THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to the action to be taken, you should consult your stockbroker or other licensed corporation, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Zhong Hua International Holdings Limited, you should hand this circular at once to the purchaser or to the bank, stockbroker or other agent through whom the sale was effected for transmission to the purchaser or the transferee.

ZHONG HUA INTERNATIONAL HOLDINGS LIMITED

中華國際控股有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 1064)

Major Transaction

Proposed acquisition of the entire issued capital of Telesuccess International Limited

Financial Adviser to Zhong Hua International Holdings Limited

Somerley Limited

* *For identification purposes only*

31st May, 2004

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In this circular, the following expressions have the meanings set out below unless the context requires otherwise:

"Acquisition"	the acquisition of Sale Shares by the Purchaser from the Vendor pursuant to the Agreement
"Agreement"	the agreement dated 26th March, 2004 entered into between the Vendor and the Purchaser in relation to the acquisition of the Sale Shares
"Announcement"	the announcement of the Company dated 1st April, 2004 in relation to the Acquisition and the Supplemental Agreement
"Asset Disposal Agreement"	the sale and purchase agreement dated 25th October, 2002 entered into between China Land and Guangdong Properties in relation to the Disposal, details of which were set out in the announcement of the Company dated 11th November, 2002
"associates"	has the meaning given to it in the Listing Rules
"business day"	a day, other than a Saturday, on which banks in Hong Kong are open for business
"Company"	Zhong Hua International Holdings Limited, a company incorporated in Bermuda with limited liability whose issued Shares are listed on the Main Board of the Stock Exchange
"Completion"	completion of the Agreement
"Consideration"	HK$200,000,000, being the consideration payable for the sale and purchase of the Sale Shares pursuant to the Agreement
"Consideration Shares"	464,396,284 new Shares to be allotted and issued credited as fully paid at HK$0.1292 per Share to the Vendor to satisfy in part the consideration for the sale of Sale Shares
"Consideration Units"	a total gross floor area of 23,000 square metres of completed units (including completed residential units and car parking spaces) of Phase IV Development subject to adjustment (if any) in accordance with the terms of the Asset Disposal Agreement, which has an estimated value of no less than HK$230 million

"Directors"	directors of the Company
"Disposal"	the disposal by the Purchaser of 51% equity interest in Ample Dragon Limited to Guangdong Properties completed in December 2002, details of which were set out in the announcement of the Company dated 11th November, 2002
"Enlarged Group"	the Group as enlarged by the Acquisition upon Completion
"GAAP"	generally accepted accounting principles
"Group"	the Company and its subsidiaries
"Guangdong Properties"	Guangdong Properties Investment Ltd., a company incorporated in the British Virgin Islands
"Hong Kong"	Hong Kong Special Administrative Region of the PRC
"Internet Café"	a café providing a variety of refreshments, snacks, personal computers with internet access and a selection of online games
"JV"	廣州天城網絡通訊有限公司 (GuangZhou Sky City Network Communication Ltd.), a sino-foreign co-operative joint venture established in the PRC on 9th May, 1997
"Latest Practicable Date"	28th May, 2004, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained in the circular
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Phase IV Development"	Phase IV development of property development project known as Guangzhou Hai Zhu Peninsula Garden which will comprise three residential buildings and underground private car-parking spaces
"PRC"	the People's Republic of China and for the purpose of this circular, shall exclude Hong Kong and the Macau Special Administrative Region and Taiwan

"PRC Party"	the joint venture partner of Telesuccess in the JV, a PRC party owning the remaining 19.1% interest in the JV and is an independent third party not connected to the directors, chief executive or substantial shareholders of the Company and its subsidiaries or any of their respective associates
"Purchaser" or "China Land"	China Land Realty Investment (BVI) Limited, a company incorporated in British Virgin Islands which is a wholly-owned subsidiary of the Company
"Sale Share"	the one share of US$1.00 in the capital of Telesuccess, being its entire issued share capital
"SFO"	Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong
"Share(s)"	ordinary share(s) of HK$0.02 each in the capital of the Company
"Shareholders"	holders of the Shares
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Supplemental Agreement"	a supplemental agreement dated 26th March, 2004 entered into between China Land and Guangdong Properties regarding the amendment of payment terms of the balance of the consideration of HK$230 million of the Disposal, details of which are set out in the Announcement
"Telesuccess"	Telesuccess International Limited, a company incorporated in the British Virgin Islands on 12th February, 2002
"Vendor" or "Mr. Man"	Mr. Man O Fu, the vendor to the Agreement
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"RMB"	Renminbi, the lawful currency of the PRC
"%"	per cent.

Amounts denominated in RMB is this circular has been converted into HK$ at a rate of RMB1.06=HK$1.0 for illustration purposes.

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

(Incorporated in Bermuda with limited liability)

(Stock Code: 1064)

Executive Directors:
HO Tsam Hung *(Chairman)*
HO Pak Hung *(Deputy Chairman)*
HO Kam Hung *(Managing Director)*

Non-Executive Directors:
ZHANG Jie#
YOUNG Kwok Sui#

Independent non-executive directors

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

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

31st May, 2004

To the Shareholders

Dear Sir or Madam,

Major Transaction

Proposed acquisition of the entire issued capital of Telesuccess International Limited

INTRODUCTION

On 26th March, 2004, China Land entered into the Agreement with the Vendor in relation to the acquisition of the Sale Share, representing the entire issued share capital in Telesuccess for a consideration of HK$200 million.

The Acquisition contemplated under the Agreement constitutes a major transaction for the Company pursuant to Rule 14.09 of the old Listing Rules effective up to and until 30th March, 2004 and is subject to approval of the Shareholders. No Shareholders are required to abstain from voting.

High Rank Enterprises Limited, Morgan Estate Assets Limited, On Tai Profits Limited, Morcambe Corporation and Successful Future Services Limited being Shareholders who and

* For identification purposes only

their respective ultimate beneficial owners are not interested in the Agreement and together interested in approximately 65.77% of the issued share capital of the Company, have given written consent to the Company to approve the Agreement pursuant to Rule 14.10 of the old Listing Rules effective up to and until 30th March, 2004. The Company has therefore applied for a waiver and such waiver has been granted from the Stock Exchange from the requirement to convene a physical shareholders' meeting to approve the Agreement on the basis that approval has been obtained by way of written consent issued by the aforesaid Shareholders. As such, this circular is issued to the Shareholders to provide further details of, among other things, the Agreement and the information of Telesuccess and JV only.

THE AGREEMENT

Parties to the Agreement

Vendor: Mr. Man, the legal and beneficial owner of the Sale Share

Purchaser: China Land Realty Investment (BVI) Limited, a wholly-owned subsidiary of the Company

The Vendor is an independent third party not connected with the directors, chief executive or substantial shareholders of the Company or any of its subsidiaries or an associate of any of them.

Subject matter of sale and purchase

Pursuant to the Agreement, the Purchaser agreed to acquire and the Vendor agreed to sell the Sale Share, being the entire issued share capital of Telesuccess. The sole asset of Telesuccess is its 80.9% equity interest in 廣州天城網絡通訊有限公司 (GuangZhou Sky City Network Communication Ltd.), a sino-foreign co-operative joint venture set up in the PRC in 1997. The remaining 19.1% interest in JV is owned by the PRC Party which is an independent third party not connected to the directors, chief executive or substantial shareholders of the Company and its subsidiaries or any of their respective associates.

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

Consideration

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

Application has been made to the Listing Committee of the Stock Exchange for the listing of and, permission to deal in, the Consideration Shares on the Stock Exchange.

The Consideration is arrived at after arm's length negotiations between the Company and the Vendor with reference to the pro forma unaudited consolidated net asset value of Telesuccess of approximately RMB133.2 million (approximately HK$125.7 million) as at 31st December, 2003 referred to in the paragraph headed "Financial information of JV" below. The Consideration represents a premium of approximately 59.1% to the aforesaid pro forma unaudited consolidated net asset value of Telesuccess and a price book ratio of approximately 1.59. Moreover, based on the unaudited profit after tax attributable to Telesuccess for the two years ended 31st December, 2003 of approximately HK$11.89 million and HK$3.56 million, the Consideration represents a price earning multiple of approximately 16.8 and 56.2 respectively.

Given the recent improving macroeconomic environment, the continuing economic growth in the PRC, the growth of the internet population in the PRC and the increasing demand for online games in the PRC, the Directors are confident about the prospective growth of the business of provision of online games infrastructure platform and distribution channels. Taking into consideration of the above factors and the exceptional business environment happened on JV in 2003 as described in the paragraph headed "Financial information of JV" below, the Directors (including the independent non-executive Directors) consider that the relative high price earning multiple and price book ratio set out above are reasonable.

