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BOARD OF DIRECTORS

Executive Directors

Ho Tsam Hung (*Chairman*)
 Ho Pak Hung (*Deputy Chairman*)
 Ho Kam Hung (*Managing Director*)

Independent Non-Executive Directors

Ng Kin Sun
 Young Kwok Sui
 Zhang Jie

COMPANY SECRETARY

Yam Ka Yin, Rebecca

REGISTERED OFFICE

Clarendon House
 2 Church Street
 Hamilton HM11
 Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Unit 6307, 63/F, The Center
 99 Queen's Road Central
 Hong Kong

PRINCIPAL OFFICE IN CHINA

Chongqing

Level 14, Gang Yu Square
 Chiaodong Road
 Chiaotianmen
 Chongqing

AUDITORS

Ernst & Young

Certified Public Accountants
 15th Floor, Hutchison House
 10 Harcourt Road
 Central
 Hong Kong

LEGAL ADVISERS

As to Hong Kong Law
 Hui & Lam Solicitors & Notaries
 Rooms 2001-4, 20/F
 Hang Seng Building
 77 Des Voeux Road
 Central
 Hong Kong

As to Bermuda law
 Conyers Dill & Pearman
 3408 Two Exchange Square
 8 Connaught Place
 Central
 Hong Kong

PROPERTY VALUER

Chesterton Petty Ltd
 16th Floor, CITIC Tower
 1 Tim Mei Avenue
 Hong Kong

PRINCIPAL BANKERS

The Bank of East Asia, Limited,
Guangzhou Branch
 The Hongkong and Shanghai Banking
 Corporation Limited
 Nanyang Commercial Bank Ltd

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Corporate Services Limited
 Rosebank Centre
 11 Bermudiana Road
 Pembroke
 Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tengis Limited
 28th Floor, BEA Harbour View Centre
 56 Gloucester Road
 Wanchai
 Hong Kong

On behalf of the board of directors (the "Directors") of Zhong Hua International Holdings Limited (the "Company"), I am pleased to present the Annual Report of the Company and its subsidiaries (together the "Group") for the year ended 31 December 2004.

REVIEW OF RESULTS

The Directors are pleased to report that the Group recorded a turnover of HK\$25,145,000 (31 December 2003: HK\$5,507,000) for the year ended 31 December 2004, representing an increase of 357% compared with 2003. Net profit from ordinary activities attributable to shareholders was HK\$46,264,000 (31 December 2003: net loss of HK\$148,262,000) for the year.

FINAL DIVIDEND

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2004.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be temporarily closed from Thursday, 2 June 2005 to Friday, 3 June 2005, both dates inclusive, during which period no transfer of shares will be effected. In order to qualify for the attendance at the Company's annual general meeting to be held on Friday, 3 June 2005, all completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tengis Limited at 28th Floor, BEA Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong for registration not later than 4:00 p.m. on Wednesday, 1 June 2005.

BUSINESS REVIEW

The Group's turnover in the year mainly comprised the rental income generated from the commercial podium in Chongqing in Mainland China, the leasing of Point-of-sale ("POS") equipment in Guangzhou and the provision of telecommunication and other related services in Mainland China. The increase in turnover was mainly attributable to the acquisition of 80.9% equity interest in 廣州天城網絡通訊有限公司 ("Sky City") in the year, which provides integrated telecommunication network services to online game developers and other broadband media providers.

In addition, the Group received HK\$190,000,000 from the disposal of 51% equity interest in former subsidiaries in the year, which recognised a gain on disposal of HK\$85,763,000.

Property investment

The rental income generated from leasing of the commercial units in Gang Yu Square in Chongqing in Mainland China, was increased in the year compared with 2003. The occupancy rate of the square in the year was highly satisfactory. It is expected that the business will continue to generate a steady stream of income to the Group.

Provision of online English learning services

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

Leasing of equipment

Since late 2003, the Group started to be engaged in leasing of corded and cordless POS equipment in Guangzhou for a term of five years with an option to extend till 17 July 2011. Monthly leasing income will be received on POS equipment each leased out. Other than leasing of POS equipment, the Group has the rights to operate the value-added services generated from the application of POS equipment.

Provision of telecommunication and other related services

In the year, the Group has acquired 80.9% equity interest in Sky City, which provides integrated telecommunication network services to online game developers and other broadband media providers. Sky City has demonstrated that it has tapped into the rapidly growing market of on-line business in Mainland China and the Group is satisfied with its financial performance so far generated. With the continuing economic growth in Mainland China, the growth in the internet population and the increasing demand for online games in Mainland China, the Directors are of the view that Sky City would continue to provide a very positive contribution to the Group and more resources would be put into this business in order to further strengthen its market position.

In order to maximize the shareholders' return, the Group had further acquired the remaining 19.1% equity interest in Sky City (the "Acquisition") and the Acquisition was completed in February 2005. With a streamlined management and operational structure through full control of Sky City by the Group, it is expected that the business of Sky City will be operated more effectively in the future.

FINANCIAL REVIEW

Liquidity and financial resources

In the year ended 31 December 2004, the Group generally financed its businesses with internally generated cash flows, banking facilities, net proceeds from placing of new shares and issue of convertible bonds in the year.

Cash and bank balances for the Group as at 31 December 2004 amounted to HK\$106,254,000 (31 December 2003: HK\$41,312,000) and pledged deposits of HK\$776,000 (31 December 2003: HK\$553,000).

As at 31 December 2004, the Group had outstanding borrowings of approximately HK\$107,300,000 comprising interest-bearing bank loans and borrowings amounted to HK\$77,300,000 (31 December 2003: HK\$41,045,000) and convertible bond payable amounted to HK\$30,000,000 (31 December 2003: Nil). Of the Group's interest-bearing bank loans and borrowings, 65%, 6%, 21% and 8% respectively are repayable within one year or on demand, in the second year, in the third to fifth years, inclusive, and beyond five years. An amount of HK\$45,120,000 bank loans as at 31 December 2004 were charged at fixed interest rates (31 December 2003: Nil).

The Group's gearing ratio as at 31 December 2004 was 0.25 (31 December 2003: 0.20), calculated based on the Group's total liabilities, excluding deferred income, of HK\$190,055,000 (31 December 2003: HK\$117,084,000) over total assets of HK\$758,442,000 (31 December 2003: HK\$599,059,000).

Currency structure

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

Pledge of assets

The Group had utilized bank loan facilities amounting to approximately HK\$77,300,000 (31 December 2003: HK\$41,045,000) as at 31 December 2004. The bank loans were supported by certain of the Group's investment properties, corporate guarantees executed by the Company and certain entities in Mainland China.

Contingent liabilities

As at 31 December 2004, guarantees given for mortgage loans granted by banks to certain purchasers of the Group's properties amounted to HK\$7,763,000 (31 December 2003: HK\$5,529,000).

Material acquisitions of subsidiaries

On 26 March 2004, the Group entered into a conditional agreement with an independent third party for the acquisition of 100% equity interest in Telesuccess International Limited ("Telesuccess") for a consideration of HK\$200,000,000. The purchase consideration for the acquisition was settled by cash of HK\$140,000,000 and issue and allotment of 464,396,284 new shares of the Company. The sole asset of Telesuccess is its 80.9% equity interest in Sky City. Sky City is an integrated service provider to provide integrated service to online game developers and other broadband media providers. Details of the acquisition of Telesuccess had been set out in a circular of the Company dated 31 May 2004. The transaction was completed in June 2004.

On 14 December 2004, Telesuccess entered into an agreement with the existing shareholder of Sky City, Guangdong Zhang Xun Technology Limited 廣東中訊科技有限公司 to acquire the remaining 19.1% equity interest in Sky City at a cash consideration of HK\$60,000,000. The Acquisition was completed in February 2005 and details had been set out in a circular of the Company dated 21 January 2005.

Issue of convertible bonds

The Group had entered into a conditional subscription agreement in relation to the issue of bond in a principal amount of HK\$30,000,000 (the "Bond") to CNC Broadband Entertainment Corporation Limited during the year. The maturity date of the Bond will be on the second anniversary from the date of the issue of the Bond. The proceeds was used for financing the Group's online games business operating in Mainland China. The transaction was completed on 19 August 2004. As at 31 December 2004, the conversion rights were not exercised.

Placing of new shares

In November 2004, the Group raised net proceeds of approximately HK\$42,500,000 from the placing of 475,000,000 new shares of the Company at HK\$0.09 per share, of which HK\$37,500,000 was used to develop the Group's online games business in Mainland China and the remaining balance of HK\$5,000,000 was used as the Group's general working capital.

Employee and remuneration policy

The Group employed approximately 53 full time staff in Hong Kong, Chongqing and Guangzhou, as at 31 December 2004. Employees are remunerated according to the nature of their job and market trend, with built-in merit components incorporated in the annual increment to reward and motivate individual performance. In Chongqing and Guangzhou, the Group provides staff welfare and bonuses to its employees in accordance with the prevailing labour law. In Hong Kong, other staff benefits include medical schemes, Mandatory Provident Fund Schemes and employee share option scheme.

PROSPECTS

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

APPRECIATION

On behalf of the Directors, I would like to express my sincere appreciation to all management executives and staff for their conscientious efforts and support in maintaining the Group's profile during the year.

