



ZHONG HUA INTERNATIONAL HOLDINGS LIMITED

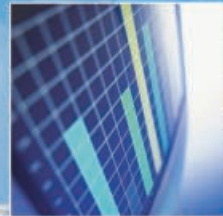
中華國際控股有限公司*

(Incorporated in Bermuda with limited liability)

Stock Code: 1064



Annual Report



2005

Contents

2	CORPORATE INFORMATION
3	CHAIRMAN'S STATEMENT
4	MANAGEMENT DISCUSSION AND ANALYSIS
10	CORPORATE GOVERNANCE REPORT
14	REPORT OF THE DIRECTORS
24	REPORT OF THE AUDITORS
	AUDITED FINANCIAL STATEMENTS
	Consolidated:
25	Income Statement
26	Balance Sheet
28	Summary Statement of Changes in Equity
29	Cash Flow Statement
	Company:
31	Balance sheet
32	NOTES TO FINANCIAL STATEMENTS
99	SUMMARY FINANCIAL INFORMATION
100	SCHEDULE OF PROPERTY INTEREST

Corporate Information

Board of Directors

Executive Directors

Ho Tsam Hung (*Vice Chairman*)
Ho Kam Hung (*Managing Director*)
Yang Jia Jian

Non-Executive Directors

Lam Kuo (*Chairman*)
Yeung Mo Sheung, Ann
Young Kwok Sui

Independent Non-Executive Directors

Wong Ting Kon
Lawrence K. Tam
Wong Miu Ting, Ivy

Company Secretary

Goh Choo Hwee

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
18th Floor, Two International Finance Centre
8 Finance Street
Central
Hong Kong

Legal Advisers

As to Hong Kong Law
Richard Butler
20th Floor
Alexandra House
16-20 Chater Road
Hong Kong

Tsun & Partners
Suites 1002-03
Aon China Building
29 Queen's Road Central
Hong Kong

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

Property Valuer

Savills Valuation and Professional Services Limited
23rd Floor, Two Exchange Square
Central
Hong Kong

Principal Bankers

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

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
26th Floor
Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

In August 2005, I was invited to join the Board and elected to act as the Non-Executive Chairman which I accepted with great honour as well as deep sense of responsibility. Since the second half of last year, there was diversity of business development and direction within the Management which adversely affected the Group's routine operation. My priority in the Board was hence in mitigating diverse views among directors in business direction with a view to converging a common goal for corporate development. I am now pleased to see that the Group's day-to-day operation has resumed relatively stable, and the Board has reached consensus in the Group's business development. A business review of the Group for the last year is detailed in the Report of Directors and Management Discussion and Analysis. Looking ahead, I will use my best endeavour to assist the Group to strengthen its management structure and consolidate its existing businesses, whilst also exploring new investment opportunities. I hope this will serve to benefit both the Group and shareholders.

Lam Kuo

Chairman

5 July 2006

Management Discussion and Analysis

The board of directors (the “Directors”) of Zhong Hua International Holdings Limited (the “Company”) would like to present the Annual Report of the Company and its subsidiaries (together the “Group”) for the year ended 31 December 2005.

Review of Results

The Group recorded a turnover of HK\$17,213,000 (31 December 2004: HK\$25,145,000) for the year ended 31 December 2005, representing a decrease of 32% compared with 2004. Net loss for the year attributable to ordinary equity holders of the Company was HK\$13,771,000 (31 December 2004: net profit of HK\$46,131,000 (restated)).

Final Dividend

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2005.

Closure of Register of Members

The Register of Members of the Company will be temporarily closed from Monday, 28 August 2006 to Tuesday, 29 August 2006, 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 Wednesday, 30 August 2006 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 26th Floor, Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong for registration not later than 4:00 p.m. on Friday, 25 August 2006.

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.

In addition, the Group received HK\$50,000,000 which formed part of the consideration receivable from the disposal of 51% equity interest in certain former subsidiaries in the year, which recognised a gain on disposal of HK\$22,568,000.

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 2004. The occupancy rate of the square in the year remained satisfactory. It is expected that the business will continue to generate a steady stream of income to the Group. HK\$97,932,000 was attributable to property revaluation surplus following the adoption of new accounting standards since January 2005.

Leasing of equipment

Since 2003, the Group had 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. The demand for POS equipment remained steady during the year. The Group will explore business opportunities for other value added services adhered to the leasing of the POS equipment.

Provision of telecommunication and other related services

Since 2004, the Group had engaged in the business of providing integrated telecommunication network services to online game developers and other broadband media providers via its operating subsidiary. Due to cut-throat competition in the dynamic online business market in Guangzhou, the PRC, it was difficult for integrated telecommunication network service providers to secure a steady profit margin unless new and attractive online games and/or related broadband media products kept emerging from the market to drum up demand for such services. In this connection, an impairment of HK\$49,000,000 has been made to this investment project. The management of the Company will continue to focus on developing new business models and, if practicable, to identify strategic investors to co-invest in new business developments.

Financial Review

Liquidity and financial resources

In the year ended 31 December 2005, the Group generally financed its businesses with internally generated cash flows, banking facilities and net proceeds from placing of new shares in the year.

Cash and bank balances for the Group as at 31 December 2005 amounted to HK\$133,151,000 (31 December 2004: HK\$106,254,000) and pledged deposits of HK\$354,000 (31 December 2004: HK\$776,000).

As at 31 December 2005, the Group had outstanding borrowings of approximately HK\$84,437,000 comprising interest-bearing bank loans amounted to HK\$54,140,000 (31 December 2004: HK\$77,300,000), convertible bonds payable amounted to HK\$29,782,000 (31 December 2004: HK\$29,426,000 (restated)) and finance lease payables amounted to HK\$515,000 (31 December 2004: HK\$623,000). Of the Group's interest-bearing bank loans, 58%, 9% and 33% respectively are repayable within one year or on demand, in the second year and in the third to fifth years, inclusive. An amount of HK\$26,564,000 bank loans as at 31 December 2005 were charged at fixed interest rates (31 December 2004: HK\$45,120,000).

