year	*45*	43,103	106,136

Notes to the Financial Statements

For the year ended 31 December 2005

1. GENERAL

The Company is an exempted company incorporated in Bermuda with limited liability. Its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The addresses of the registered office and principal place of business of the Company are disclosed in the corporate information of the annual report.

The consolidated financial statements are presented in Hong Kong dollars which is the functional currency of the Company.

The Company is an investment holding company. Its principal subsidiaries are engaged in the business of providing package tours, travel and other related services and hotel operation.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations ("INTs") (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are effective for accounting periods beginning on or after 1 January 2005. The application of the new HKFRSs has resulted in a change in the presentation of the consolidated income statement, consolidated balance sheet and consolidated statement of changes in equity. In particular, the presentation of minority interests and share of tax of associates has been changed as required by HKAS 1 "Presentation of financial statements". The changes in presentation have been applied retrospectively. The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current and/or prior accounting years are prepared and presented.

Business combinations

In the current year, the Group has applied HKFRS 3 "Business combinations" ("HKFRS 3") which is effective for business combinations for which the agreement date is on or after 1 January 2005. The principal effects of the application of HKFRS 3 to the Group are summarised below:

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS *(Cont'd)*

Goodwill

In previous years, goodwill arising on acquisition was capitalised and amortised over its estimated useful life. The Group has applied the relevant transitional provisions in HKFRS 3. With respect to goodwill previously capitalised on the consolidated balance sheet, the Group has discontinued amortising such goodwill from 1 January 2005 onwards and such goodwill will be tested for impairment at least annually. Goodwill arising on acquisition after 1 January 2005 is measured at cost less accumulated impairment losses (if any) after initial recognition. As a result of this change in accounting policy, no amortisation of goodwill has been charged in the current year. Comparative figures for 2004 have not been restated (see note 3 for the financial impact).

Excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost (previously known as "negative goodwill")

In accordance with HKFRS 3, any excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition ("discount on acquisition") is recognised immediately in profit or loss in the period in which the acquisition takes place. In previous years, negative goodwill arising on acquisition was presented as a deduction from assets and released to income based on an analysis of the circumstances from which the balance resulted. In accordance with the relevant transitional provisions in HKFRS 3, the Group has derecognised all negative goodwill on 1 January 2005, which was previously presented as a deduction from assets, with a corresponding adjustment to the Group's accumulated (losses) profits (see note 3 for the financial impact).

Financial instruments

In the current year, the Group has applied HKAS 32 "Financial instruments: disclosure and presentation" ("HKAS 32") and HKAS 39 "Financial instruments: Recognition and measurement" ("HKAS 39"). HKAS 32 requires retrospective application. HKAS 39, which is effective for annual periods beginning on or after 1 January 2005, generally does not permit the recognition, derecognition or measurement of financial assets and liabilities on a retrospective basis. The principal effects resulting from the implementation of HKAS 32 and HKAS 39 are summarised below:

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS *(Cont'd)*

Convertible notes

The principal impact of HKAS 32 on the Group is in relation to convertible notes issued by the Company that contain both liability and equity components. Previously, convertible notes were classified as liabilities on the consolidated balance sheet. HKAS 32 requires an issuer of a compound financial instrument that contains both financial liability and equity components to separate the compound financial instrument into the liability and equity components on initial recognition and to account for these components separately. In subsequent periods, the liability component is carried at amortised cost using the effective interest method. Because HKAS 32 requires retrospective application, comparative figures for 2004 have been restated. Comparative result for 2004 has been restated in order to reflect the increase in effective interest on the liability component (see note 3 for the financial impact).

Classification and measurement of financial assets and financial liabilities

The Group has applied the relevant transitional provisions in HKAS 39 with respect to classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

By 31 December 2004, the Group classified and measured its debt and equity securities in accordance with the benchmark treatment of the Statement of Standard Accounting Practice 24 "Accounting for investments in securities" ("SSAP 24"). Under SSAP 24, investments in debt or equity securities are classified as "investment securities", "other investments" or "held-to-maturity investments" as appropriate. "Investment securities" are carried at cost less impairment losses (if any) while "other investments" are measured at fair value, with unrealised gains or losses included in the profit or loss. Held-to-maturity investments are carried at amortised cost less impairment losses (if any). From 1 January 2005 onwards, the Group has classified and measured its debt and equity securities in accordance with HKAS 39. Under HKAS 39, financial assets are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables", or "held-to-maturity financial assets". "Financial assets at fair value through profit or loss" and "available-for-sale financial assets" are carried at fair value, with changes in fair values recognised in profit or loss and equity respectively. Available-for-sale equity investments that do not have quoted market prices in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments are measured at cost less impairment after initial recognition. "Loans and receivables" and "held-to-maturity financial assets" are measured at amortised cost using the effective interest method after initial recognition.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS *(Cont'd)*

On 1 January 2005, the Group classified and measured its debt and equity securities in accordance with the transitional provisions of HKAS 39. As a result of the adoption of HKAS 39, the Group has redesignated "investments in securities" recorded in the consolidated balance sheet at 1 January 2005 amounting to HK$93,789,000 as "available-for-sale investments" and HK$2,778,000 as "investments held for trading".

Financial assets and financial liabilities other than debt and equity securities

From 1 January 2005 onwards, the Group has classified and measured its financial assets and financial liabilities other than debt and equity securities (which were previously outside the scope of SSAP 24) in accordance with the requirements of HKAS 39. As mentioned above, financial assets under HKAS 39 are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables" or "held-to-maturity financial assets". Financial liabilities are generally classified as "financial liabilities at fair value through profit or loss" or "other financial liabilities". Financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value being recognised in profit or loss directly. "Other financial liabilities" are carried at amortised cost using the effective interest method after initial recognition. These requirements of HKAS 39 did not have any financial impact to the Group.

Derivatives and hedging

From 1 January 2005 onwards, all derivatives that are within the scope of HKAS 39 are required to be carried at fair value at each balance sheet date regardless of whether they are deemed as held for trading or designated as effective hedging instruments. Under HKAS 39, derivatives (including embedded derivatives separately accounted for from the non-derivative host contracts) are deemed as held-for-trading financial assets or financial liabilities, unless they qualify and are designated as effective hedging instruments. The corresponding adjustments on changes in fair values would depend on whether the derivatives are designated as effective hedging instruments, and if so, the nature of the item being hedged. For derivatives that are deemed as held for trading, changes in fair values of such derivatives are recognised in profit or loss for the period in which they arise. Since there were no derivative financial instruments as at 1 January 2005, accordingly, comparative figures for 2004 have not been restated.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS *(Cont'd)*

Hotel properties

Hong Kong Interpretation 2 "The appropriate accounting policies for hotel properties" ("HK INT 2") clarifies the accounting policy for owner-operated hotel properties. In previous years, the Group's self-operated hotel properties were carried at cost less accumulated impairment loss and were not subject to depreciation. HK INT 2 requires owner-operated properties to be classified as property, plant and equipment in accordance with HKAS 16 "Property, plant and equipment", and therefore be accounted for either using the cost model or the revaluation model. The Group has resolved to account for these hotel properties using the cost model. In the absence of any specific transitional provisions in HK INT 2, the new accounting policy has been applied retrospectively. Comparative figures have been restated (see note 3 for the financial impact).

Owner-occupied leasehold interest in land

In previous years, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured using the cost model. In the current year, the Group has applied HKAS 17 "Leases" ("HKAS 17"). Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid lease payments under operating leases, which are carried at cost and amortised over the lease term on a straight line basis. This change in accounting policy has been applied retrospectively. Alternatively, where the allocation between the land and buildings elements cannot be made reliably, the leasehold interests in land continue to be accounted for as property, plant and equipment. As the directors consider the allocation between the land and buildings elements cannot be made reliably, no restatement has been made in the financial statements.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS *(Cont'd)*

Investment properties

In the current year, the Group has, for the first time, applied HKAS 40 "Investment property" ("HKAS 40"). The Group has elected to use the fair value model to account for its investment properties which requires gains or losses arising from changes in the fair value of investment properties to be recognised directly in the profit or loss for the year in which they arise. In previous years, investment properties under the predecessor SSAP were measured at open market values, with revaluation surplus or deficit credited or charged to investment property revaluation reserve unless the balance on this reserve was insufficient to cover a revaluation decrease, in which case the excess of the revaluation decrease over the balance on the investment property revaluation reserve was charged to the income statement. Where a decrease had previously been charged to the income statement and a revaluation surplus subsequently arose, that increase was credited to the income statement to the extent of the decrease previously charged. The Group has applied the relevant transitional provisions in HKAS 40 and elected to apply HKAS 40 retrospectively. Comparative figures for 2004 have been restated (see note 3 for the financial impact).

Deferred taxes related to investment properties

In previous years, deferred tax consequences in respect of revalued investment properties were assessed on the basis of the tax consequence that would follow from recovery of the carrying amount of the properties through sale in accordance with the predecessor Interpretation. In the current year, the Group has applied Hong Kong Standing Interpretations Committee Interpretation 21 "Income taxes – recovery of revalued non-depreciable assets" ("HK(SIC) Interpretation 21") which removes the presumption that the carrying amount of investment properties are to be recovered through sale. Therefore, the deferred tax consequences of the investment properties are now assessed on the basis that reflects the tax consequences that would follow from the manner in which the Group expects to recover the property at each balance sheet date. In the absence of any specific transitional provisions in HK(SIC) Interpretation 21, this change in accounting policy has been applied retrospectively but did not have any financial impact to the Group.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS *(Cont'd)*

The Group has not early applied the following new standards and interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these Standards or Interpretations will have no material impact on the consolidated financial statements of the Group.

HKAS 1 (Amendment)	Capital disclosure [1]
HKAS 19 (Amendment)	Actuarial gains and losses, group plans and disclosures [2]
HKAS 21 (Amendment)	Net investment in a foreign operation [2]
HKAS 39 (Amendment)	Cash flow hedge accounting of forecast intragroup transactions [2]
HKAS 39 (Amendment)	The fair value option [2]
HKAS 39 and HKFRS 4 (Amendments)	Financial guarantee contracts [2]
HKFRS 6	Exploration for and evaluation of mineral resources [2]
HKFRS 7	Financial instruments: Disclosures [1]
HK(IFRIC) – INT 4	Determining whether an arrangement contains a lease [2]
HK(IFRIC) – INT 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds [2]
HK(IFRIC) – INT 6	Liabilities arising from participating in a specific market – waste electrical and electronic equipment [3]
HK(IFRIC) – INT 7	Applying the restatement approach under HKAS 29 "Financial Reporting in Hyperinflationary Economies" [4]

1 Effective for annual periods beginning on or after 1 January 2007.

2 Effective for annual periods beginning on or after 1 January 2006.

3 Effective for annual periods beginning on or after 1 December 2005.

4 Effective for annual periods beginning on or after 1 March 2006.

3. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES

The effects of the changes in the accounting policies described above on the results for the current and prior years are as follows:

	2005	2004
	HK$'000	*HK$'000*
Recognition of discount on acquisition directly in the income statement	34,574	–
Decrease in amortisation of goodwill	2,543	–
Increase in fair value of investment property	619	2,000
Depreciation of owner-operated hotel properties	(30,119)	(30,119)
Increase in interest on the liability component of convertible notes	(1,623)	(12,571)
Decrease in negative goodwill released to income	(1,863)	–
Increase in profit (loss) for the year	4,131	(40,690)

An analysis of the increase in profit (loss) for the year by line items presented according to their function is as follows:

	2005	2004
	HK$'000	*HK$'000*
Discount on acquisition of subsidiaries	34,574	–
Decrease in amortisation of goodwill	2,543	–
Increase in fair value of investment property	619	2,000
Increase in administrative expenses	(30,119)	(30,119)
Increase in finance costs	(1,623)	(12,571)
Decrease in negative goodwill released to income	(1,863)	–
	4,131	(40,690)

3. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES *(Cont'd)*

The cumulative effects of the application of the new HKFRSs as at 31 December 2004 and 1 January 2005 are summarised below:

	At 31 December 2004 *HK$'000* (Originally stated)	Effect of HK INT 2 *HK$'000*	Effect of HKAS 1 *HK$'000*	Effect of HKAS 32 *HK$'000*	Effect of HKAS 40 *HK$'000*	At 31 December 2004 *HK$'000* (Restated)	Effect of HKFRS 3 *HK$'000*	Effect of HKAS 39 *HK$'000*	At 1 January 2005 *HK$'000* (Restated)
Balance sheet items affected:									
Property, plant and equipment	1,738,801	(30,119)	–	–	–	1,708,682	–	–	1,708,682
Available-for-sale investments	–	–	–	–	–	–	–	93,789	93,789
Investments in securities	96,567	–	–	–	–	96,567	–	(96,567)	–
Negative goodwill	(72,651)	–	–	–	–	(72,651)	72,651	–	–
Investments held for trading	–	–	–	–	–	–	–	2,778	2,778
Convertible notes	(55,000)	–	–	13,650	–	(41,350)	–	–	(41,350)
Other assets and liabilities	(762,804)	–	–	–	–	(762,804)	–	–	(762,804)
Total effects on assets and liabilities	944,913	(30,119)	–	13,650	–	928,444	72,651	–	1,001,095
Share capital and other reserves	1,560,197	–	–	–	–	1,560,197	–	–	1,560,197
Investment property revaluation reserve	2,736	–	–	–	(2,736)	–	–	–	–
Convertible notes reserve	–	–	–	13,650	–	13,650	–	–	13,650
Accumulated losses	(930,191)	(16,250)	–	–	2,736	(943,705)	72,651	–	(871,054)
Minority interests	–	(13,869)	312,171	–	–	298,302	–	–	298,302
Total effects on equity	632,742	(30,119)	312,171	13,650	–	928,444	72,651	–	1,001,095
Minority interests	312,171	–	(312,171)	–	–	–	–	–	–
	944,913	(30,119)	–	13,650	–	928,444	72,651	–	1,001,095

3. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES *(Cont'd)*

The financial effects of the application of the new HKFRSs to the Group's equity at 1 January 2004 are summarised below:

	As originally stated	Effect of HKAS 1	Effect of HKAS 32	Effect of HKAS 40	As restated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Share capital and other reserves	1,258,153	–	–	–	1,258,153
Investment property revaluation reserve	736	–	–	(736)	–
Convertible notes reserve	–	–	20,468	–	20,468
Accumulated losses	(965,568)	–	(17,403)	736	(982,235)
Minority interests	–	29,778	–	–	29,778
Total effects on equity	293,321	29,778	3,065	–	326,164
Minority interests	29,778	(29,778)	–	–	–
	323,099	–	3,065	–	326,164

4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for certain properties and financial instruments, which are measured at revalued amounts or fair values, as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with HKFRSs issued by HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries. All inter-company transactions and balances within the Group are eliminated on consolidation.

4. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Goodwill

Goodwill arising on acquisition prior to 1 January 2005

Goodwill arising on an acquisition of a subsidiary for which the agreement date is before 1 January 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of the relevant subsidiary at the date of acquisition.

For previously capitalised goodwill arising on acquisition after 1 January 2001, the Group has discontinued amortisation from 1 January 2005 onwards, and such goodwill is tested for impairment annually, and whenever there is an indication that the cash generating unit to which the goodwill relates may be impaired (see the accounting policy below).

Goodwill arising on acquisition on or after 1 January 2005

Goodwill arising on an acquisition of a subsidiary for which the agreement date is on or after 1 January 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant subsidiary at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Capitalised goodwill arising on an acquisition of a subsidiary is presented separately in the consolidated balance sheet.

4. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the consolidated income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of a subsidiary, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

Excess of an acquirer's interest in the net fair value of an acquiree's identifiable assets, liabilities and contingent liabilities over cost ("discount on acquisition")

A discount on acquisition arising on an acquisition of a subsidiary for which an agreement date is on or after 1 January 2005 represents the excess of the net fair value of an acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the business combination. Discount on acquisition is recognised immediately in profit or loss.

As explained in note 3 above, all negative goodwill at 1 January 2005 has been derecognised with a corresponding adjustment to the Group's accumulated (losses) profits.

Investments in associates

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the profit or loss and of changes in equity of the associate, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate, the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

4. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

Revenue recognition

Income from tour and travel services is recognised upon the departure date of each tour. Income from other travel related services is recognised when the services are rendered.

Hotel revenue from rooms and other ancillary services are recognised when the services are rendered.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Income from disposal of investments is recognised when the risks and rewards of the ownership of the investments have been transferred.

Sales of goods are recognised when goods are delivered and title has been passed.

Sales of other assets are recognised upon the execution of a binding sale agreement.

Property, plant and equipment

Property, plant and equipment other than properties under construction are stated at cost or fair value less subsequent accumulated depreciation and amortisation and accumulated impairment losses.

Depreciation and amortisation is provided to write off the cost or fair value of items of property, plant and equipment other than properties under construction over their estimated useful lives, using the straight line method.

Assets held under finance leases are depreciated over their estimated useful lives on the same basis as owned assets.

Properties under construction are stated at cost less accumulated impairment losses. Cost includes all development expenditure and other direct costs attributable to such projects. Properties under construction are not depreciated until completion of construction. Cost on completed properties is transferred to other categories of property, plant and equipment.

4. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

The land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year in which the item is derecognised.

Investment properties

On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured using the fair value model. Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use or no future economic benefits are expected from its disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year in which the item is derecognised.

Financial instruments

Financial assets and financial liabilities are recognised on the consolidated balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

4. **SIGNIFICANT ACCOUNTING POLICIES** *(Cont'd)*

Financial assets

The Group's financial assets are classified into one of the three categories, including financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of each category of financial assets are set out below.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss represent financial assets held for trading. At each balance sheet date subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including amounts due from related companies, amounts due from associates, trade and other receivables and loan receivables) are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

4. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as any of the other categories (set out above). At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognised in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in profit or loss. Any impairment losses on available-for-sale financial assets are recognised in profit or loss. Impairment losses on available-for-sale equity investments will not reverse in subsequent periods. For available-for-sale debt investments, impairment losses are subsequently reversed if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired. The amount of the impairment loss is measured as the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses will not reverse in subsequent periods.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The Group's financial liabilities generally include other financial liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Other financial liabilities

Other financial liabilities including trade and other payables, loans from related companies, amounts due to associates, amounts due to related companies, obligations under finance leases, borrowings and promissory note are subsequently measured at amortised cost, using the effective interest rate method.

4. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Convertible notes

Convertible notes issued by the Company that contain both financial liability and equity components are classified separately into respective liability and equity components on initial recognition. On initial recognition, the fair value of the liability component is determined using the prevailing market interest of similar non-convertible debts. The difference between the proceeds of the issue of the convertible notes and the fair value assigned to the liability component, representing the embedded call option for the holder to convert the loan notes into equity, is included in equity (convertible notes reserve).

In subsequent periods, the liability component of the convertible notes is carried at amortised cost using the effective interest method. The equity component, represented by the option to convert the liability component into ordinary shares of the Company, will remain in convertible notes reserve until the embedded option is exercised (in which case the balance stated in convertible notes reserve will be transferred to share premium). Where the option remains unexercised at the expiry date, the balance stated in convertible notes reserve will be released to the accumulated profits . No gain or loss is recognised in profit or loss upon conversion or expiration of the option.

Transaction costs that relate to the issue of the convertible notes are allocated to the liability and equity components in proportion to the allocation of the proceeds. Transaction costs relating to the equity component are charged directly to equity. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible notes using the effective interest method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Derivative financial instruments and hedging

The Group uses derivative financial instruments to hedge its exposure against changes in the fair value certain of its investments held for trading. Such derivatives are measured at fair value regardless of whether they are designated as effective hedging instruments.

The Group's derivative financial instruments do not meet the requirements of hedge accounting in accordance with HKAS 39, accordingly, such derivatives are deemed as financial assets held for trading or financial liabilities held for trading. Changes in fair values of such derivatives are recognised directly in profit or loss.

4. **SIGNIFICANT ACCOUNTING POLICIES** *(Cont'd)*

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

For financial liabilities, they are removed from the Group's consolidated balance sheet (i.e. when the obligation specified in the relevant contract is discharged, cancelled or expires). The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in profit or loss.

Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition.

Properties held for sale

Properties held for sale are stated at the lower of cost and net realisable value. Cost comprises all costs of purchase. Net realisable value is calculated at the actual or estimated selling price less related costs of marketing and selling.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average cost method.

Impairment (other than goodwill)

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

4. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amount of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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 asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

4. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in the consolidated income statement on a straight line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight line basis over the lease term.

The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss.

Rentals payable under operating leases are charged to profit or loss on a straight line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight line basis.

Borrowing costs

All borrowing costs are recognised as and included in finance costs in the consolidated income statement in the period in which they are incurred.

4. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are re-translated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are re-translated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not re-translated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the re-translation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the re-translation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Company (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation on or after 1 January 2005 are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the balance sheet date. Exchange differences arising are recognised in the translation reserve.

Retirement benefit costs

Payments to the Group's defined contribution retirement benefit plans, state-managed retirement benefit schemes and/or the Mandatory Provident Fund Scheme are charged as expenses as they fall due.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2005, the carrying amount of goodwill is HK$50,862,000. Details of the recoverable amount calculation are disclosed in note 23.

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include trade and other receivables, loan receivables, amounts due from associates, amounts due from related companies, trade and other payables, loans from related companies, borrowings and promissory note. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Currency risk

Several subsidiaries of the Company have sales and trade receivables denominated in foreign currencies, which expose the Group to foreign currency risk. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

Fair value interest rate risk

The Group's fair value interest rate risk relates to its fixed-rate borrowings. However, the management considered the risk is insignificant to the Group.

Cash flow interest rate risk

The Group's cash flow interest rate risk relates primarily to variable-rate bank borrowings. The Group currently does not have any policy on cash flow hedges of interest rate risk. However, the management monitors interest rate exposure and will consider hedging significant interest rate risk should the need arise.