The Consideration Shares represent approximately 15.58% of the existing issued share capital of the Company as at the Latest Practicable Date and approximately 13.48% of the enlarged issued share capital of the Company. The issue price of the Consideration Shares of HK$0.1292 per Share represents:

(i) a discount of approximately 2.12% to the closing price of the Shares of HK$0.132 on the Stock Exchange on 25th March, 2004, the last trading day before the suspension of trading of Shares prior to the issue of the Announcement;

(ii) equivalent to the average closing price of Shares of HK$0.1292 on the Stock Exchange during the period of the last five trading days before the suspension of trading of Shares prior to the issue of the Announcement;

(iii) a premium of approximately 38.92% over the average closing price of Shares of HK$0.0930 on the Stock Exchange during the period of the last thirty trading days before the suspension of trading of Shares prior to the issue of the Announcement;

(iv) a premium of approximately 3.36% over the closing price of the Shares of HK$0.125 on the Stock Exchange on the Latest Practicable Date; and

(v) a premium of approximately 20.7% over the audited net tangible assets of the Company of HK$0.107 per Share as at 31st December, 2003.

Source of funding

The Group had audited cash balance of approximately HK$40.9 million and HK$41.3 million as at 31st December, 2002 and 31st December, 2003, respectively.

The cash portion of the Consideration will be financed by part of the proceeds received by the Group in respect of the Disposal by the Purchaser to Guangdong Properties which has been completed in December 2002. Details of the Disposal were set out in the announcement of the Company dated 11th November, 2002 and the circular of the Company dated 13th December, 2002. As far as the Directors are aware, the Vendor, the PRC Party and its ultimate beneficial owners are independent of and not connected with the director, chief executive or substantial shareholder of Guangdong Properties or any of its subsidiaries or an associate of any of them.

As disclosed in the Announcement, the balance payment of the consideration for the Disposal of HK$230,000,000 was originally agreed to be satisfied by Guangdong Properties delivering vacant possession and assigning to the Purchaser and/or its nominees certain completed residential units and car parking spaces of Phase IV Development of Guangzhou Hai Zhu Peninsula Garden.

The construction of Phase IV Development has yet to commence and the Consideration Units may not be fully completed by June 2005. In addition, the Directors consider that the sale of the vacant possession of Phase IV Development would take time and the Group may not be able to secure ready buyers of such property developments. Accordingly, the Purchaser has entered into the Supplemental Agreement with Guangdong Properties on 26th March, 2004 pursuant to which the whole amount of the balance payment for the Disposal of HK$230,000,000 will be satisfied by cash instead. Out of the aforesaid balance payment of HK$230,000,000, an amount of HK$140,000,000 had been paid as at the Latest Practicable Date while the remaining balance of HK$90,000,000 will be paid on or before 26th January, 2005. The Company has considered the property prices in the area nearby the location of the Consideration Units by quoting the ask price per square metre for various properties with comparable quality. The Directors have agreed to the terms of the Supplemental Agreement taking into consideration the aforesaid current property prices in area nearby the Consideration Units. Details of the Supplemental Agreement is set out in the Announcement.

The Directors (including the independent non-executive Directors) are of the view that the changes to the Asset Disposal Agreement, namely payment of the balance consideration in cash instead of delivery of the Consideration Units, concern mainly the mode of payment, which is, in the absence of any variation to the amount of the balance consideration (i.e., HK$230 million), non-material in nature.

In addition, the Disposal was duly approved at the special general meeting of the Company held on 30th December, 2002, in which the Directors had been authorized to, inter alia, do all such acts, matters and things as he/she may in his/her discretion consider necessary or desirable for the purpose of or in connection with the implementation of the Asset Disposal

Agreement. In this regard, the Directors have the necessary authority given by the Shareholders to vary those terms of the Asset Disposal Agreement which are non-material in nature and the Supplemental Agreement, which contains mainly changes of non-material nature, is not required to be approved by Shareholders.

Given the aforesaid and the benefits of the Acquisition which would be accrued to the Group as mentioned in the paragraphs headed "Reasons for the Agreement" below, the Directors (including the independent non-executive Directors) consider that the variation to the payment mode as stipulated in the Supplemental Agreement and using the cash proceeds received from the Disposal to acquire Telesuccess are fair and reasonable and in the interests of Shareholders and the Company as a whole.

Conditions of the Agreement

The Agreement is conditional upon:

(a) the passing by Shareholders at a special general meeting to be convened of ordinary resolutions to approve, or the obtaining by means of the written approval by the Shareholders who together hold more than 50% of the issued share capital of the Company of (as the case may be):

  (i) the Agreement and the Acquisition contemplated hereunder; and

  (ii) the issue and allotment of the Consideration Shares;

(b) the Listing Committee of the Stock Exchange granting the listing of and permission to deal in the Consideration Shares;

(c) the Purchaser being satisfied with the results of the due diligence exercise to be conducted on Telesuccess and JV;

(d) the submission by the Vendor at its own expenses to the Purchaser of the PRC legal opinion regarding, amongst other things, JV's legal status, ownership of shareholding by Telesuccess, business, assets, liabilities and any other matters the Purchaser must be aware of for the Acquisition in form and content satisfactory to the Purchaser;

(e) Telesuccess has by board resolutions resolved to:

  (i) approve the transfer of the Sale Share to the Purchaser and/or its nominee;

  (ii) cause all the existing directors of the Vendor's appointment in Telesuccess and JV, respectively, to resign without compensation or other payment for loss of office;

(iii) accept the resignation of the directors of the Vendor's appointment in Telesuccess and procure JV to accept the resignation of the directors of the Vendor's appointment in JV;

(iv) appoint new directors nominated by the Purchaser to the board of directors of Telesuccess and procure JV to appoint two new directors nominated by the Purchaser to the board of directors of JV, respectively;

(v) obtain or procure JV to obtain a confirmation document issued by the relevant local authority endorsing the changes in JV's directorship as stated above, if necessary; and

(f) the issue of an unqualified opinion by the reporting accountants of Telesuccess on the consolidated financial statements of Telesuccess for the three financial years ended 31st December, 2003.

In the event that the conditions set out above not being fulfilled or waived by the Purchaser (as regards condition (c) or (d) only) on or before the long stop date of 30th June, 2004, all obligations and liabilities of the parties shall cease and determine and no party shall have any claim against the other in respect thereof or the Acquisition contemplated thereunder; provided that non-fulfilment of any of the conditions is not due to the fault or default of the Purchaser or the Vendor. If the conditions are not complied with or waived by the Purchaser on or before the long stop date of 30th June, 2004 otherwise than due to the fault or default of the Purchaser, the Purchaser may rescind the Agreement and issue proceedings for damages against the Vendor.

Completion

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

INFORMATION ON TELESUCCESS AND JV

Telesuccess

Telesuccess, a company incorporated in the British Virgin Islands on 12th February, 2002, is currently wholly and beneficially owned by the Vendor. The sole asset of Telesuccess is its 80.9% equity interest in JV. Since its incorporation, Telesuccess has not carried out any other business save for its investment in JV. No audited accounts for Telesuccess have been prepared since its incorporation.

The remaining 19.1% interest in JV is beneficially owned by the PRC Party which is mainly responsible for JV's business in respect of (i) design and development of the infrastructure platform of JVs' internet data centre services and online games business; (ii) the recruitment of specialists, technicians and staff in PRC; and (iii) the sourcing of raw materials and equipments in PRC.

JV

JV was established in the PRC on 9th May, 1997 as a sino-foreign co-operative joint venture. As at the Latest Practicable Date, JV had a registered capital of RMB110,000,000 (or approximately HK$103.8 million). The total investment of JV was RMB200,000,000 (or approximately HK$188.7 million). According to the memorandum and articles of association of JV, the outstanding amount of total investment over the registered capital of RMB90,000,000 (or approximately HK$84.9 million) will only be funded by the Purchaser if the shareholders of JV consider that such funding is necessary for the business development of JV in future. Such funding will be provided by way of a shareholder's loan instead of equity contribution, and therefore there will be no change to the shareholding structure of JV. In the event that the shareholders of JV decide to provide further funding to JV, the Company intends to finance such funding by internal resources of the Group and/or debt financing and/or equity fund raising exercises.

Principal business of JV

JV is principally engaged in the provision of telecommunication and other related services and software licensing services.

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

Since its incorporation, JV has been focusing on the provision of internet data center services, design and installation of communication technology system and related communication network in the PRC. JV has developed business partnership with various telecommunication service providers, technology equipment providers and other technique developers.