On behalf of the Board

Ho Tsam Hung

Chairman

Hong Kong, 26 April 2005

The directors present their report together with the audited financial statements of the Company and of the Group for the year ended 31 December 2004.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the Company's principal subsidiaries are primarily property development and investment, the sale of online English learning courses, the leasing of equipment and the provision of telecommunication and other related services to online game developers and other broadband media providers in the Mainland of the People's Republic of China ("Mainland China").

During the year, the Group commenced the provision of telecommunication and other related services to online game developers and other broadband media providers in the Mainland China after its acquisition of Telesuccess International Limited, a company incorporated in the British Virgin Islands, and its subsidiary.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2004 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 17 to 61.

The directors do not recommend the payment of any dividend in respect of the year ended 31 December 2004.

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the audited financial statements, is set out on page 62 of the annual report. This summary does not form part of the audited financial statements.

FIXED ASSETS AND INVESTMENT PROPERTIES

Details of movements in the fixed assets of the Company and of the Group, and of the investment properties of the Group during the year are set out in notes 11 and 12, respectively, to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the year, together with the reasons therefor, are set out in notes 28 and 29 to the financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's bye-laws or the laws of Bermuda which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

RESERVES

Details of movements in the reserves of the Company and of the Group during the year are set out in note 30 to the financial statements and in the consolidated summary statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

At the balance sheet date, the Company's reserves available for cash distribution and distribution in specie were HK\$73,841,000. In addition, in accordance with the Companies Act 1981 of Bermuda (as amended), the Company's share premium account, in the amount of HK\$303,964,000, may be distributed in the form of fully paid bonus shares.

FINANCIAL RESOURCES AND LIQUIDITY

The Group generally finances its operations with internally generated cash flows and with facilities mainly provided by banks in Mainland China. At the balance sheet date, the Group had cash and bank balances and deposits totalling HK\$107,030,000.

At the balance sheet date, the Group had convertible bond of HK\$30,000,000 and aggregate bank loans of approximately HK\$77,300,000, of which approximately HK\$49,830,000 is repayable within one year from the balance sheet date.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, the percentage of sales and purchases attributable to the Group's major customers and suppliers were as follows:

- (i) The aggregate amount of turnover attributable to the Group's five largest customers represented 97% of the total turnover for the year. The turnover from the Group's largest customer represented 43% of the Group's total turnover for the year.
- (ii) The aggregate amount of purchases attributable to the Group's largest supplier accounted for 100% of the Group's total purchases for the year.

As far as the directors of the Company are aware, neither the directors, their respective associates nor any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers or five largest suppliers.

DIRECTORS

The directors of the Company during the year were:

Executive directors:

Ho Tsam Hung, *Chairman*

Ho Pak Hung, *Deputy Chairman*

Ho Kam Hung, *Managing Director*

Independent non-executive directors:

Zhang Jie

Young Kwok Sui

Ng Kin Sun

(appointed on 23 September 2004)

In accordance with the Company's bye-laws, Mr. Ho Pak Hung and Mr. Young Kwok Sui will retire by rotation, and being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

In accordance with the Company's bye-laws, Mr. Ng Kin Sun will hold office until the forthcoming annual general meeting and being eligible for re-election at the forthcoming annual general meeting.

In accordance with the Company's bye-laws, the terms of appointment of the independent non-executive directors will expire when they are required to retire by rotation.

The biographical details of the directors as at the date of this annual report are set out in the profile of directors and senior management on pages 12 and 13 of the annual report.

DIRECTORS' SERVICE CONTRACTS

No director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance in relation to the business of the Group to which the Company or any of its subsidiaries was a party and in which a director had a material interest, whether directly or indirectly, subsisted as at the balance sheet date or at any time during the year.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or existed during the year.

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

At 31 December 2004, the interests of the directors in the share capital and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), were as follows:

Long positions in ordinary shares of the Company

Name of director	<i>Notes</i>	Number of shares held	Percentage of the Company's issued share capital
Ho Tsam Hung	<i>(a)</i>	270,000,000	6.89
Ho Pak Hung	<i>(b)</i>	270,000,000	6.89
Ho Kam Hung	<i>(c)</i>	270,000,000	6.89
		<u>810,000,000</u>	<u>20.67</u>

The above shares are held by the directors through controlled corporation.

The interests of the directors in the share options of the Company are separately disclosed in note 29 to the financial statements.

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES (CONTINUED)**Long positions in shares of associated corporations**

Name of director	Name of associated corporation	Relationship with the Company	Shares/equity derivatives	Numbers of shares/equity derivatives held	Capacity and nature of interest	Percentage of the associated corporation's issued share capital
Ho Tsam Hung	Smart Hero (Holdings) Limited	Company's subsidiary	Non-voting deferred shares	91	Directly beneficially owned	30.13
	China Realty Investment Limited	Company's subsidiary	Non-voting deferred shares	91	Directly beneficially owned	30.13
Ho Pak Hung	Smart Hero (Holdings) Limited	Company's subsidiary	Non-voting deferred shares	91	Directly beneficially owned	30.13
	China Realty Investment Limited	Company's subsidiary	Non-voting deferred shares	91	Directly beneficially owned	30.13
Ho Kam Hung	Smart Hero (Holdings) Limited	Company's subsidiary	Non-voting deferred shares	91	Directly beneficially owned	30.13
	China Realty Investment Limited	Company's subsidiary	Non-voting deferred shares	91	Directly beneficially owned	30.13

Notes:

- (a) 270,000,000 shares are held by Morgan Estate Assets Limited, a company beneficially owned by Ho Tsam Hung.
- (b) 270,000,000 shares are held by On Tai Profits Limited, a company beneficially owned by Ho Pak Hung.
- (c) 270,000,000 shares are held by Morcambe Corporation, a company beneficially owned by Ho Kam Hung.

The rights and restrictions attached to the aforementioned non-voting deferred shares are set out in note 15 to the financial statements.

Save as disclosed above, as at 31 December 2004, none of the directors had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Save as disclosed in note 29 to the financial statements, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate granted to any director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the directors, their respective spouse or minor children to acquire such rights in any other body corporate.

DIRECTORS' INTERESTS IN A COMPETING BUSINESS

Pursuant to Rule 8.10(2) of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), details of the interests held by certain directors in a business, which competes or is likely to compete with the Group, are disclosed as follows:

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

PROFILES OF DIRECTORS AND SENIOR MANAGEMENT

Directors

Name	Age	Position	Number of years of service with the Group	Business experience
Ho Tsam Hung	52	Chairman	14	Over 14 years' experience in property development and investment in Mainland China
Ho Pak Hung	54	Deputy Chairman	14	Over 14 years' experience in property development and investment in Mainland China
Ho Kam Hung	50	Managing Director	14	Over 14 years' experience in property development and investment in Mainland China
Young Kwok Sui	47	Independent Non-Executive Director	2	Over 17 years' experience in accountancy and management consultancy services
Zhang Jie	43	Independent Non-Executive Director	2	Over 22 years' experience in commercial management in Mainland China
Ng Kin Sun	35	Independent Non-Executive Director	Newly-appointed on 23 September 2004	Over 10 years' experience in accountancy and treasury management

PROFILES OF DIRECTORS AND SENIOR MANAGEMENT (CONTINUED)

Senior management

Name	Age	Position	Number of years of service with the Group	Business experience
Yam Ka Yin, Rebecca	29	Group Financial Controller and Company Secretary	4	Over 8 years' experience in accounting and corporate finance
Chun Wai Yin, Alex	39	Accounting Manager	13	Over 17 years' experience in accounting and treasury management

EMPLOYEES AND REMUNERATION POLICY

The Group employed approximately 53 full-time staff in Hong Kong and Mainland China as at 31 December 2004. Employees are remunerated according to the nature of their job and market trends, with built-in merit components incorporated in the annual increment to reward and motivate individual performance. In Mainland China, the Group provides staff welfare and bonuses to its employees in accordance with the prevailing labour law. In Hong Kong, other staff benefits include medical schemes, the Mandatory Provident Fund scheme and an employees' share option scheme.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES AND UNDERLYING SHARES

At 31 December 2004, the following interests of 5% or more of the issued share capital and convertible bonds of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long position

Name	Capacity and nature of interest	Number of ordinary shares held	Percentage of the Company's issued share capital
High Rank Enterprises Limited (Note 1)	Directly beneficially owned	983,000,000	25.08
Cheer Faith Limited (Note 2)	Directly beneficially owned	475,000,000	12.12
Tso Hon Sai, Bosco	Controlled corporation	475,000,000	12.12
Ng Lai Shan, Emily (Note 2)	Spouse	475,000,000	12.12
Morgan Estate Assets Limited (Note 3)	Directly beneficially owned	270,000,000	6.89
On Tai Profits Limited (Note 4)	Directly beneficially owned	270,000,000	6.89
Morcambe Corporation (Note 5)	Directly beneficially owned	270,000,000	6.89
Yeung Ching Yi (Note 3)	Spouse	270,000,000	6.89
Liang Gui Fen (Note 4)	Spouse	270,000,000	6.89
Ye Jia Li (Note 5)	Spouse	270,000,000	6.89

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES (CONTINUED)

Notes:

1. Each of Ho Tsam Hung, Ho Pak Hung and Ho Kam Hung, being the executive directors, is interested in approximately 31.58% of the issued share capital of High Rank Enterprises Limited. Ho Tsam Hung, Ho Pak Hung and Ho Kam Hung are brothers.
2. Cheer Faith Limited is wholly-owned by Tso Hon Sai, Bosco ("Mr. Tso"). As Ng Lai Shan, Emily is the spouse of Mr. Tso, she is deemed to be interested in the 475,000,000 shares held by Cheer Faith Limited.
3. Morgan Estate Assets Limited is wholly-owned by Ho Tsam Hung. As Yeung Ching Yi is the spouse of Ho Tsam Hung, she is deemed to be interested in the 270,000,000 shares held by Morgan Estate Assets Limited.
4. On Tai Profits Limited is wholly-owned by Ho Pak Hung. As Liang Gui Fen is the spouse of Ho Pak Hung, she is deemed to be interested in the 270,000,000 shares held by On Tai Profits Limited.
5. Morcambe Corporation is wholly-owned by Ho Kam Hung. As Ye Jian Li is the spouse of Ho Kam Hung, she is deemed to be interested in the 270,000,000 shares held by Morcambe Corporation.