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Cont'd)*

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31 December 2005 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

7. TURNOVER

Turnover represents the amounts received and receivable from outside customers, less trade discounts and returns during the year. An analysis of the Group's turnover is as follows:

	2005	**2004**
	HK$'000	*HK$'000*
Travel and related services	1,591,962	1,532,143
Hotel and leisure services	223,756	190,034
	1,815,718	1,722,177

8. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

During the year, for management purposes, the Group was organised into two operating divisions – travel and related services, and hotel and leisure services. These divisions are the basis on which the Group reports its primary segment information.

8. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Cont'd)*

Segment information about these businesses is presented as follows:

	Travel and related services	Hotel and leisure services	Elimination	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
For the year ended 31 December 2005				
TURNOVER				
External sales	1,591,962	223,756	–	1,815,718
Inter-segment sales	–	1,264	(1,264)	–
Total	1,591,962	225,020	(1,264)	1,815,718
Inter-segment sales are charged at prevailing market price.				
RESULTS				
Segment results	56,427	28,249	–	84,676
Interest income				4,722
Discount on acquisition of subsidiaries	–	34,574	–	34,574
Realised gain on derivative financial instruments				5,650
Increase in fair value of investment property				619
Impairment loss recognised in respect of available-for-sale investments				(1,167)
Decrease in fair value of investments held for trading				(14,761)
Unallocated corporate expenses				(29,640)
Finance costs				(59,376)
Share of results of associates	(396)	8,402	–	8,006
Loss on partial disposal of subsidiaries	–	(3,177)	–	(3,177)
Profit before taxation				30,126
Taxation credit				2,108
Profit for the year				32,234

8. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Cont'd)*

	Travel and related services	Hotel and leisure services	Consolidated
	HK$'000	*HK$'000*	*HK$'000*
At 31 December 2005			
ASSETS			
Segment assets	903,727	1,754,845	2,658,572
Interest in associates	20,823	199,599	220,422
Unallocated corporate assets			152,629
Consolidated total assets			3,031,623
LIABILITIES			
Segment liabilities	279,116	57,546	336,662
Unallocated corporate liabilities			1,280,917
Consolidated total liabilities			1,617,579
OTHER INFORMATION			
Capital additions	24,672	6,761	31,433
Goodwill arising from acquisition of subsidiaries	647	–	647
Depreciation and amortisation of property, plant and equipment	6,088	54,655	60,743
Reversal of impairment loss in respect of leasehold land and buildings	(4,874)	–	(4,874)
Reversal of impairment loss in respect of properties under construction	(900)	–	(900)
Loss on disposal of property, plant and equipment	175	305	480
Allowance for irrecoverable trade debts	476	–	476

8. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Cont'd)*

	Travel and related services	**Hotel and leisure services**	**Elimination**	**Consolidated**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
For the year ended 31 December 2004				
TURNOVER				
External sales	1,532,143	190,034	–	1,722,177
Inter-segment sales	–	1,234	(1,234)	–
Total	1,532,143	191,268	(1,234)	1,722,177
Inter-segment sales are charged at prevailing market price.				
RESULTS				
Segment results	49,349	3,582	–	52,931
Interest income				3,381
Increase in fair value of investment property				2,000
Net unrealised holding loss on other investments				(127)
Impairment loss recognised in respect of investments in securities				(5,659)
Unallocated corporate expenses				(26,831)
Finance costs				(66,282)
Share of results of associates	(195)	–	–	(195)
Gain on disposal of associates	37,930	–	–	37,930
Loss before taxation				(2,852)
Taxation credit				23
Loss for the year				(2,829)

8. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Cont'd)*

	Travel and related services	Hotel and leisure services	Consolidated
	HK$'000	*HK$'000*	*HK$'000*
At 31 December 2004			
ASSETS			
Segment assets	728,181	1,667,209	2,395,390
Interest in associates	1,989	–	1,989
Unallocated corporate assets			174,943
Consolidated total assets			2,572,322
LIABILITIES			
Segment liabilities	198,949	62,723	261,672
Unallocated corporate liabilities			1,382,206
Consolidated total liabilities			1,643,878
OTHER INFORMATION			
Capital additions	5,221	1,696,828	1,702,049
Goodwill arising from acquisition of subsidiaries	50,215	–	50,215
Depreciation and amortisation of property, plant and equipment	4,204	52,853	57,057
Impairment losses recognised	6,759	–	6,759
Reversal of impairment loss in respect of leasehold land and buildings	(4,511)	–	(4,511)
Loss (profit) on disposal of property, plant and equipment	365	(145)	220
Allowance for irrecoverable trade debts	1,262	–	1,262

8. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Cont'd)*

Geographical segments

No geographical segment information in respect of the Group's operations has been presented as over 90% of the Group's operations were derived from Hong Kong.

The analysis of carrying amount of segment assets and additions to property, plant and equipment and intangible assets by the geographical area in which the assets are located is as follows:

	Carrying amount of segment assets		**Additions to property, plant and equipment and intangible assets**	
	2005	**2004**	**2005**	**2004**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
The People's Republic of China (excluding Hong Kong) (the "PRC")	1,300,296	1,348,309	2,262	1,074,210
Hong Kong	1,340,663	1,034,736	28,855	677,865
South-east Asia	144,202	120,914	925	137
Japan and Korea	23,771	64,710	–	–
Others	2,269	1,664	38	52
	2,811,201	2,570,333	32,080	1,752,264

9. OTHER OPERATING INCOME

	2005	**2004**
	HK$'000	*HK$'000*
An analysis of the Group's other operating income is as follows:		
Exchange gain	81	135
Income on sales of computer systems for online travel reservation, and communication software	12,218	–
Interest income	4,722	3,381
Sundry income	3,394	17,268
	20,415	20,784

10. FINANCE COSTS

	2005	2004
	HK$'000	*HK$'000*
Interest on obligations under finance leases	18	133
Interest on borrowings wholly repayable within five years	41,386	39,997
Interest on convertible notes	1,982	16,331
Interest on promissory note	15,990	9,821
Total finance costs	59,376	66,282

11. PROFIT (LOSS) BEFORE TAXATION

	2005	2004
	HK$'000	*HK$'000*
Profit (loss) before taxation has been arrived at after charging:		
Allowance for irrecoverable trade debts	476	1,262
Auditors' remuneration	4,644	2,878
Cost of inventories recognised as expenses	21,768	20,490
Depreciation and amortisation on:		
Owned assets	60,533	56,408
Assets held under finance leases	210	649
Loss on disposal of other investments	–	11
Loss on disposal of property, plant and equipment	480	220
Minimum lease payments paid in respect of rented premises	13,832	12,913
Share of tax of associates (included in share of results of associates)	61	–
Staff costs *	135,399	128,023
and after crediting:		
Rental income from investment property and premises within the hotel properties less outgoings of HK$495,000 (2004: HK$79,000)	15,218	12,993
Rental income from motor vehicles	388	74

* The amount includes retirement benefit scheme contributions (net of forfeiture) of HK$6,908,000 (2004: HK$5,910,000).

12. DIRECTORS' REMUNERATION AND HIGHEST PAID EMPLOYEES

Details of emoluments paid by the Group to each of the directors are as follows:

For the year ended 31 December 2005

	Fees	Salaries and other benefits	Retirement benefit scheme contributions	Total emoluments
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Executive directors:				
Mr. Yu Kam Kee, Lawrence *B.B.S., M.B.E., J.P.*	–	–	–	–
Mr. Cheung Hon Kit	–	1,265	5	1,270
Dr. Yap, Allan	–	–	–	–
Mr. Chan Pak Cheung, Natalis	–	–	–	–
Mr. Lui Siu Tsuen, Richard	–	–	–	–
Ms. Luk Yee Lin, Ellen	–	664	12	676
Non-executive director:				
Mr. Chan Yeuk Wai	–	1,800	12	1,812
Independent non-executive directors:				
Mr. Kwok Ka Lap, Alva	–	39	–	39
Mr. Sin Chi Fai	47	–	–	47
Mr. Wong King Lam, Joseph	50	–	–	50
	97	3,768	29	3,894

12. DIRECTORS' REMUNERATION AND HIGHEST PAID EMPLOYEES *(Cont'd)*

For the year ended 31 December 2004

	Fees	**Salaries and other benefits**	**Retirement benefit scheme contributions**	**Total emoluments**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Executive directors:				
Mr. Yu Kam Kee, Lawrence *B.B.S., M.B.E., J.P.*	–	–	–	–
Mr. Cheung Hon Kit	–	2,890	12	2,902
Dr. Yap, Allan	–	–	–	–
Mr. Chan Pak Cheung, Natalis	–	–	–	–
Mr. Lui Siu Tsuen, Richard	–	–	–	–
Ms. Luk Yee Lin, Ellen	–	664	12	676
Dr. Chan Kwok Keung, Charles*	–	–	–	–
Non-executive director:				
Mr. Chan Yeuk Wai	–	2,923	45	2,968
Mr. Fok Kin-ning, Canning*	–	–	–	–
Ms. Shih, Edith*	–	–	–	–
Independent non-executive directors:				
Mr. Kwok Ka Lap, Alva	30	–	–	30
Mr. Sin Chi Fai	–	–	–	–
Mr. Wong King Lam, Joseph	–	–	–	–
Mr. Lai Hing Chin, Dominic*	–	–	–	–
	30	6,477	69	6,576

* The directors resigned in 2004.

Note: The directors' salaries and other benefits include the operating lease rentals amounting to HK$500,000 (2004: HK$1,200,000) in respect of rental premises provided to directors. The amounts were also included in the minimum lease payments paid in respect of rental premises under note 11 above.

12. DIRECTORS' REMUNERATION AND HIGHEST PAID EMPLOYEES *(Cont'd)*

Details of emoluments paid by the Group to the five highest paid individuals (including directors, details of whose emoluments are set out above) are as follows:

	2005	2004
	HK$'000	*HK$'000*
Salaries and other benefits	7,127	10,003
Retirement benefit scheme contributions	141	179
	7,268	10,182

	2005	2004
Emoluments of the five highest paid individuals were within the following bands:		
Nil – HK$1,000,000	–	–
HK$1,000,001 – HK$1,500,000	3	2
HK$1,500,001 – HK$2,000,000	2	1
HK$2,000,001 – HK$2,500,000	–	–
HK$2,500,001 – HK$3,000,000	–	2
Number of directors	2	2
Number of employees	3	3
	5	5

13. TAXATION CREDIT

	2005	2004
	HK$'000	*HK$'000*
(Under) overprovision for taxation in other jurisdictions in prior years	(63)	23
Deferred tax *(note 39)*	2,171	–
Taxation credit	2,108	23

13. TAXATION CREDIT *(Cont'd)*

No provision for Hong Kong Profits Tax has been made as the companies comprising the Group either have no assessable profit in the year or the estimated assessable profits were wholly absorbed by tax losses brought forward.

Taxation for other jurisdictions represents (under) overprovision for taxation in prior years. No provision for overseas taxation has been made as the Group has no taxable profit during the years ended 31 December 2004 and 2005 in other jurisdictions.

Taxation credit for the year can be reconciled to the profit (loss) before taxation per the consolidated income statement as follows:

	2005	**2004**
	HK\$'000	*HK\$'000*
Profit (loss) before taxation	30,126	(2,852)
Tax at the domestic income tax rate of 17.5% (2004: 17.5%)	(5,272)	499
Tax effect of share of results of associates	1,401	(34)
Tax effect of expenses that are not deductible in determining taxable profit	(13,706)	(8,358)
Tax effect of income that is not taxable in determining taxable profit	12,688	13,999
Tax effect of tax losses not recognised	(7,965)	(6,645)
Tax effect of tax losses utilised but not previously recognised	13,548	3,604
Effect of different tax rates of subsidiaries operating in other jurisdictions	1,477	(3,065)
(Under) overprovision in prior years	(63)	23
Taxation credit for the year	2,108	23

14. DIVIDENDS

	2005	**2004**
	HK\$'000	*HK\$'000*
Interim dividend paid of HK2 cents per share (2004: nil)	8,752	–

The directors have declared a final dividend of HK1.5 cents per share for the year ended 31 December 2005 (2004: nil) to those shareholders whose names appear on the register of members of the Company on 24 May 2006.

15. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the following data:

	2005	**2004**
	HK$'000	*HK$'000*
Earnings for the purpose of basic earnings per share	31,109	8,556

	Number of shares	
	2005	**2004**
Weighted average number of ordinary shares for the purpose of basic earnings per share	418,541,133	201,251,437

Notes:

(a) No disclosure of diluted earnings per share has been presented for the year ended 31 December 2004 and 2005 as the conversion of the Company's convertible notes would increase the earnings per share.

(b) A reconciliation of the restatement of basic earnings per share to adjust for the effects of changes in accounting policies is as follows:

	2005	**2004**
	HK$'000	*HK$'000*
Reported figures before adjustment	0.06	0.18
Effects of changes in accounting policies	0.01	(0.14)
Restated	0.07	0.04

16. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings *HK$'000*	Hotel properties *HK'000* *Note (a)*	Properties under con-struction *HK$'000*	Furniture and fixtures *HK$'000*	Leasehold improve-ments *HK$'000*	Motor vehicles *HK$'000*	Office equipment and machinery *HK$'000*	Vessels *HK$'000*	Total *HK$'000*
COST OR VALUATION									
At 1 January 2004	80,153	–	46,728	3,361	8,592	1,017	15,648	6,467	161,966
Currency realignment	–	–	–	195	118	20	243	–	576
Acquisition of subsidiaries	–	1,604,752	–	54,422	15,907	1,448	6,665	–	1,683,194
Additions	–	–	–	4,220	12,043	937	1,655	–	18,855
Disposals	(42,128)	–	–	(7,198)	(5,180)	(443)	(905)	–	(55,854)
At 31 December 2004	38,025	1,604,752	46,728	55,000	31,480	2,979	23,306	6,467	1,808,737
Currency realignment	–	20,363	–	910	518	82	1,378	–	23,251
Acquisition of subsidiaries	–	–	–	–	393	–	1,000	–	1,393
Additions	–	–	–	4,674	5,470	5,921	2,593	11,382	30,040
Disposals	–	–	–	(3,040)	(30)	(1,925)	(1,134)	(153)	(6,282)
At 31 December 2005	38,025	1,625,115	46,728	57,544	37,831	7,057	27,143	17,696	1,857,139
Comprising									
At cost	31,025	1,625,115	46,728	57,544	37,831	7,057	27,143	17,696	1,850,139
At valuation	7,000	–	–	–	–	–	–	–	7,000
	38,025	1,625,115	46,728	57,544	37,831	7,057	27,143	17,696	1,857,139
DEPRECIATION, AMORTISATION AND IMPAIRMENT									
At 1 January 2004	58,939	–	8,128	2,087	3,943	583	12,598	5,475	91,753
Currency realignment	–	–	–	152	17	16	197	–	382
Provided for the year	299	30,119	–	17,771	5,464	526	2,697	181	57,057
(Reversal of impairment loss) impairment loss recognised for the year *(note (c))*	(4,511)	–	1,100	–	–	–	–	–	(3,411)
Eliminated on disposals	(33,161)	–	–	(6,501)	(4,793)	(443)	(828)	–	(45,726)
At 31 December 2004	21,566	30,119	9,228	13,509	4,631	682	14,664	5,656	100,055
Currency realignment	–	1,502	–	711	86	60	1,027	–	3,386
Provided for the year	364	30,119	–	15,718	7,565	1,200	5,343	434	60,743
Reversal of impairment loss for the year *(note (c))*	(4,874)	–	(900)	–	–	–	–	–	(5,774)
Eliminated on disposals	–	–	–	(2,734)	(19)	(230)	(1,053)	(95)	(4,131)
At 31 December 2005	17,056	61,740	8,328	27,204	12,263	1,712	19,981	5,995	154,279
CARRYING VALUES									
At 31 December 2005	20,969	1,563,375	38,400	30,340	25,568	5,345	7,162	11,701	1,702,860
At 31 December 2004	16,459	1,574,633	37,500	41,491	26,849	2,297	8,642	811	1,708,682

16. PROPERTY, PLANT AND EQUIPMENT *(Cont'd)*

The above items of property, plant and equipment are depreciated on a straight line basis of the following rates per annum:

Leasehold land and buildings	Over the remaining unexpired terms of the leases
Hotel properties	Over the remaining unexpired terms of the leases
Furniture and fixtures	10% – 20%
Leasehold improvements	10% – 20% or the term of the lease or land use rights, if shorter
Motor vehicles	8.33% – 20%
Office equipment and machinery	20%
Vessels	5%

An analysis of the properties of the Group held at the balance sheet date is as follows:

	Leasehold land and buildings		**Hotel properties**		**Properties under construction**	
	2005	**2004**	**2005**	**2004**	**2005**	**2004**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Long leases in Hong Kong	16,879	13,299	614,856	620,510	–	–
Medium term leases in Hong Kong	4,090	3,160	–	–	–	–
Medium term leases in the PRC *(note b)*	–	–	948,519	954,123	38,400	37,500
	20,969	16,459	1,563,375	1,574,633	38,400	37,500

Notes:

(a) Included in the hotel properties at the balance sheet date is a hotel property with a carrying value of HK$142,195,000 (2004: HK$143,104,000) situated in Luoyang, the PRC and held under a medium term land use rights. The land use rights of the hotel property is currently held by Luoyang Power Supply Bureau, a minority shareholder of the subsidiary holding the hotel property. Pursuant to a land use rights agreement entered into between Luoyang Power Supply Bureau and the subsidiary on 15 April 1999 (before the Group acquired the said subsidiary in 2004), Luoyang Power Supply Bureau agreed to permit the said subsidiary to use the land use rights of the hotel property for a term commencing from April 1999 to April 2049 for hotel use.

16. PROPERTY, PLANT AND EQUIPMENT *(Cont'd)*

(b) Included in the hotel properties held under medium term leases in the PRC of HK$948,519,000 (2004: HK$954,123,000) is a hotel property with a carrying value of approximately HK$210,860,000 (2004: HK$212,050,000) of which a subsidiary of the Company has been granted the right to operate and manage the hotel in Guangzhou, the PRC for a period from January 1987 to January 2017, and subject to certain conditions to be fulfilled, the operating period may be extended for a further period of 20 years.

(c) The directors reviewed the carrying amounts of its property, plant and equipment as at 31 December 2005 and identified that the value of properties under construction and certain properties has increased (2004: the value of properties under construction was impaired and the value of certain properties was increased). Accordingly, the carrying amounts of properties under construction and properties were stated to their recoverable amounts, which were determined with reference to the independent professional valuation on open market value as at 31 December 2004 and 2005.

The independent professional valuation as at 31 December 2005 has been carried out by Norton Appraisals Limited, an independent qualified professional valuer not connected with the Group. Norton Appraisals Limited has appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations. The valuation, which was carried out in accordance with the HKIS Valuation Standards on Properties (1st Edition) published by the Hong Kong Institute of Surveyors, was arrived at by reference to market evidence of transaction prices for similar properties.

Details of property, plant and equipment which are stated at valuation at the balance sheet date are as follows:

	Leasehold land and buildings	
	2005	**2004**
	HK$'000	*HK$'000*
At valuation		
– 31 July 1997	4,800	4,800
– 31 March 1998	2,200	2,200
	7,000	7,000
Less: Accumulated depreciation, amortisation and impairment	(4,690)	(4,628)
Net book value	2,310	2,372

16. PROPERTY, PLANT AND EQUIPMENT *(Cont'd)*

The valuations as at 31 July 1997 and 31 March 1998 represented the carrying values (equivalent to their approximate fair values) of the leasehold land and buildings at the time when they ceased to be classified as investment properties. Had the leasehold properties been carried at their historical cost less accumulated depreciation, amortisation and impairment losses, the carrying value of the leasehold properties would have been stated at HK$2,310,000 (2004: HK$2,372,000).

The net book value of motor vehicles, and office equipment and machinery of the Group held under finance leases as at 31 December 2005 was HK$137,000 (2004: HK$1,774,000).

The net book value of motor vehicles of the Group leased to outsiders to earn rental income as at 31 December 2005 was HK$703,000 (2004: HK$890,000).

17. INVESTMENT PROPERTY/ASSET CLASSIFIED AS HELD FOR SALE

	2005	**2004**
	HK$'000	*HK$'000*
Fair value of investment property:		
At beginning of the year	3,400	1,400
Increase in fair value	619	2,000
Reclassified as held for sale	(4,019)	–
At end of the year	–	3,400
Asset classified as held for sale	4,019	–

The investment property of the Group is freehold and held outside Hong Kong.

On 13 July 2005, the Group entered into a sale agreement to dispose of the investment property. The disposal was completed on 20 January 2006, on which date the beneficial ownership was passed to the acquirer.

The fair value of the Group's investment property before reclassification as asset classified as held for sale was determined based on its selling price at 20 January 2006. In the opinion of directors, there is no material difference between the fair value of investment property at 31 December 2005 and its fair value at 20 January 2006.

The Group's property interest held under operating leases to earn rentals was measured using the fair value model and was classified and accounted for as investment property.