In 2003, with leveraging on its expertise in providing internet data center services and the business opportunities arisen from the increasing demand of broadband services and online games in PRC, JV has been transformed into an integrated service provider to provide integrated service to online game developers and other broadband media providers. In addition, it starts to be engaged in the provision of agency services in relation to telecommunication business. JV has joined force with a PRC national telecommunication operator to set up over 400 phone booths in Dongguan, the PRC. The project is currently under the process of site selection for the phone booths and is expected to launch in third quarter of 2004. An amount of approximately HK$22.9 million had been paid in relation to this project. It is expected that no further material capital commitment will be incurred. Through the delivery of game data and content to Internet Café, JV could establish a physical distribution channel for game contents owned by the game developers. By bundling its online game infrastructure platform and distribution channels to the game developers, JV could benefit from sharing the profits generated by the game developers. In view of the increasing demand for online games in the PRC, JV is considering to operate Internet Café offering a variety of refreshments, snacks, personal computers with Internet access and a selection of online games in PRC in 2004, which could allow JV to achieve a vertical integration among its online game related business.

Financial Information of JV

According to the statutory audit accounts of JV which are based on the PRC GAAP, JV had audited net asset value of approximately RMB164.6 million (or approximately HK$155.3 million) as at 31st December, 2003. For the year ended 31st December, 2003, JV recorded audited turnover of approximately RMB20.6 million (or approximately HK$19.4 million), audited profit before tax of approximately RMB5.4 million (or approximately HK$5.1 million) and audited profit after tax of approximately RMB4.6 million (or approximately HK$4.4 million). According to the statutory audit accounts of JV which are based the PRC GAAP, for the year ended 31st December, 2002, JV recorded turnover of approximately RMB30.7 million (or approximately HK$29.0 million), profit before tax of approximately RMB18.4 million (or approximately HK$17.4 million) and profit after tax of approximately RMB15.6 million (or approximately HK$14.7 million). No extraordinary items were recorded for the two years ended 31st December, 2003.

Based on the information provided by the management of JV, the decrease of the profit after tax of JV for the year ended 31st December, 2002 of RMB15.6 million (or approximately HK$14.7 million) to RMB4.6 million (or approximately HK$4.4 million) for the year ended 31st December, 2003 was mainly due to (i) the decrease in the profit margin of the provision of internet data center services; (ii) JV was under a transitional period to transform into an integrated service provider in providing integrated service to online game developers and other broadband media providers as mentioned above; and (iii) the outbreak of Severe Acute Respiratory Syndrome, in particular, in the PRC.

According to the accountants' report of Telesuccess as set out in Appendix I to this circular, JV had audited net asset value of approximately HK$105.2 million as at 31st December, 2003. For the two years ended 31st December, 2003, JV recorded audited turnover of approximately HK$26.6 million and HK$18.5 million, respectively. The JV recorded net profits of HK$5.7 million and HK$10.2 million for the two years ended 31st December, 2003, respectively.

The difference between the net asset value and the results of JV based on the PRC statutory audit accounts and the accountants' report of Telesuccess is mainly attributable to the PRC/HK GAAP adjustments made, including, among others, (i) the depreciation and amortisation expenses; (ii) provision for bad and doubtful debts and a deposit paid for a broadband project; and (iii) waiver of an amount due to the former ultimate holding company of JV which disposed its interest in JV to the Vendor in January 2004. Further details of the JV's profit/(loss) from operating activities are contained in the accountants' report of Telesuccess set out in Appendix I to this circular.

JV recorded a loss from operating activities of approximately HK$2.2 million for the year ended 31st December, 2003 and had net cash outflows from operating activities of approximately HK$29.0 million for the same period. The directors of JV have been in negotiation with JV's bankers to renew the existing banking facilities which will be expired in the third quarter of 2004. As the management of JV has established relationship with the bankers since 2002, they do not expect any difficulty to renew such facilities. In addition, the Company intends to provide financial support to JV after Completion. Accordingly, the working capital of JV should be sufficient for its present requirements.

REASONS FOR THE AGREEMENT

The Group is principally engaged in property development and investment, sale of online English learning courses and leasing of equipment in the PRC.

Reference is made to the announcement of Company dated 25th October, 2002 and the circular of the Company dated 13th December, 2002 in relation to the disposal of 51% equity interest of Ample Dragon Limited by the Group. Following completion of the aforesaid transaction in December 2002, the Group's turnover mainly relies on the rental income generated from the commercial podiums located in Chongqing, the PRC and the sale of online English learning courses to individual and corporate customers in the PRC. Exaggerated by the outbreak of Severe Acute Respiratory Syndrome leading to the postponement of its investment plans, in particular, the technology related business, the Group's turnover has decreased to approximately HK$2.8 million for the six months ended 30th June, 2003 compared with approximately HK$103.4 million for the corresponding period in 2002. For the six months ended 30th June, 2003, the Group recorded unaudited loss after tax of approximately HK$15.7 million.

As set out in the interim report of the Company as at 30th June, 2003, given the recent signs of upturn of the economy and with a capacity of free up capital in the Group received from the proceeds of the Disposal, the Group has been reviewing new business opportunities in the PRC, in particular, in the technology related sectors.

Given the recent improving macroeconomic environment, the continuing economic growth in the PRC, the growth of the internet population in the PRC and the increasing demand for online games in the PRC, the Directors are confident about the prospect of the future growth of the business of provision of online games infrastructure platform and distribution channels.

The Directors consider that the Acquisition provides an opportunity for the Group to diversify its business with a view to broadening its business scope and increasing its sources of revenue. Given the track record, earnings ability and prospects of the JV, the Directors consider the Acquisition could benefit the results of the Enlarged Group in future.

The Directors believe that the Group is in a well equipped position to diversify its business into the provision of online games infrastructure platform and distribution channels based on the following reasons: (i) the Group has experience in the provision of technology consultancy services for the operation of the phone banking payment services in the PRC; (ii) the cooperation with the other shareholder of JV who has extensive experience and business connection in the technology business; and (iii) JV has a strong team of technical specialists with expertise in the online games infrastructure platform and distribution business.

Taken into consideration of the aforesaid, the Directors (including independent non-executive Directors) are of the view that the terms of the Agreement are fair and reasonable and are on normal commercial terms and the transactions contemplated under the Agreement are in the interests of the Company and the Shareholders as a whole.

EFFECTS OF THE AGREEMENT

Shareholding structure

The table below sets out the shareholding structure of the Company before the Completion and immediately after the Completion (assuming no other changes in shareholding before then):

	Before Completion		**Immediately after the Completion**	
	Number of Shares	**Percentage**	**Number of Shares**	**Percentage**
High Rank Enterprises Limited *(Note1)*	1,140,000,000	38.25%	1,140,000,000	33.10%
Morgan Estate Assets Limited *(Note 2)*	270,000,000	9.06%	270,000,000	7.84%
On Tai Profits Limited *(Note 3)*	270,000,000	9.06%	270,000,000	7.84%
Morcambe Corporation *(Note 4)*	270,000,000	9.06%	270,000,000	7.84%
Successful Future Services Limited *(Note 5)*	10,000,000	0.34%	10,000,000	0.29%
Vendor	–	–	464,396,284	13.48%
Public	1,020,016,725	34.23%	1,020,016,725	29.61%
	2,980,016,725	100.00%	3,444,413,009	100.00%

Notes:

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

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

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

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

5. Each of Mr. Ho Tsam Hung, Mr. Ho Pak Hung and Mr. Ho Kam Hung, being the executive Directors, is interested in 25% of the issued share capital of Successful Future Services Limited.

Financial effects of the Acquisition on the Group

Net tangible asset value

As at 31st December, 2003, the audited consolidated net tangible assets of the Group amounted to approximately HK$319.9 million. Based on the pro forma statement of unaudited adjusted consolidated net tangible asset value of the Enlarged Group as set out in Appendix II to this circular, the unaudited pro forma adjusted consolidated net tangible asset value of the Group immediately before the Completion and that of the Enlarged Group will be approximately HK$405.7 million and approximately HK$347.0 million, respectively. The decrease of approximately 14.5% is mainly attributable to (i) the expected goodwill arising from the Acquisition of HK$92.0 million; and (ii) the intangible assets of the Telesuccess group of HK$26.6 million including the software purchased and developed for licensing and the goodwill arising from the acquisition of JV by Telesuccess.

Earnings

The Group recorded an audited consolidated net loss of approximately HK$148.3 million for the year ended 31st December, 2003. Given the track record, earnings ability and prospects of the JV, the Directors consider the Acquisition could benefit the results of the Enlarged Group in future.