Pursuant to the subscription agreement dated 16 July 2004 entered into between CNC Broadband Entertainment Corporation ("CNCBE") and the Company in relation to the issue of a convertible bond in a principal amount of HK\$30,000,000 (the "Bond") to CNCBE, assuming full conversion of the Bond at the initial conversion price of HK\$0.15 per share, subject to adjustment from time to time, the maximum number of ordinary shares of HK\$0.02 each in the capital of the Company which may be newly issued is 200,000,000 shares. As at 31 December 2004, the conversion rights are not exercised.

Save as disclosed above, as at 31 December 2004 no person, other than the directors of the Company, whose interests are set out in the section "Directors' interests in shares and underlying shares" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events of the Group are set out in note 35 to the financial statements.

CODE OF BEST PRACTICE

In the opinion of the directors, the Company complied with the Code of Best Practice (the "Code") as set out in Appendix 14 of the Listing Rules, which was in force prior 1 January 2005, throughout the accounting period covered by the annual report, except that the non-executive directors of the Company are not appointed for specific terms as required by paragraph 7 of the Code, but are subject to retirement by rotation in accordance with the Company's Bye-laws.

The Company has received, from each of its independent non-executive directors, an annual written confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company, based on such confirmation, considers all of the independent non-executive directors are independent.

MODEL CODE

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions by the Directors. Having made specific enquiry of the Directors, the Company confirmed that the Directors have complied with the required standard set out in the Model Code for the year under review.

SUFFICIENCY OF PUBLIC FLOAT

As far as the information publicly available to the Company is concerned and to the best knowledge of the Directors, at least 25% of the Company's issued share capital were held by members of the public as at 26 April 2005 (being the latest practicable date prior to the printing of this annual report).

AUDIT COMMITTEE

The Company has an audit committee (the "Committee") which was established in accordance with the requirements of the Code, for the purposes of reviewing and supervising the Company's financial reporting process and internal controls. The Committee comprises the three independent non-executive directors of the Company. The Group's financial statements for the year ended 31 December 2004 have been reviewed by the Committee, who are of the opinion that such statements comply with the applicable accounting standards and legal requirements and that adequate disclosures have been made.

AUDITORS

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

Ho Kam Hung

Managing Director

Hong Kong

26 April 2005



To the members

Zhong Hua International Holdings Limited

(Incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 17 to 61 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants. An audit includes an examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2004 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

ERNST & YOUNG

Certified Public Accountants

Hong Kong
26 April 2005

	<i>Notes</i>	2004 HK\$'000	2003 HK\$'000
TURNOVER	4	25,145	5,507
Cost of sales		(19,545)	(920)
Gross profit		5,600	4,587
Other revenue		1,157	315
Gain on disposal of interests in subsidiaries		85,763	22,568
Selling and distribution costs		(12)	(142)
Administrative expenses		(9,657)	(11,494)
Other operating expenses		(33,437)	(28,377)
PROFIT/(LOSS) FROM OPERATING ACTIVITIES	5	49,414	(12,543)
Finance costs	6	(4,407)	(2,563)
Amortisation and impairment of goodwill on acquisition of jointly-controlled entities		–	(133,030)
PROFIT/(LOSS) BEFORE TAX		45,007	(148,136)
Tax	8	(2,320)	(126)
PROFIT/(LOSS) BEFORE MINORITY INTERESTS		42,687	(148,262)
Minority interests		3,577	–
NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	9, 30	<u>46,264</u>	<u>(148,262)</u>
EARNINGS/(LOSS) PER SHARE	10		
Basic		<u>HK1.40 cents</u>	<u>HK(4.98) cents</u>
Diluted		<u>HK1.38 cents</u>	<u>N/A</u>

	<i>Notes</i>	2004 HK\$'000	2003 HK\$'000
NON-CURRENT ASSETS			
Fixed assets	11	130,186	17,201
Investment properties	12	183,600	183,600
Intangible assets	13	23,303	35,682
Goodwill	14	84,882	–
Interests in jointly-controlled entities	16	–	–
Trade receivables	17	10,055	7,913
Prepaid rental	18	17,808	–
Deposit and other receivable	19	64,003	230,000
Pledged deposits	20	776	553
Deferred tax assets	27	–	249
		514,613	475,198
CURRENT ASSETS			
Trade receivables	17	35,689	11,869
Prepayments, deposits and other receivables	19	101,886	70,680
Cash and bank balances	20	106,254	41,312
		243,829	123,861
CURRENT LIABILITIES			
Trade payables	21	(31,486)	(34,925)
Tax payable		(14,884)	(8,667)
Other payables and accruals	22	(17,065)	(17,950)
Interest-bearing bank loans	23	(49,830)	(8,857)
Deferred income	25	(40,625)	(22,568)
Finance lease payables	24	(492)	–
		(154,382)	(92,967)
NET CURRENT ASSETS		89,447	30,894
TOTAL ASSETS LESS CURRENT LIABILITIES		604,060	506,092
NON-CURRENT LIABILITIES			
Interest-bearing bank loans	23	(27,470)	(32,188)
Finance lease payables	24	(131)	–
Deferred income	25	–	(103,820)
Convertible bonds	26	(30,000)	–
Deferred tax liabilities	27	(18,697)	(14,497)
		(76,298)	(150,505)
MINORITY INTERESTS		(16,083)	–
		511,679	355,587

	Notes	2004 HK\$'000	2003 HK\$'000
CAPITAL AND RESERVES			
Issued capital	28	78,388	59,600
Reserves	30	433,291	295,987
		511,679	355,587

Ho Tsam Hung
Director

Ho Pak Hung
Director

	<i>Note</i>	2004 HK\$'000	2003 HK\$'000
Total equity at 1 January		355,587	482,613
Issue of shares, including share premium		102,750	–
Exchange differences on translation of the financial statements of overseas subsidiaries	30	78	236
Net gains not recognised in the profit and loss account		78	236
Impairment of goodwill remaining eliminated against consolidated retained profits/(accumulated loss)	30	7,000	21,000
Net profit/(loss) for the year attributable to shareholders	30	46,264	(148,262)
Total equity at 31 December		511,679	355,587

	Notes	2004 HK\$'000	2003 HK\$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) before tax		45,007	(148,136)
Adjustments for:			
Interest expense	6	4,407	2,563
Interest income	5	(1,157)	(315)
Loss on disposal of fixed assets	5	7	3
Write off of fixed assets	5	–	183
Gain on disposal of interests in subsidiaries	5	(85,763)	(22,568)
Depreciation	5	9,456	769
Amortisation of intangible assets	5	8,429	1,318
Amortisation of goodwill on acquisition of subsidiaries and jointly-controlled entities		5,281	21,350
Impairment of intangible assets	5	6,806	–
Amortisation of prepaid rental	5	580	–
Impairment of goodwill		7,000	132,680
Provision for amounts due from jointly-controlled entities	5	–	5,873
Waiver of accrued directors' remuneration	5	(5,299)	–
Provision for deposit paid for a telecommunication project	5	15,978	–
		<hr/>	<hr/>
Operating profit/(loss) before working capital changes		10,732	(6,280)
Decrease/(increase) in trade receivables		(1,787)	248
Decrease in prepayments, deposits and other receivables		148,091	71,234
Decrease in trade payables, other payables and accruals		(4,704)	(6,858)
Exchange adjustments on translation of the financial statements of overseas subsidiaries		167	430
		<hr/>	<hr/>
Cash generated from operations		152,499	58,774
Interest received		1,157	315
Interest paid		(4,343)	(2,563)
Interest element on finance lease		(64)	–
Overseas taxes paid		–	(25)
		<hr/>	<hr/>
Net cash inflow from operating activities		149,249	56,501
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of fixed assets		(326)	(10,448)
Additions to intangible assets		–	(37,000)
Acquisition of subsidiaries	31	(135,956)	–
Decrease/(increase) in deposits pledged to a bank		(223)	1,647
		<hr/>	<hr/>
Net cash outflow from investing activities		(136,505)	(45,801)