18. INTEREST IN ASSOCIATES

	2005	2004
	HK$'000	*HK$'000*
Cost of investment in associates, unlisted	219,137	3,903
Share of post-acquisition reserves	1,285	(1,914)
	220,422	1,989

Particulars of the Group's associates as at 31 December 2005 are as follows:

Name of associate	Form of business structure	Place of incorporation and operation	Issued and paid up share capital/ registered capital '000	Proportion of issued/registered capital held by the Group 2005	2004	Principal activities
Ananda Travel Service (Aust.) Pty. Limited	Limited liability company	Australia	A$400	40%	40%	Travel and related services
Feng Ze Investments Limited ("Feng Ze")	Limited liability company	Macau	MOP115	28.5%	–	Investment holding
Kingsway Hotel Limited ("Kingsway Hotel")	Limited liability company	Macau	MOP500	31.7%	–	Hotel ownership and operation
Travoo International Limited	Limited liability company	British Virgin Islands	US$6,120	50%	–	Investment holding
Wing On International Travel Service Ltd. Guangdong	Sino-foreign equity joint venture	PRC	RMB5,000	49%	49%	Travel and related services
Xin Wei Property Investment Company Limited	Limited liability company	Macau	MOP100	31.7%	–	Investment holding

18. INTEREST IN ASSOCIATES *(Cont'd)*

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

	2005	**2004**
	HK$'000	*HK$'000*
Total assets	562,873	17,318
Total liabilities	161,554	11,053
Net assets	401,319	6,265
Share of net assets	220,422	1,989
Turnover	111,531	61,246
Profit (loss) for the year	13,381	(418)
Share of results of associates for the year	8,006	(195)

19. AVAILABLE-FOR-SALE INVESTMENTS

Available-for-sale investments as at 31 December 2005 comprise:

	HK$'000
Equity securities	
Unlisted shares, at cost	126,425
Less: Impairment losses recognised	(33,800)
	92,625

19. AVAILABLE-FOR-SALE INVESTMENTS *(Cont'd)*

Particulars of the Group's major available-for-sale investments as at 31 December 2005 are as follows:

Name of entity	Place of incorporation and operation	Issued and paid up share capital/ registered capital	Proportion of issued/registered capital held by the subsidiaries		Interest attributable to the Group		Principal activities
		'000	2005	2004	2005	2004	
Guilin Osmanthus Hotel	PRC	US$3,489	49.5% *Note (a)*	49.5%	49.5%	49.5%	Operation of a hotel
Guangxi Guijia Property Management Company Limited ("Guangxi Guijia")	PRC	US$8,021	26% Note (b)	26%	18.2%	18.2%	Property holding and operation of leisure services

Notes:

(a) Though the Group holds a 49.5% interest in Guilin Osmanthus Hotel, the directors considered that the Group cannot exercise influence on the financial and operating policies of Guilin Osmanthus Hotel and accordingly, it is classified as an available-for-sale investment. The directors reviewed its carrying amount and considered that it is unlikely to recover the interest in Guilin Osmanthus Hotel and the present value of the estimated future cash flows expected to arise from the investment is minimal. Accordingly, an impairment loss of HK$26,974,000 was recognised in the financial statements to write down the carrying amount of the investment. At 31 December 2004, the investment was classified as investment securities (note 20) and an impairment loss of HK$26,974,000 was recognised in the financial statements.

(b) Though a subsidiary of the Group holds a 26% interest in Guangxi Guijia, the directors considered that the Group cannot exercise significant influence on the financial and operating policies of Guangxi Guijia and accordingly, it is classified as an available-for-sale investment. At 31 December 2005, the directors reviewed its carrying amount with reference to its net assets and considered that it is unlikely to recover the full amount of the interest in Guangxi Guijia and accordingly an impairment loss of HK$6,826,000 was recognised in the financial statements to write down the carrying amount of the investment to its recoverable amount. At 31 December 2004, the investment was classified as investment securities (note 20) and an impairment loss of HK$5,659,000 was recognised in the financial statements.

20. INVESTMENTS IN SECURITIES

Upon the application of HKAS 39 on 1 January 2005, investment securities were reclassified to appropriate categories under HKAS 39 (see note 2 for details). Investment securities as at 31 December 2004 are set out below.

	Investment securities	Other investments	Total
	HK$'000	*HK$'000*	*HK$'000*
Equity securities			
Unlisted shares, at cost	126,422	–	126,422
Listed shares in Hong Kong	–	2,778	2,778
	126,422	2,778	129,200
Less: Impairment losses recognised	(32,633)	–	(32,633)
	93,789	2,778	96,567
Market value of listed shares	–	2,778	2,778
Carrying amount analysed for reporting purposes as:			
Non-current	93,789	–	93,789
Current	–	2,778	2,778
	93,789	2,778	96,567

21. GOODWILL

	2005	**2004**
	HK$'000	*HK$'000*
COST		
At beginning of the year	50,215	–
Arising from acquisition during the year *(note 43 (a) and (c))*	647	50,215
At end of the year	50,862	50,215
CARRYING VALUES		
At end of the year	50,862	50,215

Particulars regarding impairment testing on goodwill are disclosed in note 23.

Until 31 December 2004, goodwill had been amortised over 20 years.

No amortisation was provided for the goodwill arising during the year ended 31 December 2004 as the acquisition was completed in December 2004. The directors considered that the amount involved was insignificant.

22. NEGATIVE GOODWILL

	HK$'000
GROSS AMOUNT	
Arising on acquisition during the year ended 31 December 2004 *(note 43(b))*	74,514
RELEASED TO INCOME	
Released during the year ended 31 December 2004	(1,863)
At 31 December 2004	72,651
Derecognised upon the application of HKFRS 3	(72,651)
At 1 January 2005	–

22. NEGATIVE GOODWILL *(Cont'd)*

As explained in note 2, all negative goodwill arising on acquisitions prior to 1 January 2005 was derecognised as a result of the application of HKFRS 3.

23. IMPAIRMENT TESTING ON GOODWILL

As explained in note 8, the Group uses business segments as its primary segment for reporting segment information. For the purposes of impairment testing, goodwill as set out in note 21 has been allocated to the cash generating unit ("CGU") of the travel and related services segment.

The recoverable amount of this CGU has been determined on the basis of value in use calculation. The key assumptions for the value in use calculation are those regarding the discount rates, growth rates and expected changes to revenue and direct costs during the year. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGU. The growth rates are based on industry growth forecasts. Changes in revenue and direct costs are based on past practices and expectations of future changes in the market.

During the year, the Group performed impairment review for goodwill based on cash flow forecasts derived from the most recent financial budgets for the next five years approved by management using a discount rate of 15.5%, while the remaining forecast is based on the financial budget of the previous year under a 3% annual growth rate assumption. The value in use calculated by using the discount rate is higher than the carrying amount of CGU, accordingly, no impairment loss was considered necessary.

24. INVESTMENT DEPOSITS

	2005	**2004**
	HK$'000	*HK$'000*
Deposits for the acquisition of 100% interests in companies holding land use rights in the PRC *(note a)*	150,000	150,000
Deposits for the acquisition of a hotel booking business *(note b)*	51,419	50,945
Deposits for the acquisition of subsidiaries *(note c)*	–	20,750
	201,419	221,695

24. INVESTMENT DEPOSITS *(Cont'd)*

Notes:

(a) The amount represents deposits paid for the acquisition of 100% equity interests in certain companies holding land use rights in the PRC for various development projects, with the objective of developing hotels, shopping malls, recreational and other tourists related amenities respectively. The aggregate consideration for the purchase amounted to HK$180,000,000. The transactions have not been completed as at the date of this report.

(b) The amount represents the deposits paid for the acquisition of 51% interest in an enterprise established in the PRC engaging in full scale on-line and off-line hotel booking services for a consideration of approximately HK$51,500,000. The transaction has not been completed as at the date of this report.

(c) The amount represented the deposits paid for the acquisition of a 65.04% interest in Triumph Up Investments Limited ("Triumph Up"). The transaction was completed on 17 February 2005 and Triumph Up became a subsidiary of the Group during the year.

25. INVENTORIES

The inventories were carried at cost and represent principally food, beverages and general stores which are to be utilised in the ordinary course of operations.

26. AMOUNTS DUE FROM RELATED COMPANIES

The balances represent the aggregate amounts due from related parties. Certain directors of the Company are also directors of and/or have beneficial interests in these companies. The amounts are unsecured and interest free. Included in the amounts due from related companies as at 31 December 2005 were advances of HK$60,090,000 (2004: nil) which are repayable on demand, and the remaining balances were principally trading balances.

26. AMOUNTS DUE FROM RELATED COMPANIES *(Cont'd)*

The aged analysis of the trading balances at the reporting dates is as follows:

	2005	**2004**
	HK$'000	*HK$'000*
0 – 30 days	3,019	661
31 – 60 days	183	47
61 – 90 days	144	462
Over 90 days	1,741	5,352
	5,087	6,522

The fair value of the amounts due from related companies as at 31 December 2005 approximates the corresponding carrying amount.

27. AMOUNTS DUE FROM (TO) ASSOCIATES

The amounts due from (to) associates are unsecured, interest free and repayable on demand.

The fair value of the amounts due from (to) associates as at 31 December 2005 approximates the corresponding carrying amount.

28. TRADE AND OTHER RECEIVABLES

Included in trade and other receivables are trade receivables of approximately HK$20,596,000 (2004: HK$13,538,000) and the aged analysis of the trade receivables at the reporting dates is as follows:

	2005	**2004**
	HK$'000	*HK$'000*
0 – 30 days	12,241	7,446
31 – 60 days	3,051	2,869
61 – 90 days	1,453	1,414
Over 90 days	3,851	1,809
	20,596	13,538

28. TRADE AND OTHER RECEIVABLES *(Cont'd)*

The Group allows an average credit period of 60 days to local customers and 90 days to overseas customers.

The fair value of the Group's trade and other receivables as at 31 December 2005 approximates the corresponding carrying amount.

Included in other receivables was a balance of HK$17,456,000 which is secured by a 16.26% equity interest in Triumph Up.

29. LOAN RECEIVABLES

	2005	**2004**
	HK$'000	*HK$'000*
Loan to certain companies and individuals *(notes a and b)*	167,926	108,000
Loan to a land operator *(note c)*	13,000	23,000
	180,926	131,000
Fixed-rate loan receivables	15,427	25,893
Variable-rate loan receivables	165,499	105,107
	180,926	131,000

The fair value of the Group's loan receivables as at 31 December 2005, determined based on the present value of the estimated future cash flows discounted using the prevailing market rate as at the balance sheet date, approximates the corresponding carrying amount.

Notes:

(a) (i) Included in the balances were loans of HK$40,000,000 (2004: HK$40,000,000) which are secured by equity interests in an enterprise established in the PRC.

(ii) Included in the balances was a loan of HK$21,120,000 (2004: nil) which is secured by 50% equity interest in Feng Ze which holds 11.5% attributable interest in the Kingsway Hotel.

29. LOAN RECEIVABLES *(Cont'd)*

(iii) Included in the balances were loans of HK$21,236,000 (2004: nil) which are secured by the right in the property project in Macau of a consideration of HK$40,000,000.

(iv) Included in the balances was a loan of HK$10,327,000 (2004: nil) which is secured by certain equity securities listed in Hong Kong.

(v) Included in the balances as at 31 December 2004 was approximately HK$5,074,000 due from a related company. A director of the Company has beneficial interests in and is also a director of the related company.

(b) Save for the loans mentioned in note 29(a)(i) to (iv), the amounts are unsecured, carrying interest at market rates and repayable on demand.

(c) The loan to a land operator represents an advance made to one of the Group's land operators for the designated purpose of purchase of coaches. The amount is secured, bears interest at 10% per annum on the principal amount over a period of thirty months and should be repayable by thirty equal monthly instalments commencing August 2000. Pursuant to the subsequent supplemental agreements thereafter, the repayment date of the loan is extended to 31 December 2006.

30. INVESTMENTS HELD FOR TRADING

Investments held for trading as at 31 December 2005 include:

	HK$'000
Listed securities	
Equity securities listed in Hong Kong	5,576
Equity securities listed elsewhere	3,510
	9,086

The fair values of the above investments held for trading are determined based on the quoted market bid prices available on the relevant exchanges.

31. TRADING CASH BALANCES

The amounts represent foreign currencies held for money exchange purposes.

32. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables of approximately HK$130,741,000 (2004: HK$113,844,000) and the aged analysis of the trade payables at the reporting dates is as follows:

	2005	**2004**
	HK$'000	*HK$'000*
0 – 30 days	71,157	60,876
31 – 60 days	26,706	22,542
61 – 90 days	19,022	16,316
Over 90 days	13,856	14,110
	130,741	113,844

The fair value of the Group's trade and other payables as at 31 December 2005 approximates to the corresponding carrying amount.

33. LOANS FROM RELATED COMPANIES

Certain directors of the Company are also directors of and/or have beneficial interests in those companies. The loans are unsecured, bear interest at market rates and with the terms of repayment as follows:

	2005	**2004**
	HK$'000	*HK$'000*
Amounts repayable within 1 year	361,500	260,778
Amounts repayable after 1 year but within 2 years	–	112,098
	361,500	372,876
Variable-rate loans from related companies	361,500	372,876

The fair value of the Group's loans from related companies as at 31 December 2005 approximates the corresponding carrying amount.

34. AMOUNTS DUE TO RELATED COMPANIES

The balances represent principally trading balances including trade payables and loan interest payable, which are unsecured, interest free and repayable on demand.

35. OBLIGATIONS UNDER FINANCE LEASES

	Minimum lease payments		Present value of minimum lease payments	
	2005	**2004**	**2005**	**2004**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Amounts payable under finance leases:				
Within one year	86	395	62	378
Between one to two years	19	106	31	93
	105	501	93	471
Less: Future finance charges	(12)	(30)	–	–
Present value of lease obligations	93	471	93	471
Less: Amount due within one year shown under current liabilities			(62)	(378)
Amount due after one year			31	93

The Group entered into finance leases to acquire certain of its property, plant and equipment. The terms of the finance leases ranged from 2 to 4 years and the average effective borrowing rate was 6.8% (2004: 6%) per annum. Interest rate was fixed at the contract date. The leases were on a fixed repayment basis and no arrangement was entered into for contingent rental payments. The Group's obligations under the finance leases were secured by the lessors' charge over the leased assets.

The fair value of the Group's finance lease obligations as at the balance sheet date, determined based on the present value of the estimated future cash flows discounted using the prevailing market rate as at the balance sheet date, approximates the corresponding carrying amount.

36. BORROWINGS

	2005	2004
	HK$'000	*HK$'000*
Bank loans	300,209	329,091
Bank overdrafts	–	28,181
Other loans	9,424	189
	309,633	357,461
Less: Amount due within one year shown under current liabilities	(38,325)	(57,066)
Amount due after one year	271,308	300,395
Secured	306,633	327,287
Unsecured	3,000	30,174
	309,633	357,461
Borrowings are repayable as follows:		
Within one year or on demand	38,325	57,066
Between one to two years	28,828	30,020
Between two to five years	242,480	270,375
	309,633	357,461

The Group's borrowings are variable-rate borrowings which are denominated in Hong Kong dollars. Included in the borrowings is a bank loan of HK$299,760,000 (2004: HK$328,400,000) which bears an annual interest rate of 0.8% over the Hong Kong Interbank Offered Rate and is repayable in full on 17 April 2009.

The fair value of the Group's borrowings as at 31 December 2005 approximates the corresponding carrying amount.

37. CONVERTIBLE NOTES

	2005	2004
	HK$'000	*HK$'000*
		(Restated)
Convertible notes	41,350	184,137
Less: Conversion into shares	(41,350)	(142,787)
	–	41,350

During the year ended 31 December 2004, the Company issued new convertible notes of nominal value amounting to HK$260,000,000 to finance the redemption of the convertible notes issued in 2002 and due in 2004. The new convertible notes carried interest at 2% per annum and should be repayable on 14 June 2007. The holders of the new convertible notes were entitled to convert on any business day the convertible notes into new shares of the Company at any time from the date of issue of the new convertible notes, at an initial conversion price of HK$0.02 per share, subject to adjustments.

Following the issue of shares in the Company pursuant to the placing and subscription agreement dated 4 February 2005, the conversion price of the convertible notes was adjusted to HK$0.0197 per share in accordance with its terms and conditions. On 14 March 2005, the day immediately preceding the effective date of the share consolidation as mentioned under note 40, the conversion price was adjusted to HK$1.97 per new consolidated share.

Upon the application of HKAS 32 (see note 2 for details), the convertible notes were split between the liability and equity elements, on a retrospective basis. The equity element is presented in equity heading "convertible notes reserve". The effective interest rate of the liability component is 14.7%.

During the year, all the convertible notes were converted into 27,918,781 new consolidated shares in the Company of HK$1 each at a conversion price of HK$1.97 per share (2004: HK$2.00) after adjusting for the share consolidation as mentioned under note 40.

38. PROMISSORY NOTE

The promissory note was issued during the year ended 31 December 2002 by a subsidiary of Apex Quality Group Limited ("Apex") to Hutchison Hotels Holdings (International) Limited as partial consideration for the acquisition of the entire share capital of, and shareholders' loan to, Makerston Limited ("Makerston"), which holds indirectly a 95% interest in a group company holding a hotel property in Beijing. The promissory note is interest bearing at Hong Kong Inter-Bank Offered Rate plus 2%, repayable on 1 December 2007 and secured by the entire issued share capital of, and shareholders' loan to, Makerston and its subsidiaries holding the aforesaid hotel property.

The fair value of the Group's promissory note as at 31 December 2005 approximates the corresponding carrying amount.

39. DEFERRED TAXATION

The followings are the major deferred tax liabilities and assets recognised and movement thereon during the current and prior years:

	Hotel properties
	HK$'000
At 1 January 2004	–
Acquisition of subsidiaries during the year *(note 43(b))*	243,354
At 31 December 2004 and 1 January 2005	243,354
Currency realignment	3,497
Credit to the income statement *(note 13)*	(2,171)
At 31 December 2005	244,680

As at 31 December 2005, the Group has unused tax losses of approximately HK$912,324,000 (2004: HK$947,791,000) available for offset against future profits. No deferred tax asset has been recognised in respect of the tax losses due to the unpredictability of future profit streams. Pursuant to the relevant laws and regulations in the PRC, the unutilised tax losses of approximately HK$39,000,000 (2004: HK$65,000,000) can be carried for a period of five years. The losses arising from overseas subsidiaries are insignificant, which will expire after a specific period of time, other unrecognised tax losses may be carried forward indefinitely.

40. SHARE CAPITAL

	Number of shares	Amount
		HK$'000
Authorised		
Shares of HK$0.01 each at 1 January 2004, 31 December 2004 and 1 January 2005	50,000,000,000	500,000
Consolidation of shares	(49,500,000,000)	–
Increase in authorised share capital	1,000,000,000	1,000,000
Shares of HK$1 each at 31 December 2005	1,500,000,000	1,500,000
Issued and fully paid		
Shares of HK$0.01 each at 1 January 2004	18,316,732,770	183,167
Conversion into shares from convertible notes	10,250,000,000	102,500
Issue of shares	3,660,000,000	36,600
Shares of HK$0.01 each at 31 December 2004	32,226,732,770	322,267
Issue of shares	8,740,000,000	87,400
	40,966,732,770	409,667
Consolidation of shares	(40,557,065,443)	–
Conversion into shares from convertible notes	27,918,781	27,919
Shares of HK$1 each at 31 December 2005	437,586,108	437,586

On 30 November 2004, the Company entered into two placing and subscription agreements with China Enterprises Limited ("CEL"), a subsidiary of China Strategic Holdings Limited ("CSH") and a substantial shareholder of the Company, and Deutsche Bank AG, Hong Kong Branch (the "Placing Agent") pursuant to which the Placing Agent agreed to place 6,000 million shares of HK$0.01 each in the Company then held by CEL at the price of HK$0.028 per share to independent investors and CEL would subscribe for up to 6,000 million new shares of HK$0.01 each in the Company at the same price of HK$0.028 per share. The first placing and subscription agreement and the second placing and subscription agreement related to the placing and the conditional subscription of 3,660 million and 2,340 million shares of HK$0.01 each in the Company respectively. The subscription of the shares under the second placing and subscription agreement was conditional upon, among others, the approval of the independent shareholders of the Company. The total proceeds from the above two placing and subscription agreements were used principally towards payments of HK$107.5 million of the consideration for the acquisition of interest in Kingsway Hotel and the balance was utilised as general working capital of the Group.

40. SHARE CAPITAL *(Cont'd)*

On 14 December 2004, 3,660 million shares were issued and allotted at the price of HK$0.028 per share in accordance with the first placing and subscription agreement and the proceeds, net of expense, amounted to approximately HK$98.6 million. The new shares issued rank pari passu in all respects with the then existing shares.

On 31 January 2005, 2,340 million shares were issued and allotted at the price of HK$0.028 per share in accordance with the second placing and subscription agreement and the proceeds, net of expense, amounted to approximately HK$63.1 million. The new shares issued rank pari passu in all respects with the then existing shares.

On 4 February 2005, the Company entered into a placing and subscription agreement with CEL and Tai Fook Securities Company Limited ("Tai Fook") pursuant to which Tai Fook agreed to place up to 6,400 million shares in the Company then held by CEL at the price of HK$0.022 per share to independent investors and CEL would subscribe for up to 6,400 million new shares of the Company at the same price of HK$0.022 per share. The net proceeds from the placement amounted to approximately HK$136.8 million, net of expense. HK$50 million of the net proceeds will be used for financing the refurbishment, renovation and upgrading of Kingsway Hotel and the balance of approximately HK$86.8 million will be used for future investment opportunities relating to existing businesses. The subscription was completed on 18 February 2005. The new shares issued rank pari passu in all respects with the then existing shares.

On 4 February 2005, the directors proposed to the shareholders of the Company for approval of the consolidation of every one hundred shares of HK$0.01 each in the issued and unissued ordinary share capital of the Company into one share of HK$1 each. The consolidation of shares of the Company was approved by the shareholders of the Company in the special general meeting on 14 March 2005.

On 17 May 2005, the directors proposed to the shareholders of the Company to increase the authorised share capital of the Company from HK$500,000,000 divided into 500,000,000 shares of HK$1 each to HK$1,500,000,000 divided into 1,500,000,000 shares of HK$1 each by the creation of an additional 1,000,000,000 shares of HK$1 each. The increase in the authorised share capital of the Company was approved by the shareholders of the Company in the special general meeting on 5 July 2005.

41. SHARE OPTION SCHEME

The Company has a share option scheme (the "Scheme"), which was approved and adopted by shareholders of the Company on 3 May 2002, enabling the directors to grant options to employees, executives or officers of the Company or any of its subsidiaries (including executive and non-executive directors of the Company or any of its subsidiaries) and any suppliers, consultants, agents or advisers who will contribute or have contributed to the Company or any of its subsidiaries as incentives and rewards for their contribution to the Company or such subsidiaries. The maximum number of shares in respect of which options may be granted under the Scheme, when aggregated with any shares subject to any other schemes, shall not exceed 10% of the issued share capital of the Company on the date of approval and adoption of the Scheme (the "General Limit"). The Company proposed to refresh the General Limit so that the number of shares which may be issued upon exercise of all options to be granted under the Scheme and any other share option schemes of the Company would be increased to 10% of the shares in issue as at the date of approval of the General Limit as "refreshed". The refreshment of the General Limit was approved by the shareholders of the Company in the annual general meeting held on 27 May 2005.