BUSINESS REVIEW AND PROSPECTS OF THE GROUP

The principal activity of the Company is investment holding. The principal activities of the Company's principal subsidiaries are primarily property development and investment, sale of online English learning courses and leasing of equipment in the Mainland of the PRC.

The audited consolidated turnover of the Company for each of the two years ended 31st December, 2002 and 2003 amounted to approximately HK$172.5 million and HK$5.5 million respectively. The Group recorded an audited loss of approximately HK$192.4 million and HK$148.3 million for each of the two years ended 31st December, 2002 and 2003 respectively. The loss per Share for each of the two years ended 31st December, 2002 and 2003 was HK6.46 cents and HK4.98 cents.

Business Review

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

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

The net loss of the Group for the year ended 31st December, 2003 was mainly resulted from the inclusion of impairment provision of HK$111,680,000 arising on the acquisition of I-Action Agents Limited and its jointly-controlled entities, which are engaged in the provision of technology consultancy services for the operation of the phone payment gateway, together with the impairment of goodwill of HK$21,000,000 on the investment in the business of provision of online English learning services previously eliminated against reserves.

Property investment

During the year ended 31st December, 2003, the commercial units in Gang Yu Square in Chongqing, the PRC, were leased out and the occupancy rate of over 90% was highly satisfactory. It is expected that the business will continue to generate a steady stream of income to the Group.

Provision of online English learning services

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

Leasing of equipment

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

Prospects

The Group is optimistic with the economic growth in the PRC, which creates numerous investment opportunities.

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

ADDITIONAL INFORMATION

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

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

The following is the text of a report received from the reporting accountants of Telesuccess, Ernst & Young, Certified Public Accountants, which is prepared for the purpose of incorporation in this circular.

ERNST & YOUNG
安 永 會 計 師 事 務 所

31 May 2004

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

Dear Sirs,

We set out below our report on the financial information (the "Financial Information") regarding Telesuccess International Limited ("Telesuccess") for the period from 12 February 2002 (date of incorporation of Telesuccess) to 31 December 2002 and the year ended 31 December 2003 (the "Periods") and 廣州天城網絡通訊有限公司 (the "JV") for the years ended 31 December 2001, 2002 and 2003 (the "Relevant Periods") for inclusion in the circular (the "Circular") dated 31 May 2004 issued by Zhong Hua International Holdings Limited (the "Company") in connection with the proposed acquisition on 26 March 2004 of the entire issued share capital of Telesuccess (the "Acquisition") by China Land Realty Investment (BVI) Limited, a wholly-owned subsidiary of the Company, from Mr. Man O Fu ("Mr. Man"), the sole owner of Telesuccess.

Telesuccess is a company incorporated in the British Virgin Islands on 12 February 2002 with an authorised share capital of US$50,000 divided into 50,000 shares of US$1.00 each, of which one share of US$1.00 was issued at par for cash.

Telesuccess has not carried out any business and has no material asset save for its entering into a sale and purchase agreement on 16 January 2004, pursuant to which Telesuccess acquired 80.9% equity interest, being the entire equity interest held by 新科技電信投資有限公司 ("NT&T"), in the JV. The JV is a sino-foreign co-operative joint venture established in the People's Republic of China (the "PRC") on 9 May 1997, and is principally engaged in the provision of telecommunication and other related services and software licensing services.

As at the date of this report, Telesuccess owns 80.9% equity interest in the JV. No audited financial statements have been prepared for Telesuccess since its incorporation and the statutory financial statements of the JV were prepared in accordance with PRC accounting principles. We have, however, for the purpose of this report, performed our independent audit of the management accounts of Telesuccess for the Periods and the management accounts of the JV for the Relevant Periods (collectively referred to as the "Accounts"), in accordance with the Auditing Guideline "Prospectuses and the reporting accountant" issued by the Hong Kong Society of Accountants.

The Financial Information of Telesuccess for the Periods and the JV for the Relevant Periods set out in this report have been prepared from the audited management accounts of Telesuccess and the JV which were prepared in accordance with accounting principles generally accepted in Hong Kong.

The Accounts are the responsibility of the directors of the respective companies. The directors of the Company are responsible for the contents of the Circular relating to Telesuccess and the JV in which this report is included. It is our responsibility to compile the Financial Information together with the notes thereto based on the Accounts, to form an independent opinion on such information and to report our opinion to you.

Fundamental uncertainty relating to going concern basis

In forming our opinion, we have considered the adequacy of the disclosures made in note I to this report concerning the basis of the preparation of the Accounts prepared by the directors. As explained in note I to this report, the JV's financial statements have been prepared on a going concern basis, the validity of which is dependent on the continuing support of the JV's bankers and the financial support to be provided by the Company after the completion of the Acquisition. We consider that appropriate disclosures have been made and our opinion is not qualified in this aspect.

In our opinion, the Financial Information together with the notes thereto give, for the purpose of this report, a true and fair view of results of Telesuccess and results and cash flows of the JV for each of the Periods and each of the Relevant Periods, respectively, and of the state of affairs of Telesuccess and the JV as at 31 December 2002 and 2003 and 31 December 2001, 2002 and 2003, respectively.

I. FUNDAMENTAL ACCOUNTING CONCEPT

The JV recorded a loss from operating activities of HK$2,154,000 for the year ended 31 December 2003 and had net cash outflows from operating activities of HK$29,001,000 for the same year. The directors of the JV have been in negotiations with the JV's bankers with a view to renewing the existing banking facilities granted to the JV by the bankers. Although none of the bankers has indicated that it will not renew the JV's existing banking facilities, the JV has not received any written confirmation of the renewal of its banking facilities from any of its bankers as of the date of this report. Nevertheless, the directors of the JV expect that the bankers will renew the JV's existing banking facilities upon their expiry. Further, the directors also expected that the Company will provide financial support to the JV after the completion of the Acquisition. Should the Acquisition not be completed and hence the financial support from the Company not be forthcoming, and should the JV fail to renew its existing banking facilities, the JV may not be able to continue in business as a going concern, adjustments would have to be made to restate the values of the JV's assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify its non-current liabilities as current liabilities.

II. PRINCIPAL ACCOUNTING POLICIES

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

(a) Related parties

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

(b) Impairment of assets

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

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

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

(c) Fixed assets and depreciation

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

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

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

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

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

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

(d) Intangible assets

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

(e) Leased assets

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

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

(f) Cash and cash equivalents

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

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

(g) Income tax

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

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

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

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

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

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

(h) Revenue recognition

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

(a) Telecommunication and other related services

Telecommunication services comprise the telecommunication network services in the PRC. Telecommunication and other related services based on usage of the JV's optical fibre network and related facilities are recognised when the services are rendered;

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

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

III. RESULTS

The following is a summary of the results of Telesuccess for the Periods:

	Period from 12 February 2002 (date of incorporation) to 31 December 2002	**Year ended 31 December 2003**
	HK$'000	*HK$'000*
Turnover	–	–
Administrative expenses	(10)	(5)
Net loss for the period/year	(10)	(5)

Notes:

(i) No provision for Hong Kong profits tax has been made as Telesuccess did not generate any taxable profits in Hong Kong for the Periods.

(ii) No director received any fees or other emoluments in respect of services rendered to Telesuccess during the Periods.

IV. BALANCE SHEET

The following are the balance sheets of Telesuccess as at 31 December:

	Notes	2002 *HK$'000*	2003 *HK$'000*
CURRENT LIABILITY			
Due to a shareholder	(a)	(10)	(15)
		(10)	(15)
DEFICIENCY IN ASSETS			
Issued capital	(b)	–	–
Accumulated losses		(10)	(15)
		(10)	(15)

Notes:

(a) Due to a shareholder

The amount is unsecured, interest-free and has no fixed terms of repayment. Subsequent to the balance sheet date, as detailed in Section VI (i) below, Telesuccess acquired the 80.9% equity interest in the JV at a consideration of HK$108 million which was settled through the current account with the shareholder of Telesuccess. Subsequent to the completion of the acquisition, the shareholder granted a waiver to Telesuccess to fully waive the amount due to the shareholder by Telesuccess.

(b) Share capital

	2002 *HK$'000*	2003 *HK$'000*
Authorised:		
50,000 ordinary shares of US$1 each	390	390
Issued and fully paid:		
1 ordinary share of US$1 each	–	–

Telesuccess was incorporated on 12 February 2002 with an authorised share capital of US$50,000 divided into 50,000 shares of US$1 each. At the time of incorporation, 1 ordinary share of US$1 each was issued at par for cash to the subscriber.

(c) Commitments and contingent liabilities

As at 31 December 2002 and 2003, Telesuccess did not have any material commitments or contingent liabilities.