The Group's gearing ratio as at 31 December 2005 was 0.28 (31 December 2004: 0.25), calculated based on the Group's total liabilities, excluding deferred income, of HK\$210,531,000 (31 December 2004: HK\$193,286,000 (restated)) over total assets of HK\$754,633,000 (31 December 2004: HK\$758,442,000).

Management Discussion and Analysis

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\$54,140,000 (31 December 2004: HK\$77,300,000) as at 31 December 2005. The bank loans were supported by certain of the Group's investment properties, corporate guarantees executed by the Company and corporate guarantees provided by certain entities in Mainland China.

Contingent liabilities

As at 31 December 2005, guarantees given for mortgage loans granted by banks to certain purchasers of the Group's properties amounted to HK\$3,395,000 (31 December 2004: HK\$7,763,000).

Acquisition of remaining interest of a subsidiary

On 14 December 2004, Telesuccess International Limited, a wholly-owned subsidiary of the Company, entered into an agreement with then existing shareholder of Sky City Network Communication Limited ("Sky City") 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 of which had been set out in a circular to shareholders of the Company dated 21 January 2005.

Placement of new shares

On 18 May 2005, a placement agreement was entered into between the Company and a placing agent pursuant to which the placing agent, on a fully underwritten basis, agreed to procure subscribers to subscribe for 783,000,000 new shares (the "New Shares") at a subscription price of HK\$0.02 per share. The New Shares represented approximately 19.98% of the Company's then existing issued share capital and approximately 16.65% of its issued share capital as enlarged by the issue of the New Shares. The New Shares were allotted and issued pursuant to the general mandate granted to the Directors at the Company's special general meeting held on 7 February 2005. Net proceeds of approximately HK\$15,210,000 were raised from the issue of the New Shares and were utilized as general working capital of the Group. The New Shares were allotted and issued in June 2005.

Termination of a proposed rights issue

In July 2005, it was announced that a fund raising exercise by way of rights issue (the “Rights Issue”) was proposed to the shareholders for their consideration and approval, with an intention of raising approximately HK\$58,800,000 before expenses. Pursuant to the terms and conditions of the proposed rights issue, it was on a fully underwritten basis and to be issued on the basis of one rights share for every two to-be-consolidated (on a ten existing shares for one consolidated share basis) shares then held with two bonus shares for every fully paid rights share at an issue price of HK\$0.25 per rights share. The underwriting agreement of the rights issue was terminated in September 2005 and accordingly the rights issue did not proceed.

Termination of proposed acquisition of operational rights of a passenger cruise line and a passenger cruise

In June 2005, it was announced that a wholly-owned subsidiary of the Company was conditionally contracted to acquire certain investment interests from an independent third party at a consideration of HK\$150,000,000, subject to adjustments. The underlying assets of the subject transaction are the operational rights of a passenger cruise line between Guangzhou and Hong Kong and a passenger cruise vessel. An aggregate of HK\$46,000,000 has been paid by the Group as deposits to the vendors upon execution of the transaction agreement.

The transaction agreement provided that completion of the subject transaction was conditional upon completion of the Rights Issue (as defined above). Given the Rights Issue did not proceed, the transaction agreement accordingly lapsed to become effect. In this connection and in September 2005, the purchaser to the transaction demanded full repayment of deposits from the vendor. An aggregate amount of HK\$40,000,000 of the deposits has been refunded to the Group. Despite repeated demands, the vendor has not yet refunded the balance of deposits of HK\$6,000,000 to the Group. A full provision of HK\$6,000,000 has been made in this connection. The Group has taken legal actions to pursue the matter.

Deferred payment of balance of a consideration

In November 2002, it was announced that a wholly-owned subsidiary of the Company was contracted to dispose certain property interests to an independent third party at a consideration of HK\$350,000,000, subject to adjustments and payable by installments. Subsequently, both the vendor and purchaser to the transaction agreed that the payment of the balancing consideration of HK\$90,000,000 be deferred to not later than 26 July 2005. However, given the total gross floor area of a proposed development plan of the underlying property interests was not yet determined by the relevant governmental authorities, the related development plan has been held over. In this connection, the purchaser to the transaction has requested the payment of an amount of HK\$40,000,000 be further deferred to not later than 31 January 2007. Up to the balance sheet date, the Group has received an accumulated sum of HK\$310,000,000 out of HK\$350,000,000 from the purchaser since 2002.

Subscription of new shares and grant of option

On 31 August and 23 September 2005, a subscription agreement and a supplemental agreement were respectively entered into between the Company, a subscriber and a guarantor who are both independent third parties, pursuant to which the subscriber had conditionally agreed to subscribe for 200,000,000 new shares (the "Subscription Shares") at a subscription price of HK\$0.036 per share, and the Company had conditionally agreed to grant an option (the "Option") to the subscriber at a price of HK\$2,280,000. Pursuant to the terms of the deed of the Option, the subscriber will be entitled to subscribe a maximum of 570,000,000 new shares (the "Option Shares") at an exercise price of HK\$0.038 per share, subject to adjustments, anytime from the date of the completion of the supplemental agreement and up to 31 December 2006.

The aggregate of 200,000,000 Subscription Shares and the maximum number of 570,000,000 new shares to be issued, representing approximately 16.37% of the Company's then existing issued share capital and approximately 14.07% of its enlarged issued share capital by then, was issued pursuant to the general mandate granted to the Directors by the shareholders at the Company's annual general meeting held on 3 June 2005. Assuming the Option Shares are fully exercised by the subscriber within the exercise period, the total funds to be raised by the Company under the subscription agreement will be HK\$31,140,000, out of which HK\$9,480,000 has been received by the Company. The Subscription Shares were allotted and issued to the subscriber in October 2005.

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

Litigation

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

The Company has filed an acknowledgement of service to defend the proceedings. Given that the aggregate amount under all the claims is not material to the Group as a whole and the litigation is expected to continue for a period of time before a judgment is made, the Group is of the view that the proceedings will not have any immediate material adverse impact on the financial position, cashflow and business operation of the Group. No provision for the proceedings has been made at this stage.