Option granted must be taken up within 30 days of the date of offer. The consideration payable for the option is HK$1. Options may be exercised at any time from the date of acceptance of the share option to such date as determined by the board of directors but in any event not exceeding 10 years. The exercise price is determined by the directors of the Company and will not be less than the higher of (i) the average closing price of the shares for the five business days immediately preceding the date of grant, (ii) the closing price of the shares on the date of grant or (iii) the nominal value of the shares of the Company.

No share options have been granted under the Scheme since its adoption.

42. RESERVES

(a) On 17 May 2005, the directors proposed to the shareholders of the Company for approval of the cancellation of share premium account (the "Cancellation") pursuant to which the entire amount standing to the credit of the share premium account of the Company would be cancelled and the credit arising from the Cancellation would be transferred to the contributed surplus account of the Company and such credit would be partially used to set off against the accumulated losses of the Company (the "Set off"). The Cancellation and the Set Off were approved by the shareholders of the Company in the special general meeting held on 5 July 2005.

(b) The special reserve represents the difference between the nominal value of the shares of the acquired subsidiaries and the nominal value of the shares of the Company issued for the acquisition under the group reorganisation in September 1997.

42. RESERVES *(Cont'd)*

(c) The accumulated profits, translation reserve and statutory reserves of the Group include profits of HK$1,062,000 (2004: losses of HK$2,137,000), surplus of HK$73,000 (2004: HK$73,000) and HK$150,000 (2004: HK$150,000) respectively attributable to the associates of the Group.

43. ACQUISITION OF SUBSIDIARIES

(a) The Group acquired a 65.04% interest in Triumph Up on 17 February 2005 and 100% interest in Cyber Business Network (Hong Kong) Limited on 28 February 2005.

The net assets acquired in the transactions, and the discount and goodwill arising on acquisition, are as follows:

	Acquiree's carrying amount before combination	**Fair value adjustments**	**Fair value**
	HK$'000	*HK$'000*	*HK$'000*
Property, plant and equipment	1,393	–	1,393
Interest in associates	15,887	175,309	191,196
Trade and other receivables	114	–	114
Amount due from the Group	960	–	960
Amounts due from related companies	4	–	4
Amounts due from associates	126,231	–	126,231
Bank balances and cash	24	–	24
Trade and other payables	(16)	–	(16)
Amount due to the Group	(2,214)	–	(2,214)
Amounts due to associates	(170)	–	(170)
Amounts due to related companies	(578)	–	(578)
Net assets acquired	141,635	175,309	316,944
Minority interests			(110,945)
Discount on acquisition			(34,574)
Goodwill arising on acquisition			647
Cash consideration			172,072

43. ACQUISITION OF SUBSIDIARIES *(Cont'd)*

	Acquiree's carrying amount before combination	Fair value adjustments	Fair value
	HK$'000	*HK$'000*	*HK$'000*
Satisfied by:			
Cash paid			151,322
Investment deposits			20,750
			172,072
Net cash outflow arising on acquisition:			
Cash consideration			151,322
Bank balances and cash acquired			(24)
			151,298

The discount on acquisition is attributable to the increase in fair value of a hotel property which was held by an associate of the subsidiaries acquired.

The subsidiaries acquired during the year contributed HK$125,000 to the Group's turnover and HK$43,673,000, including discount on acquisition of HK$34,574,000, to the Group's profit before taxation.

If the acquisition had been completed on 1 January 2005, the Group's turnover for the year would have been HK$1,815,784,000 and profit for the year would have been HK$33,004,000. The proforma information is for illustrative purposes only and is not necessarily an indicative revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2005, nor is it intended to be a projection of future results.

43. ACQUISITION OF SUBSIDIARIES *(Cont'd)*

(b) During the year ended 31 December 2004, the Group acquired through a cash offer further interest in its former associate, Apex Quality Group Limited ("Apex"). On 9 January 2004, Apex became a subsidiary of the Group. The effect of the acquisition is summarised as follows:

	2004
	HK$'000
Property, plant and equipment	1,683,105
Club debenture	713
Investments in securities	212
Properties held for sale	98
Inventories	5,394
Trade and other receivables	65,423
Bank balances and cash	22,258
Trade and other payables	(104,544)
Amount due to the Group	(9,425)
Obligations under a finance lease	(1,467)
Bank and other borrowings	(378,829)
Amounts due to related companies	(81,654)
Promissory note	(365,000)
Deferred taxation	(243,354)
Minority interests	(279,909)
Net assets acquired	313,021
Less: Interest previously acquired and classified as interest in an associate	(218,360)
	94,661
Negative goodwill arising on acquisition	(74,514)
Cash consideration	20,147
Net cash inflow arising on acquisition:	
Cash consideration	(20,147)
Bank balances and cash acquired	22,258
	2,111

43. ACQUISITION OF SUBSIDIARIES *(Cont'd)*

Apex contributed HK$190,034,000 to the Group's turnover and HK$24,192,000 to the Group's loss before taxation for 2004.

(c) In December 2004, the Group acquired 100% of the issued share capital of International Travel Systems Inc. ("ITS Inc."). The effect of the acquisition is summarised as follows:

	2004
	HK$'000
Property, plant and equipment	89
Trade and other receivables	1,000
Bank balances and cash	502
Trade and other payables	(1,806)
Net liabilities acquired	(215)
Goodwill arising on acquisition	50,215
Cash consideration	50,000
Net cash outflow arising on acquisition:	
Cash consideration	50,000
Bank balances and cash acquired	(502)
	49,498

ITS Inc. contributed an insignificant amount to the Group's turnover and loss before taxation for 2004.

These acquisitions have been accounted for by the acquisition method of accounting.

44. MAJOR NON-CASH TRANSACTIONS

(a) During the year, the Group disposed of a computer system for online travel reservation to Sino Express Travel Limited ("Sino"), a Hong Kong and Macau travel products supplier and wholesale distributor, at a consideration of US$500,000, which was settled by 2,500,000 common shares (valued at US$0.2 per share) of Sino Express Travel Limited ("Sino USA"), the 100% holding company of Sino.

Sino USA is a company incorporated in the United States of America with its shares traded on the Pink Sheets in the United States of America.

(b) During the year ended 31 December 2004, the Company issued convertible notes to finance the redemption of the convertible notes issued in 2002 and due in 2004. The total consideration of 2004 convertible notes of HK$260,000,000 was partly settled by the cancellation of 2002 convertible notes of HK$189,800,000.

(c) During the year ended 31 December 2004, the consideration receivable on disposal of interest in a co-operative joint venture of HK$40,000,000 was transferred to loan receivable.

(d) During the year ended 31 December 2004, the Group entered into finance lease arrangements in respect of assets with a total capital value of HK$186,000 at the inception of the finance leases.

45. ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS

	2005	**2004**
	HK$'000	*HK$'000*
Bank balances and cash	43,103	134,317
Bank overdrafts	–	(28,181)
	43,103	106,136

46. PLEDGE OF ASSETS

Save as otherwise disclosed, at 31 December 2005, the Group's credit facilities were secured by the Group's assets as follows:

	2005	**2004**
	HK$'000	*HK$'000*
Hotel property	614,856	620,510
Property interests	18,290	14,060
Bank balances	6,925	6,800
	640,071	641,370

47. CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities as at 31 December 2005.

48. OPERATING LEASE COMMITMENTS

As lessee

At 31 December 2005, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2005	**2004**
	HK$'000	*HK$'000*
Land and buildings		
Within one year	14,660	9,690
In the second to fifth years inclusive	4,866	3,029
	19,526	12,719
Equipment		
Within one year	358	358
In the second to fifth years inclusive	896	1,254
	1,254	1,612

48. OPERATING LEASE COMMITMENTS *(Cont'd)*

Operating lease payments represent rentals payable by the Group for certain of its office properties, shops and employees' quarters as well as equipment. Leases are negotiated for an average term of two years.

As lessor

Property rental income earned during the year was HK$15,713,000 (2004: HK$13,072,000).

At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments for its investment property and premises within the hotel properties:

	2005	**2004**
	HK$'000	*HK$'000*
Within one year	13,289	11,369
In the second to fifth years inclusive	41,570	33,577
After five years	12,622	–
	67,481	44,946

49. CAPITAL COMMITMENTS

	2005	**2004**
	HK$'000	*HK$'000*
Contracted for but not provided in the financial statements in respect of acquisition of property, plant and equipment	30,000	30,760
Contracted for but not provided in the financial statements in respect of investments	5,462	137,697
	35,462	168,457

50. PROVIDENT FUND SCHEMES

The Group has retirement schemes covering a substantial portion of its employees in Hong Kong. The principal schemes are defined contribution schemes. The assets of these schemes are held separately from those of the Group in funds under the control of independent trustees.

With effect from 1 December 2000, the Group joined a Mandatory Provident Fund Scheme ("MPF Scheme") for all its new employees in Hong Kong employed therefrom or existing employees wishing to join the MPF Scheme. The MPF Scheme is registered with the Mandatory Provident Fund Scheme Authority under the Mandatory Provident Fund Schemes Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the rules of the MPF Scheme, the employer and its employees are required to make contributions to the MPF Scheme at rates specified in the rules. The only obligation of the Group in respect of MPF Scheme is to make the required contributions under the MPF Scheme.

The employees of the Group's subsidiaries in the PRC are members of the state-managed retirement benefit scheme operated by the government of the PRC. The subsidiaries are required to contribute certain percentage of their payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions.

The amounts charged to the income statement represent contributions payable to schemes and the MPF Scheme by the Group at rates specified in the rules of the schemes less forfeiture of HK$125,032 (2004: HK$277,134) arising from employees leaving the Group prior to completion of the qualifying service period, if any.

At the balance sheet date, the total amount of forfeited contributions, which arose upon employees leaving the retirement benefit schemes and which are available to reduce the contributions payable in future years was HK$548,759 (2004: HK$65,025).

51. POST BALANCE SHEET EVENTS

Subsequent to the balance sheet date, the following events have taken place:

(a) On 1 March 2006, the Company entered into a placing agreement with Success Securities Limited ("Success Securities") pursuant to which the Success Securities conditionally agreed to place up to 175 million shares in the Company at a price of HK$0.69 per share to independent investors (the "Placing"). The Placing is conditional on, among other things, the passing of the resolution at the special general meeting by the shareholders to approve the issue of the 175 million shares under the Placing (the "Placing Shares").

The net proceeds of approximately HK$119.7 million from the Placing are intended to be used as general working capital for the Group.

In order to facilitate the issue of the Placing Shares, the Board proposes to conduct the capital reorganisation which involves (i) the reduction of the issued share capital of the Company by HK$0.90 per existing share by cancelling an equivalent amount of paid-up capital per existing share so that the nominal value of each existing share in issue will be reduced from HK$1 to HK$0.10; and (ii) the subdivision of every unissued existing share into ten adjusted shares.

(b) On 23 March 2006, the Company entered into a total of eight subscription agreements in relation to the subscription by eleven subscribers of the 2% convertible exchangeable notes with an aggregated principal amount of HK$1,000 million (the "Notes"). CEL, Hutchison International Limited and the nine other subscribers have conditionally agreed to subscribe for the Notes with principal amount of HK$300 million, HK$200 million and HK$500 million by cash respectively.

The initial conversion price of the Notes is HK$0.79 per share, subject to adjustments. Unless previously converted or lapsed or redeemed by the Company, the Company will redeem the Notes on the fifth anniversary from the date of issue of the Notes (the "Maturity Date") at the redemption amount which is 110% of the principal amount of the Notes outstanding.

Each of the noteholders shall have the right to convert, on any business day commencing from the 7th day after the date of issue of the Notes up to and including the date which is 7 days prior to the Maturity Date, the whole or any part (in an amount or integral multiple of HK$1,000,000) of the principal amount of the Notes into the shares of the Company at the then prevailing conversion price.

51. POST BALANCE SHEET EVENTS *(Cont'd)*

Subject to certain restrictions which are intended to facilitate compliance of relevant rules and regulations, each noteholder shall have the right to exchange from time to time all or part (in the amount of HK$10,000,000 or integral multiples thereof) of 50% of the initial principal amount of its Notes for shares in the share capital of any company which is an affiliated company or subsidiary of the Company that is to be listed on a stock exchange through an initial public offering at the price (the "Spin-off Shares"), subject to adjustments, at which the Spin-off Shares are actually issued to the public at the time of the listing on that stock exchange. As at the date of report, the Company does not have any concrete plan as regards any spin-off proposal.

The net proceeds of approximately HK$998.8 million raised from the Notes are expected to be used by the Group for the purpose of expanding its hotel business and travel related business. The directors of the Company have been identifying suitable investment targets in the hotel and travel related business for the Group. However, as at the date of report, no negotiations for investments in any targets have been materialised or proceeded to a matured stage. To the extent that the net proceeds are not immediately applied for the above purposes, the directors of the Company intended that the net proceeds may be used to reduce the gearing of the Group.

52. RELATED PARTY TRANSACTIONS

(a) During the year, the Group had transactions with related parties as follows:

Nature of transactions	*Notes*	Name of company	2005	2004
			HK$'000	*HK$'000*
Property rental expenses paid and payable by the Group	*(i)*	Cycle Company Limited and Gunnell Properties Limited	3,734	2,266
		Mass Success International Limited	258	2,268
		Paul Y. Building Management Limited	259	–
			4,251	4,534
Air ticketing and travel service income received and receivable by the Group	*(ii)*	Hanny Holdings Limited and its subsidiaries	1,582	1,240
		Paul Y. – ITC Management Limited	1,415	–
		PYI Corporation Limited (formerly known as "Paul Y. – ITC Construction Holdings Limited") and its subsidiaries	1,147	1,965

52. RELATED PARTY TRANSACTIONS *(Cont'd)*

Nature of transactions	*Notes*	Name of company	2005	2004
			HK$'000	*HK$'000*
		See Corporation Limited (formerly known as "Ruili Holdings Limited")	492	–
		China Strategic Holdings Limited and its subsidiaries	236	174
		ITC Corporation Limited and its subsidiaries	56	153
		Paul Y. Management Limited	21	–
		Cheung Wah Ho Dyestuffs Company Limited	–	233
		PSC Corporation Limited	–	68
		Cyber Business Network (Hong Kong) Limited	–	3
			4,949	3,836
Interest paid on convertible notes	*(iii)*	Million Good Limited	359	2,177
Loan interest paid and payable by the Group	*(iv)*	Nation Cheer Investment Limited	5,138	2,051
		Million Good Limited	4,323	5,256
		Hanny Holdings Limited and its subsidiaries	2,799	9,742
		Paul Y. – ITC Management Limited	1,269	–
		Cheung Tai Hong (BVI) Limited	769	–
		China Strategic Holdings Limited and its subsidiaries	6,103	1,465
			20,401	18,514
Interest on loan receivables	*(v)*	See Corporation Limited (formerly known as "Ruili Holdings Limited")	–	76

52. RELATED PARTY TRANSACTIONS *(Cont'd)*

Nature of transactions	Notes	Name of company	2005 HK$'000	2004 HK$'000
Website maintenance services paid by the Group	*(vi)*	Cyber Business Network (Hong Kong) Limited	–	1,200
Secondment fee paid	*(vii)*	Mass Success International Limited	2,492	–
Secondment fee received	*(vii)*	Manwide Holdings Limited	1,154	–

Notes:

(i) The property rental expenses paid and payable by the Group were transactions determined in accordance with the terms of relevant agreements.

(ii) The above companies purchased air tickets and related services from the Group at rates comparable to market rates.

(iii) The interest paid on convertible notes was calculated at the rate specified in the convertible notes issued.

(iv) The interest paid and payable by the Group for loans from these companies was calculated at rates comparable to market rates.

(v) The interest on loan receivables was calculated at rates comparable to market rates.

(vi) The above company charged website maintenance service to the Group at comparable market price.

(vii) The staff secondment charges were determined with reference to the costs incurred.

Certain directors of the Company are also directors of and/or have beneficial interests in those companies.

(b) During the year, the Group received loans from related companies. Details of their relationships and the terms of the loans are set out in note 33.

52. RELATED PARTY TRANSACTIONS *(Cont'd)*

(c) The Group maintained current accounts with related companies and associates. Their balances as at 31 December 2005 are set out in notes 26, 27 and 34.

Certain directors of the Company are also directors of and/or have beneficial interests in those companies.

(d) During the year ended 31 December 2004 , the Group made a loan to a related company. Details of its relationship and the terms of the loan are set out in note 29a (v).

(e) During the year ended 31 December 2004, the Company issued convertible notes of nominal value amounting to HK$155,000,000 to CEL. Details of the convertible notes are set out in note 37. As at the balance sheet date, the related company holds the convertible notes of nominal value amounting to nil (2004: HK$55,000,000).

Certain directors of the Company are also directors of and/or have beneficial interests in that related company.

(f) Compensation of key management personnel

The remuneration of directors and other members of key management during the year was as follows:

	2005	**2004**
	HK$'000	*HK$'000*
Short-term benefits	3,865	6,507
Post-employment benefits	29	69
	3,894	6,576

The remuneration of directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

53. PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries as at 31 December 2005 are as follows:

Name of company	Place of incorporation/ registration	Issued and paid up share capital/ registered capital	Proportion of nominal value of issued share capital/ registered capital held by Company		Principal activities and place of operation
			Directly	Indirectly	
			%	%	
Allied Glory Investment Limited ("Allied Glory")	Hong Kong	HK$2	–	55.7	Investment holding in the PRC
Apex Quality Group Limited	British Virgin Islands	US$5,548,172	–	67.9	Investment holding
Asian Pearl Investments Limited	British Virgin Islands	US$1	–	100	Investment holding in the PRC
Benchmark Pacific Limited	British Virgin Islands	US$1	–	100	Investment holding in Hong Kong
Clever Basin Holdings Limited	British Virgin Islands	US$1	–	67.9	Investment holding in Hong Kong
Credit Paradise Limited	Hong Kong	HK$2	–	100	Property investment in Malaysia
Cyber Business Network (Hong Kong) Limited	Hong Kong	HK$14,000,000	–	100	Provision of internet services in Hong Kong
DS Eastin Limited	Hong Kong	HK$20	–	67.9	Investment holding in the PRC
Golden Sun Limited	Hong Kong	HK$2	–	100	Investment holding in Hong Kong
Hey Wealth Limited	Hong Kong	HK$2	–	67.9	Property holding in Hong Kong

53. PRINCIPAL SUBSIDIARIES *(Cont'd)*

Name of company	Place of incorporation/ registration	Issued and paid up share capital/ registered capital	Proportion of nominal value of issued share capital/ registered capital held by Company Directly %	Indirectly %	Principal activities and place of operation
HKWOT (BVI) Limited	British Virgin Islands	US$1	100	–	Investment holding in Hong Kong
HMH China Investments Limited	Bermuda	CAD$1,152,913	–	55.7	Investment holding
Hong Kong Wing On Travel Service Limited	Hong Kong	Ordinary – HK$180,000,100 Deferred – HK$20,000,000*	–	100	Outbound travel and related services
International Travel Systems Inc.	British Virgin Islands	US$1	–	100	Investment holding
Kingsgrove International Limited	Hong Kong	HK$2	–	100	Property investment in Hong Kong
Lucky Million Investments Limited	British Virgin Islands	US$1	–	67.9	Investment holding in Hong Kong
Luoyang Golden Gulf Hotel Co., Ltd.	PRC #	RMB145,000,000	–	40.8	Hotel ownership and operation in the PRC
Makerston Limited	British Virgin Islands	US$1	–	67.9	Investment holding in Hong Kong
Many Good Money Exchange Limited	Hong Kong	HK$100,000	–	100	Money exchange services in Hong Kong
Mexmara Holdings Limited	British Virgin Islands	US$1	–	100	Property investment in Hong Kong

53. PRINCIPAL SUBSIDIARIES *(Cont'd)*

Name of company	Place of incorporation/ registration	Issued and paid up share capital/ registered capital	Proportion of nominal value of issued share capital/ registered capital held by Company Directly %	Indirectly %	Principal activities and place of operation
Millennium Target Holdings Limited	British Virgin Islands	US$1	–	100	Investment holding
Rosedale Group Management Limited	Hong Kong	HK$2	–	67.9	Provision of management services in Hong Kong
Rosedale Hotel Beijing Co., Ltd.	PRC #	US$17,200,000	–	64.5	Hotel ownership and operation in the PRC
Rosedale Hotel Group Limited	British Virgin Islands	US$1	–	67.9	Investment holding in Hong Kong
Rosedale Hotel Guangzhou Co., Ltd. ("Rosedale Guangzhou")	PRC ##	US$11,500,000	–	55	Hotel ownership and operation in the PRC
Rosedale Hotel Management Limited	Hong Kong	HK$2	–	67.9	Hotel management services in Hong Kong
Rosedale Hotel Management International Limited	British Virgin Islands	US$1	–	67.9	Hotel management services
Rosedale Park Limited	Hong Kong	HK$2	–	67.9	Hotel operation in Hong Kong
Shropshire Property Limited	British Virgin Islands	Ordinary – US$10 Preference – US$1,000	–	67.9	Investment holding in Hong Kong

53. PRINCIPAL SUBSIDIARIES *(Cont'd)*

Name of company	Place of incorporation/ registration	Issued and paid up share capital/ registered capital	Proportion of nominal value of issued share capital/ registered capital held by Company Directly %	Indirectly %	Principal activities and place of operation
Success Fund Industrial Limited	Hong Kong	HK$100	–	100	Property investment in the PRC
Super Grade Investment Limited	British Virgin Islands	US$1	–	100	Property investment in Hong Kong
Triumph Up Investments Limited	British Virgin Islands	US$615	–	56.9	Investment holding in Macau
Watertours of Hong Kong Limited	Hong Kong	Ordinary – HK$1,500,000 "B" – HK$100*	–	100	Watertour services in Hong Kong
Wing On Holidays (Macau) Limited	Macau	MOP1,300,000	–	100	Travel and related services in Macau
Wing On Hotel Management Limited	British Virgin Islands	US$4	–	100	Hotel management services in the PRC
Wing On Travel and Tour Limited	Hong Kong	HK$2,000,000	–	100	Inbound travel and related services
Wing on Travel Finance Limited	Hong Kong	HK$2	–	100	Money lending in Hong Kong
Wing On Travel International Limited	British Virgin Islands	US$1	100	–	Investment holding
Wing On Travel (BVI) Limited	British Virgin Islands	US$10,000	–	100	Investment holding
Wing On Travel (U.K.) Limited	United Kingdom	£2	–	100	Travel and related services in U.K.