V. STATEMENTS OF MOVEMENTS IN EQUITY

The movements in the shareholders' equity of Telesuccess for the Periods are as follows:

	Issued capital	Accumulated losses	Total
	HK$'000	*HK$'000*	*HK$'000*
At 12 February 2002 (date of incorporation)	–	–	–
Net loss for the period	–	(10)	(10)
At 31 December 2002 and 1 January 2003	–	(10)	(10)
Net loss for the year	–	(5)	(5)
At 31 December 2003	–	(15)	(15)

VI. SUBSEQUENT EVENTS

(i) On 16 January 2004, a sale and purchase agreement was entered into between Telesuccess and NT&T, for the acquisition of the 80.9% equity interest in the JV at a consideration of HK$108 million which was settled through the current account with the shareholder. Since then, the JV became a 80.9% owned subsidiary of Telesuccess. Subsequent to the completion of the acquisition, Telesuccess was granted a waiver by the shareholder to fully waive the amount due to him by Telesuccess.

(ii) On 26 March 2004, a conditional sale and purchase agreement was entered into between Mr. Man and China Land Realty Investment (BVI) Limited, a wholly-owned subsidiary of the Company, for the acquisition of the entire issued share capital of Telesuccess at a consideration of HK$200,000,000 which will be satisfied as to HK$140,000,000 by cash and as to the remaining HK$60,000,000 by the issue and allotment of 464,396,284 new shares at an issue price of HK$0.1292 per share by the Company to Mr. Man.

The financial information in respect of the JV is set out in Section VII below.

VII. ACQUISITION OF THE JV

(i) Results

The following is a summary of the results of the JV for the Relevant Periods:

		Year ended 31 December		
		2001	**2002**	**2003**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*
TURNOVER	(a)	17,825	26,559	18,477
Cost of sales		(7,484)	(11,381)	(15,047)
Gross profit		10,341	15,178	3,430
Other revenue	(a)	40	31	37
Administrative expenses		(3,065)	(2,338)	(2,951)
Other operating expenses		(25,620)	(5,180)	(2,670)
PROFIT/(LOSS) FROM OPERATING ACTIVITIES	(b)	(18,304)	7,691	(2,154)
Finance costs	(c)	–	(331)	(1,751)
Waiver of an amount due to the then ultimate holding company		–	–	15,710
Waiver of a loan from the then ultimate holding company		–	–	825
PROFIT/(LOSS) BEFORE TAX		(18,304)	7,360	12,630
Tax	(e)	–	(1,665)	(2,383)
NET PROFIT/(LOSS) FOR THE YEAR		(18,304)	5,695	10,247

Notes:

(a) Turnover and other revenue

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

An analysis of the JV's turnover and revenue is as follows:

	Year ended 31 December		
	2001	**2002**	**2003**
	HK$'000	*HK$'000*	*HK$'000*
Turnover			
Telecommunication and other related services income	13,637	19,495	18,477
Software licensing income	4,188	7,064	–
	17,825	26,559	18,477
Other revenue			
Interest income	40	31	37
	17,865	26,590	18,514

(b) Profit/(loss) from operating activities

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

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

* *Included in "Cost of sales" of Section VII (i) above.*

** *Included in the "Other operating expenses" of Section VII (i) above.*

(c) Finance costs

	Year ended 31 December		
	2001	**2002**	**2003**
	HK$'000	*HK$'000*	*HK$'000*
Interest on bank loans wholly repayable within five years	–	331	1,716
Interest on finance leases	–	–	35
	–	331	1,751

(d) Directors' remuneration and five highest paid employees

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

	Year ended 31 December		
	2001	**2002**	**2003**
	HK$'000	*HK$'000*	*HK$'000*
Fees	–	–	–
Salaries, allowances and benefits in kind	296	173	187

During the Relevant Periods, there was no arrangement under which a director waived or agreed to waive any remuneration.

The five highest paid employees during the Relevant Periods included 4 (2002: 3; 2001: 3) directors, details of whose remuneration are set out above. Details of the emoluments of the remaining 1 (2002: 2; 2001: 2) non-director, highest paid employee during the Relevant Periods are set out below:

	Year ended 31 December		
	2001	**2002**	**2003**
	HK$'000	*HK$'000*	*HK$'000*
Salaries, allowances and benefits in kind	196	83	58

(e) Tax

	Year ended 31 December		
	2001	**2002**	**2003**
	HK$'000	*HK$'000*	*HK$'000*
Current year provision – PRC	–	1,665	2,333
Underprovision in prior years	–	–	50
Total tax charge for the year	–	1,665	2,383

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

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

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

	Year ended 31 December					
	2001		**2002**		**2003**	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*
Profit/(loss) before tax	(18,304)		7,360		12,630	
Tax charge/(credit) at the statutory tax rate	(6,040)	33	2,429	33	4,168	33
Lower tax rate for specific industry	–	–	(1,325)	(18)	(2,273)	(18)
Lower tax rate for tax relief granted	6,040	(33)	–	–	–	–
Expenses not deductible for tax	–	–	561	8	438	4
Adjustments in respect of current tax of previous years	–	–	–	–	50	–
Tax charge at the JV's effective rate	–	–	1,665	23	2,383	19

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

(f) Earnings per share

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

(ii) Balance sheet

The following are the balance sheets of the JV as at 31 December:

	Notes	2001	2002	2003
		HK$'000	*HK$'000*	*HK$'000*
NON-CURRENT ASSETS				
Fixed assets	(a)	82,650	103,861	98,178
Intangible assets	(b)	7,769	5,742	3,715
Prepayment and deposits	(c)	–	18,866	44,515
		90,419	128,469	146,408
CURRENT ASSETS				
Trade receivables	(d)	2,805	12,425	22,349
Prepayments, deposits and other receivables	(c)	705	1,886	2,064
Cash and bank balances		5,269	2,119	3,155
		8,779	16,430	27,568
CURRENT LIABILITIES				
Loan from a then fellow subsidiary	(e)	–	–	2,434
Due to the then ultimate holding company	(e)	12,795	15,710	–
Loan from the then ultimate holding company	(e)	59,978	38,561	–
Interest-bearing bank borrowings, unsecured	(f), (g)	–	18,868	56,604
Other payables and accruals		1,362	5,226	4,891
Finance lease payables	(h)	–	–	436
Tax payable		–	1,342	3,714
		74,135	79,707	68,079
NET CURRENT LIABILITIES		(65,356)	(63,277)	(40,511)
TOTAL ASSETS LESS CURRENT LIABILITIES		25,063	65,192	105,897

	Notes	2001 HK$'000	2002 HK$'000	2003 HK$'000
NON-CURRENT LIABILITIES				
Loan from a then fellow subsidiary	(e)	–	8,019	–
Finance lease payables	(h)	–	–	741
		–	8,019	741
		25,063	57,173	105,156
CAPITAL AND RESERVE				
Paid-up capital	(i)	39,623	66,038	103,774
Retained profits/ (accumulated losses)	(j)	(14,560)	(8,865)	1,382
		25,063	57,173	105,156

Notes:

(a) Fixed assets

	Leasehold improvements HK$'000	Telecommunication network and equipment HK$'000	Computer and office equipment, furniture and fixtures HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
Cost:						
At 1 January 2001	119	59,534	353	566	3,652	64,224
Additions	1,483	655	773	–	23,236	26,147
Transfers	–	20,685	–	–	(20,685)	–
At 31 December 2001	1,602	80,874	1,126	566	6,203	90,371
Accumulated depreciation:						
At 1 January 2001	–	2,802	29	113	–	2,944
Provided during the year	173	4,339	152	113	–	4,777
At 31 December 2001	173	7,141	181	226	–	7,721
Net book value:						
At 31 December 2001	1,429	73,733	945	340	6,203	82,650

	Leasehold improvements *HK$'000*	Telecommunication network and equipment *HK$'000*	Computer and office equipment, furniture and fixtures *HK$'000*	Motor vehicles *HK$'000*	Construction in progress *HK$'000*	Total *HK$'000*
Cost:						
At 1 January 2002	1,602	80,874	1,126	566	6,203	90,371
Additions	217	197	147	152	28,022	28,735
Transfers	–	10,088	–	–	(10,088)	–
At 31 December 2002	1,819	91,159	1,273	718	24,137	119,106
Accumulated depreciation:						
At 1 January 2002	173	7,141	181	226	–	7,721
Provided during the year	396	6,753	237	138	–	7,524
At 31 December 2002	569	13,894	418	364	–	15,245
Net book value:						
At 31 December 2002	1,250	77,265	855	354	24,137	103,861
Cost:						
At 1 January 2003	1,819	91,159	1,273	718	24,137	119,106
Additions	17	1,432	2	–	1,840	3,291
Transfers	–	25,977	–	–	(25,977)	–
At 31 December 2003	1,836	118,568	1,275	718	–	122,397
Accumulated depreciation:						
At 1 January 2003	569	13,894	418	364	–	15,245
Provided during the year	409	8,148	273	144	–	8,974
At 31 December 2003	978	22,042	691	508	–	24,219
Net book value:						
At 31 December 2003	858	96,526	584	210	–	98,178