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

Employee and remuneration policy

The Group employed approximately 28 full time staff in Hong Kong, Chongqing and Guangzhou as at 31 December 2005. 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 Scheme and employee share option scheme.

Prospects

The Group is principally engaged in property investment, leasing of point-of-sale equipment and provision of telecommunication and other related services in the Mainland China. Given that the Group had extensive experience in property development and investment in the Mainland China since 1992, the Directors consider that they should capitalize their expertise and connections in this area for the Group's future business development. Hence, it is expected that the Group will consolidate its business sectors and formulate a new business direction in the coming year. In this respect, the Directors are optimistic that the continuing economic growth in the Mainland China will serve to facilitate the business growth of the Group.

Corporate Governance Report

The Company generally complied with the code provisions (with the exception of Code Provision C.2 on internal controls) of the Code on Corporate Governance Practice (the "Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the accounting period covered by the annual report, save for the few exceptions mentioned below.

Directors' Securities Transactions

The Company has adopted the Code provisions of the Model Code for Securities Transactions by Directors of Listed Issuers 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 all Directors, the Company confirmed that the Directors have complied with the required standard set out in the Model Code for the year under review.

Board of Directors

The Directors are responsible for the leadership and control of the Company and overseeing the Group's affairs and strategic direction. The Directors also acknowledge their responsibility to prepare the financial statements which give a true and fair view.

The Directors during the year ended 31 December 2005 were:

Executive Directors

Mr. Ho Tsam Hung (<i>Vice Chairman</i>)	(re-designated on 1 September 2005)
Mr. Ho Kam Hung (<i>Managing Director</i>)	
Mr. Ho Pak Hung	(resigned on 17 May 2005)
Mr. Yang Jia Jian	(appointed on 17 May 2005)

Non-Executive Directors

Ms. Lam Kuo (<i>Chairman</i>)	(appointed as Non-Executive Director on 25 August 2005 and elected as Chairman on 1 September 2005)
Ms. Yeung Mo Sheung, Ann	(appointed on 17 May 2005)

Independent Non-Executive Directors

Mr. Young Kwok Sui	(re-designated to Non-Executive Director on 16 March 2006)
Mr. Zhang Jie	(resigned on 17 May 2005)
Mr. Wong Ting Kon	(appointed on 17 May 2005)
Mr. Ng Kin Sun	(resigned on 23 September 2005)
Mr. Lawrence K. Tam	(appointed on 15 December 2005)
Ms. Wong Miu Ting, Ivy	(appointed on 15 December 2005)

Mr. Ho Tsam Hung and Mr. Ho Kam Hung are brotherhood in relation. Saved for this, the Directors have no financial, business, family or other material/relevant relationship.

Corporate Governance Report

An Executive Committee has been established by the Directors pursuant to the provisions of the Bye-laws of the Company in October 2005 to implement the investment policies and decisions made by the Directors as well as to manage the corporate affairs of the Group. The Executive Committee comprises three Executive Directors as members.

In September 2005, an Independent Non-Executive Director tendered his resignation upon completion of one year's service with the Board. After his resignation, the Board temporarily had two Independent Non-Executive Directors and thus failed to meet the requirements under Rules 3.10(1) and 3.10(2) of the Listing Rules which required the Company should appoint at least three independent non-executive directors and at least one of them should have appropriate professional qualifications or accounting or related financial management expertise. Two new Independent Non-Executive Directors were appointed in December 2005 and one of them possessed accounting qualification and related expertise.

During the year, the Board has held 10 board meetings and the attendance of each Director is set out as follows:

Name of Directors	Attended/Eligible to Attend
Executive Directors	
Mr. Ho Tsam Hung	10/10
Mr. Ho Kam Hung	10/10
Mr. Ho Pak Hung (resigned on 17 May 2005)	1/2
Mr. Yang Jia Jian (appointed on 17 May 2005)	6/8
Non-executive Directors	
Ms. Lam Kuo (appointed on 25 August 2005)	2+1*/5
Ms. Yeung Mo Sheung, Ann (appointed on 17 May 2005)	5*/8
Independent Non-executive Directors	
Mr. Young Kwok Sui	3/10
Mr. Zhang Jie (resigned on 17 May 2005)	1/2
Mr. Wong Ting Kon (appointed on 17 May 2005)	5*/8
Mr. Ng Kin Sun (resigned on 23 September 2005)	1/7
Mr. Lawrence K. Tam (appointed on 15 December 2005)	0/1
Ms. Wong Miu Ting, Ivy (appointed on 15 December 2005)	0/1

* Attended by proxy

Chairman and Chief Executive Officer

Code Provision A.2.1 stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. In order to comply with this provision by spirit, Ms. Lam Kuo, the Non-Executive Director, was elected as the Non-Executive Chairman in September 2005. Mr. Ho Kam Hung remained to act as the Managing Director during the year.

Non-Executive Directors

Code Provision A.4.1 stipulates that non-executive directors should be appointed for a specific term, subject to re-election. Certain Non-Executive Directors were not appointed for specific terms, but were subject to retirement by rotation in accordance with the Company's Bye-laws.

In order to comply with the Code's best practice, all three existing Non-Executive Directors (including Independent Non-Executive Directors) who have not been appointed with specific terms have been offered a specific term of one year with effective from January 2006.

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 confirmations, considers all Independent Non-Executive Directors are independent.

Remuneration Committee

The Remuneration Committee of the Company was established in December 2005. The members of the Remuneration Committee are two Independent Non-Executive Directors, Mr. Lawrence K. Tam and Ms. Wong Miu Ting, Ivy, and one Executive Director, Mr. Ho Kam Hung.

The responsibilities of the Remuneration Committee include determining remuneration policy for all remuneration of Directors and senior management and reviewing the remuneration package including performance-based remuneration.

Nomination Committee

The Company did not set up a Nomination Committee during the year. However, the Board would consider such set up should circumstances necessitate.