53. PRINCIPAL SUBSIDIARIES *(Cont'd)*

Name of company	Place of incorporation/ registration	Issued and paid up share capital/ registered capital	Proportion of nominal value of issued share capital/ registered capital held by Company Directly %	Indirectly %	Principal activities and place of operation
WOT Holidays (Canada) Limited (formerly known as Ananda (Travel (Canada) Limited)	Canada	C$15,000	–	100	Travel and related services in Canada

* The deferred shares and "B" shares are owned by the Group, practically carry no rights to dividends or to receive notice of or to attend or vote at any general meeting of the respective companies or to participate in any distribution in winding up.

\# The subsidiaries are PRC Sino-foreign equity joint ventures.

\#\# This subsidiary is a PRC Sino-foreign co-operative joint venture. Allied Glory is entitled to recoup its total investment (including capital and interest) from the after-tax earnings of Rosedale Guangzhou before any amounts are distributed. Thereafter, the after-tax earnings of Rosedale Guangzhou are to be distributed at 80% and 20% to Allied Glory and other joint venture partner respectively.

The above table lists the subsidiaries of the Group which, in the opinion of the directors, principally affected the results or 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.

Save as disclosed, no debt securities have been issued by any of the subsidiaries during the year.

C. MANAGEMENT DISCUSSION AND ANALYSIS

(i) For the year ended 31st December, 2005

Following is the management discussion and analysis extracted from the annual report of Wing On for the year ended 31st December, 2005:

*"**REVIEW OF OPERATIONS***

The notable growth momentum of the Hong Kong economy pursued throughout the year with Gross Domestic Product registered a growth of 7.3% in 2005. Domestic consumption demand held firm along with the more entrenched economic recovery and improving labour market condition whereas the unemployment rate fell from 8.6% in mid-2003 to 6.1% in the first quarter and was further down to a four-year low of 5.2% at the end of the year. Notwithstanding the increasing interest rates and the appreciation of Renminbi, consumer demand and their spending power continued to be strong. Under this atmosphere, the performance of the tourism industry was promising and encouraging over the year under review where statistics shows both inbound arrivals and outbound departures upsurged greatly.

During the year, the Group has adopted the newly effective Hong Kong Financial Reporting Standards. As a result, certain comparative figures for the year ended 31 December 2004 have been restated.

Turnover and gross profit for the year ended 31 December 2005 attained HK$1,815.7 million and HK$346.4 million respectively (2004: HK$1,722.2 million and HK$295.5 million respectively). The profit for the year was approximately HK$32.2 million (2004: a loss of HK$2.8 million) and was arrived at after taking into account the discount on acquisition of subsidiaries of HK$34.6 million (2004: nil), finance costs of HK$59.4 million (2004: HK$66.3 million) and share of results of associates of HK$8.0 million (2004: a loss of HK$0.2 million).

Travel and Related Services

Recovered from the sentiment of the Indian Ocean tsunami happened at the end of 2004, the number of outbound travellers rebounded during 2005. Statistics show that the number of outbound travellers exceeded 72 million and represented a 4.9% over 2004. Facing the high oil price and increasing operating cost which shrunk further the profit margin of the travel industry, the Group has continued to launch series of new products, providing quality service on existing markets and exploring *new markets aggressively during the year to enhance its performance. Coupled with the growing number of inbound visitors of over 23 million in 2005, the Group has attained encouraging results during the year under review.*

Turnover and contribution to profit of this segment for the year ended 31 December 2005 reached HK$1,592.0 million and HK$56.4 million respectively (2004: HK$1,532.1 million and HK$49.3 million respectively).

Hotel and Leisure Services

Benefited from the expansion of the Closer Economic Partnership Arrangement ("CEPA") and the PRC Individual Visit Scheme to Hong Kong, the hotel and leisure business in Hong Kong and the PRC have shown a rapid recovery during the year.

The performance of the Group's hotel and leisure business operated under the three hotels in Hong Kong and the PRC with the "Rosedale" brand, and Luoyang Golden Gulf Hotel in the PRC during 2005 were largely benefited from the aforesaid arrangements in terms of both the occupancy rate and room rate. Coupled with the adoption of appropriate market positioning strategy, the performance of this segment during the year under review was encouraging.

The turnover and contribution to profit of this segment for the year achieved HK$223.8 million and HK$28.2 million respectively (2004: HK$190 million and HK$3.6 million respectively).

Associates

The Group entered into the hospitality industry in Macau by the acquisition of approximately 36.26% attributable interests in Kingsway Hotel Limited ("Kingsway") in February 2005. Resulted from the blooming tourism business in Macau, Kingsway has achieved a net profit for the year ended 31 December 2005 of approximately HK$17.9 million of which HK$8.4 million were shared by the Group for the year under review.

The contribution of the Group's 50% associate, Travoo International Limited ("Travoo"), formed at the end of 2005 is insignificant.

Material Acquisitions and Disposals

On 20 November 2004, the Group entered into a conditional sale and purchase agreement with an independent third party to acquire an 80% equity interest in Triumph Up Investments Limited ("Triumph") for a total consideration of approximately HK$157.5 million. The Group, through Triumph, would, at completion, hold indirectly approximately 34.24% attributable interest in Kingsway of which its principal asset is Kingsway Hotel. On 17 February 2005, the parties entered into a supplemental agreement to amend the terms of the acquisition that the attributable interest in Kingsway acquired by the Group was increased from approximately 34.24% to 36.26% and the consideration was proportionally adjusted to approximately HK$166.8 million which has been settled in cash. Completion of the supplemental agreement took place on 17 February 2005.

On 11 November 2005, the Group entered into an agreement with Guangdong China Travel Service (Holdings) Ltd. ("GDCTS") pursuant to which each of the Group and GDCTS would contribute RMB25,000,000 to form a joint venture in return for a 50% interest in the issued share capital of the joint venture company, Travoo. Travoo is intended to be established with a view to providing ticket booking services for hotel, airline and other transportation and event services, the operation of call centers, and the marketing of such services and other travel related services. The agreement was completed on 30 December 2005.

Liquidity and Financial Resources

On 30 November 2004, the Company entered into two placing and subscription agreements with China Enterprises Limited ("CEL") and a placing agent pursuant to which the placing agent agreed to place, on a fully underwritten basis, 6,000 million existing shares held by a nominee of CEL at the price of HK$0.028 per placing share to not less than six placees who are independent third parties and CEL would subscribe for 6,000 million new shares at the same price of HK$0.028 per share. The issue and subscription of 3,660 million and 2,340 million new shares have been completed on 14 December 2004 and 31 January 2005 respectively. The net proceeds of approximately HK$160.4 million was used principally towards payment of HK$107.5 million of the consideration for the acquisition of Kingsway and the balance was utilised as general working capital.

On 4 February 2005, the Company entered into a placing and subscription agreement with CEL and a placing agent pursuant to which the placing agent agreed to place, on a best effort basis, up to 6,400 million shares at the price of HK$0.022 per share. The Company intended to utilise HK$50 million of the net proceeds of approximately HK$137 million from the subscription to finance the refurbishment, renovation and upgrading of Kingsway Hotel in Macau, so as to enhance its competitiveness. The remaining HK$87 million of the proceeds of the subscription are to be used for future investment opportunities related to existing business. The issue and subscription of shares were completed on 18 February 2005.

The Company announced on 4 February 2005 to propose a consolidation that every one hundred shares of HK$0.01 each in the issued and unissued ordinary share capital of the Company be consolidated into one consolidated share of HK$1.00 each (the "Consolidation"). The Consolidation was approved by the shareholders of the Company in a special general meeting held on 14 March 2005.

The Company announced on 17 May 2005 to propose, inter alia, a cancellation of the entire amount standing to the credit of the share premium account (the "Cancellation") and transfer the credit arising from the Cancellation to the contributed surplus account of the Company and such credit would be partially used to set off against the accumulated loss of the Company (the "Set Off"). The Cancellation and the Set Off were approved by the shareholders of the Company in a special general meeting held on 5 July 2005.

On 1 March 2006, the Company entered into a placing agreement with a placing agent pursuant to which the placing agent conditionally agreed to place, on a best effort basis, up to 175,000,000 new adjusted shares at a price of HK$0.69 per adjusted share to not less than six placees who shall be independent third parties. The placing is conditional on, among other things, the passing of the resolution at the special general meeting by the shareholders to approve the issue of the placing shares. The expected net proceeds of approximately HK$119.7 million from the placing are intended to be used as general working capital for the Group. In order to facilitate the issue of the placing shares, the Company proposed to conduct a capital reorganisation which involves (i) the reduction of the issued share capital of the Company by HK$0.90 per existing share by cancelling an equivalent amount of paid-up capital per existing share so that the nominal value of each existing share in issue will be reduced from HK$1.0 to HK$0.1; and (ii) the subdivision of every one unissued existing share into ten adjusted shares. Completion of the placing and the capital reorganisation is conditional upon the approval by the shareholders of the Company in the special general meeting to be convened for this purpose.

On 23 March 2006, the Company announced that it has entered into a total of eight subscription agreements in relation to the subscription by eleven subscribers of the 2% convertible exchangeable notes (the "Notes"), matured on the fifth anniversary from the date of issue of the Notes, with an aggregate principal amount of HK$1,000 million at an initial conversion price of HK$0.79 (adjustable). CEL and the ten other subscribers have conditionally agreed to subscribe for the Notes with principal amount of HK$300 million and HK$700 million by cash respectively. The net proceeds, estimated to be approximately HK$998.8 million, raised from the subscription of the Notes are expected to be used by the Group for the purpose of expanding its hotel business and travel related business. Completion of the subscription of the Notes in conditional upon, amongst other things, the approval by the shareholders of the Company in the special general meeting to be convened for this purpose.

At balance sheet date, the Group's total borrowings were approximately HK$1,036.2 million (2004: HK$1,137.2 million) which comprised loans from related companies of HK$361.5 million (2004: HK$372.9 million), bank and short term loan repayable within one year of HK$38.3 million (2004: HK$57.0 million), bank and other loans repayable after one year of HK$271.3 million (2004: HK$300.4 million), obligations under finance leases of HK$0.1 million (2004: HK$ 0.5 million), promissory note of HK$365.0 million (2004: HK$365.0 million) due in December 2007 and convertible notes of nil (2004: HK$41.4 million) repayable in June 2007. The convertible notes repayable in June 2007 bear interest at a fixed interest rate of 2% per annum and have all been converted in 2005. All other borrowings bear floating interest rates.

The gearing ratio, expressed as a percentage of total borrowings to shareholders' funds, improved significantly from 180.5% as at 31 December 2004 to 106.4% as at 31 December 2005.

Pledge of Assets

At 31 December 2005, certain assets of the Group at net book value of HK$640.0 million (2004: HK$641.3 million) were pledged to banks and financial institutions for credit facilities. The promissory note is secured by the entire issued share capital of, and shareholders' loan to, an indirect subsidiary of the Company, Makerston Limited, and its subsidiaries holding the Rosedale Hotel and Suites ▪ Beijing.

Contingent Liabilities

The Group did not have any significant contingent liabilities as at 31 December 2005.

Foreign Currency Exposure

The majority of the Group's assets and liabilities and business transactions were denominated in Hong Kong dollars, US dollars and Renminbi. Despite the appreciation of Renminbi during 2005, the impact on the Group's operation is minimal. As such, the fluctuation of foreign currencies do not have a significant impact on the performance, results and operations of the Group during the reporting year and in the foreseeable future.

The Group will continue to monitor closely its foreign currency exposure and requirements and to arrange for hedging facilities when necessary.

Employees

At 31 December 2005, the Group has 1,996 employees of which 25 employees were stationed overseas and 1,071 employees were stationed in the PRC. Competitive remuneration packages are structured to commensurate with the responsibilities, qualifications, experience and performance of individual employees. The Group also provided training programmes, provident fund scheme and medical insurance for its employees. Total staff remuneration incurred for the year ended 31 December 2005 were approximately HK$135.4 million (2004: HK$128.0 million).

The Group had a share option scheme (the "Scheme"), which was approved and adopted by shareholders of the Company on 3 May 2002, to enable the directors to grant options to employees, executives or officers of the Company or any of its subsidiaries (including executive and non-executive directors of the Company or any of its subsidiaries) and any suppliers, consultants, agents or advisers who will contribute or have contributed to the Company or any of its subsidiaries as incentives and rewards for their contribution to the Company or such subsidiaries. The maximum number of shares in respect of which options may be granted under the Scheme, when aggregated with any shares subject to any other schemes, shall not exceed 10% of the issued share capital of the Company on the date of approval and adoption of the Scheme (the "General Limit"). The Company proposed to refresh the General Limit so that the number of shares which may be issued upon exercise of all options to be granted under the Scheme and any other share option schemes of the Company would be increased to 10% of the shares in issue as at the date of approval of the General Limit as "refreshed". The refreshment of the General Limit was approved by the shareholders of the Company in the annual general meeting held on 27 May 2005.

No options have been granted under the Scheme since its adoption.

PROSPECTS

Travel and Related Services

In 2005, the PRC served approximately 1.2 billion inbound travellers and represented an increase of 10.3% over 2004. At the same time, online travel transactions in PRC reached RMB7 billion in 2005 and the number of internet users was up by 18.3% as at the end of 2005. Coupled with the effect of the 2008 Beijing Olympic Games and the proposed Shanghai Disney Theme Park to be completed in 2010, the inbound revenue of the mainland will grow in multiples in the coming years. The Group has well equipped itself to grasp this opportunity, through its joint venture currently acting as a land operator for the Group in the Guangdong Province and the newly formed joint venture, Travoo, to further expand its business in the PRC aggressively.

The outbound market to southeast Asian countries has been gradually recovered from the Indian Ocean tsunami happened at the end 2004. The Group will put continuous efforts on promoting with airlines and hotels so as to rebuild travellers' confidence on spending their holidays in those attractive destinations such as Maldives and Phuket. Furthermore, the Group shall continue to make use of its expertise and experience in the business to expand its product lines, and to explore further leisure and sightseeing spots around the globe for its valuable customers.

Through the popularity of Internet, travel knowledge and destination information can be accessed directly and conveniently. More and more experienced travellers are keen on planning their own itineraries. To cope with the trend of this growing FIT market, the Group has strengthened its leisure section and has actively negotiated with our vendors to provide discounted airfare, high quality accommodation, transportation and dining services to our FIT customers. It is expected that the revenue generated from this business stream will occupy a significant portion of the revenue of the Group in the coming years.

During the year under review, the Group has put considerable resources into its inbound business and the results are promising. Following the opening of the Hong Kong Disney Land and the AsiaWorld-Expo in 2005, the Skyrail to Po Nin Monastery (Ngong Ping 360) and the Wetland Park in mid-2006, the "A Symphony of Lights" being listed on Guinness World Record in November 2005, the proposed new cruise terminal at the old Kai Tak airport site, and the effect of staging the equestrian events of 2008 Olympic Games in Hong Kong, the number of incoming visitors to and transit through Hong Kong is expected to grow to a significant extent. We are confident *that, the inbound business of the Group will be greatly benefited from these favourable factors and will constitute a significant source of revenue and profits to the Group in the future.*

Hotel and Leisure Services

The opening of Hong Kong Disney Land in September 2005 helps to reposition Hong Kong as a premium destination for family tourists in Asia. Couple with the recent expansion of the Individual Visit Scheme to 44 PRC cities and the unprecedented opportunity of mainland tourism industry arising from the 2008 Beijing Olympic Games, the overall room rate and occupancy rate of our hotels operated in these cities in the coming years are expected to grow to a considerable extent.

Following the concession by the United Nations Educational, Scientific and Cultural Organisation to add Macau into the list of World Heritage Sites, the opening of the new theme park, the Fisherman's Wharf, the number of visitors to Macau is expected to grow tremendously in the coming years. This will further boost the blooming tourism industry of the city. These developments provide the Group immense opportunities to enlarge its market share through its branch network and Kingsway Hotel acquired during the year. Besides, the Group will keep on exploring further investment projects in Macau so as to cope with its business strategy within the Pan-Pearl River Delta area.

The Group will continue to develop new products and to provide quality service so as to differentiate ourselves from our competitors and to cope with the demanding needs of our valuable customers, and to stand ahead of the industry."

(ii) For the year ended 31st December, 2004

Following is the management discussion and analysis extracted from the annual report of Wing On for the year ended 31st December, 2004:

*"**REVIEW OF OPERATIONS***

Throughout 2004, Hong Kong's economy was picked up together with many countries around the world. Despite the increased interest rates in many other countries, local rates remained considerably low. The robust growth in domestic demand ended the prolonged six-year deflationary period. All these factors encouraged consumer confidence and boosted their spending power. Although the Indian Ocean tsunami did have an impact on travellers' sentiment, overall performance of the travel industry was quite promising over the period under review, statistics shows both inbound arrivals and outbound departures upsurged greatly.

Our Group's business was largely benefited from such growth. Turnover and profit before taxation for the year ended 31 December 2004 attained HK$1,722.2 million and HK$37.8 million respectively (2003: HK$1,416.20 million and a loss of HK$373.0 million respectively). The profit before taxation was made up of profit from operations of HK$53.8 million (2003: a loss of HK$145.3 million), finance costs of HK$53.7 million (2003: HK$25.0 million), gain on disposal of associates of HK$37.9 million (2003: a loss of HK$23.5 million), share of loss of associates of HK$0.2 million (2003: HK$114.8 million), impairment loss recognised in respect of interest in an associate of HK$nil (2003: HK$31.7 million) and a loss on disposal of discontinued operation of HK$nil (2003: HK$32.7 million).

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2004 (2003: nil). However, the Directors are seeking legal advice to carry out a capital reduction scheme in order to cancel the credit amount standing at the share premium account and transfer such an amount to the contributed surplus account of the Company to enable the Company to eliminate its accumulated losses as at 31 December 2004. Only upon the successful implementation of such scheme, the Directors would consider the feasibility of recommending the payment of a dividend.

Travel and Related Services

During the year, the Hong Kong economy has successfully turned around from SARS that happened in 2003. The number of business and leisure travellers increased sharply for both the outbound and inbound market. Coupled with the Group's policy of maintaining quality service on existing markets, developing and penetration into new markets aggressively, turnover and contribution to profit of this segment for the year reached HK$1,532.1 million and HK$49.3 million respectively (2003: HK$1,291.9 million and a loss of HK$60.2 million respectively).

Hotel and Leisure Services

The Group operates the hotel and leisure services through Apex Quality Group Limited ("Apex"), a 67.9% owned subsidiary, holding three "Rosedale" branded hotels in Hong Kong and the PRC, and Luoyang Golden Gulf Hotel in the PRC.

Benefited from the implementation of the Closer Economic Partnership Arrangement, the expansion of PRC Individual Visit Scheme to Hong Kong, the hotel and leisure related businesses in Hong Kong and the PRC have shown a rapid recovery during the year. The turnover and contribution to profit of this segment for the year achieved HK$191.3 million and HK$33.7 million respectively. This encouraging result was mainly due to the efforts rendered by the sales teams of our hotel division and the implementation of effective cost control measures on the hotel operations.

Associates

At the beginning of the year, the Group has disposed of its entire interest in the associate which operated a hotel in Harbin, the PRC, to a third party. This hotel had incurred huge losses since the Group's acquisition. As a result, the Group did not record any share of results in this former associate during the year ended 31 December 2004 (2003: share of loss of HK$26.4 million).

The Group disposed of its entire interest in Rosedale Hotel Group Limited in 2003 to an independent third party. As a result, the Group did not share the results of this former associate during the year ended 31 December 2004 (2003: share of loss of HK$81.7 million).

Material Acquisitions and Disposals

On 19 December 2003, the Group made an offer (the "Apex Offer") to acquire from the shareholders of Apex all Apex shares not already held by the Group and parties acting in concert with it. The Apex Offer was closed on 9 January 2004 with acceptances of 51,781,361 shares. As a result, the Group controlled 188,448,027 Apex shares, representing approximately 67.9% of the voting rights in Apex upon closing the Apex Offer.

In February 2004, a 50% owned associate of the Group, acquired an interest in a piece of land in Hong Kong for redevelopment. Subsequently, the Group entered into a sale and purchase agreement to dispose of the entire issued share capital of the subsidiary holding the 50% interest in the aforesaid associate. The disposal was completed on 30 June 2004.

During the year, the Group entered into certain agreements with various independent third parties for acquisition of 100% equity interests in certain companies holding land use rights in the PRC for various development projects, with the objective of developing hotel, shopping malls, recreational and other tourists related amenities respectively. The agreements have not yet been completed.

On 20 November 2004, the Group entered into a conditional sale and purchase agreement with an independent third party to acquire an 80% equity interest in Triumph Up Investments Limited ("Triumph") for a total consideration of approximately HK$157.5 million. The Group, through Triumph, would, at completion, hold indirectly approximately 34.24% attributable interest in Kingsway Hotel Limited ("Kingsway") of which its principal asset is Kingsway Hotel. On 17 February 2005, the parties entered into a supplemental agreement to amend the terms of the acquisition that the attributable interest in Kingsway acquired by the Group was increased from approximately 34.24% to 36.26% and the consideration was proportionally adjusted to approximately HK$166.8 million which has been settled in cash. Completion of the supplemental agreement took place on 17 February 2005.

On 24 December 2004, the Group entered into an agreement with an independent third party to acquire the entire issued share capital of a company which has strategic investments in both the Hong Kong and PRC travel industry for a consideration of HK$50 million. The agreement was completed during the year.

During the year, the Group entered into an agreement to acquire 51% interest in an enterprise established in the PRC engaging in full scale on-line and off-line hotel booking services. The agreement has not yet been completed.