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

(b) Intangible assets

	2001	2002	2003
	HK$'000	*HK$'000*	*HK$'000*
Cost:			
At beginning of the year	–	14,858	14,858
Additions	14,858	–	–
At the end of the year	14,858	14,858	14,858
Accumulated amortisation and impairment:			
At beginning of year	–	7,089	9,116
Provided during the year	337	2,027	2,027
Impairment charged to the profit and loss account during the year	6,752	–	–
At the end of the year	7,089	9,116	11,143
Net book value:			
At 31 December	7,769	5,742	3,715

(c) Prepayments, deposits and other receivables

			31 December	
		2001	2002	2003
		HK$'000	*HK$'000*	*HK$'000*
Non-current assets:				
Prepayment	*(i)*	–	18,866	17,873
Deposits	*(ii)*	–	–	26,642
		–	18,866	44,515
Current assets:				
Prepayments	*(i)*	–	993	1,027
Deposits and other receivables		705	893	1,037
		705	1,886	2,064

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

(ii) The balance as at 31 December 2003 represents the deposits paid for the participation of a telecommunication project of HK$22,868,000 and the acquisition of telecommunication equipment of HK$3,774,000.

(d) Trade receivables

An aged analysis of the JV's trade receivables as at the balance sheet dates, based on the date of recognition of turnover, and net of provisions, is as follows:

	31 December		
	2001	**2002**	**2003**
	HK$'000	*HK$'000*	*HK$'000*
Within 3 months	1,630	1,712	3,975
4 - 6 months	863	788	5,704
7 - 12 months	312	9,925	6,246
Over 12 months	–	–	6,424
	2,805	12,425	22,349

(e) Balances with the then ultimate holding company and a then fellow subsidiary

The balances with the then ultimate holding company, NT&T, and a then fellow subsidiary are unsecured and interest-free. Except for the loan from a then fellow subsidiary of HK$8,019,000 as at 31 December 2002, which was repayable more than one year, the other balances have no fixed terms of repayment. Subsequent to 31 December 2003, the loan from a then fellow subsidiary of HK$8,019,000 was fully repaid.

(f) Interest-bearing bank borrowings, unsecured

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

(g) Banking facilities

As at 31 December 2002 and 2003, the JV's banking facilities were supported by corporate guarantees provided by certain third parties.

(h) Finance lease payables

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

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

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

(i) Paid-up capital

	31 December		
	2001	**2002**	**2003**
	HK$'000	*HK$'000*	*HK$'000*
Registered capital	66,038	66,038	103,774
Paid-up capital	39,623	66,038	103,774

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

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

(j) Reserves

Details of the movements in the reserves of the JV are included in statements of movements in equity in Section VII (iii) below.

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

(k) Operating lease arrangements

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

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

	31 December		
	2001	**2002**	**2003**
	HK$'000	*HK$'000*	*HK$'000*
Within one year	766	597	540
In the second to fifth years, inclusive	2,693	1,572	1,087
After five years	1,245	305	–
	4,704	2,474	1,627

(l) Commitments

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

(a) Capital commitments

	31 December		
	2001	**2002**	**2003**
	HK$'000	*HK$'000*	*HK$'000*
Contracted, but not provided for:			
Telecommunication equipment	149	378	275
Telecommunication project	–	–	8,080
	149	378	8,355

(m) Related party transactions

In addition to the transactions and balances detailed elsewhere in these financial statements, the JV had the following transactions with related parties during the Relevant Periods:

		31 December		
		2001	**2002**	**2003**
	Note	*HK$'000*	*HK$'000*	*HK$'000*
Design and construction fee paid to a shareholder	(i)	943	–	–

Note:

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

(iii) Statements of movements in equity

The movements in the shareholders' equity of the JV for the Relevant Periods are as follows:

	Paid-up capital	**Retained profits/ (accumulated losses)**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
At 1 January 2001	39,623	3,744	43,367
Net loss for the year	–	(18,304)	(18,304)
At 31 December 2001 and 1 January 2002	39,623	(14,560)	25,063
Increase in paid-up capital	26,415	–	26,415
Net profit for the year	–	5,695	5,695
At 31 December 2002 and 1 January 2003	66,038	(8,865)	57,173
Increase in paid-up capital	37,736	–	37,736
Net profit for the year	–	10,247	10,247
At 31 December 2003	103,774	1,382	105,156

(iv) Cash flow statements

The cash flow statements of the JV for the Relevant Periods are as follows:

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

	Year ended 31 December		
	2001	**2002**	**2003**
	HK$'000	*HK$'000*	*HK$'000*
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of fixed assets	(26,147)	(28,735)	(1,877)
Increase in intangible assets	(14,858)	–	–
Net cash outflow from investing activities	(41,005)	(28,735)	(1,877)
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans	–	18,868	56,604
Repayment of bank loans	–	–	(18,868)
Increase in a loan from the then ultimate holding company	39,977	4,998	–
Increase/(decrease) in a loan from a then fellow subsidiary	–	8,019	(5,585)
Capital element of finance lease rental payments	–	–	(237)
Net cash inflow from financing activities	39,977	31,885	31,914
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	4,618	(3,150)	1,036
Cash and cash equivalents at beginning of year	651	5,269	2,119
CASH AND CASH EQUIVALENTS AT END OF YEAR	5,269	2,119	3,155
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	5,269	2,119	3,155

Major non-cash transactions:

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

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

(v) Segment information

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

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

(a) Telecommunication and other related services; and

(b) Software licensing services.

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

(a) Business segment

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

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

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

(b) Geographical segments

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

VIII. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by Telesuccess and the JV in respect of any period subsequent to 31 December 2003.

Yours faithfully,
ERNST & YOUNG
Certified Public Accountants
Hong Kong

1. FIVE YEAR SUMMARY

A summary of the results and of the assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the respective published audited financial statements and restated as appropriate, is set out below:

Results

	Year ended 31 December				
	2003	**2002**	**2001**	**2000**	**1999**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
		(Restated)	(Restated)	(Restated)	
Turnover	5,507	172,511	215,764	177,795	147,970
Profit/(loss) before tax	(148,136)	(187,184)	50,226	21,641	12,789
Tax	(126)	(12,564)	(18,651)	(6,650)	(10,571)
Profit/(loss) before minority interests	(148,262)	(199,748)	31,575	14,991	2,218
Minority interests	–	7,340	(1,893)	–	(38)
Net profit/(loss) from ordinary activities attributable to shareholders	(148,262)	(192,408)	29,682	14,991	2,180

Assets, Liabilities and Minority Interests

	2003	**2002**	**2001**	**2000**	**1999**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
		(Restated)	(Restated)	(Restated)	(Restated)
TOTAL ASSETS	599,059	765,595	1,725,086	1,398,421	1,305,148
TOTAL LIABILITIES	(243,472)	(282,982)	(621,743)	(611,743)	(510,108)
MINORITY INTERESTS	–	–	(308,274)	–	–
	355,587	482,613	795,069	786,678	795,040

2. AUDITED FINANCIAL INFORMATION

Set out below is a summary of the audited consolidated profit and loss accounts of the Group for each of the two years ended 31st December, 2002 and 2003 and the consolidated balance sheets as at 31st December, 2002 and 2003 of the Group together with the relevant notes in the accounts as extracted from the audited financial statements of the Company for the year ended 31st December, 2003.

Consolidated Profit and Loss Account
(Year ended 31 December 2003)

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

Consolidated Balance Sheet
(31 December 2003)

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

Consolidated Summary Statement of Changes in Equity
(Year ended 31 December 2003)

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

Consolidated Cash Flow Statement
(Year ended 31 December 2003)

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

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

Balance Sheet

(31 December 2003)

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

Notes to Financial Statements

(31 December 2003)

1. CORPORATE INFORMATION

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

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

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

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

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

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

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

Measurement and recognition:

- deferred tax assets and liabilities relating to the differences between capital allowances for tax purposes and depreciation for financial reporting purposes and other taxable and deductible temporary differences are generally fully provided for, whereas previously the deferred tax was recognised for timing differences only to the extent that it was probable that the deferred tax asset or liability would crystallise in the foreseeable future;

- a deferred tax liability has been recognised on the revaluation of the Group's investment properties;

- a deferred tax asset has been recognised for tax losses arising in the current/prior periods to the extent that it is probable that there will be sufficient future taxable profits against which such losses can be utilised; and

Disclosures:

- deferred tax assets and liabilities are presented separately on the balance sheet, whereas previously they were presented on a net basis; and

- the related note disclosures are now more extensive than previously required. These disclosures are presented in notes 9 and 23 to the financial statements and include a reconciliation between the accounting loss and the tax expense for the year.