<i>Notes</i>	2004 HK\$'000	2003 HK\$'000
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of shares	42,750	–
Repayments of bank loans	(20,055)	(10,081)
Issue of convertible bonds	30,000	–
Capital element of finance lease payments	(336)	–
	<hr/>	<hr/>
Net cash inflow/(outflow) from financing activities	52,359	(10,081)
	<hr/>	<hr/>
INCREASE IN CASH AND CASH EQUIVALENTS		
Cash and cash equivalents at beginning of year	41,312	40,857
Effect of foreign exchange rate changes, net	(161)	(164)
	<hr/>	<hr/>
CASH AND CASH EQUIVALENTS AT END OF YEAR	106,254	41,312
	<hr/> <hr/>	<hr/> <hr/>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	106,254	41,312
	<hr/> <hr/>	<hr/> <hr/>

	Notes	2004 HK\$'000	2003 HK\$'000
NON-CURRENT ASSETS			
Fixed assets	11	99	161
Interests in subsidiaries	15	290,218	290,218
		290,317	290,379
CURRENT ASSETS			
Due from subsidiaries	15	200,651	71,034
Prepayments, deposits and other receivables	19	461	538
Cash and bank balances		2,598	3,101
		203,710	74,673
CURRENT LIABILITIES			
Tax payable		(3,610)	(3,610)
Other payables and accruals	22	(4,224)	(5,855)
		(7,834)	(9,465)
NET CURRENT ASSETS		195,876	65,208
TOTAL ASSETS LESS CURRENT LIABILITIES		486,193	355,587
NON-CURRENT LIABILITIES			
Convertible bonds	26	(30,000)	–
		456,193	355,587
CAPITAL AND RESERVES			
Issued capital	28	78,388	59,600
Reserves	30	377,805	295,987
		456,193	355,587

Ho Tsam Hung
Director

Ho Pak Hung
Director

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
- provision of telecommunication and other related services

The provision of telecommunication and other related services were the new businesses for the year.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (which also include Statements of Standard Accounting Practice (“SSAPs”) and interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the periodic remeasurement of investment properties, as further explained below.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2004. 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Joint venture companies (Continued)

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. 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Goodwill (Continued)

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fixed assets and depreciation (Continued)

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:

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

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

Leased assets

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in 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 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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Intangible assets

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

Cash and cash equivalents

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

For the purpose of the balance 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, 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; 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income tax (Continued)

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 held for sale, when all of the conditions of sale have been met and the risks and rewards of ownership have been transferred to the buyer;
- (ii) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (iii) from the provision of telecommunication and other related services, based on usage of the Group's fibre-optic network and related facilities are recognised when the services are rendered;
- (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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

3. SEGMENT INFORMATION

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

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

- (a) the property investment segment invests in shopping centres located in the Mainland China, for rental income potential;
- (b) the corporate and others segment comprises corporate income and expense items;
- (c) the "sale of online English learning courses" segment engages in the sale of online English learning courses;
- (d) the leasing of equipment segment engages in the leasing of equipment; and
- (e) the telecommunication and other related services segment engages in the provision of telecommunication and other related services to online game developers and providers in Mainland China.

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.

3. SEGMENT INFORMATION (CONTINUED)

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

	Property investment		Corporate and others		Sale of online English learning courses		Leasing of equipment		Telecommunication and other related services		Consolidated	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:												
Sales to external customers	5,804	3,219	-	-	320	1,379	3,639	909	15,382	-	25,145	5,507
Other revenue and gains – note 5	-	-	85,763	22,568	-	-	-	-	-	-	85,763	22,568
Total	5,804	3,219	85,763	22,568	320	1,379	3,639	909	15,382	-	110,908	28,075
Segment results	4,940	2,049	76,202	6,699	(7,056)	(20,825)	(13,047)	(781)	(12,782)	-	48,257	(12,858)
Interest income											1,157	315
Profit/(loss) from operating activities											49,414	(12,543)
Finance costs											(4,407)	(2,563)
Amortisation and impairment of goodwill on acquisition of jointly-controlled entities											-	(133,030)
Profit/(loss) before tax											45,007	(148,136)
Tax											(2,320)	(126)
Profit/(loss) before minority interests											42,687	(148,262)
Minority interests											3,577	-
Net profit/(loss) from ordinary activities attributable to shareholders											46,264	(148,262)

3. SEGMENT INFORMATION (CONTINUED)

	Property investment		Corporate and others		Sale of online English learning courses		Leasing of equipment		Telecommunication and other related services		Consolidated	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment assets	310,623	266,053	133,405	285,864	-	249	33,958	46,644	280,456	-	758,442	598,810
Unallocated assets											-	249
Total assets											758,442	599,059
Segment liabilities	38,387	43,939	154,080	176,333	1	36	118	-	1,134	-	193,720	220,308
Unallocated liabilities											36,960	23,164
											230,680	243,472
Other segment information:												
Capital expenditure	6	9	9	15	-	-	210	47,424	101	-	326	47,448
Depreciation and amortisation	239	273	1,797	122	1	3	9,373	1,689	7,055	-	18,465	2,087
Unallocated amounts											5,281	21,350
											23,746	23,437
Impairment of goodwill recognised in the profit and loss account	-	-	-	-	7,000	21,000	-	-	-	-	7,000	21,000
Unallocated amounts											-	111,680
											7,000	132,680
Other non-cash expenses	-	-	-	186	-	-	-	-	-	-	-	186
Provision for doubtful debts	-	-	-	-	-	-	-	-	4,592	-	4,592	-
Provision for a deposit paid for a telecommunication project	-	-	-	-	-	-	-	-	15,978	-	15,978	-
Provision for amounts due from jointly-controlled entities	-	-	-	5,873	-	-	-	-	-	-	-	5,873
Impairment of intangible assets	-	-	-	-	-	-	6,806	-	-	-	6,806	-

4. TURNOVER

Turnover represents the telecommunication and other related services income, the net invoiced value of goods sold, after allowances for returns and trade discounts, and gross rental income, after elimination of all significant intra-group transactions less any applicable turnover taxes.

	2004 HK\$'000	2003 HK\$'000
Rental income from investment properties	5,804	3,219
Sale of online English learning courses	320	1,379
Rental income from equipments held for operating lease purposes	3,639	909
Telecommunication and other related services	15,382	–
	<u>25,145</u>	<u>5,507</u>

5. PROFIT/(LOSS) FROM OPERATING ACTIVITIES

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

	2004 HK\$'000	2003 HK\$'000
Cost of inventories sold	220	920
Cost of services provided*	19,325	–
Depreciation	9,456	769
Amortisation of intangible assets***	8,429	1,318
Amortisation of goodwill on acquisition of subsidiaries**	5,281	–
Amortisation of prepaid rental	580	–
Impairment of goodwill arising during the year**	7,000	21,000
Impairment of intangible assets**	6,806	–
Minimum lease payments under operating leases on land and buildings	663	1,784
Staff costs (including directors' remuneration – note 7):		
Pension scheme contributions#	213	127
Wages and salaries	3,652	3,858
	<u>3,865</u>	<u>3,985</u>
Auditors' remuneration	1,000	893
Loss on disposal of fixed assets**	7	3
Write off of fixed assets**	–	183
Provision for amounts due from jointly-controlled entities**	–	5,873
Provision for doubtful debts**	4,592	–
Provision for a deposit paid for a telecommunication project**	15,978	–
Write back of other receivables**	(3,232)	–
Waiver of accrued directors' remuneration**	(5,299)	–
Gross and net rental income from investment properties	(5,804)	(3,219)
Exchange losses/(gains), net	(11)	691
Gain on disposal of interests in subsidiaries	(85,763)	(22,568)
Interest income	(1,157)	(315)

5. PROFIT/(LOSS) FROM OPERATING ACTIVITIES (CONTINUED)

- * The cost of services provided includes amounts aggregating HK\$16,467,000 (2003: Nil) relating to direct staff costs, amortisation of intangible assets, amortisation of prepaid rentals, operating lease rentals of land and buildings, and depreciation of which also included in the respective total amounts disclosed above for each of these types of expenses.
- ** Included in "Other operating expenses" on the face of the consolidated profit and loss account.
- *** Included in "Cost of sales" on the face of the consolidated profit and loss account.
- # At 31 December 2004, the Group had no forfeited contributions available to reduce its contributions to the pension scheme in future years (2003: Nil).