Appointment and Re-election of Directors

Code A.4.2. stipulates that every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

According to the provisions of the Bye-laws of the Company, any director appointed by the Board either to fill a casual vacancy or as an addition to the Board shall hold office until the next following annual general meeting of the Company and shall then be eligible for re-election. Furthermore, at each annual meeting one-third of the Directors for the time being (or, if their number is not a multiple of three (3), the number nearest to but not greater than one-third) shall retire from office by rotation provided that notwithstanding anything herein, the Chairman and/or the Managing Director shall not, whilst holding such office, be subject to retirement by rotation or be taken into account in determining the number of Directors to retire in each year.

However, both the Chairman and the Managing Director had voluntarily retired and offered themselves for re-election at general meetings in the past years. The Directors consider that this practice is in line with the spirit of the Code's practice.

Audit Committee

The present members of the Audit Committee are three Independent Non-executive Directors, Mr. Wong Ting Kon, Mr. Lawrence K. Tam and Ms. Wong Miu Ting, Ivy and one Non-Executive Director, Mr. Young Kwok Sui. During the year, the Audit Committee held two meetings.

The attendance of the Audit Committee members at the audit committee meetings during the year was as follows:

Directors	Attended/Eligible to Attend
Mr. Young Kwok Sui	2/2
Mr. Zhang Jie (resigned on 17 May 2005)	1/1
Mr. Ng Kin Sun (resigned on 23 September 2005)	1/1
Mr. Wong Ting Kon (appointed on 17 May 2005)	1/1
Ms. Wong Miu Ting, Ivy (appointed on 15 December 2005)	1/1
Mr. Lawrence K. Tam (appointed on 15 December 2005)	1/1

The responsibilities of the Audit Committee include reviewing the financial information of the Company and overseeing the Company's financial reporting system and internal control procedures.

During the year, the Audit Committee reviewed the audited financial statements for 2004 and the interim financial statements for 2005 and met with the auditors and the Management to discuss issues arising from the audit of the financial statements.

Auditors' Remuneration

During the year, the remuneration paid to the Company's auditors, Ernst and Young, was set out below:

	<i>HK\$'000</i>
Services rendered	
– audit services	1,100
– non-audit services	
Review on 2005 interim announcement	200
Preparation of accountants' report for inclusion in a circular to shareholders in respect of a very substantial acquisition	800
	2,100

Report of the Directors

The directors present their report together with the audited financial statements of the Company and of the Group for the year ended 31 December 2005.

Principal Activities

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 16 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

Results and Dividends

The Group's loss for the year ended 31 December 2005 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 25 to 98.

The directors do not recommend the payment of any dividend in respect of the year ended 31 December 2005.

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 99 of the annual report. This summary does not form part of the audited financial statements.

Property, Plant and Equipment, and Investment Properties

Details of movements in the property, plant and equipment of the Company and of the Group, and of the investment properties of the Group during the year are set out in notes 12 and 13, respectively, to the financial statements.

Share Capital, Share Options and Convertible Bond

Details of movements in the Company's share capital, share options and convertible bond during the year, together with the reasons therefor, are set out in notes 28, 29 and 26 to the financial statements, respectively.

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\$48,736,000. In addition, in accordance with the Bermuda Companies Act 1981, the Company's share premium account, in the amount of HK\$307,164,000, 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\$133,505,000.

At the balance sheet date, the Group had convertible bond of HK\$29,782,000 and aggregate bank loans of approximately HK\$54,140,000, of which approximately HK\$31,247,000 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 sales attributable to the Group's five largest customers represented 93% of the total sales for the year. The sales from the Group's largest customer represented 24% of the Group's total sales 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.

Report of the Directors

Directors

The directors of the Company during the year were:

Executive Directors:

Ho Tsam Hung, <i>Vice Chairman</i>	(re-designated as Vice Chairman on 1 September 2005)
Ho Kam Hung, <i>Managing Director</i>	
Yang Jia Jian	(appointed on 17 May 2005)
Ho Pak Hung	(resigned on 17 May 2005)

Non-executive Directors:

Yeung Mo Sheung, Ann	(appointed on 17 May 2005)
Lam Kuo, <i>Chairman</i>	(appointed on 25 August 2005 and elected as Chairman on 1 September 2005)

Independent Non-executive Directors:

Young Kwok Sui	
Wong Ting Kon	(appointed on 17 May 2005)
Lawrence K. Tam	(appointed on 15 December 2005)
Wong Miu Ting, Ivy	(appointed on 15 December 2005)
Zhang Jie	(resigned on 17 May 2005)
Ng Kin Sun	(resigned on 23 September 2005)

Subsequent to the balance sheet date, on 16 March 2006, Young Kwok Sui was re-designated as a non-executive director of the Company.

In accordance with the Company's bye-laws, Ho Tsam Hung, Yang Jia Jian, Yeung Mo Sheung, Ann, Lam Kuo, Wong Ting Kon, Lawrence K. Tam and Wong Miu Ting, Ivy will retire by rotation, and being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

All non-executive directors and independent non-executive directors are appointed for a term of one year, and in accordance with the Company's Bye-laws, they will retire by rotation, and being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

Directors' and Senior Management Biographical

The biographical details of the directors and the senior management of the Company are set out on pages 19 to 20 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.

Emolument Policy and Directors' Remuneration

The directors' remuneration is subject to shareholders' approval at general meetings with reference to the recommendation of the Group's remuneration committee. The Group's emolument policies are formulated based on the performance of individual employees and are reviewed regularly. Subject to the Group's profitability, the Group may also provide a discretionary bonus to its employees as an incentive for their contribution to the Group. The primary goal of the remuneration policy with regard to the remuneration packages of the Group's executive directors is to enable the Group to retain and motivate executive directors by linking their compensation with performance as measured against corporate objectives achieved.

The principal elements of the Group's remuneration packages include basic salaries, discretionary bonuses and housing benefits.

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, either 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 and Short Positions in Shares and Underlying Shares

At 31 December 2005, the interests and short positions 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	Notes	Number of shares held	Percentage of the Company's issued share capital
Ho Tsam Hung	(a)	155,000,000	3.16
Ho Kam Hung	(b)	270,000,000	5.51
		425,000,000	8.67

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

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

Report of the Directors

Directors' Interests and Short Positions 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 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) 155,000,000 shares are held by Morgan Estate Assets Limited, a company beneficially owned by Ho Tsam Hung.
- (b) 270,000,000 shares are held by 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 16 to the financial statements.