Liquidity and Capital Resources

On 13 January 2004, the Company entered into agreements ("CN Agreements") (as subsequently amended on 17 March 2004 and further amended by the supplemental agreements dated 4 May 2004) with each of China Enterprises Limited ("CEL") and Hutchison International Limited ("HIL") for the issue of convertible notes by the Company to each of CEL and HIL or their respective nominee(s) with a principal amount of HK$155 million and HK$105 million respectively. Completion of the CN Agreements took place on 14 June 2004. During the year, HIL and CEL have exercised their right to convert in aggregate of HK$205 million into 10,250 million new shares of the Company.

On 30 November 2004, the Company entered into two placing and subscription agreements with CEL and a placing agent pursuant to which the placing agent agreed to place, on a fully underwritten basis, 6,000 million existing shares held by a nominee of CEL at the price HK$0.028 per placing share to no less than six placees who are independent third parties and CEL would subscribe for 6,000 million new shares at the same price of HK$0.028 per share. The issue and subscription of 3,660 million and 2,340 million new shares have been completed on 14 December 2004 and 31 January 2005 respectively. The net proceeds of approximately HK$160.4 million was used principally towards payment of HK$107.5 million of the consideration for the acquisition of Kingsway and the balance was utilised as general working capital.

On 4 February 2005, the Company entered into a placing and subscription agreement with CEL and a placing agent pursuant to which the placing agent agreed to place, on a best effort basis, up to 6,400 million shares at the price of HK$0.022 per share. The Company utilised HK$50 million of the net proceeds of approximately HK$137 million from the subscription to finance the refurbishment, renovation and upgrading of Kingsway Hotel in Macau, so as to enhance its competitiveness. The remaining HK$87 million of the proceeds of the subscription were used for investment opportunities related to existing business. The issue and subscription of shares were completed on 18 February 2005.

The Company announced on 4 February 2005 to propose a consolidation that every one hundred shares of HK$0.01 each in the issued and unissued ordinary share capital of the Company be consolidated into one consolidated share of HK$1.00 each. The consolidation was approved by the shareholders of the Company in a special general meeting held on 14 March 2005.

At balance sheet date, the Group's total borrowings were approximately HK$1,150.8 million (2003: HK$519.9 million) which comprised loans from related companies of HK$372.9 million (2003: HK$231.3 million), bank and short term loan repayable within one year of HK$57.1 million (2003: HK$28.2 million), bank and other loans repayable after one year of HK$300.4 million (2003: HK$6.3 million), obligations under finance leases of HK$0.4 million (2003: HK$ nil), promissory note of HK$365.0 million (2003: HK$ nil) due in December 2007 and convertible notes of HK$55 million (2003: HK$254.1 million) repayable in June 2007. Other than the convertible notes which bear interest at a fixed interest rate of 2% per annum, all other borrowings bear floating interest rates.

The gearing ratio, expressed as a percentage of total borrowings to shareholders' funds, increased from 177.3% as at 31 December 2003 to 181.9% as at 31 December 2004.

Pledge of Assets

At 31 December 2004, certain assets of the Group at net book value of HK$662.4 million (2003: HK$20.2 million) were pledged to banks and financial institutions for credit facilities. The promissory note is secured by the entire issued share capital of, and shareholders' loan to, an indirect subsidiary of the Company, Makerston Limited, and its subsidiaries holding the Rosedale Hotel and Suites ■ Beijing.

Contingent Liabilities

The Group did not have any significant contingent liabilities as at 31 December 2004.

Foreign Currency Exposure

The majority of the Group's assets and liabilities and business transactions were denominated in Hong Kong dollars, US dollars and Renminbi. As such, the fluctuation of foreign currencies did not have a significant impact on the performance, results and operations of the Group for the reporting period.

The Group shall continue to monitor closely its foreign currency exposure and requirements and to arrange for hedging facilities when necessary.

Employees

At 31 December 2004, the Group has 1,934 employees of which 22 employees were stationed overseas and 1,036 employees were stationed in the PRC. Competitive remuneration packages are structured to commensurate with the responsibilities, qualifications, experience and performance of individuals. The Group also provides training programmes, provident fund scheme and medical insurance for its employees. Total staff remuneration incurred for the year ended 31 December 2004 were approximately HK$128.0 million.

The Group had a share option scheme (the "Scheme"), which was approved and adopted by shareholders of the Company on 3 May 2002, to enable the directors to grant options to employees, executives or officers of the Company or any of its subsidiaries (including executive and non-executive directors of the Company or any of its subsidiaries) and any suppliers, consultants, agents or advisers who will contribute or have contributed to the Company or any of its subsidiaries as incentives and rewards for their contribution to the Company or such subsidiaries. The maximum number of shares in respect of which options may be granted under the Scheme, when aggregated with any shares subject to any other schemes, shall not exceed 10% of the issued share capital of the Company on the date of approval and adoption of the Scheme.

No options have been granted under the Scheme since its adoption.

PROSPECTS

Our Group will continue to embark on several initiatives to strengthen the presence and awareness of "Wing On Travel" brand. We are delighted to receive a number of awards during the year under review including Hong Kong Super Brand, Yahoo Sentiment Brand, Hong Kong Quality Agent. Our aim is to make our brand synonymous with the delivery of superior services and values to our customers.

Along with high oil prices and weakened US dollar both continuing to shadow economic growth to certain extent, local economic environment will remain broadly favourable. PRC economy is undergoing certain sectoral de-heating and yet the country's rate of real economic growth will remain strong. Consequently, the Group *will continue to explore and develop the hotel and tourists market in the PRC. However, rosy forecasts are conditional on domestic and foreign stability that cannot be taken for granted. Steady emergence of low cost carriers within the region will place pressure on further lowering the tour prices, which will inevitably hedge our gains. Our principal focus for 2005 is to achieve further revenue growth together with the introducing of more new creative products, which will spread through a much wider spectrum of the market share. Our Group is confident that we are well placed to meet the challenges ahead.*

Following the policy trend in the PRC, it is likely the limit on foreign holding in a company operating with outbound travel licence be gradually opened up. Our Group thinks it is imperative to lay hands on this lucrative PRC outbound market and is actively negotiating for opportunities to make appropriate investments. We believe that with our expertise and far-reaching global connections, there will be overflowing synergies when our Group in effect established our presence in the PRC outbound market."

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

Following is the management discussion and analysis extracted from the annual report of Wing On for the year ended 31st December, 2003:

*"**REVIEW OF FINANCIAL RESULTS***

The Group's performance was hard hit by the outbreak of severe acute respiratory syndrome ("SARS") in the first half of the year, resulted in turnover for the year ended 31 December 2003 totaled to HK$1,416.2 million (1.4.2002 to 31.12.2002: HK$1,323.3 million) and loss before taxation and minority interests for the year ended 31 December 2003 amounted to HK$373.0 million (1.4.2002 to 31.12.2002: HK$304.2 million). The loss was mainly made up of loss from operations of HK$145.3 million (1.4.2002 to 31.12.2002 : HK$256.3 million), impairment loss recognised in respect of interest in an associate of HK$31.7 million (1.4.2002 to 31.12.2002 : HK$nil), loss on disposal of associates of HK$23.5 million (1.4.2002 to 31.12.2002 : HK$nil), loss on disposal of discontinued operation of HK$32.7 million (1.4.2002 to 31.12.2002 : HK$nil), share of results of associates of HK$114.8 million (1.4.2002 to 31.12.2002 : HK$33.5 million) and finance costs of HK$25.0 million (1.4.2002 to 31.12.2002: HK$12.7 million).

Travel and Related Services

Other than SARS, the tourism industry and the economy of Hong Kong suffered severely from the war in Iraq and the persistently high unemployment rate during the year under review. Only a very limited number of outbound tours to a few Asian destinations were organised during the period from March to June 2003 during which Hong Kong and major cities of the PRC were being declared as SARS affected areas by the World Health Organisation (the "WHO"). Despite these adverse factors, the industry recovered rapidly during the second half of the year following the control of the epidemic, the launch of the Individual Visit Scheme and the implementation of the Closer Economic Partnership Arrangement. As a result, turnover of this business segment for the year ended 31 December 2003 was HK$1,291.9 million (1.4.2002 to 31.12.2002 : HK$1,185.6 million). This gave rise to a profit for this segment amounted to HK$17.9 million (1.4.2002 to 31.12.2002 : a loss of HK$6.5 million).

Transportation Services

Suffering from SARS, the number of incoming travelers, both for leisure and for business, reduced tremendously. The cross-border coach sector was also severely impacted during the year when the whole Guangdong Province was declared as a SARS affected area by the WHO. Turnover of this business segment for the year ended 31 December 2003 was HK$129.6 million (1.4.2002 to 31.12.2002 : HK$144.5 million). This gave rise to a loss for this segment amounted to HK$19.5 million (1.4.2002 to 31.12.2002 : HK$7.6 million).

As this sector has operated at a loss for years, the Group has disposed of its transportation business to an independent third party in October 2003.

Results of Associates

The associated company, operating a 5-star hotel in Harbin, the PRC, continued to report an operating loss. The Group's share of loss of this associate for the year ended 31 December 2003 was HK$26.4 million (1.4.2002 to 31.12.2002 : HK$30.2 million). During the year, the directors reviewed the carrying amount of interest in this associate and considered that the recoverable amount is minimal. Accordingly, an amount of approximately HK$31.7 million was recognised as impairment loss in the financial statements.

Rosedale Hotel Group Limited ("Rosedale") (name changed to China Velocity Group Limited on 26 January 2004) has undergone a reorganisation in December 2003 and resulted in Apex Quality Group Limited ("Apex"), a former subsidiary of Rosedale, holding all assets and liabilities of Rosedale in relation to the hotel and leisure-related businesses. The shareholders of Rosedale have received by way of distribution in specie on the basis of one Apex share for one Rosedale share. Consequent to the reorganisation, the Group has disposed of its entire interest in Rosedale, the listed company, immediately following the abovementioned reorganisation pursuant to the Rosedale Share Sale Agreement entered into on 9 July 2003. On the other hand, the Group has a 49.6% shareholding in Apex as at 31 December 2003 and a 67.9% shareholding in Apex immediately upon the closing of the unconditional voluntary cash offer ("Apex Offer") made by the Company to acquire from the shareholders of Apex the shares in Apex ("Apex Shares") not already held by the Group and parties acting in concert with it at a consideration of HK$0.26 per share. Apex has become a subsidiary of the Group since then.

The Group's share of results in Rosedale acquired in December 2002 was a loss of HK$81.7 million (1.4.2002 to 31.12.2002 : HK$2.4 million) caused mainly by impairment losses recognised in respect of its hotel and other properties. The Group's share of results in Apex for the year ended 31 December 2003 was a loss of HK$6.4 million.

Material Acquisitions and Disposals

As stated in the joint announcement of the Company dated 8 August 2003, the Group, among other things, had entered into the Rosedale Share Sale Agreement on 9 July 2003 to dispose of its entire interest in Rosedale to a third party for a consideration of approximately HK$88 million subject to various conditions. One of the conditions is the completion of an internal group reorganisation of Rosedale ("Rosedale Group Reorganisation") as mentioned in the aforesaid joint announcement. The Rosedale Group Reorganisation, if approved and implemented, will result in, among other things, (i) Apex holding principally all assets and liabilities of Rosedale and its subsidiaries in relation to the hotel and leisure-related businesses; and (ii) the Rosedale shareholders receiving by way of distribution in specie of the Apex Shares on one Apex Share for one consolidated Rosedale share basis.

The Rosedale Group Reorganisation was duly completed on 12 December 2003 and the Rosedale Share Sale Agreement was approved by the independent shareholders of the Company and was completed on 16 December 2003.

The Apex Offer was made on 19 December 2003 and was closed on 9 January 2004 with acceptance of 51,781,361 Apex Shares not already held by the Group and parties acting in concert with it. As a result, the Group controlled 188,448,027 Apex Shares, representing approximately 67.9% of the voting rights in Apex upon closing the Apex Offer.

On 25 October 2003, the Group entered into an agreement with a third party to dispose of the entire issued share capital in Trans-Island Limousine Service Limited. The agreement was completed on 31 October 2003.

Liquidity and Capital Resources

On 31 May 2002, the Company entered into three subscription agreements with three subscribers to subscribe for 2,000,000,000, 500,000,000 and 500,000,000 shares of the Company of HK$0.01 each respectively at a price of HK$0.08 per share. The last two subscriptions have been completed. On 30 September 2003, the Company entered into a settlement agreement with the subscriber of the 2,000,000,000 *shares (the "Subscriber") in which it is stated that the Subscriber's position is that there is not in existence any agreement or understanding, whether written or oral, in connection with any subscription by the Subscriber of shares in the Company. The settlement agreement also states that the Company's position is that there is in existence a document stated to be dated 31 May 2002 relating to a subscription by the Subscriber of shares in the Company as well as a document stated that the completion date for such subscription had been extended. The settlement agreement provides that such disputed documents do not have any effect and will not proceed. There is no monetary consideration for the settlement agreement.*

As stated in the press announcement of the Company dated 17 February 2003, the Company had put forward, among other things, a proposal of a capital reorganisation of the Company to the shareholders of the Company for approval. The capital reorganisation was terminated pursuant to the announcement dated 9 October 2003.

On 13 January 2004, the Company entered into agreements ("CN Agreements) (as subsequently amended on 17 March 2004) with each of China Enterprises Limited ("CEL") and Hutchison International Limited ("HIL") for the issue of convertible notes by the Company to each of CEL and HIL or their respective nominees for a consideration of HK$155 million and HK$105 million respectively. Since completion of the CN Agreements had not taken place on or before 19 April 2004, both CEL and HIL have indicated their willingness to extend the maturity date for their convertible notes issued in 2002 falling due on 19 April 2004. Further announcement shall be made by the Company as soon as practicable.

At balance sheet date, the Group's total borrowings were approximately HK$519.9 million (31.12.2002 : HK$489.9 million) which comprised loans from related companies of HK$231.3 million (31.12.2002 : HK$6.5 million), bank and short term loan repayable within one year of HK$28.2 million (31.12.2002 : HK$184.5 million), bank and other loans repayable after one year of HK$6.3 million (31.12.2002 : HK$21.7 million), obligations under finance lease and sale and lease back arrangements of HK$nil (31.12.2002 : HK$23.1 million) and outstanding convertible notes of HK$254.1 million (31.12.2002 : HK$254.1 million) repayable in 2 years from the date of issue. Other than for the convertible notes which bear interest at a fixed interest rate of 2% per annum, all other loans bear floating interest rates.

The market value of the commercial properties held by the Group and the hotel properties held by Apex declined consequent to the SARS epidemic. This decline in market value reduced the shareholders' funds of the Group to a significant extent. Coupled with the additional fundings arranged for the operations of the Group, the gearing ratio, expressed as a percentage of total borrowings to shareholders' funds, increased from 74.8% as at 31 December 2002 to 177.3% as at 31 December 2003.

Pledge of Assets

At 31 December 2003, certain assets of the Group amounted to HK$20.2 million (31.12.2002 : HK$123.7 million) were pledged to banks and financial institutions for banking facilities.

Contingent Liabilities

The Group had given an undertaking to Apex to indemnify it against any potential loss it may suffer as a result of failure to transfer the land use right to the 60% owned subsidiary of Apex holding Golden Gulf Hotel including the payment of any land premium payable for such transfer. It is estimated that the land premium for such transfer would be approximately HK$37.3 million.

The Group has provided a guarantee to the holder of the promissory note of HK$365 million issued by a wholly owned subsidiary of Apex.

The Group has no other significant contingent liabilities as at 31 December 2003 other than the aforesaid undertaking and guarantee.

Foreign Currency Exposure

The majority of the Group's assets and liabilities and business transactions were denominated in Hong Kong dollars, US dollars and Renminbi. As such, the fluctuation of foreign currencies did not have a significant impact on the performance, results and operations of the Group for the reporting year.

The Group shall continue to monitor closely its foreign currency exposure and requirements and to arrange for hedging facilities when necessary.

Employees

At 31 December 2003, the Group has approximately 680 employees of which 21 employees were stationed overseas. Competitive remuneration packages are structured to commensurate with the responsibilities, qualifications, experience and performance of individuals. The Group also provided training programmes, provident fund scheme and medical insurance for its employees.

The Group has a share option scheme (the "Scheme"), which was approved and adopted by shareholders of the Company on 3 May 2002, to enable the directors to grant options to employees, executives or officers of the Company or any of its subsidiaries (including executive and non-executive directors of the Company or any of its subsidiaries) and any suppliers, consultants, agents or advisers who will contribute or have contributed to the Company or any of its subsidiaries as incentives and rewards for their contribution to the Company or such subsidiaries. The maximum number of shares in respect of which options may be granted under the Scheme, when aggregated with any shares subject to any other schemes, shall not exceed 10% of the issued share capital of the Company on the date of approval and adoption of the Scheme.

No options have been granted under the Scheme since its adoption.

BUSINESS REVIEW AND PROSPECTS

Business Review

The year 2003 started on a gloomy note owed to the Bali bomb attack. No sooner, the global travel industry was disrupted again almost simultaneously by the Iraq war and SARS. The Company's tour operations and transportation businesses were harshly attenuated for several months.

During the affected period, the Company punctually put the accent on local tours in order to tap new avenues of income. We also launched a range of special promotions and initiatives aiming at rebuilding public confidence to travel so as to recover our lost business. At the same time, in order to achieve greater operational efficiencies and cost savings, we have restructured costs and corporate support structures. Several of our less profitable local branches and overseas offices were closed. Support for the Company during this extremely difficult period was demonstrated by our staff who participated in our temporary unpaid leave scheme.

Amidst such adversity, in the second half of the year under review, our turnover picked up quicker than initially expected after the containment of the SARS outbreak and the subsequent lifting of various WHO travel advisories.

In order to capture a market segment not fully served by our traditional sales and marketing channels, the Company introduced several innovative tours and services at attractive price, to name a few of which were photography tours, skiing tours, natural geographic tours, parent-children tours and educational tours. We are pleased that all of them were very well received. The Company won more customers' applause by introducing the interest free six-month installment program which we jointly promoted with several major banks.

The transportation business is getting increasingly difficult for us to focus with travel services being our core strength. Therefore, the management has transferred the entire interest of this business to an independent third party after careful considerations.

Prospects

After facing one of its worst crises in years, the travel industry is bound to see the return of brighter days.

Since the signing of the Closer Economic Partnership Arrangement, economic exchanges between Hong Kong and the Mainland have gained in momentum. The "Individual Visit Scheme" implemented last year brought in more than a million new visitors. With the further extension of the scheme to all Guangdong cities by May 2004 and possibly other provinces, there will be enormous business opportunities to the Group's hotel business as well as the local tour operations.

The hotel chain, indirectly owned by a company which has become a subsidiary of the Group since January 2004, consists of Best Western Rosedale On The Park in Hong Kong; Rosedale Hotel & Suites ■ Guangzhou in Guangzhou, the PRC; and Rosedale Hotel & Suites ■ Beijing in Beijing, the PRC. It is anticipated that Golden Gulf Hotel located in Luoyang, the PRC will be branded under Rosedale in year 2004.

After the acquisition, we are preparing to market our hotel products more aggressively by combining them with our package tour products. It is expected that our hotel operation will contribute significant recurring income to the Group in the forthcoming years.

Business sentiment in Hong Kong is improving and the economy has begun to rebound. Property market has been stabilised and is trending upward. Unemployment has eased, though slowly. Although economic restructuring will still continue for some time, we believe we have seen the light at the end of the tunnel. We expect the Group to register better performance for the year going forward as the travel industry recovers in tandem with the improving economy.

In a year where there was increased emphasis on cost-containment and cost-reduction, our dedicated employees were able to work closely to find creative solutions to staffing and cost control. Our employees preserve the Group's competitive edge when they deliver the quality service and customized care for which the Group is recognized."

INTRODUCTION TO THE PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

Pro forma financial information for the purpose of major transaction

For the purpose of the major transaction in relation to the CEL Subscription, the unaudited pro forma statement of adjusted consolidated net tangible assets of the Group was prepared to illustrate the effect of CEL Subscription only, details of which are set out under section (IV)(A) below.

Pro forma financial information for the purpose of possible very substantial acquisition

Subject to the terms of the CEL Notes and depending on the then shareholding structure of Wing On and the extent to which the conversion rights of the CEL Notes are to be exercised by CEL, CEL may become interested in 30% or more of the enlarged issued share capital of Wing On upon conversion of the CEL Notes (the "Conversion"). In such circumstances, CEL will be obliged to make a mandatory offer to the shareholders of Wing On to acquire all the Wing On Shares, other than those already owned or agreed to be acquired by CEL and parties acting in concert with it, in accordance with Rule 26 of the Takeovers Code.

In the event that CEL is obliged to make a mandatory offer to the shareholders of Wing On pursuant to the Takeovers Code as mentioned above, further Wing On Shares may be acquired by CEL in addition to the CEL Conversion Shares acquired upon conversion of the CEL Notes. Depending on the number of further Wing On Shares which may be acquired by CEL pursuant to the aforesaid mandatory offer (if any) to the shareholders of Wing On pursuant to the Takeovers Code, the acquisition of such additional equity interests in Wing On, when aggregated with the CEL Conversion Shares to be issued on exercise of the conversion rights attached to the CEL Notes (the "Mandatory Offer") in accordance with Rule 14.22 of the Listing Rules, may constitute a very substantial acquisition for the Company under the Listing Rules.

Shareholders should note that as at the Latest Practicable Date, no decision has been made as to whether or when or the extent to which the conversion rights attached to the CEL Notes are to be exercised by CEL which may trigger an obligation for CEL to make a mandatory offer under the Takeovers Code.

For the purpose of the aforesaid possible very substantial acquisition for the Company, the accompanying (i) unaudited pro forma assets and liabilities statement of the Group, Wing On and its subsidiaries (the "Wing On Group") (together with the Group hereinafter referred to as the "Enlarged Group"); (ii) unaudited pro forma income statement of the Enlarged Group; (iii) unaudited pro forma cash flow statement of the Enlarged Group; and (iv) unaudited pro forma statement of adjusted consolidated net tangible assets of the Group (under section (IV) (B) below in this appendix) were prepared to illustrate the effect of the CEL Subscription, the Conversion and the Mandatory Offer.