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

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

Basis of consolidation

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

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

Subsidiaries

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

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

Joint venture companies

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

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

A joint venture company is treated as:

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

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

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

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

Jointly-controlled entities

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

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

Goodwill

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

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

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

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

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

Related parties

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

Impairment of assets

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

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

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

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

Fixed assets and depreciation

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

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

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

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

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

Investment properties

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

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

Intangible assets

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

Operating leases

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

Cash and cash equivalents

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

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

Income tax

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

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

Deferred tax liabilities are recognised for all taxable temporary differences:

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

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

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

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

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

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

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

Revenue recognition

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

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

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

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

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

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

Employee benefits

Retirement benefits scheme

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

Share option scheme

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

Foreign currencies

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

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

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

4. SEGMENT INFORMATION

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

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

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

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

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

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

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

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

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

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

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

5. TURNOVER

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

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

6. LOSS FROM OPERATING ACTIVITIES

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

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

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

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

7. FINANCE COSTS

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

8. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES

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

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

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

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

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

Five highest paid employees

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

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

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

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

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

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

9. TAX

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

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

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

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

Group – 2003

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

Group - 2002

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

10. NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

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

11. LOSS PER SHARE

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

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

12 FIXED ASSETS

Group

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

Company

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

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

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

13. INVESTMENT PROPERTIES

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

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

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

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

14. INTANGIBLE ASSETS

Group

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

15. INTERESTS IN SUBSIDIARIES

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

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

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued share/ registered capital	Percentage of equity attributable to the Company 2003	Percentage of equity attributable to the Company 2002	Principal activities
Directly held					
China Land Realty Investment (BVI) Limited	British Virgin Islands/ Hong Kong	US$11,204 Ordinary	100	100	Investment holding
Indirectly held					
Chongqing Smart Hero Real Estate Development Company Limited ("CQ Smart Hero")	Mainland China	US$2,000,000 Registered capital *(Note a)*	100	100	Property development, holding and management
Ever Brian Inc. ("Ever Brian")	British Virgin Islands/ Mainland China	US$1 Ordinary	100	100	Sale of online English learning courses
I-Action Agents Limited	British Virgin Islands/ Hong Kong	US$1 Ordinary	100	100	Investment holding
Smart Hero (Holdings) Limited	Hong Kong	HK$2 Ordinary, HK$300 Non-voting deferred *(Note b)*	100	100	Investment holding
Proland International Technology Limited	Hong Kong	HK$2	100	100	Investment holding
Guangzhou Proland Electrical Technology Limited ("GZ Proland")	Mainland China	HK$1,500,000 Registered capital *(Note a)*	100	100	Leasing of equipment

Notes:

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

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

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

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

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

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

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

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

16. INTERESTS IN JOINTLY-CONTROLLED ENTITIES

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

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

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

Group

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

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

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

Particulars of the jointly-controlled entities are as follows:

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

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

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

17. TRADE RECEIVABLES

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

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

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

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

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

18. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

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

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

19. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

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

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

20. TRADE PAYABLES

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

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

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

21. OTHER PAYABLES AND ACCRUALS

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

22. INTEREST-BEARING BANK LOANS

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

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

23. DEFERRED TAX

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

Deferred tax liabilities

Group

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

Deferred tax assets

Group

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

Deferred tax liabilities

Group

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

Deferred tax assets

Group

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

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

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

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

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

24. SHARE CAPITAL

Shares

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

Share options

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

25. SHARE OPTION SCHEMES

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

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

(1) Old Scheme

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

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

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

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

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

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

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

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

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

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

(2) New Scheme

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

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

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

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

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

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

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

26. RESERVES

Group

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

Notes:

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

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

Company

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

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

27. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Disposal of subsidiaries

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

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

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

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

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

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

(b) Major non-cash transactions

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

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

28. CONTINGENT LIABILITIES

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

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

29. PLEDGE OF ASSETS

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

30. COMMITMENTS

(a) Capital commitments

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

(b) Commitments under operating leases

(i) As lessor

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

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

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

(ii) As lessee

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

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

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

31. CONNECTED AND RELATED PARTY TRANSACTIONS

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

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

32. POST BALANCE SHEET EVENTS

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

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

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

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

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

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

33. COMPARATIVE AMOUNTS

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

34. APPROVAL OF THE FINANCIAL STATEMENTS

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

3. STATEMENT OF UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS OF THE ENLARGED GROUP

For illustrative purpose only, the following is a statement of the unaudited pro forma adjusted consolidated net tangible assets of the Enlarged Group, which is prepared based on the audited consolidated net assets of the Group as at 31st December, 2003, adjusted to reflect the effect of the Acquisition at Completion.

	Immediately before Completion (Unaudited)	**Adjustments**	**Pro forma**
	HK$'000	*HK$'000*	*HK$'000*
	(Note 1)	*(Note 2)*	*(Note 3)*
Net tangible assets	405,668	(58,644)	347,024

Notes:

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

	HK$'000
Audited consolidated net assets of the Group as at 31st December, 2003	355,587
Less: Intangible assets	(35,682)
Audited consolidated net tangible assets of the Group as at 31st December, 2003	319,905
Add: Deferred income recognised of proceed received from the Disposal up to 30 April, 2004	85,763
Unaudited pro forma adjusted consolidated net tangible asset value of the Group immediately before Completion	405,668

(2) Following the Completion, adjustments will be included as follows:

Net asset value attributable to the Acquisition	108,000
Issue of new Shares as part of the consideration of the Acquisition	60,000
Estimated goodwill arising from the Acquisition	92,000
Intangible assets of the Telesuccess group	(26,644)
Consideration payable for the Acquisition	(200,000)
Estimated goodwill arising from the Acquisition	(92,000)
	(58,644)

(3)

Unaudited pro forma adjusted consolidated net tangible asset value per Share immediately before Completion based on 2,980,016,725 Shares in issue before Completion	0.136
Unaudited pro forma adjusted consolidated net tangible asset value per Share immediately following Completion based on 3,444,413,009 Shares to be in issue following Completion	0.101

(4) The excess of the fair value of certain fixed assets of Telesuccess and its subsidiary as at 31st December, 2003 (which is based on an independent valuation) over their book value of approximately HK$108.6 million has not been taken into account in the above statement for the fair value adjustment.

4. PRO FORMA STATEMENT OF ASSETS AND LIABILITIES OF THE ENLARGED GROUP

The following is a summary of the pro forma statement of unaudited adjusted consolidated assets and liabilities of the Enlarged Group, assuming the transactions contemplated under the Agreement had been implemented on 31st December, 2003 based on the audited consolidated balance sheet of the Group as at 31st December, 2003 and the pro forma consolidated balance sheet of Telesuccess as at 31st December, 2003 (prepared on the basis set out in the note 1 below), and adjusted to reflect the effect of the Agreement and the settlement of the amount receivable of HK$50 million from Guangdong Properties pursuant to the Asset Disposal Agreement:

	Audited consolidated balance sheet of the Group as at 31st December, 2003	**Pro forma consolidated balance sheet of Telesuccess as at 31st December, 2003**	**Adjustments**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
		(Note 1)	*(Note 2)*	
Non current tangible assets	439,516	142,693	(140,000)	442,209
Non current intangible assets	35,682	26,644	92,000	154,326
Total non current assets	475,198	169,337	(48,000)	596,535
Current assets	123,861	27,568	–	151,429
Current liabilities	(92,967)	(68,079)	22,568	(138,478)
Net current assets/(liabilities)	30,894	(40,511)	22,568	12,951
Total assets less current liabilities	506,092	128,826	(25,432)	609,486
Non-current liabilities	(150,505)	(741)	63,195	(88,051)
Minority interests	–	(20,085)	–	(20,085)
Net assets	355,587	108,000	37,763	501,350
Net assets:				
Net tangible assets	319,905	81,356	(54,237)	347,024
Net intangible assets	35,682	26,644	92,000	154,326
	355,587	108,000	37,763	501,350

Notes:

1. The consolidated balance sheet of Telesuccess as at 31st December, 2003 is prepared based on the audited balance sheet of Telesuccess as at 31st December, 2003 and the audited balance sheet of the JV as at 31st December, 2003 contained in the accountants' report of Telesuccess as set out in Appendix I to this circular, assuming the transactions contemplated under the Agreement had been implemented on 31st December, 2003.