6. FINANCE COSTS

	Group	
	2004	2003
	HK\$'000	HK\$'000
Interest expense on bank loans and overdrafts	4,043	2,563
Interest on finance lease	64	–
Interest on convertible bonds	300	–
	<u>4,407</u>	<u>2,563</u>

7. 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	
	2004	2003
	HK\$'000	HK\$'000
Fees:		
Executive directors	720	720
Independent non-executive directors	250	180
	<u>970</u>	900
Other executive directors' emoluments:		
Salaries, allowances and benefits in kind	–	647
Pension scheme contributions	36	36
	<u>1,006</u>	<u>1,583</u>

7. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES (CONTINUED)

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

	Number of directors	
	2004	2003
Nil – HK\$1,000,000	<u>6</u>	<u>6</u>

Five highest paid employees

The five highest paid employees during the year included two (2003: two) directors, details of whose remuneration are set out above. Details of the remuneration of the remaining three (2003: three) non-director, highest paid employees for the year are as follows:

	Group	
	2004 HK\$'000	2003 HK\$'000
Salaries, allowances and benefits in kind	<u>1,241</u>	1,108
Pension scheme contributions	<u>35</u>	36
	<u>1,276</u>	<u>1,144</u>

The remuneration of the remaining three (2003: three) non-director, highest paid employees fell within the following band:

	Number of employees	
	2004	2003
Nil - HK\$1,000,000	<u>3</u>	<u>3</u>

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

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 29 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.

8. TAX

	Group	
	2004 HK\$'000	2003 HK\$'000
Provision for the year:		
Current – Hong Kong	–	22
– Elsewhere	2,071	–
Deferred (<i>note 27</i>)	249	104
Total tax charge for the year	<u>2,320</u>	<u>126</u>

No provision for Hong Kong profits tax has been made as the Group did not generate any taxable profits in Hong Kong during the year. Hong Kong profits tax had been provided at the rate of 17.5% on the estimated assessable profits arising in Hong Kong during the year ended 31 December 2003.

Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof. The subsidiaries established in Mainland China are subject to income taxes at the tax rate of 33%. Pursuant to a tax concession granted, the income tax rate applicable to Sky City Network Communication Limited ("Sky City"), a subsidiary of the Group registered in Mainland China, is 15% for the calendar year of 2004.

A reconciliation of the tax expense applicable to profit/(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, are as follows:

Group – 2004

	Hong Kong HK\$'000	Mainland China HK\$'000	Total HK\$'000
Profit/(loss) before tax	<u>76,674</u>	<u>(31,667)</u>	<u>45,007</u>
Calculated at the statutory tax rate	13,418	(10,450)	2,968
Lower tax rate for specific provinces or local authority	–	3,283	3,283
Income not subject to tax	(16,957)	–	(16,957)
Expenses not deductible for tax	2,757	5,439	8,196
Tax losses not recognised	782	4,297	5,079
Tax losses utilised from previous periods	–	(249)	(249)
Tax charge at the Group's effective rate	<u>–</u>	<u>2,320</u>	<u>2,320</u>

8. TAX (CONTINUED)

Group – 2003

	Hong Kong HK\$'000	Mainland China HK\$'000	Total HK\$'000
Loss before tax	<u>(147,670)</u>	<u>(466)</u>	<u>(148,136)</u>
Calculated at the statutory tax rate	(25,842)	(154)	(25,996)
Income not subject to tax	(4,012)	–	(4,012)
Expenses not deductible for tax	28,166	362	28,528
Tax losses not recognised	1,710	–	1,710
Tax losses utilised from previous periods	<u>–</u>	<u>(104)</u>	<u>(104)</u>
Tax charge at the Group's effective rate	<u>22</u>	<u>104</u>	<u>126</u>

9. NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders for the year ended 31 December 2004 dealt with in the financial statements of the Company was HK\$2,144,000 (2003: HK\$138,832,000) (note 30).

10. EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings per share is based on the net profit attributable to shareholders for the year of HK\$46,264,000 (net loss attributable to shareholder for the year 2003: HK\$148,262,000) and the weighted average of 3,299,857,823 (2003: 2,980,016,725) ordinary shares in issue during the year.

The calculation of the diluted earnings per share for the year is based on the adjusted net profit attributable to shareholders for the year of HK\$46,514,000 and the weighted average of 3,370,312,751 ordinary shares in issue during the year.

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

Weighted average number of shares used in the basic earnings per share calculation	3,299,857,823
Weighted average number of shares assumed to have been issued on the conversion of bonds	<u>70,454,928</u>
Weighted average number of shares used in the diluted earnings per share calculation	<u><u>3,370,312,751</u></u>

10. EARNINGS/(LOSS) PER SHARE (CONTINUED)

The effect of the Company's share options has not been included in the computation of diluted earnings per share as the exercise price of the Company's outstanding share options is higher than the average market price of the Company's ordinary shares during the year.

Diluted loss per share for the year ended 31 December 2003 was not shown as the dilutive potential ordinary shares outstanding during that year had an anti-dilutive effect on the basic loss per share for that year.

11. FIXED ASSETS

Group

	Telecom- munication network and equipment HK\$'000	Land and buildings HK\$'000	Leasehold improvements HK\$'000	Equipment HK\$'000	Computer and office equipment, furniture and fixtures HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
At cost:							
At 1 January 2004	–	7,614	37	11,074	688	637	20,050
Additions	73	–	186	39	28	–	326
Acquisition of subsidiaries (note 31)	120,655	–	686	–	476	149	121,966
Disposals	–	–	–	–	(13)	(501)	(514)
Exchange realignment	149	12	1	–	1	–	163
At 31 December 2004	120,877	7,626	910	11,113	1,180	285	141,991
Accumulated depreciation:							
At 1 January 2004	–	720	29	862	627	611	2,849
Provided during the year	6,573	212	255	2,088	232	96	9,456
Disposals	–	–	–	–	(6)	(501)	(507)
Exchange realignment	5	1	–	–	1	–	7
At 31 December 2004	6,578	933	284	2,950	854	206	11,805
Net book value:							
At 31 December 2004	114,299	6,693	626	8,163	326	79	130,186
At 31 December 2003	–	6,894	8	10,212	61	26	17,201

11. FIXED ASSETS (CONTINUED)

Company

	Leasehold improvements HK\$'000	Computer and office equipment, furniture and fixtures HK\$'000	Total HK\$'000
At cost:			
At 1 January 2004	37	973	1,010
Additions	–	9	9
At 31 December 2004	37	982	1,019
Accumulated depreciation:			
At 1 January 2004	29	820	849
Provided during the year	6	65	71
At 31 December 2004	35	885	920
Net book value:			
At 31 December 2004	2	97	99
At 31 December 2003	8	153	161

Included in the total amount of the Group's equipment are 2,482 point-of-sale equipment (the "POS Equipment") held for leasing purposes with an aggregate cost of HK\$10,424,000 (2003: HK\$10,424,000) and accumulated depreciation of HK\$2,459,000 (2003: HK\$371,000). The POS Equipment was transferred from Easy-Link Technology Services Co., Ltd. ("Easy-Link") 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 net book value of the Group's fixed assets held under finance leases included in the total amount of telecommunication network and equipment at 31 December 2004 amounted to HK\$1,057,000 (2003: Nil).

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

12. INVESTMENT PROPERTIES

	Group	
	2004	2003
	HK\$'000	HK\$'000
At 1 January and 31 December, at valuation	<u>183,600</u>	<u>183,600</u>

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 2004.

At the balance sheet date, the Group's investment properties were pledged to secure general banking facilities granted to the Group as set out in note 23 to the financial statements.

13. INTANGIBLE ASSETS

Group	Software	Operating rights	Total
	HK\$'000	HK\$'000	HK\$'000
Cost:			
At beginning of year	–	37,000	37,000
Acquisition of subsidiaries (note 31)	<u>2,856</u>	<u>–</u>	<u>2,856</u>
At 31 December 2004	<u>2,856</u>	<u>37,000</u>	<u>39,856</u>
Accumulated amortisation and impairment:			
At beginning of year	–	1,318	1,318
Amortisation provided during the year	1,173	7,256	8,429
Impairment during the year recognised in the profit and loss account*	<u>–</u>	<u>6,806</u>	<u>6,806</u>
At 31 December 2004	<u>1,173</u>	<u>15,380</u>	<u>16,553</u>
Net book value:			
At 31 December 2004	<u>1,683</u>	<u>21,620</u>	<u>23,303</u>
At 31 December 2003	<u>–</u>	<u>35,682</u>	<u>35,682</u>

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

14. GOODWILL

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

	Group HK\$'000
Cost:	
Acquisition of subsidiaries (note 31) and at 31 December 2004	90,163
Accumulated amortisation:	
Amortisation provided during the year and at 31 December 2004	5,281
Net book value:	
At 31 December 2004	84,882

15. INTERESTS IN SUBSIDIARIES

	Company	
	2004	2003
	HK\$'000	HK\$'000
Unlisted shares, at cost	467,158	467,158
Provision for impairment	(176,940)	(176,940)
	290,218	290,218
Due from subsidiaries	416,492	286,875
Provision against amounts due from subsidiaries	(215,841)	(215,841)
	200,651	71,034
	490,869	361,252

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

15. INTERESTS IN SUBSIDIARIES (CONTINUED)

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued share/ registered capital	Percentage of equity attributable to the Company		Principal activities
			2004	2003	
Directly held					
China Land Realty Investment (BVI) Limited ("CLRIL")	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
Telesuccess International Limited ("Telesuccess") (Note c)	British Virgin Islands	US\$1 Ordinary	100	–	Investment holding
Sky City Network Communication Limited ("Sky City") (Note c)	Mainland China	RMB110,000,000 Registered capital (Note a)	80.9	–	Provision of telecommunication and other related services

15. INTERESTS IN SUBSIDIARIES (CONTINUED)

Notes:

- a. CQ Smart Hero, GZ Proland and Sky City are wholly foreign owned enterprises established in Mainland China.
- 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.
- c. The Group acquired the entire interest of Telesuccess during the year. Through the acquisition of Telesuccess, the Group indirectly acquired 80.9% equity interest in Sky City.