Shareholders should note that for illustrative purpose only, the accompanying pro forma financial information assumes that the CEL Subscription and the further acquisition of equity interests in Wing On under the Mandatory Offer would be funded by internal resources and debt financing of the Group. However, as at the Latest Practicable Date, no final decision has been made by the Directors as to the way of funding for the CEL Subscription and the Mandatory Offer in the event that such mandatory offer is triggered.

(I) THE UNAUDITED PRO FORMA ASSETS AND LIABILITIES STATEMENT OF THE ENLARGED GROUP

The following is the unaudited pro forma assets and liabilities statement of the Enlarged Group assuming that the CEL Subscription, Conversion and Mandatory Offer had been completed on 31st December, 2005, after taking into account the Wing On Shares to be issued to CEL upon the exercise of the conversion rights attached to the CEL Notes together with the possible acquisition of further Wing On Shares by CEL pursuant to the mandatory offer (if any) to the shareholders of Wing On under the Takeovers Code which may be triggered by such conversion. The unaudited pro forma assets and liabilities statement of the Enlarged Group was prepared based on the audited consolidated balance sheets of the Group and the Wing On Group as at 31st December, 2005 extracted from the respective annual report of the Group and the Wing On Group for the year ended 31st December, 2005 with adjustments to reflect the effect of the CEL Subscription, Conversion and Mandatory Offer.

This unaudited pro forma assets and liabilities statement of the Enlarged Group was prepared for illustrative purpose only and because of its nature, it may not give a true picture of the financial position of the Enlarged Group at any dates.

	(A) The Group as at 31st December, 2005 HK$'000	(B) Pro forma adjustments relating to the CEL Subscription HK$'000	Notes	(C)= (A)+(B) The Group after the CEL Subscription before Conversion and Mandatory Offer HK$'000	(D) The Wing On Group as at 31st December, 2005 HK$'000	(E) Pro forma adjustments relating to Conversion and Mandatory Offer HK$'000	Notes	(F)=(C)+ (D)+(E) Pro forma Enlarged Group after Conversion and Mandatory Offer HK$'000
Non-current Assets								
Property, plant and equipment	125,957			125,957	1,702,860			1,828,817
Prepaid lease payments	27,763			27,763	–			27,763
Deposit paid for acquisition of interest in properties	55,716			55,716	–			55,716
Investment deposits	–			–	201,419			201,419
Goodwill	34,930			34,930	50,862	(44,133)	*(b)*	41,659
Interests in associates	558,738			558,738	220,422	(268,007)	*(b)*	511,153
Club debenture, at cost	–			–	713			713
CEL Notes – conversion option	–	64,472	*(a)*	64,472	–	(64,472)	*(c)*	–
CEL Notes – loan portion	–	235,528	*(a)*	235,528	–	(235,528)	*(c)*	–
Investments in securities at fair value through profit or loss	117,919			117,919	–			117,919
Available-for-sale investments	–			–	92,625			92,625
	921,023	300,000		1,221,023	2,268,901	(612,140)		2,877,784
Current Assets								
Property held for sale, at cost	–			–	98			98
Other asset	229,288			229,288	–			229,288
Inventories	12,409			12,409	6,113			18,522
Trade and other receivables	4,773			4,773	324,505			329,278
Prepaid lease payments	620			620	–			620
Amounts due from related companies	–			–	65,177			65,177
Amounts due from associates	159,214			159,214	122,449	(151,648)	*(d)*	130,015
Loans and interest receivable – due within one year	464,232			464,232	180,926	(42,038)	*(d)*	603,120
Other receivables, deposits and prepayments	42,909			42,909	–			42,909
Investments in securities held for trading	7,552			7,552	9,086			16,638
Tax recoverable	–			–	37			37
Pledged bank deposits	1,036			1,036	6,925			7,961
Trading cash balances	–			–	284			284
Bank balances and cash	115,813			115,813	43,103	50,202	*(e)*	209,118
Asset classified as held for sale	–			–	4,019			4,019
	1,037,846	–		1,037,846	762,722	(143,484)		1,657,084
Current Liabilities								
Trade and other payables	–			–	277,368			277,368
Trade payables, other payables and accrued charges	56,159			56,159	–			56,159
Amounts due to related companies – due within one year	200,287			200,287	48,289	(20,107)	*(d)*	228,469
Loans from related companies	–			–	361,500	(173,579)	*(d)*	187,921
Payables	3,379			3,379	–			3,379
Amount due to associates	286			286	11,016			11,302
Income and other tax payable	13,387			13,387	–			13,387
Obligations under finance leases – amount due within one year	–			–	62			62
Bank loans and other borrowings – due within one year	8,627			8,627	38,325			46,952
	282,125	–		282,125	736,560	(193,686)		824,999
Net Current Assets	755,721	–		755,721	26,162	50,202		832,085
	1,676,744	300,000		1,976,744	2,295,063	(561,938)		3,709,869

	(A) The Group as at 31st December, 2005 HK$'000	(B) Pro forma adjustments relating to the CEL Subscription HK$'000	Notes	(C)= (A)+(B) The Group after the CEL Subscription before Conversion and Mandatory Offer HK$'000	(D) The Wing On Group as at 31st December, 2005 HK$'000	(E) Pro forma adjustments relating to Conversion and Mandatory Offer HK$'000	Notes	(F)=(C)+ (D)+(E) Pro forma Enlarged Group after Conversion and Mandatory Offer HK$'000
Capital and Reserves								
Share capital	88,160			88,160	437,586	(437,586)	*(f)*	88,160
Reserves	1,237,154			1,237,154	541,390	(311,102)	*(b), (f)*	1,467,442
Equity attributable to equity holders of the parent	1,325,314	–		1,325,314	978,976	(748,688)		1,555,602
Minority interests	330,255			330,255	435,068	186,750	*(b), (f)*	952,073
	1,655,569	–		1,655,569	1,414,044	(561,938)		2,507,675
Non-Current Liabilities								
Bank loans and other borrowings – due after one year	–			–	271,308			271,308
Amount due to related companies – due after 1 year	–	300,000	*(a)*	300,000	–			300,000
Deferred tax liabilities	21,175			21,175	244,680			265,855
Obligations under finance leases – amount due within one year	–			–	31			31
Promissory note	–			–	365,000			365,000
	21,175	300,000		321,175	881,019	–		1,202,194
	1,676,744	300,000		1,976,744	2,295,063	(561,938)		3,709,869

(II) THE UNAUDITED PRO FORMA INCOME STATEMENT OF THE ENLARGED GROUP

The following is the unaudited pro forma income statement of the Enlarged Group assuming that the CEL Subscription, Conversion and Mandatory Offer had been completed on 1st January, 2005, the beginning of the financial period of the Group, after taking into account the Wing On Shares to be issued to CEL upon the exercise of the conversion rights attached to the CEL Notes together with the possible acquisition of further Wing On Shares by CEL pursuant to the mandatory offer (if any) to the shareholders of Wing On under the Takeovers Code which may be triggered by such conversion. The unaudited pro forma income statement of the Enlarged Group was prepared based on the audited consolidated income statement of the Group and the Wing On Group for the year ended 31st December, 2005 with adjustments to reflect the effect of the CEL Subscription, Conversion and Mandatory Offer.

This unaudited pro forma income statement of the Enlarged Group was prepared for illustrative purpose only and because of its nature, it may not give a true picture of the results of the Enlarged Group for any financial periods.

	(A) The Group for the year ended 31st December, 2005 HK$'000	(B) Pro forma adjustments relating to the CEL Subscription HK$'000	Notes	(C)= (A)+(B) The Group after the CEL Subscription before Conversion and Mandatory Offer HK$'000	(D) The Wing On Group for the year ended 31st December, 2005 HK$'000	(E) Pro forma adjustments relating to Conversion and Mandatory Offer HK$'000	Notes	(F)=(C)+ (D)+(E) Pro forma Enlarged Group after Conversion and Mandatory Offer HK$'000
Turnover	38,459	–		38,459	1,815,718			1,854,177
Cost of sales	(32,936)	–		(32,936)	(1,469,298)			(1,502,234)
Gross profit	5,523	–		5,523	346,420	–		351,943
Other income	83,623			83,623	20,415	–		104,038
Distribution costs	(2,974)	–		(2,974)	(53,041)	–		(56,015)
Administrative expenses	(59,948)	–		(59,948)	(259,810)	–		(319,758)
Discount on acquisition of subsidiaries	–	–		–	34,574	–		34,574
Decrease in fair value of investments held for trading	–	–		–	(14,761)	–		(14,761)
Increase in fair value of investment property	–	–			619	–		619
Realised gain on derivative financial instruments	–	–		–	5,650	–		5,650
Reversal of impairment loss in respect of leasehold land and buildings	–	–		–	4,874	–		4,874
Reversal of impairment loss in respect of properties under construction	–	–		–	900	–		900
Impairment loss recognised in respect of available-for-sale investments	–	–		–	(1,167)	–		(1,167)
Other expenses	(67,089)	–		(67,089)	–	–		(67,089)
Allowance for loans and interest receivable	(37,445)	–		(37,445)	–	–		(37,445)
Finance costs	(17,630)	(24,750)	*(h)*	(42,380)	(59,376)	–		(101,756)
Change in fair value of conversion option of unlisted convertible note	(39,743)	–		(39,743)	–	–		(39,743)
Loss on partial disposal of subsidiaries	–	–		–	(3,177)	–		(3,177)
Loss on dilution/disposal of interests in associates	(2,814)	–		(2,814)	–	–		(2,814)
Release of negative goodwill arising on acquisition of Wing On	–	–		–	–	206,320	*(i)*	206,320
Share of results of associates	42,864	–		42,864	8,006	(12,666)	*(g)*	38,204
(Loss) profit before taxation	(95,633)	(24,750)		(120,383)	30,126	193,654		103,397
Taxation credit	–			–	2,108	–		2,108
Taxation	(4,247)	–		(4,247)	–	–		(4,247)
(Loss) profit for the year	(99,880)	(24,750)		(124,630)	32,234	193,654		101,258
Attributable to:								
Shareholders of the parent	(95,200)	(24,750)	*(h)*	(119,950)	31,109	106,936	*(g), (i)*	18,095
Minority interest	(4,680)	–		(4,680)	1,125	86,718	*(g), (i)*	83,163
	(99,880)	(24,750)		(124,630)	32,234	193,654		101,258

(III) THE UNAUDITED PRO FORMA CASH FLOW STATEMENT OF THE ENLARGED GROUP

The following is the unaudited pro forma cash flow statement of the Enlarged Group assuming that the CEL Subscription, Conversion and Mandatory Offer had been completed on 1st January, 2005, the beginning of the financial period of the Group, after taking into account the Wing On Shares to be issued to CEL upon the exercise of the conversion rights attached to the CEL Notes together with the possible acquisition of further Wing On Shares by CEL pursuant to the mandatory offer (if any) to the shareholders of Wing On under the Takeovers Code which may be triggered by such conversion. The unaudited pro forma cash flow statement of the Enlarged Group was prepared based on the audited consolidated cash flow statement of the Group and the Wing On Group for the year ended 31st December, 2005 with adjustments to reflect the effect of the CEL Subscription, Conversion and Mandatory Offer.

This unaudited pro forma cash flow statement of the Enlarged Group was prepared for illustrative purpose only and because of its nature, it may not give a true picture of the results of the Enlarged Group for any financial periods.

	(A) The Group for the year ended 31st December, 2005 HK$'000	(B) Pro forma adjustments relating to the CEL Subscription HK$'000	Notes	(C)= (A)+(B) The Group after the CEL Subscription before Conversion and Mandatory Offer HK$'000	(D) The Wing On Group for the year ended 31st December, 2005 HK$'000	(E) Pro forma adjustments relating to Conversion and Mandatory Offer HK$'000	Notes	(F)=(C)+ (D)+(E) Pro forma Enlarged Group after Conversion and Mandatory Offer HK$'000
Operating Activities								
(Loss) profit before taxation	(95,633)	(24,750)	*(h)*	(120,383)	30,126	193,654	*(g), (i)*	103,397
Adjustment for:								
Finance costs	17,630	24,750	*(h)*	42,380	–	–		42,380
Share of results of associates	(42,864)	–		(42,864)	(8,006)	–		(50,870)
Loss on dilution of interests in associates	2,814	–		2,814	–	–		2,814
Depreciation and amortisation of property, plant and equipment	8,102	–		8,102	60,743	–		68,845
Interest income	(58,084)	–		(58,084)	(4,722)	–		(62,806)
Dividend income	(8,402)	–		(8,402)	–	–		(8,402)
Interest expenses	–	–		–	59,358	–		59,358
Finance lease charges	–	–		–	18	–		18
Amortisation of prepaid lease payments	519	–		519	–	–		519
Reversal of share of result of an associate	–	–		–	–	12,666	*(g)*	12,666
Release of negative goodwill arising on acquisition of Wing On	–	–		–	–	(206,320)	*(i)*	(206,320)
Loss on partial disposal of property, plant and equipment	128	–		128	480	–		608
Loss on disposal of subsidiaries	–	–		–	3,177	–		3,177
Allowance for irrecoverable trade debts	18,575	–		18,575	476	–		19,051
Allowance for loan and interest receivables	37,445	–		37,445	–	–		37,445
Increase in fair value of investment property	–	–		–	(619)	–		(619)
Change in fair value of conversion option of unlisted convertible note	39,743	–		39,743	–	–		39,743
Impairment loss recognised in respect of available-for-sale investments	34,652	–		34,652	1,167	–		35,819
Reversal of impairment loss in respect of properties under construction	–	–		–	(900)	–		(900)
Reversal of impairment loss in respect of leasehold land and buildings	–	–		–	(4,874)	–		(4,874)
Discount of acquisition of subsidiaries	–	–		–	(34,574)	–		(34,574)
Gain on disposal of investments in securities are fair value through profit or loss	(10,575)	–		(10,575)	–	–		(10,575)
Decrease in fair value of investments held for trading	9,429	–		9,429	14,761	–		24,190
Operating cash flows before movement in working capital	(46,521)	–		(46,521)	116,611	–		70,090
Decrease (increase) in inventories	1,305	–		1,305	(306)	–		999
Decrease in amounts due from related companies	–	–		–	1,439	–		1,439
Decrease in amounts due from associates	–	–		–	8,980	–		8,980
Decrease (increase) in trade and other receivables	25,719	–		25,719	(47,407)	–		(21,688)
Increase in trading cash balances	–	–		–	(38)	–		(38)
Increase in trade and other payables	9,840	–		9,840	40,697	–		50,537
Decrease in amounts due to associates	(4,650)	–		(4,650)	(481)	–		(5,131)
Increase in other asset	(2,121)	–		(2,121)		–		(2,121)
Increase in amounts due to related companies	–	–		–	30,113	–		30,113
	30,093	–		30,093	32,997	–		63,090
Cash (used in) generated from operations	(16,428)	–		(16,428)	149,608	–		133,180
Interest paid	–	–		–	(57,735)	–		(57,735)
Finance lease charges paid	–	–		–	(18)	–		(18)
Taxation in other jurisdictions paid	(45)	–		(45)	(63)	–		(108)
Net cash (used in) generated from operating activities	(16,473)	–		(16,473)	91,792	–		75,319

	(A) The Group for the year ended 31st December, 2005 HK$'000	(B) Pro forma adjustments relating to the CEL Subscription HK$'000	Notes	(C)= (A)+(B) The Group after the CEL Subscription before Conversion and Mandatory Offer HK$'000	(D) The Wing On Group for the year ended 31st December, 2005 HK$'000	(E) Pro forma adjustments relating to Conversion and Mandatory Offer HK$'000	Notes	(F)=(C)+ (D)+(E) Pro forma Enlarged Group after Conversion and Mandatory Offer HK$'000
Investing activities								
Repayment of loans and interest receivables	384,736	–		384,736	–	–		384,736
Repayment from associates	99,500	–		99,500	–	–		99,500
Proceed from disposal of investments in securities	134,734	–		134,734		–		134,734
Proceeds from partial disposal of subsidiaries	–	–		–	22,800	–		22,800
Interest received	5,661	–		5,661	4,722	–		10,383
Proceeds from disposal of property, plant and equipment	–	–		–	1,671	–		1,671
Dividend income received from investments in securities	8,402	–		8,402		–		8,402
Dividend income received from associates	2,427	–		2,427		–		2,427
Acquisition of subsidiaries	–	–		–	(151,298)	(98,606)	*(c),(j)*	(249,904)
Advances to related companies	(107,708)	–		(107,708)	(60,090)	–		(167,798)
Net cash outflow of loans advanced to certain companies and individuals	(293,922)	–		(293,922)	(49,926)	–		(343,848)
Purchase of property, plant and equipment	(3,765)	–		(3,765)	(30,040)	–		(33,805)
Capital contribution to an associate	–	–		–	(24,038)	–		(24,038)
Purchase of investments held for trading	(78,377)	–		(78,377)	(21,069)	–		(99,446)
Payment of prepaid lease payments	(8,635)	–		(8,635)		–		(8,635)
Payment for investment deposits	–	–		–	(474)	–		(474)
Increase in pledged bank deposits	(24)	–		(24)	(125)	–		(149)
Deposit paid for acquisition of interests in property	(8,704)	–		(8,704)	–	–		(8,704)
Investment in associates	(63,152)	–		(63,152)	–	–		(63,152)
Subscription of CEL Notes	–	(300,000)	*(a)*	(300,000)	–	300,000	*(c)*	–
Purchase of subsidiaries (net of cash and cash equivalents acquired)	(9,651)	–		(9,651)	–	–		(9,651)
Net cash generated from (used in) investing activities	61,522	(300,000)		(238,478)	(307,867)	201,394		(344,951)
Cash flows from financing activities								
Advance from payables	469	–		469	–	–		469
Proceeds from issue of new shares for cash, net expenses of HK$6,482,000	–	–		–	199,838	–		199,838
Advance from related companies	–	300,000	*(a)*	300,000	–	–		300,000
New bank loans and other loan raised	–	–		–	14,424	–		14,424
Repayment of bank loans and other loans	(34,400)	–		(34,400)	(34,071)	–		(68,471)
Net cash outflow from loans from related companies	–	–		–	(11,376)	–		(11,376)
Dividend paid	–	–		–	(8,752)	–		(8,752)
Interest paid	(3,402)	–		(3,402)	–	–		(3,402)
Dividends paid to minority shareholders of subsidiaries	–	–		–	(6,005)	–		(6,005)
Repayment to payables	(4,611)	–		(4,611)	–	–		(4,611)
Repayment to associates	(3,451)	–		(3,451)	–	–		(3,451)
Repayment of obligations under finance leases	(10)	–		(10)	(378)	–		(388)
Net cash (used in) generated from financing activities	(45,405)	300,000		254,595	153,680	–		408,275
Net (decrease) increase in cash and cash equivalents	(356)	–		(356)	(62,395)	201,394		138,643
Cash and cash equivalents at beginning of the year	111,588	–		111,588	106,136	(106,136)		111,588
Effect of foreign exchange rate changes	(2,631)	–		(2,631)	(638)	–		(3,269)
Cash and cash equivalents at the end of the year	108,601	–		108,601	43,103	95,258		246,962

Notes:

(a) The adjustment reflects the payment of HK$300,000,000 by the Group for the subscription of CEL Notes to be issued by Wing On with the loan portion of HK$235,528,000 and the initial measurement of the fair value of the conversion option of HK$64,472,000. The loan portion of the CEL Notes of HK$235,528,000 is derived from the difference between the CEL Notes of HK$300,000,000 and the fair value of the conversion option of the CEL Notes of HK$64,472,000. The fair value of conversion option of the CEL Notes is measured at 23rd March, 2006 (being the date of the announcement made by the Company for the subscription of the CEL Notes), which may be different from the value at the date of the issue of the CEL Notes.

(b) The adjustment reflects the release of discount on acquisition of HK$417,038,000 arising from the conversion of the CEL Notes by CEL and further acquisition of equity interest of Wing On under the mandatory offer (if any) as mentioned in (e) below, in which the discount on acquisition released of HK$186,750,000 is shared by minority interests. The discount on acquisition is calculated as the difference between the aggregate consideration of HK$1,249,798,000 to be paid assuming full acceptance of the mandatory offer and the Group's interest in Wing On Group of HK$268,007,000 net of HK$6,729,000 goodwill arising on acquisition of Wing On before conversion of CEL Notes, and, the adjusted net asset value of the Wing On Group of HK$1,928,114,000. The adjusted net asset value represents the net asset value of the Wing On Group of HK$978,976,000 with exclusion of its goodwill arising from the acquisition of subsidiaries of HK$50,862,000 as at 31st December, 2005, and the proceeds of HK$1,000,000,000 from the aggregate subscription mentioned in (e) below.

(c) The adjustment reflects the exercise of the conversion rights attached to the CEL Notes by the Group.

(d) The adjustment reflects the inter-group elimination on the assumption that Wing On becomes a subsidiary of the Group.

(e) The adjustment reflects:

- the payment of HK$949,798,000 by the Group for the acquisition of Wing On Shares under the mandatory offer (if any) to the shareholders of Wing On which may be made by CEL under the Takeovers Code on the assumption that the offer price for the mandatory offer will equal to the initial conversion price and that will be fully accepted by the shareholders of Wing On for such offer. Based on 437,586,108 Wing On Shares in issue as at 31st December, 2005 of which 121,386,481 Wing On Shares were held by the Group before the conversion of the CEL Notes and 1,265,822,784 Wing On Shares to be issued upon full conversion of the Notes at the initial conversion price, a total of 1,703,408,892 Wing On Shares are expected to be in issue of which 501,133,316 Wing On Shares will be held by CEL and its concert parties. Accordingly, 1,202,275,576 Wing On Shares are assumed to be subject to the mandatory offer; and

- the proceeds of HK$1,000,000,000 from the issue by Wing On of the Notes with principal amount of HK$1,000,000,000 on the assumption that the mandatory offer and the conversion of the Notes took place on the same day. As at the Latest Practicable Date, no decision has been made by the directors as to whether or when or the extent to which the conversion rights attached to the CEL Notes are to be exercised which may trigger an obligation under the Takeovers Code to make a mandatory offer.