Save as disclosed above, as at 31 December 2005, 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	53	Vice Chairman	15	Over 15 years' experience in property development and investment in Mainland of the People's Republic of China ("Mainland China")
Ho Kam Hung	51	Managing Director	15	Over 15 years' experience in property development and investment in Mainland China
Yang Jia Jian	41	Executive Director	Newly appointed on 17 May 2005	Over 19 years' experience in project management

Report of the Directors

Profiles of Directors and Senior Management *(Continued)*

Directors *(Continued)*

Name	Age	Position	Number of years of service with the Group	Business experience
Lam Kuo	57	Non-Executive Chairman	Newly appointed on 25 August 2005 and elected as Non-Executive Chairman on 1 September 2005	Over 20 years' business experience
Yeung Mo Sheung, Ann	41	Non-Executive Director	Newly appointed on 17 May 2005	Over 6 years' experience in legal field
Young Kwok Sui	48	Independent Non-Executive Director	3	Over 18 years' experience in accountancy and management consultancy services
Wong Ting Kon	35	Independent Non-Executive Director	Newly appointed on 17 May 2005	Over 12 years' experience in accounting and auditing
Lawrence K. Tam	61	Independent Non-Executive Director	Newly appointed on 15 December 2005	Over 25 years' experience in banking and finance field
Wong Miu Ting, Ivy	44	Independent Non-Executive Director	Newly appointed on 15 December 2005	Over 20 years' experience in auditing and business advisory field

Senior Management

Goh Choo Hwee	34	Company Secretary	1	Over 10 years' experience in legal and corporate finance
Lee Tao Wai, Edward	27	Group Accounting Manager	1	Over 6 years' experience in accounting and auditing
Chun Wai Yin, Alex	40	Accounting Manager	14	Over 18 years' experience in accounting and treasury management

Employees and Remuneration Policy

The Group employed approximately 28 full-time staff in Hong Kong and Mainland China as at 31 December 2005. 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 and Short Positions in Shares and Underlying Shares

At 31 December 2005, the following interests and short positions of 5% or more of the issued share capital, convertible bond and Option (as defined below) 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
Noble Idea Investments Limited (<i>Note 1</i>)	Directly beneficially owned	441,000,000	8.99
Choi Kwan Yee (<i>Note 1</i>)	Through controlled corporation	441,000,000	8.99
High Rank Enterprises Limited (<i>Note 2</i>)	Directly beneficially owned	317,000,000	6.47
Morcambe Corporation (<i>Note 3</i>)	Directly beneficially owned	270,000,000	5.51
Ye Jia Li (<i>Note 3</i>)	Through spouse	270,000,000	5.51
On Tai Profits Limited (<i>Note 4</i>)	Directly beneficially owned	270,000,000	5.51
Liang Gui Fen (<i>Note 4</i>)	Through spouse	270,000,000	5.51

Notes:

- Noble Idea Investments Limited is wholly-owned by Choi Kwan Yee.
- Each of Ho Tsam 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 and Ho Kam Hung are brothers.
- 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.
- On Tai Profits Limited is wholly-owned by a former director, Ho Pak Hung. As Liang Gui Fen is the spouse of the former director, she is deemed to be interested in the 270,000,000 shares held by On Tai Profits Limited.

Substantial Shareholders' and Other Persons' Interests and Short Positions in Shares and Underlying Shares *(Continued)*

Pursuant to the subscription agreement dated 16 July 2005 entered into between Asia Pacific Broadband Entertainment Corporation Limited ("APBE") (formerly known as CNC Broadband Entertainment Corporation Limited) and the Company in relation to the issue of a convertible bond in a principal amount of HK\$30,000,000 (the "Bond") to APBE. 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 2005, the conversion right was not exercised. Subsequent to the balance sheet date, on 24 February 2006, APBE exercised its conversion right of the Bond and the Company issued 200,000,000 shares of HK\$0.02 each.

On 31 August 2005 and 23 September 2005, a subscription agreement and a supplemental agreement (the "Agreements") were entered into between the Company, Hero Grand Investments Limited ("Hero Grand") and a guarantor, namely Leung Po Wa ("Leung"). Both Hero Grand and Leung are independent third parties. Pursuant to the Agreements, Hero Grand conditionally agreed to subscribe for 200,000,000 new shares (the "Subscription Shares") at a subscription price of HK\$0.036 per share, and the Company conditionally agreed to grant an option (the "Option") to Hero Grand at a price of HK\$2,280,000. Pursuant to the Option, Hero Grand will be entitled to subscribe a maximum of 570,000,000 new shares (the "Option Shares") at an exercise price of HK\$0.038 per share, subject to adjustments, at anytime from the date of the completion of the supplemental agreement and up to 31 December 2006. The Subscription Shares were allotted and issued to Hero Grand in October 2005 for cash, resulting in cash proceeds, before expenses of HK\$7,200,000. As at 31 December 2005, the Option had not been exercised.

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

Subsequent to the balance sheet date, a capital reorganisation (the "Capital Reorganisation") to consolidate every ten ordinary shares of HK\$0.02 each in the issued and unissued share capital of the Company into one ordinary share of HK\$0.20 each was approved by shareholders at the special general meeting of the Company held on 27 April 2006. As a result of the Capital Reorganisation, the exercise price of the Option was adjusted from HK\$0.038 per share to HK\$0.38 per share. The maximum number of Option Shares to be subscribed under the Option was adjusted from 470,000,000 to 47,000,000.

Save as disclosed above, as at 31 December 2005, no person, other than the directors of the Company, whose interests are set out in the section "Directors' interests and short positions 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.

Disclosure pursuant to Rule 13.20 of the Listing Rules

In accordance with the disclosure requirements of Rule 13.20 of the Listing Rules prevailing as at 31 December 2005, the following disclosure is included in respect of a receivable from an entity. As at 31 December 2005, the Group has a receivable from the following entity which exceeds 8% of the market capitalisation of the Company as of that date.