The above table lists the subsidiaries of the Company as at 31 December 2004 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 2 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 retained profits as at 31 December 2004, 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 2004	35,000
Accumulated impairment:	
At 1 January 2004	28,000
Impairment provided during the year	7,000
At 31 December 2004	35,000
Net amount:	
At 31 December 2004	-
At 31 December 2003	7,000

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

The distribution agreement to sale of online English courses in Mainland China expired during the year ended 31 December 2004. The Group has recognised an impairment loss for goodwill attributable to the Group's equity interest in Ever Brian of HK\$7,000,000 in the profit and loss account for the year ended 31 December 2004.

16. INTERESTS IN JOINTLY-CONTROLLED ENTITIES

	Group	
	2004	2003
	HK\$'000	HK\$'000
Share of net assets	-	-
Due from jointly-controlled entities	11,873	11,873
Less: Provision against amounts due from jointly-controlled entities	(11,873)	(11,873)
	<u>-</u>	<u>-</u>

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

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

Particulars of the jointly-controlled entities are as follows:

Name	Business structure	Place of incorporation/ registration and operations	Percentage of			Principal activities
			Ownership interest	Voting power	Profit sharing	
I-Mall Investments Limited	Corporate	British Virgin Islands	68.6	33.3	68.6	Investment holding
B2B Market Investments Limited	Corporate	British Virgin Islands	35.0	33.3	35.0	Investment holding
Cyber Union Enterprise Limited	Corporate	Hong Kong	35.0	50.0	35.0	Investment holding
Shi Lian	Corporate	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. Amortisation of goodwill arising on acquisition of the above jointly-controlled entities of HK\$21,350,000 was charged to the consolidated profit and loss account for the year ended 31 December 2003.

17. TRADE RECEIVABLES

An aged analysis of the trade receivables at the balance sheet date, based on the agreed repayment term, is as follows:

	Group			
	2004		2003	
	HK\$'000	Percentage	HK\$'000	Percentage
Within 6 months	17,639	39	3,957	20
More than 6 months but within 1 year	11,735	26	–	–
More than 1 year but within 2 years	3,847	8	3,956	20
More than 2 years	4,598	10	–	–
Not due as at 31 December	7,925	17	11,869	60
	<u>45,744</u>	<u>100</u>	19,782	<u>100</u>
Portion classified as current assets	<u>(35,689)</u>		<u>(11,869)</u>	
Non-current assets	<u>10,055</u>		<u>7,913</u>	

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

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

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

18. PREPAID RENTAL

	Group HK\$'000
At cost:	
Acquisition of subsidiaries (note 31)	18,455
Exchange realignment	(68)
At end of year	<u>18,387</u>
Amortisation:	
Provided during the year	580
Exchange realignment	(1)
At end of year	<u>579</u>
Net book value:	
At end of year	<u>17,808</u>

18. PREPAID RENTAL (CONTINUED)

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

19. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Non-current assets:				
Deposit paid*	64,003	–	–	–
Other receivable#	–	230,000	–	–
	<u>64,003</u>	<u>230,000</u>	<u>–</u>	<u>–</u>
Current assets:				
Prepayments	298	93	92	89
Deposits and other receivables#	101,588	70,587	369	449
	<u>101,886</u>	<u>70,680</u>	<u>461</u>	<u>538</u>

* Balance represents deposits paid for an online game platform and internet cafe project of HK\$28,003,000 as at 31 December 2004 and deposit for the acquisition of the remaining 19.1% equity interest in Sky City of HK\$36,000,000. Details of the acquisition are set out in note 34(c) to the financial statements.

Other receivables of HK\$230,000,000 as at 31 December 2003 represented the fifth instalment receivables arising on the disposal of certain subsidiaries (the "Disposed Subsidiaries") during the year ended 31 December 2002. As detailed in note 25 below, the fifth instalment was agreed to be settled in two instalments of HK\$140,000,000 and HK\$90,000,000. HK\$140,000,000 was due and repaid during the year ended 31 December 2004. HK\$90,000,000 is not yet due and was included under current deposits and other receivables as at 31 December 2004. Subsequent to the balance sheet date, as set out in more details in note 25 below, the repayment date of HK\$90,000,000 was rescheduled from 26 January 2005 to 26 July 2005.

20. CASH AND BANK BALANCES AND PLEDGED DEPOSITS

At 31 December 2004, bank deposits of approximately HK\$776,000 (2003: HK\$553,000) 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\$100,955,000 (2003: HK\$38,259,000). RMB is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

21. TRADE PAYABLES

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

	Group			
	2004		2003	
	HK\$'000	Percentage	HK\$'000	Percentage
Within 6 months	195	1	251	1
More than 6 months but within 1 year	343	1	5	–
More than 1 year but within 2 years	3	–	204	1
More than 2 years but within 3 years	195	1	8,092	23
Over 3 years	30,750	97	26,373	75
	<u>31,486</u>	<u>100</u>	<u>34,925</u>	<u>100</u>

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

22. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Other payables	8,207	8,242	583	583
Accruals	8,858	9,708	3,641	5,272
	<u>17,065</u>	<u>17,950</u>	<u>4,224</u>	<u>5,855</u>

23. INTEREST-BEARING BANK LOANS

	Group	
	2004	2003
	HK\$'000	HK\$'000
Bank loans:		
Secured	32,180	36,657
Unsecured	45,120	4,388
	<u>77,300</u>	<u>41,045</u>
Bank loans repayable:		
Within one year or on demand	49,830	8,857
In the second year	4,963	4,710
In the third to fifth years, inclusive	16,550	15,706
Beyond five years	5,957	11,772
	<u>77,300</u>	<u>41,045</u>
Current portion	<u>(49,830)</u>	<u>(8,857)</u>
Non-current portion	<u>27,470</u>	<u>32,188</u>

The Group had bank loan facilities amounting to HK\$77,300,000 (2003: HK\$41,045,000), of which approximately HK\$77,300,000 (2003: HK\$41,045,000) had been utilised at the balance sheet date. The bank loans were supported by the Group's investment properties (note 12), a corporate guarantee executed by the Company and corporate guarantees provided by entities in Mainland China.

24. FINANCE LEASE PAYABLES

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

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

	Group		Minimum lease payments 2003 HK\$'000	Present value of minimum lease payments 2003 HK\$'000
	Minimum lease payments 2004 HK\$'000	Present value of minimum lease payments 2004 HK\$'000		
Amounts payable:				
Within one year	536	492	–	–
In the second year	134	131	–	–
	<hr/>	<hr/>	<hr/>	<hr/>
Total minimum finance lease payments	670	<u>623</u>	–	<u>–</u>
Future finance charges	<u>(47)</u>		–	
Total net finance lease payables	623		–	
Portion classified as current liabilities	<u>(492)</u>		–	
Non-current portion	<u>131</u>		–	

25. DEFERRED INCOME

The total consideration of HK\$350 million in respect of the disposal of the Disposed Subsidiaries for the year ended 31 December 2002 was to be settled in five instalments. The first and the second instalments of a total of HK\$20,000,000 were settled in cash before 31 December 2002. The third instalment of HK\$50,000,000 was settled in cash before 31 December 2003 and the fourth instalment of HK\$50,000,000 was settled in cash on 31 March 2004. The fifth instalment of HK\$230,000,000 was to be settled on or before a date falling on the first day immediately after expiration of the thirtieth month after 31 December 2002. The total gain on disposal of HK\$157,984,000 was recognised in line with the settlement schedule of the consideration. A total gain of HK\$22,568,000 was recongnised in the consolidated profit and loss account in the prior year. On 26 March 2004, the Group entered into a supplementary agreement with the purchaser of the Disposed Subsidiaries (the "Purchaser"), pursuant to which the fifth instalment of HK\$230,000,000, instead of being satisfied by delivering certain completed units of the properties under development of the Disposed Subsidiaries, shall be satisfied by the Purchaser on two instalments of HK\$140,000,000 and HK\$90,000,000, namely the Revised Fifth Instalment and the Sixth Instalment, respectively, in cash. The Revised Fifth Instalment was paid on 23 April 2004 and the Sixth Instalment will be paid on or before 26 January 2005.

25. DEFERRED INCOME (CONTINUED)

Subsequent to the balance sheet date, the repayment date of the Sixth Instalment was mutually agreed between the Group and the Purchaser to be rescheduled from 26 January 2005 to 26 July 2005. The gain on disposal of the Disposed Subsidiaries recognised in the consolidated profit and loss account during the year is HK\$85,763,000 (2003: HK\$22,568,000). The remaining deferred income was included in the consolidated balance sheet as to current and non-current portions of HK\$40,625,000 (2003: HK\$22,568,000) and nil (2003: HK\$103,820,000), respectively.