(f) The adjustment reflects the elimination of share capital and reserves of Wing On after the mandatory offer (if any) to the shareholders of Wing On which may be made by CEL under the Takeovers Code as mentioned in (e) above.

(g) The adjustments reflect the reversal of the equity accounting for the results of Wing On together the amount shared by minority interest for the year ended 31st December, 2005.

(h) The adjustment reflects the interest expenses on the borrowings of HK$300,000,000 for the CEL Subscription at prevailing market rate.

(i) The adjustment reflects the release of discount on acquisition of HK$206,320,000 arising from the conversion of the CEL Notes by CEL and further acquisition of equity interest of Wing On under the mandatory offer (if any) to the shareholders of Wing On, in which the discount on acquisition released of HK$92,390,000 was shared by minority interests. The discount on acquisition is calculated as the difference between the aggregate consideration of HK$1,204,742,000 to be paid assuming full acceptance of the mandatory offer and the Group's interest in Wing On Group of HK$169,973,000 net of HK$1,108,000 goodwill arising on acquisition of Wing On before conversion of the CEL Notes, and, the adjusted net asset value of the Wing On Group of HK$1,579,927,000. The adjusted net asset value represents the net asset value of the Wing On Group of HK$630,142,000 with exclusion of its goodwill arising from the acquisition of subsidiaries of HK$50,215,000 as at 1st January, 2005 and the proceeds of HK$1,000,000,000 from the aggregate subscription mentioned in (e) above.

(j) The adjustment reflects:

– the payment of HK$904,742,000 by the Group for the acquisition of Wing On Shares under the mandatory offer (if any) to the shareholder of Wing On which may be made by CEL under the Takeovers Code on the assumption that the offer price for the mandatory offer will equal to the initial conversion price and there will be full acceptance by the shareholders of Wing On for such offer. In addition, it is assumed that a hundred to one consolidation of Wing On Shares had taken place as at 1st January, 2005. Based on 322,267,328 Wing On Shares in issue as at 1st January, 2005 of which 63,100,000 Wing On Shares were held by the Group before the conversion of the CEL Notes and the 1,265,822,784 Wing On Shares to be issued upon full conversion of the Notes at the initial conversion price, a total of 1,588,090,112 Wing On Shares are expected to be in issue of which 442,846,835 Wing On Shares will be held by CEL and its concert parties. Accordingly, 1,145,243,277 Wing On Shares are assumed to be subject to the mandatory offer;

– the proceeds of HK$1,000,000,000 from the issue by Wing On of the Notes with principal amount of HK$1,000,000,000; and

– the inflow from the acquisition of Wing On's bank balances and cash of HK$106,136,000 as at 1st January, 2005.

(IV) UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS OF THE GROUP

(A) For the CEL Subscription only

The following unaudited pro forma statement of adjusted consolidated net tangible assets of the Group attributable to the equity holders of the Company was prepared based on the audited consolidated balance sheet of the Group as at 31st December, 2005 as set out in Appendix I to this circular with the adjustments to reflect the effect of CEL Subscription and has been prepared as if the transaction had taken place on 31st December, 2005.

This unaudited pro forma statement of adjusted consolidated net tangible assets of the Group attributable to the equity holders of the Company was prepared for illustrative purpose only and because of its nature, it may not give a true picture of the financial position of the Group as at the date to which it is made up or at any future date.

	As at 31st December, 2005	**Adjustments**	**Pro forma**
	(Audited)		
	(Notes 1 & 3)	*(Note 2)*	*(Note 3)*
	HK$'000	*HK$'000*	*HK$'000*
Net tangible assets	1,283,655	–	1,283,655

Notes:

1 The unaudited pro forma consolidated net tangible assets of the Group attributable to the equity holders of the Company as at 31st December, 2005 is calculated as follow:

	HK$'000
Audited consolidated net assets of the Group attributable to equity holders of the Company as at 31st December, 2005	1,325,314
Less: Goodwill	(34,930)
Goodwill included in interests in associates attributable to the equity holders of the Company	(6,729)
	1,283,655

2 The adjustments include:

	HK$'000
CEL Notes to be issued to the Group pursuant to the CEL Subscription Agreement	300,000
Consideration to be paid for the CEL Notes by the Group pursuant to the CEL Subscription Agreement	(300,000)
	–

3 Unaudited pro forma adjusted consolidated net tangible assets attributable to the equity holders of the Company per Share as at 31st December, 2005 based on 881,595,087 Shares in issue as at 31st December, 2005	HK$1.46

(B) Assuming the conversion rights attached to the CEL Notes are exercised by CEL in full and a mandatory offer is triggered by such conversion

The following unaudited pro forma statement of adjusted consolidated net tangible assets of the Group attributable to the equity holders of the Company was prepared based on the audited consolidated balance sheet of the Group as at 31st December, 2005 as set out in Appendix I to this circular after taking into account the Wing On Shares to be issued to CEL upon the exercise of the conversion rights attached to the CEL Notes together with the possible acquisition of further Wing On Shares by CEL pursuant to the mandatory offer (if any) to the shareholders of Wing On under the Takeovers Code which may be triggered by such conversion, and was prepared as if the transaction had taken place on 31st December, 2005.

This unaudited pro form statement of adjusted consolidated net tangible assets of the Group attributable to the equity holders of the Company was prepared for illustrative purpose only and because of its nature, it may not give a true picture of the financial position of the Enlarged Group as at the date to which it is made up or at any future date.

	As at 31st December, 2005	**Adjustments**	**Pro forma**
	(Audited)		
	(Note 1)	*(Note 2)*	*(Note 3)*
	HK$'000	*HK$'000*	*HK$'000*
Net tangible assets	1,283,655	230,288	1,513,943

Notes:

1 The unaudited pro forma consolidated net tangible assets of the Group attributable to the equity holders of the Company as at 31st December, 2005 is calculated as follow:

	HK$'000
Unaudited consolidated net assets of the Group attributable to equity holders of the Company as at 31st December, 2005	1,325,314
Less: Goodwill	(34,930)
Goodwill included in interests in associates attributable to the equity holders of the Company	(6,729)
	1,283,655

2 The adjustments include:

	HK$'000
Audited consolidated net assets of Wing On as at 31st December, 2005	978,976
Net proceeds from the Notes which are assumed to be fully converted into Wing On Shares	1,000,000
Consideration to be paid for the CEL Notes by the Group pursuant to the CEL Subscription Agreement	(300,000)
Consideration for the mandatory offer which may be made to the shareholders of Wing On	(949,798)
Goodwill of Wing On as at 31st December, 2005	(50,862)
Interest in Wing On Group excluding goodwill before conversion of the CEL Notes	(261,278)
Discount on acquisition of Wing On Group shared by minority interests of the Company	(186,750)
	230,288

3 Unaudited pro forma adjusted consolidated net tangible assets per Share as at 31st December, 2005 based on 881,595,087 Shares in issue as at 31st December, 2005	HK$1.72

(V) REPORT ON PRO FORMA FINANCIAL INFORMATION

The following is the text of a report received from Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, for inclusion in this circular, in respect of the pro forma financial information of the Enlarged Group as set out in this appendix.

ACCOUNTANTS' REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION TO THE DIRECTORS OF CHINA STRATEGIC HOLDINGS LIMITED

We report on the unaudited pro forma financial information of China Strategic Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") and Wing On Travel (Holdings) Limited ("Wing On") and its subsidiaries (together with the Group hereinafter referred to as the "Enlarged Group"), which has been prepared by the directors for illustrative purposes only, to provide information about how the CEL Subscription, Conversion and Mandatory Offer might have affected the financial information presented, for inclusion in Appendix III (the "Unaudited Pro Forma Financial Information") to the circular dated 19th May, 2006 (the "Circular"). The basis of preparation of the unaudited pro forma financial information is set out on in Appendix III in the Circular.

Respective responsibilities of directors of the Company and reporting accountants

It is the responsibility solely of the directors of the Company to prepare the Unaudited Pro Forma Financial Information in accordance with paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants.

It is our responsibility to form an opinion, as required by paragraph 29(7) of Chapter 4 of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagement 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information with the directors of the Company. This engagement did not involve independent examination of any of underlying financial information.

We planned and performed our work so as to obtain information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purpose of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

The Unaudited Pro Forma Financial Information is for illustrative purpose only, based on the judgments and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in future and may not be indicative of the financial position of the Enlarged Group as at 31st December, 2005 or any future date, or may not be indicative of the results and cash flows of the Enlarged Group for the year ended 31st December, 2005 or any future period.

Opinion

In our opinion:

a) the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;

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

c) the adjustments are appropriate for the purpose of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong, 19th May, 2006

RESPONSIBILITY STATEMENT

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

DISCLOSURE OF INTERESTS

(I) Interests of Directors

As at the Latest Practicable Date, save as disclosed below, none of the Directors or chief executive of the Company had any interests and short positions in the Shares, underlying Shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required (i) 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 they are taken or deemed to have under such provisions of the SFO); or (ii) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange.

Name of Directors	Name of associated corporation	Long position/ Short position	Capacity	Nature of interest	Number of Shares	Approximate percentage of shareholding
Dr. Chan Kwok Keung, Charles	Wing On	Long position	Beneficial owner	Personal interest	4,529,800	0.74%

(II) Interests of Shareholders discloseable pursuant to the SFO

As at the Latest Practicable Date, so far as is known to the Directors or chief executive of the Company and according to the list of substantial Shareholders extracted from the website of the Stock Exchange (www.hkex.com.hk), the following persons had an interest or short position in the Shares and 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:–

(a) Interests in the Shares

Name	Long position/ Short position	Capacity	*Notes*	Nature of interest	Number of Shares	Approximate percentage of shareholding
Nation Field Limited	Long position	Beneficial owner	*1*	Personal interest	270,000,000	30.63%
Mr. Gao Yang	Long position	Interest held by controlled corporation	*1*	Corporate interest	270,000,000	30.63%
Calisan Developments Limited	Long position	Beneficial owner	*2*	Personal interest	258,819,795	29.36%
Great Decision Limited	Long position	Interest held by controlled corporation	*2*	Corporate interest	258,819,795	29.36%
PYI Investments Group Limited	Long position	Interest held by controlled corporation	*2*	Corporate interest	258,819,795	29.36%
PYI Corporation Limited	Long position	Interest held by controlled corporation	*2*	Corporate interest	258,819,795	29.36%
Well Orient Limited	Long position	Beneficial owner	*3*	Personal interest	258,819,794	29.36%

Name	Long position/ Short position	Capacity	*Notes*	Nature of interest	Number of Shares	Approximate percentage of shareholding
Powervote Technology Limited	Long position	Interest held by controlled corporation	*3*	Corporate interest	258,819,794	29.36%
Hanny Magnetics (B.V.I.) Limited	Long position	Interest held by controlled corporation	*3*	Corporate interest	258,819,794	29.36%
Hanny Holdings Limited	Long position	Interest held by controlled corporation	*3*	Corporate interest	258,819,794	29.36%
Christian Emil Toggenburger	Long position	Beneficial owner		Personal interest	63,932,500	7.25%

Notes:

1. The 270,000,000 Shares represent the Shares acquired by Nation Field Limited pursuant to the share sale agreement amongst Hanny Holdings Limited, PYI Corporation Limited ("PYI") and Nation Field Limited for the acquisition of 270,000,000 Shares by Nation Field Limited from Hanny Holdings Limited and PYI. Mr. Gao Yang is beneficially interested in the entire issued share capital of Nation Field Limited. Accordingly, he is deemed to be interested in the Shares acquired by Nation Field Limited under the SFO.

2. PYI owns the entire interest of PYI Investments Group Limited ("PYIIG"). PYIIG owns the entire interest of Great Decision Limited ("GDL") which in turn owns the entire interest in Calisan Developments Limited. Accordingly, GDL, PYIIG and PYI are deemed to be interested in 258,819,795 Shares which are held by Calisan Developments Limited.

3. Well Orient Limited is wholly-owned by Powervote Technology Limited ("PTL") which is in turn owned by Hanny Magnetics (B.V.I.) Limited ("Hanny Magnetics"). Hanny Magnetics is wholly-owned by Hanny Holdings Limited ("Hanny"). PTL, Hanny Magnetics and Hanny were deemed to be interested in 258,819,794 Shares which were held by Well Orient Limited.

(b) Substantial Shareholders of other members of the Group

So far as is known to the Directors or chief executive of the Company, the following person(s) is interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the other members of the Group as at the Latest Practicable Date:–

Name of subsidiary	**Name of shareholder**	**Percentage of shareholding (No. of shares)**	
		The Group	**Other shareholder(s)**
China Telecom International Limited	China Telecom Investment Corporation	51% 510 shares	49% 490 shares
Earnfull Industrial Limited	Wang Ming Jan	90% 9,000,000 shares	10% 1,000,000 shares
Orion (B.V.I.) Tire Corporation	Coronada Holding Limited	60% 60 shares	40% 40 shares
Orion Tire Corporation	Coronada Holding Limited	60% 60 shares	40% 40 shares
Principal Diamond Limited	Wonder Wealth Limited	80% 8 shares	20% 2 shares
Talent Cosmos Limited		80%	20%
	Cheung Kwok Keung, So So	10,400 shares	246 shares
	Chung Tat Yan		163 shares
	Wong Leung Ngai		328 shares
	Happy Trade Ltd.		1,734 shares
	Wong Kwok Chu		129 shares
東莞市江海貿易有限公司 (Dongguan Shi Jiang Hai Trading Company)		88%	
	黃麗萍		8%
	朗晨		4%
		(Note 1)	*(Note 1)*

Note 1: The percentage is based on their respective capital contribution of RMB500,000.

Save as disclosed above, the Directors or chief executive of the Company are not aware that there is any other persons who, as at the Latest Practicable Date, had an interest or short position in the Shares and 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 5% or more of the nominal value of any class of share capital carrying right to vote in all circumstances at general meeting of any other members of the Group or had any options in respect of such shares.

(III) Directors' interests in competing business

The interests of Directors in competing businesses as at the Latest Practicable Date required to be disclosed pursuant to Rule 8.10 of the Listing Rules were as follows:

Name of Director	Name of company	Description of competing business	Nature of interest
Dr. Chan Kwok Keung, Charles	PYI and its subsidiaries	Property investment in the PRC	As substantial shareholder and non-executive director of PYI
Dr. Yap, Allan	Wing On and its subsidiaries	Property investment in the PRC	As executive director of Wing On
Ms. Chan Ling, Eva	Wing On and its subsidiaries	Property investment in the PRC	As director of subsidiaries of Wing On
Mr. Lui Siu Tsuen, Richard	Wing On and its subsidiaries	Property investment in the PRC	As executive director of Wing On

SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors has entered into any service contract with any member of the Enlarged Group or associated companies which was not determinable by the Company within one year without payment of compensation (other than statutory compensation).

EXPERT AND CONSENT

The following is the qualification of the expert whose letter and report are contained in this circular:

Name	Qualifications
Deloitte Touche Tohmatsu	Certified public accountants

Deloitte Touche Tohmatsu has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and report, and the reference to its name in the form and context in which it appears.

As at the Latest Practicable Date, Deloitte Touche Tohmatsu was not interested beneficially or otherwise in any Shares or shares in any of the Company's subsidiaries or associated companies and did not have any right, whether legally enforceable or not, or option to subscribe for or to nominate persons to subscribe for any Shares or shares in any of the Company's subsidiaries or associated companies nor did it has any interest, either direct or indirect, in any assets which have been, since the date to which the latest published audited accounts of the Company were made up, acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group.

LITIGATION

No member of the Group was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance was known to the Directors to be pending or threatened by or against any member of the Group as at the Latest Practicable Date.

MATERIAL CONTRACTS

As at the Latest Practicable Date, the following contracts, not being contracts entered into in the ordinary course of business, were entered into by members of the Group within the two years immediately preceding the date of this circular which are, or may be, material:

(a) the sale and purchase agreement dated 16th June, 2004 entered into between Manwide Holdings Limited and Shanghai Jiu Sheng Investment Company Limited in respect of the acquisition of the interest in the land situated at Nos. 219 and 229, Jiang Ning Road, Jing An District, Shanghai, the PRC and the building being erected thereon which comprises two levels of underground carparks and a 24-storey building for a consideration of RMB450 million;

(b) an agreement dated 4th October, 2004 entered into between Widecheer Limited, a wholly-owned subsidiary of the Company, and two independent third parties in respect of the acquisition of the entire interest in 廣州耀陽實業有限公司(Guangzhou Yao Yang Industrial Company Limited), a company incorporated in the PRC, for a consideration of approximately RMB27,300,000;

(c) an agreement dated 6th October, 2004 entered into between Shine Brilliant Limited, a wholly-owned subsidiary of the Company, and an independent third party in respect of the acquisition of 88% interest in 東莞市江海貿易有限公司 (Dongguan Shi Jiang Hai Trading Company Limited), a company incorporated in the PRC, for a consideration of approximately RMB25,700,000;

(d) two placing and subscription agreements dated 30th November, 2004 entered into among CEL, Wing On and a placing agent in relation to the placing of 6,000 million shares of Wing On by the placing agent at the price of HK$0.028 per share and the subscription of 6,000 million new shares of Wing On by CEL at HK$0.028 per share. The placing and subscription were completed in January 2005;

(e) a placing and subscription agreement dated 4th February, 2005 entered into among CEL, Wing On and a placing agent in relation to the placing of 6,400 million shares of Wing On at the price of HK$0.022 and the subscription of 6,400 million new shares of Wing On by CEL at HK$0.022 per share. The placing and subscription were completed in February 2005; and

(f) the CEL Subscription Agreement.

MISCELLANEOUS

(a) Save for the CEL Subscription Agreement dated 23rd March, 2006 in relation to the subscription of the CEL Notes, none of the Directors was materially interested in any contract or arrangement subsisting at the Latest Practicable Date, which is significant in relation to the business of the Enlarged Group.

(b) Save for the subscription of the CEL Notes, none of the Directors has, or has had, any direct or indirect interest in any assets which have been acquired, disposed of by or leased to, or which are proposed to be acquired, disposed of by or leased to, any member of the Enlarged Group since 31st December, 2005, the date to which the latest audited consolidated financial statements of the Company were made up.

(c) The registered office of the Company is at 8th Floor, Paul Y. Centre, 51 Hung To Road, Kwun Tong, Kowloon, Hong Kong.

(d) The company secretary of the Company is Ms. Chan Yan Yan, Jenny, who is an associate member of the Institute of Chartered Secretaries and Administrators and the Hong Kong Institute of Company Secretaries.

(e) The qualified accountant of the Company is Ms. Cheung Sze Man, who is a member of the Hong Kong Institute of Certified Public Accountants and CPA Australia.

(f) The share registrar and transfer office of the Company is Standard Registrars Limited at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.

(g) The English texts of this circular and the accompanying form of proxy shall prevail over their respective Chinese texts.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during business hours at the principal place of business in Hong Kong of the Company at 8th Floor, Paul Y. Centre, 51 Hung To Road, Kwun Tong, Kowloon, Hong Kong from the date of this circular up to and including 5th June, 2006:

(a) the memorandum of association and articles of association of the Company;

(b) the annual reports of the Company for the two years ended 31st December, 2005;

(c) the annual reports of Wing On for the two years ended 31st December, 2005;

(d) the letter and the report from Deloitte Touche Tohmatsu in respect of the unaudited pro forma financial information on the Enlarged Group as set out in Appendix III to this circular;

(e) the material contracts referred to in the section headed "Material contracts" in this appendix; and

(f) the letter of consent referred to in the section headed "Expert and consent" in this appendix.

CHINA STRATEGIC HOLDINGS LIMITED
中策集團有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 235)

NOTICE IS HEREBY GIVEN that an extraordinary general meeting of China Strategic Holdings Limited (the "Company") will be held at 11th Floor, Paul Y. Centre, 51 Hung To Road, Kwun Tong, Kowloon, Hong Kong on Monday, 5th June, 2006 at 11:00 a.m. for the purposes of considering and, if thought fit, passing, with or without modifications, the following resolution of the Company:

ORDINARY RESOLUTION

"**THAT**

(A) the conditional subscription agreement dated 23rd March, 2006 ("Subscription Agreement") entered into between China Enterprises Limited ("CEL") as the subscriber and Wing On Travel (Holdings) Limited ("Wing On") as the issuer relating to the subscription of HK$300 million 2% convertible exchangeable note (the "Note") by CEL (copy of the Subscription Agreement has been produced to this meeting and marked "A" and initialed by the chairman of the meeting for the purpose of identification) and all the transactions contemplated hereunder, including, without limitation, acquisition of the new shares of Wing On pursuant to the exercise of the conversion rights attached to the Notes in accordance with the terms and conditions thereof be and are hereby approved, confirmed and ratified; and

(B) the directors of the Company (the "Directors") be and are hereby authorised to take all steps and to do all such acts and things, to sign and execute all such further documents as the Directors may in their absolute discretion consider necessary, desirable or expedient to implement and/or give effect to or in connection with the Subscription Agreement and all the transactions contemplated thereunder, including, without limitation, acquisition of the new shares of Wing On pursuant to the exercise of the conversion rights attached to the Notes in accordance with the terms and conditions thereof."

By Order of the Board
China Strategic Holdings Limited
Dr. Chan Kwok Keung, Charles
Chairman

Hong Kong 19th May, 2006

Notes:

1. A shareholder entitled to attend and vote at the above meeting is entitled to appoint one or more proxies to attend and vote on his behalf. The proxy need not be a shareholder of the Company.

2. In order to be valid, a form of proxy must be deposited at the share registrar and transfer office of the Company, Standard Registrars Limited at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong together with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy of that power or authority, not less than 48 hours before the time for holding the meeting.

3. Delivery of an instrument appointing a proxy should not preclude a member from attending and voting in person at the above meeting or any adjournment thereof and in such event, the instrument appointing a proxy shall be deemed to be revoked.