	<i>Note</i>	2005 HK\$'000	2004 HK\$'000
Guangdong Properties Investment Ltd. ("Guangdong Properties")	(i)	40,000	90,000

Note:

- (i) The receivable from Guangdong Properties, an independent third party, represented an outstanding balance for the consideration of HK\$350 million for the disposal of a 51% equity interest of a subsidiary in prior years. The balance is unsecured, interest-free and is payable on or before 31 January 2007.

Post Balance Sheet Events

Details of the significant post balance sheet events of the Company and of the Group are set out in note 37 to the financial statements.

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 5 July 2006.

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

5 July 2006

Report of the Auditors



To the members

Zhong Hua International Holdings Limited

(Incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 25 to 98 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 Hong Kong Standards on Auditing 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 2005 and of the loss 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

5 July 2006

Consolidated Income Statement

Year ended 31 December 2005

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

Consolidated Balance Sheet

31 December 2005

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

Consolidated Balance Sheet

31 December 2005

	Notes	2005 HK\$'000	2004 HK\$'000 (Restated)
CAPITAL AND RESERVES			
Equity attributable to equity holders of the Company			
Issued capital	28	98,048	78,388
Reserves	30	427,997	430,060
		526,045	508,448
Minority interests	30	-	16,083
Total equity		526,045	524,531

Ho Tsam Hung
Director

Ho Kam Hung
Director

Consolidated Summary Statement of Changes in Equity

Year ended 31 December 2005

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

Consolidated Cash Flow Statement

Year ended 31 December 2005

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

Consolidated Cash Flow Statement

Year ended 31 December 2005

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

Balance Sheet

31 December 2005

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

Ho Tsam Hung
Director

Ho Kam Hung
Director

Zhong Hua International Holdings Limited

Notes to Financial Statements

31 December 2005

1. CORPORATE INFORMATION

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

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

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

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") which also include Hong Kong Accounting Standards ("HKASs") and interpretations issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the periodic remeasurement of investment properties, as further explained below. These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand (HK\$'000) except when otherwise indicated.

Basis of Consolidation

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

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

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

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

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

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

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

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

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (continued)

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

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

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

(a) HKAS 17 – Leases

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

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

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

(b) HKAS 32 and HKAS 39 – Financial Instruments

Convertible bond

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

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (continued)

(c) HKAS 40 – Investment Property

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

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

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

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

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

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

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

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

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

Notes to Financial Statements

31 December 2005

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (continued)

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

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

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

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

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

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

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

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

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

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

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

Notes to Financial Statements

31 December 2005

2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES

(continued)

(b) Effect on Opening Balance of Total Equity at 1 January 2005 and 1 January 2004

At 1 January 2004	Effect of adopting			Total HK\$'000
	HKAS 32	HKAS 40	HK(SIC)-Int 21 Deferred tax arising from revaluation of investment properties	
Effect of new policies (Increase/(decrease))	Convertible bond HK\$'000	Investment properties HK\$'000	investment properties HK\$'000	
Investment properties revaluation reserve	-	(40,964)	-	(40,964)
Retained profits	-	40,964	(3,805)	37,159
				<u>(3,805)</u>
At 1 January 2005	Effect of adopting			Total HK\$'000
Effect of new policies (Increase/(decrease))	HKAS 32	HKAS 40	HK(SIC)-Int 21 Deferred tax arising from revaluation of investment properties	
Effect of new policies (Increase/(decrease))	Convertible bond HK\$'000	Investment properties HK\$'000	investment properties HK\$'000	
Investment properties revaluation reserve	-	(40,964)	-	(40,964)
Equity component of convertible bond	707	-	-	707
Retained profits	(133)	40,964	(3,805)	37,026
				<u>(3,231)</u>

2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES

(continued)

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

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

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

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

Joint Venture Companies

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

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

A joint venture company is treated as:

- (a) a subsidiary, if the Group has unilateral control, directly or indirectly, over the joint venture company;
- (b) a jointly-controlled entity, if the Group does not have unilateral control, but has joint control, directly or indirectly, over the joint venture company;
- (c) an associate, if the Group does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture company's registered capital and is in a position to exercise significant influence over the joint venture company; or
- (d) an equity investment accounted for in accordance with HKAS 39, if the Group holds, directly or indirectly, less than 20% of the joint venture company's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture company.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Jointly-controlled Entities

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

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

Goodwill

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

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

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

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

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

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

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill (continued)

Goodwill on acquisitions for which the agreement date is on or after 1 January 2005 (continued)

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

Goodwill on acquisitions for which the agreement date is before 1 January 2005

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

Related Parties

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of Assets

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

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

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of such impairment loss is credited to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Notes to Financial Statements

31 December 2005

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, Plant and Equipment and Depreciation

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

The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

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

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

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

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment Properties

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

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

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

Leases

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

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

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

Notes to Financial Statements

31 December 2005

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and Other Financial Assets

Applicable to the year ended 31 December 2005:

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

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

Loans and receivables

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

Fair value

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

Impairment of Financial Assets

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

Assets carried at amortised cost

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of Financial Assets (continued)

Assets carried at amortised cost (continued)

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

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

Assets carried at cost

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

Derecognition of Financial Assets

Applicable to the year ended 31 December 2005:

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of Financial Assets (continued)

Applicable to the year ended 31 December 2005 (continued)

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

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

Interest-bearing Loans and Borrowings

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

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

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

Convertible Bonds

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of Financial Liabilities

Applicable to the year ended 31 December 2005:

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

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

Intangible Assets

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

Cash and Cash Equivalents

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

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

Income Tax

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

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

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

Notes to Financial Statements

31 December 2005

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income Tax (continued)

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue Recognition

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

- (i) from the sale of completed properties held for sale, when all of the conditions of sale have been met and the risks and rewards of ownership have been transferred to the buyer;
- (ii) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (iii) from the provision of telecommunication and other related services, based on usage of the Group's fibre-optic network and related facilities and are recognised when the services are rendered;
- (iv) rental income, on a time proportion basis over the lease terms; and
- (v) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