26. CONVERTIBLE BONDS

	Group and Company	
	2004	2003
	HK\$'000	HK\$'000
Issued during the year and at end of year	30,000	–

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

27. DEFERRED TAX

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

Deferred tax liabilities

Group

	Revaluation of fixed assets HK\$'000	2004 Revaluation of investment properties HK\$'000	Total HK\$'000
At 1 January 2004	–	14,497	14,497
Acquisition of subsidiaries (<i>note 31</i>)	4,200	–	4,200
At 31 December 2004	4,200	14,497	18,697

27. DEFERRED TAX (CONTINUED)**Deferred tax assets****Group**

	2004
	Losses available for offset against future taxable profit
	HK\$'000
At 1 January 2004	249
Deferred tax charged to the profit and loss account (<i>note 8</i>)	(249)
At 31 December 2004	—
Net deferred tax liabilities at 31 December 2004	18,697

Deferred tax liabilities**Group**

	2003
	Revaluation of investment properties
	HK\$'000
At 1 January 2003 and 31 December 2003	14,497

Deferred tax assets**Group**

	2003
	Losses available for offset against future taxable profit
	HK\$'000
At 1 January 2003	353
Deferred tax charged to the profit and loss account (<i>note 8</i>)	(104)
At 31 December 2003	249
Net deferred tax liabilities at 31 December 2003	14,248

27. DEFERRED TAX (CONTINUED)

The Group has tax losses arising in Hong Kong of HK\$9,771,000 (2003: HK\$9,771,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in Group companies that have been loss-making for some time.

At 31 December 2004, there was no significant unrecognised deferred tax liability (2003: Nil) for taxes that would have been payable on the unremitted earnings of certain of the Group's subsidiaries or jointly-controlled entities as the Group had no liability to additional tax should such amounts be remitted.

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

28. SHARE CAPITAL

Shares

	2004 HK\$'000	2003 HK\$'000
Authorised:		
6,000,000,000 ordinary shares of HK\$0.02 each	<u>120,000</u>	<u>120,000</u>
Issued and fully paid:		
3,919,413,009 (2003: 2,980,016,725) ordinary shares of HK\$0.02 each	<u>78,388</u>	<u>59,600</u>

During the year, 464,396,284 new shares of the Company were allotted and issued at HK\$0.1292 resulting in an amount of approximately HK\$60 million, as part of the consideration of acquiring Telesuccess as further detailed in note 31 to the financial statements.

Pursuant to a subscription agreement dated 1 November 2004, 475,000,000 new shares of HK\$0.02 each were allotted and issued to Cheer Faith Limited ("Cheer Faith"), an independent third party, at an issue price of HK\$0.09 per share, payable in cash, on 15 November 2004. The placement raised net cash proceeds of approximately HK\$42.5 million for the Group's online game business and general working capital purposes. The placing price of HK\$0.09 per share equaled to the closing price per share as quoted on the Stock Exchange on 1 November 2004.

29. 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.

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.

29. SHARE OPTION SCHEMES (CONTINUED)

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

(1) Old Scheme (Continued)

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

Name or category of participant	Number of share options			Date of grant of share options*	Exercise period of share options	Exercise price of share options** HK\$
	At 1 January 2004	Lapsed during the year	At 31 December 2004			
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
	<u>82,500,000</u>	<u>(82,500,000)</u>	<u>–</u>			
Other employees						
In aggregate	8,000,000	(8,000,000)	–	1 June 2001	1 December 2001 to 1 December 2004	0.1395
	<u>90,500,000</u>	<u>(90,500,000)</u>	<u>–</u>			

* 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.

29. SHARE OPTION SCHEMES (CONTINUED)

(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 2003 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 be less than the highest of (i) the nominal value of the ordinary shares of the Company on the date of grant; (ii) the closing price of the Company's shares as stated in the daily quotation sheets issued by the Stock Exchange on the date of grant; and (iii) the average closing price of the Company's shares as stated in the daily quotation sheets issued by the Stock Exchange for the five business days immediately preceding the date of grant.

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

30. RESERVES

Group

	Share premium account HK\$'000	Contributed surplus HK\$'000	Investment properties revaluation reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Retained profits/ losses (accumulated loss) HK\$'000	Total HK\$'000
At 1 January 2003	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 and at 1 January 2004	220,002	80,258	40,964	364	(45,601)	295,987
Issue of shares	83,962	-	-	-	-	83,962
Exchange adjustment on translation of the financial statements of overseas subsidiaries	-	-	-	78	-	78
Impairment of goodwill remaining eliminated against consolidated retained profits/ (accumulated loss)	-	-	-	-	7,000	7,000
Net profit for the year	-	-	-	-	46,264	46,264
At 31 December 2004	303,964	80,258	40,964	442	7,663	433,291
Reserves retained by/ (loss accumulated in):						
Company and subsidiaries	303,964	80,258	40,964	442	7,931	433,559
Jointly-controlled entities	-	-	-	-	(268)	(268)
At 31 December 2004	303,964	80,258	40,964	442	7,663	433,291
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

30. RESERVES (CONTINUED)

Notes:

- (a) The amount of goodwill arising on the acquisition of a subsidiary in prior years of HK\$35,000,000, after provision for impairment of HK\$35,000,000, as at 31 December 2004 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 HK\$'000	Contributed surplus HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 January 2003	220,002	547,326	(332,509)	434,819
Net loss for the year	—	—	(138,832)	(138,832)
At 31 December 2003 and 1 January 2004	220,002	547,326	(471,341)	295,987
Issue of shares	83,962	—	—	83,962
Net loss for the year	—	—	(2,144)	(2,144)
At 31 December 2004	<u>303,964</u>	<u>547,326</u>	<u>(473,485)</u>	<u>377,805</u>

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

31. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT

Acquisition of subsidiaries

	Notes	2004 HK\$'000	2003 HK\$'000
Net assets acquired:			
Fixed assets	11	121,966	–
Intangible assets	13	2,856	–
Cash and bank balances		5,612	–
Trade receivables		24,175	–
Prepaid rental	18	18,455	–
Prepayments, deposits and other receivables		29,278	–
Interest bearing bank loans		(56,310)	–
Other payables and accruals		(5,679)	–
Finance lease payables		(959)	–
Tax payable		(4,129)	–
Deferred tax liabilities	27	(4,200)	–
Minority interests		(19,660)	–
		111,405	–
Goodwill on acquisition	14	90,163	–
		201,568	–
Satisfied by:			
Cash		140,000	–
Costs associated with the acquisition		1,568	–
Issue of share capital, at fair value		60,000	–
		201,568	–

On 26 March 2004, the Group entered into a conditional agreement with an independent third party for the acquisition of 100% equity interest in Telesuccess at a consideration of HK\$200,000,000, with related expenses of HK\$1,568,000. Telesuccess was incorporated on 12 February 2002 in the British Virgin Islands. The major assets of Telesuccess is its 80.9% equity interest in Sky City, a company registered and operating in Mainland China. The principal activities of Sky City are the provision of telecommunication and other related services. The acquisition was completed on 11 June 2004. The purchase consideration for the acquisition was settled by cash of HK\$140,000,000 and allotment and issuance of 464,396,284 new shares at an issue price of HK\$0.1292 per share.

31. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

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

	2004 HK\$'000	2003 HK\$'000
Cash consideration	(140,000)	–
Costs associated with the acquisition	(1,568)	–
Cash and bank balances acquired	5,612	–
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	<u>(135,956)</u>	<u>–</u>

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

32. CONTINGENT LIABILITIES

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

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Guarantees given for mortgage loans granted by banks to certain purchasers of the Group's properties	7,763	5,529	–	–
Guarantees given to a bank in respect of facilities utilised by a subsidiary	–	–	41,000	41,045
	<u>7,763</u>	<u>5,529</u>	<u>41,000</u>	<u>41,045</u>

33. PLEDGE OF ASSETS

Details of the Group's bank loans secured by the assets of the Group are included in note 23 to the financial statements.

34. COMMITMENTS

(a) Capital commitments

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Contracted, but not provide for:				
Property Development project	35,902	35,902	–	–
Internet cafe project	17,080	–	–	–
	<u>52,982</u>	<u>35,902</u>	<u>–</u>	<u>–</u>

(b) Commitments under operating leases

(i) As lessor

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

At 31 December 2004, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2004 HK\$'000	2003 HK\$'000
Within one year	9,736	9,736
In the second to fifth years, inclusive	10,326	20,038
	<u>20,062</u>	<u>29,774</u>

34. COMMITMENTS (CONTINUED)

(b) Commitments under operating leases (Continued)

(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 2004, the Company and the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Within one year	437	549	–	–
In the second to fifth years, inclusive	834	183	–	–
	1,271	732	–	–

- (c) On 14 December 2004, Telesuccess entered into an agreement with the existing shareholder of Sky City, Guangdong Zhang Xun Technology Limited (廣東中訊科技有限公司) to acquire the remaining 19.1% equity interest in Sky City at a cash consideration of HK\$60,000,000. Such acquisition was completed in February 2005. As at 31 December 2004, the Group had paid a deposit of HK\$36,000,000 for such acquisition (note 19). The remaining balance of the consideration of HK\$24,000,000 was paid in February 2005 upon the completion of the acquisition.