2. The adjustments represent (i) the consolidation of Telesuccess upon Completion; (ii) the receipt of the instalment of the Disposal; (iii) the recognition of deferred income on instalment received on the Disposal; and (iv) the payment of the Consideration.

3. As at 31st December, 2003, an other receivable of HK$90 million due from Guangdong Properties pursuant to the Asset Disposal Agreement, and deferred income of HK$40.6 million arising from the disposal of certain subsidiaries of the Company pursuant to the Asset Disposal Agreement, were included in the non-current assets and non-current liabilities, respectively. As at Latest Practicable Date, such two balances become current in nature as the other receivable is due in January 2005 (i.e. within one year from the Latest Practicable Date). Thus, the net current assets of the Enlarged Group had been increased by HK$49.4 million as at the Latest Practicable Date.

5. INDEBTEDNESS

Borrowings

As at 31st March, 2004, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Enlarged Group had outstanding borrowings of HK$97.6 million. The borrowings comprised secured bank loan of approximately HK$35.6 million, unsecured bank loans of approximately HK$61.0 million and outstanding obligation under finance lease of approximately HK$1.0 million.

Security

As at 31st March, 2004, the banking facilities of the Enlarged Group were supported by certain of the Group's investment properties, corporate guarantees executed by the Company and certain independent third parties.

Contingent liability

As at 31st March, 2004, the Enlarged Group had given guarantees of approximately HK$7.7 million for mortgage loans granted by a bank to certain purchasers of the properties of the Enlarged Group.

Disclaimer

Save as aforesaid or as otherwise mentioned herein and apart from intra-Group liabilities, the Enlarged Group did not, at the close of business on 31st March, 2004, have any outstanding loan capital issued and outstanding or agreed to be issued, bank overdrafts, charges or debentures, mortgages, loans, or other similar indebtedness or any finance lease commitments, hire purchase commitments, liabilities under acceptances (other than normal trade bills), acceptance credits or any guarantees or other contingent liabilities.

The Directors have confirmed that there have been no material changes in the indebtedness and contingent liabilities of the Enlarged Group since 31st March, 2004.

Foreign currency transactions

Foreign currency amounts have, for the purpose of this indebtedness statement, been translated into Hong Kong dollars at the applicable rate of exchange ruling at the close of business on 31st March, 2004.

6. WORKING CAPITAL

The Directors are of the opinion that in the absence of unforeseen circumstances and after taking into account of the remaining cash proceeds of HK$90 million to be received by the Group on or before 26th January, 2005 pursuant to the Supplemental Agreement, the internal resources of the Group and available banking and other borrowing facilities, the Group has sufficient working capital for its present requirements.

7. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31st December, 2003, the date to which the latest audited consolidated financial statements of the Group were made up.

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

2. DISCLOSURE OF INTERESTS

(a) Interests of Directors

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

(1) The Company

Name of director	Nature of Interests	Number of Shares Long position	Short position	Approximate % shareholding
Ho Tsam Hung	Corporate *(Note 1)*	270,000,000	–	9.06%
Ho Pak Hung	Corporate *(Note 2)*	270,000,000	–	9.06%
Ho Kam Hung	Corporate *(Note 3)*	270,000,000	–	9.06%

Notes:

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

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

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

(2) Associated Corporations

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

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

Name of director	Personal interests	Total number of shares Long position	Short position
Ho Tsam Hung	91	91	–
Ho Pak Hung	91	91	–
Ho Kam Hung	91	91	–

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

Name of director	Personal interests	Total number of shares Long position	Short position
Ho Tsam Hung	91	91	–
Ho Pak Hung	91	91	–
Ho Kam Hung	91	91	–

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

(3) Directors' rights to acquire Shares

The following outstanding share options were granted to the Directors under the share option scheme of the Company adopted on 19th September, 1997 (the "Old Scheme") *(Note 1)*:

Name of Director	Date of grant of share options *(Note 2)*	Exercise period of share options	Exercise price of share options *(Note 3)* *HK$*	Number of share options outstanding at the Latest Practicable Date	Approximate % shareholding *(%)*
Ho Tsam Hung	1st June, 2001	1st December, 2001 to 1st December, 2004	0.1395	27,500,000	0.92
Ho Pak Hung	1st June, 2001	1st December, 2001 to 1st December, 2004	0.1395	27,500,000	0.92
Ho Kam Hung	1st June, 2001	1st December, 2001 to 1st December, 2004	0.1395	27,500,000	0.92
				82,500,000	

Notes:

1. Pursuant to the ordinary resolutions of the Company dated 11th June, 2002, the Old Scheme was terminated in accordance with the amendments to Chapter 17 of the Listing Rules. Upon termination of the Old Scheme, no further option would be granted under it. Yet, the Old Scheme would in all other respects remain in force to the extent necessary to give effect to the exercise of the options granted under the Old Scheme prior to its termination ("Existing Options"). The Existing Options will continue to be valid and exercisable in accordance with the provision of the Old Scheme.

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

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

Saved as disclosed above, as at the Latest Practicable Date, none of the Directors or chief executive of the Company and their associates had any interests and short positions in the Shares, underlying Shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), the

Model Code for Securities Transactions by Directors of Listed Companies and which were required to be entered into the register required to be kept under section 352 of the SFO.

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

(b) Interests of substantial Shareholders

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

Name	Number of shares held	Approximate % shareholding
High Rank Enterprises Limited *(Note 1)*	1,140,000,000	38.25%
Morgan Estate Assets Limited *(Note 2)*	270,000,000	9.06%
On Tai Profits Limited *(Note 3)*	270,000,000	9.06%
Morcambe Corporation *(Note 4)*	270,000,000	9.06%

Notes:

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

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

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

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

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

3. EXPERT'S DISCLOSURE OF INTERESTS, CONSENT AND QUALIFICATION

As at the Latest Practicable Date, Ernst & Young, being certified public accountants, had no direct or indirect shareholding in any member of the Group, or any right to subscribe for or to nominate persons to subscribe for shares in any member of the Group, or any interests, directly or indirectly, in any assets which had been since 31st December, 2003, being the latest published audited consolidated accounts of the Company were made up, acquired or disposed of by or leased to, or were proposed to be acquired or disposed of by or leased to any member of the Group.

Ernst & Young has given and has not withdrawn its written consent to the issue of this circular with the inclusion therein of its report and references to its name in the form and context in which their appear.

The following is the qualification of the expert who has given opinion or advice which is contained in this circular:

Name	**Qualification**
Ernst & Young	Certified Public Accountants

4. MATERIAL CONTRACTS

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

(1) The guarantee dated 31st December, 2002 entered into by and between Mr. Ho Tsam Hung, a Director, and the Company, pursuant to which Mr. Ho Tsam Hung agreed to indemnity the Company from any losses arising from certain other receivables totalling approximately HK$17,164,000. The guarantee covers the period from 1st January, 2003 to 31st December, 2003;

(2) The Asset Disposal Agreement;

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

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

(5) The Agreement.

5. LITIGATION

As at the Latest Practicable Date, neither the Company nor any of its subsidiaries 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 against any member of the Group.

6. SERVICE CONTRACTS

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

7. MISCELLANEOUS

(a) There is no contract or arrangement entered into by any member of the Group subsisting as at the Latest Practicable Date in which any Director is materially interested and which is significant in relation to the business of the Group.

(b) None of the Directors has, or has had, any direct or indirect interest in any assets which have been acquired, disposed of or leased to, or which are proposed to be acquired, disposed of or leased to, by the Company or any of its subsidiaries since 31st December, 2003, the date to which the latest published audited financial statements of the Group were made up.

(c) The secretary of the Company is Ms. Yam Ka Yin Rebecca, Qualified Accountant.

(d) The registered office of the Company is situated at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda and its principal office is at Unit 6307, 63rd Floor, The Center, 99 Queen's Road Central, Hong Kong. The Hong Kong branch share register and transfer office of the Company is Tengis Limited, 28th Floor, BEA Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong.

(e) The English text of this circular shall prevail over the Chinese text.

8. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at the principal office of the Company up to and including 14th June, 2004:

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

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

(c) the accountants' report of Telesuccess, the text of which is set out in Appendix I to this circular;

(d) the material contracts, including the Agreement, referred to in paragraph 4 of this appendix; and

(e) the written consent referred to in paragraph 3 of this appendix.