Employee Benefits

Retirement benefits scheme

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

Share-based payment transactions

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee Benefits (continued)

Share-based payment transactions (continued)

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

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

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

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

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign Currencies

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

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

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Judgements

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

Impairment of assets

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

Estimation Uncertainty

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

Allowance for bad and doubtful debts

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

Impairment of goodwill

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

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

4. SEGMENT INFORMATION

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

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

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

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

Notes to Financial Statements

31 December 2005

4. SEGMENT INFORMATION (continued)

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

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

Notes to Financial Statements

31 December 2005

4. SEGMENT INFORMATION (continued)

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

Notes to Financial Statements

31 December 2005

5. REVENUE

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

An analysis of revenue is as follows:

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

6. FINANCE COSTS

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

Notes to Financial Statements

31 December 2005

7. PROFIT BEFORE TAX

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

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

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

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

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

Notes to Financial Statements

31 December 2005

8. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES

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

2005

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

Notes to Financial Statements

31 December 2005

8. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES (continued)

2004

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

Notes to Financial Statements

31 December 2005

8. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES

(continued)

Five Highest Paid Employees

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

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

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

	Number of employees	
	2005	2004
Nil – HK\$1,000,000	5	3

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

During the year, no share options were granted to the directors or non-director, highest paid employees in respect of their services to the Group. Further details of the share option schemes of the Company are set out in note 29 to the financial statements.

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

Notes to Financial Statements

31 December 2005

9. TAX

	Group	
	2005 HK\$'000	2004 HK\$'000
Provision for the year:		
Current – elsewhere	1,773	2,071
Deferred (<i>note 27</i>)	32,317	249
Total tax charge for the year	<u>34,090</u>	<u>2,320</u>

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

Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof. The subsidiaries established in Mainland China are subject to income taxes at tax rate of 33%.

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

Group – 2005

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

Notes to Financial Statements

31 December 2005

9. TAX (continued)

Group – 2004 (restated)

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

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

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

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

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

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

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

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

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

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

Notes to Financial Statements

31 December 2005

12. PROPERTY, PLANT AND EQUIPMENT

Group

	Telecom- munication network and equipment <i>HK\$'000</i>	Land and buildings <i>HK\$'000</i>	Leasehold improvements <i>HK\$'000</i>	Equipment <i>HK\$'000</i>	Computer and office equipment, furniture and fixtures <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
At cost:							
At 1 January 2005	120,877	7,626	910	11,113	1,180	285	141,991
Additions	85	–	–	51	5	217	358
Exchange realignment	1,913	163	29	243	32	18	2,398
At 31 December 2005	122,875	7,789	939	11,407	1,217	520	144,747
Accumulated depreciation:							
At 1 January 2005	6,578	933	284	2,950	854	206	11,805
Provided during the year	11,380	214	348	2,170	271	70	14,453
Exchange realignment	130	22	34	83	27	17	313
At 31 December 2005	18,088	1,169	666	5,203	1,152	293	26,571
Net book value:							
At 31 December 2005	104,787	6,620	273	6,204	65	227	118,176
At 31 December 2004	114,299	6,693	626	8,163	326	79	130,186

Notes to Financial Statements

31 December 2005

12. PROPERTY, PLANT AND EQUIPMENT (continued)

Group

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

Notes to Financial Statements

31 December 2005

12. PROPERTY, PLANT AND EQUIPMENT (continued)

Company

	Leasehold improvements <i>HK\$'000</i>	Computer and office equipment, furniture and fixtures <i>HK\$'000</i>	Total <i>HK\$'000</i>
At cost:			
At 1 January 2005	37	982	1,019
Additions	–	51	51
At 31 December 2005	37	1,033	1,070
Accumulated depreciation:			
At 1 January 2005	35	885	920
Provided during the year	1	59	60
At 31 December 2005	36	944	980
Net book value:			
At 31 December 2005	1	89	90
At 31 December 2004	2	97	99
	Leasehold improvements <i>HK\$'000</i>	Computer and office equipment, furniture and fixtures <i>HK\$'000</i>	Total <i>HK\$'000</i>
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

12. PROPERTY, PLANT AND EQUIPMENT (continued)

Included in the total amount of the Group's equipment, there are 2,482 point-of-sale equipment (the "POS Equipment") held for leasing purposes with cost of HK\$10,664,000 (2004: HK\$10,424,000) and accumulated depreciation of HK\$4,646,000 (2004: HK\$2,459,000).

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

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

13. INVESTMENT PROPERTIES

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

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

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

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

Notes to Financial Statements

31 December 2005

14. INTANGIBLE ASSETS

Group

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

14. INTANGIBLE ASSETS (continued)

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

15. GOODWILL

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

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

Notes to Financial Statements

31 December 2005

15. GOODWILL (continued)

Impairment Testing of Goodwill

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

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

16. INTERESTS IN SUBSIDIARIES

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

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

Notes to Financial Statements

31 December 2005

16. 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
			2005	2004	
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")	People's Republic of China ("PRC")/ Mainland China	US\$2,000,000 Registered capital (Note a)	100	100	Property development, holding and management
Ever Brian Inc. ("Ever Brian")	British Virgin Islands/ PRC/ Mainland China	US\$1 Ordinary	100	100	Sale of online English learning courses
I-Action Agents Limited	British Virgin Islands/ Hong Kong	US\$1 Ordinary	100	100	Investment holding
Smart Hero (Holdings) Limited	Hong Kong	HK\$2 Ordinary, HK\$300 Non-voting deferred (Note b)	100	100	Investment holding
Proland International Technology Limited	Hong Kong	HK\$2 Ordinary	100	100	Investment holding
Guangzhou Proland Electrical Technology Limited ("GZ Proland")	PRC/Mainland China	HK\$1,500,000 Registered capital (Note a)	100	100	Leasing of equipment