35. POST BALANCE SHEET EVENTS

Save as disclosed in notes 25 and 34(c) in the financial statements, no other significant events took place subsequent to the balance sheet date.

36. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 26 April 2005.

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 is set out below:

RESULTS

	Year ended 31 December				
	2004 HK\$'000	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000
Turnover	<u>25,145</u>	<u>5,507</u>	<u>172,511</u>	<u>215,764</u>	<u>177,795</u>
Profit/(loss) before tax	<u>45,007</u>	<u>(148,136)</u>	<u>(187,184)</u>	<u>50,226</u>	<u>21,641</u>
Tax	<u>(2,320)</u>	<u>(126)</u>	<u>(12,564)</u>	<u>(18,651)</u>	<u>(6,650)</u>
Profit/(loss) before minority interests	<u>42,687</u>	<u>(148,262)</u>	<u>(199,748)</u>	<u>31,575</u>	<u>14,991</u>
Minority interests	<u>3,577</u>	<u>–</u>	<u>7,340</u>	<u>(1,893)</u>	<u>–</u>
Net profit/(loss) from ordinary activities attributable to shareholders	<u>46,264</u>	<u>(148,262)</u>	<u>(192,408)</u>	<u>29,682</u>	<u>14,991</u>

ASSETS, LIABILITIES AND MINORITY INTERESTS

	2004 HK\$'000	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000
TOTAL ASSETS	<u>758,442</u>	<u>599,059</u>	<u>765,595</u>	<u>1,725,086</u>	<u>1,398,421</u>
TOTAL LIABILITIES	<u>(230,680)</u>	<u>(243,472)</u>	<u>(282,982)</u>	<u>(621,743)</u>	<u>(611,743)</u>
MINORITY INTERESTS	<u>(16,083)</u>	<u>–</u>	<u>–</u>	<u>(308,274)</u>	<u>–</u>
	<u>511,679</u>	<u>355,587</u>	<u>482,613</u>	<u>795,069</u>	<u>786,678</u>

Particulars of the principal properties in Mainland China held by the Group as at 31 December 2004 are as follows:

INVESTMENT PROPERTIES

Description	Use	Lease term	Approximate gross floor area (sq.m.)	Attributable percentage interest
1. The whole of Level 1, Level 2, Level 3, Level 4, Level 8, and Level 11, and portion of the Basement Level and Portion of Level 10 of Gang Yu Square Chiao Dong Road Chiaotianmen Chongqing	Commercial	Medium	24,372	100

OPTIONS TO ACQUIRE PROPERTY INTERESTS

Description	Use	Approximate gross floor area (sq.m.)	Attributable site area (sq.m.)
1. A development site located at Jie Fang Nan Road Yuexiu District Guangzhou	Commercial/ Residential	260,000	21,860

NOTICE IS HEREBY GIVEN that the annual general meeting of the Company will be held at The Park Lane Hong Kong, Casablanca Room, 27th Floor, 310 Gloucester Road, Hong Kong, at 11:30 a.m. on Friday, 3 June 2005 for the following purposes:

1. To receive and consider the audited financial statements and the reports of the directors of the Company (the "Directors") and auditors of the Company (the "Auditors") for the year ended 31 December 2004.
2. To re-elect Directors and to fix their remuneration.
3. To re-appoint Auditors and to authorize the Directors to fix their remuneration.
4. As a special business, to consider and, if thought fit, pass with or without amendments, the following resolutions as ordinary resolutions:

ORDINARY RESOLUTIONS

A. **THAT:**

- (a) subject to paragraph (b) below, the exercise by the Directors during the Relevant Period (as hereinafter defined) of all the powers of the Company to repurchase shares of HK\$0.02 each in the capital of the Company on The Stock Exchange of Hong Kong Ltd. (the "Stock Exchange") or on any other stock exchange on which the securities of the Company may be listed and recognized by the Securities and Futures Commission of Hong Kong and the Stock Exchange for this purpose under the Hong Kong Code on Share Repurchases, subject to and in accordance with all applicable laws and the requirements of the Rules Governing the Listing of Securities on the Stock Exchange or of any other stock exchange as amended from time to time, be and is hereby generally and unconditionally approved;
- (b) the aggregate nominal amount of shares of the Company which the Company is authorized to repurchase pursuant to the approval in paragraph (a) above shall not exceed 10 per cent. of the aggregate nominal amount of the share capital of the Company in issue at the date of this Resolution, and the said approval shall be limited accordingly; and
- (c) for the purposes of this Resolution, "Relevant Period" means the period from the passing of this Resolution until whichever is the earlier of:
 - (i) the conclusion of the next annual general meeting of the Company;
 - (ii) the expiration of the period within which the next annual general meeting of the Company is required by law or the bye-laws of the Company to be held; and
 - (iii) the date on which the authority set out in this Resolution is revoked or varied by an ordinary resolution of the shareholders in general meeting of the Company.

B. THAT:

- (a) subject to paragraph (c) below, the exercise by the Directors during the Relevant Period (as hereinafter defined) of all the powers of the Company to allot, issue or otherwise deal with additional shares of HK\$0.02 each in the capital of the Company or securities convertible into such shares, or options, warrants or similar rights to subscribe for any shares in the Company and to make or grant offers, agreements and options (including bonds, warrants and debentures convertible into shares of the Company) which would or might require the exercise of such powers, be and is hereby generally and unconditionally approved;
- (b) the approval in paragraph (a) of this Resolution shall authorize the Directors during the Relevant Period (as hereinafter defined) to make or grant offers, agreements and options (including bonds, warrants and debentures convertible into shares of the Company) which would or might require the exercise of such power after the end of the Relevant Period;
- (c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) and issued by the Directors pursuant to the approval in paragraph (a) of this Resolution, otherwise than pursuant to:
 - (i) a Rights Issue (as hereinafter defined);
 - (ii) an issue of shares as scrip dividends pursuant to the bye-laws of the Company from time to time;
 - (iii) an issue of shares of the Company upon the exercise of the subscription or conversion rights under the terms or any warrants or other securities issued by the Company carrying a right to subscribe for shares of the Company; and
 - (iv) an issue of shares under any option scheme or similar arrangement for the time being adopted for the grant or issue to employees of the Company and/or any of its subsidiaries of shares or rights to acquire shares of the Companyshall not exceed 20 per cent. of the aggregate nominal amount of the issued share capital of the Company at the date of passing this Resolution, and the said approval shall be limited accordingly; and
- (d) for the purpose of this Resolution,

“Relevant Period” means the period from the passing of this Resolution until whichever is the earlier of:

 - (i) the conclusion of the next annual general meeting of the Company;
 - (ii) the expiration of the period within which the next annual general meeting of the Company is required by law or the bye-laws of the Company to be held; and
 - (iii) the date on which the authority set out in this Resolution is revoked or varied by an ordinary resolution of the shareholders in general meeting of the Company; and

“Rights Issue” means the allotment issue or grant of shares pursuant to an offer of shares open for a period fixed by the Directors to holders of shares of the Company whose names appear on the register of members of the Company on a fixed record date in proportion to their then holdings of such shares as at that date (subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognized regulatory body or any stock exchange in, any territory outside Hong Kong applicable to the Company).

- C. **THAT** subject to the passing of Resolutions No. 4A and No. 4B set out in the notice convening this meeting, the general mandate granted to the Directors to allot, issue and deal with additional shares pursuant to Resolution No. 4B set out in the notice convening this meeting be and is hereby extended by the addition thereto of an amount representing the aggregate nominal amount of shares in the capital of the Company repurchased by the Company under the authority granted pursuant to Resolution No. 4A set out in the notice convening this meeting, provided that such amount of shares so repurchased shall not exceed 10 per cent. of the aggregate nominal amount of the issued share capital of the Company at the date of passing of the said Resolution.

By Order of the Board
Ho Tsam Hung
Chairman

Hong Kong, 29 April, 2005

Notes:

1. Any member of the Company entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and, on a poll, vote instead of him. A proxy need not be a member of the Company.
2. To be valid, the proxy form together with any power of attorney or other authority (if any) under which it is signed, or a notarially certified copy thereof, must be lodged with the Company's branch share registrar in Hong Kong, Tengis Limited at 28th Floor, BEA Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not less than forty-eight hours before the time appointed for holding the meeting.
3. Concerning Resolution No. 4A above, the Directors wish to state that they will exercise the powers conferred thereby to repurchase shares of the Company in circumstances which they deem appropriate for the benefits of the shareholders. The explanatory statement containing the information necessary to enable the shareholders to make an informed decision on whether to vote for or against the resolution to approve the repurchases by the Company of its own shares, as required by the Rules Governing the Listing of Securities on the Stock Exchange will be set out in a circular from the Company to be enclosed with the 2004 annual report.
4. The Register of Members of the Company will be temporarily closed from Thursday, 2 June 2005 to Friday, 3 June 2005, both dates inclusive, during which period no transfer of shares will be effected. In order to qualify for the attendance at the Company's annual general meeting to be held on Friday, 3 June 2005, all completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tengis Limited at 28th Floor, BEA Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong for registration not later than 4:00 p.m. on Wednesday, 1 June 2005.