Notes to Financial Statements

31 December 2005

16. INTERESTS IN SUBSIDIARIES (continued)

Name	Place of incorporation/ registration/ and operations	Nominal value of issued share/ registered capital	Percentage of equity attributable to the Company		Principal activities
			2005	2004	
Telesuccess International Limited ("Telesuccess")	British Virgin Islands	US\$1 Ordinary	100	100	Investment holding
Sky City Network Communication Limited ("Sky City") (Note c)	PRC/Mainland China	RMB110,000,000 Registered capital (Note a, c)	100	80.9	Provision of telecommunication and other related services

Notes:

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

The above table lists the subsidiaries of the Company as at 31 December 2005 which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the assets and liabilities of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

17. INTERESTS IN JOINTLY-CONTROLLED ENTITIES

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

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

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

Particulars of the jointly-controlled entities are as follows:

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

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

Notes to Financial Statements

31 December 2005

18. TRADE RECEIVABLES

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

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

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

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

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

Notes to Financial Statements

31 December 2005

19. PREPAID RENTAL

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

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

20. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

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

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

Notes to Financial Statements

31 December 2005

21. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

At 31 December 2005, bank deposits of approximately HK\$354,000 (2004: HK\$776,000) were pledged to a bank to secure mortgage loans granted by the bank to certain purchasers of the Group's properties.

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK\$125,991,000 (2004: HK\$100,955,000). RMB is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

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

22. TRADE PAYABLES

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

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

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

23. OTHER PAYABLES AND ACCRUALS

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

Notes to Financial Statements

31 December 2005

24. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Effective interest rate (%)	Maturity	Group	
			2005 HK\$'000	2004 HK\$'000 (Restated)
Current				
Finance lease payables	10.4	2006	515	492
Bank loans – unsecured	5-11	On demand	26,564	45,120
Bank loans – secured	5-9	2006	4,683	4,710
			31,762	50,322
Convertible bond (note 26)	4	2006	29,782	–
Non-current				
Finance lease payables	–	–	–	131
Bank loans – secured	5-9	2007-2010	22,893	27,470
			22,893	27,601
Convertible bond (note 26)	4	2006	–	29,426
			84,437	107,349

Notes to Financial Statements

31 December 2005

24. INTEREST-BEARING BANK AND OTHER BORROWINGS (continued)

	Group	
	2005	2004
	HK\$'000	HK\$'000
		(Restated)
Analysed into:		
Bank loans and overdrafts repayable:		
Within one year or on demand	31,247	49,830
In the second year	5,084	4,963
In the third to fifth years, inclusive	17,809	16,550
Beyond five years	–	5,957
	54,140	77,300
Other borrowings repayable:		
Within one year	30,297	492
In the second year	–	29,557
	30,297	30,049
	84,437	107,349

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

24. INTEREST-BEARING BANK AND OTHER BORROWINGS (continued)**Finance Lease Payables**

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

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

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

Notes to Financial Statements

31 December 2005

25. DEFERRED INCOME

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

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

26. CONVERTIBLE BOND

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

26. CONVERTIBLE BOND (continued)

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

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

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

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

Notes to Financial Statements

31 December 2005

27. DEFERRED TAX

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

Deferred Tax Liabilities

Group

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

	Fair value adjustment of fixed assets <i>HK\$'000</i>	2004 Revaluation of investment properties <i>HK\$'000</i> (Restated)	Total <i>HK\$'000</i> (Restated)
At 1 January 2004	–	18,302	18,302
Acquisition of subsidiaries (<i>note 31</i>)	4,200	–	4,200
At 31 December 2004	4,200	18,302	22,502

27. DEFERRED TAX (continued)**Deferred Tax Assets****Group**

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

The Group has tax losses arising in Hong Kong of HK\$346,000 (2004: HK\$9,771,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in Group companies that have been loss-making for some time.

At 31 December 2005, there was no significant unrecognised deferred tax liability (2004: Nil) for taxes that would have been payable on the unremitted earnings of certain of the Group's subsidiaries or jointly-controlled entities as the Group had no liability to additional tax should such amounts be remitted.

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

Notes to Financial Statements

31 December 2005

28. SHARE CAPITAL

Shares

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

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

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

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

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

29. SHARE OPTION SCHEMES

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

A Summary of the Scheme is set out below:

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

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

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

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

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

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

Notes to Financial Statements

31 December 2005

29. SHARE OPTION SCHEMES (continued)

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

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

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

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

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

Notes to Financial Statements

31 December 2005

30. RESERVES

Group

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

Notes to Financial Statements

31 December 2005

30. RESERVES (continued)

Group

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

Notes to Financial Statements

31 December 2005

30. RESERVES (continued)

Group

	Share premium account HK\$'000	Contributed surplus HK\$'000	Equity component of convertible bond HK\$'000	Other reserve HK\$'000	Investment properties revaluation reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Retained profits/ (accumulated loss) HK\$'000	Total HK\$'000	Minority interests HK\$'000
Reserves retained by/(losses accumulated in):									
Company and subsidiaries	307,164	80,258	707	2,280	-	6,670	31,186	428,265	-
Jointly-controlled entities	-	-	-	-	-	-	(268)	(268)	-
At 31 December 2005	307,164	80,258	707	2,280	-	6,670	30,918	427,997	-
Company and subsidiaries	303,964	80,258	707	-	-	442	44,957	430,328	16,083
Jointly-controlled entities	-	-	-	-	-	-	(268)	(268)	-
At 31 December 2004 (restated)	303,964	80,258	707	-	-	442	44,689	430,060	16,083

Notes:

- (a) The contributed surplus of the Group represents the difference between the nominal value of the shares of the subsidiaries acquired pursuant to the Group reorganisation in 1997, over the nominal value of the Company's shares issued in exchange therefor.
- (b) The other reserve represent the consideration received for an option granted to a shareholder during the year as explained in note 28 to the financial statements.

Notes to Financial Statements

31 December 2005

30. RESERVES (continued)

Company

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

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

31. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT**Acquisition of Subsidiaries**

	<i>Notes</i>	2005 HK\$'000	2004 <i>HK\$'000</i>
Net assets acquired:			
Property, plant and equipment	12	-	121,966
Intangible assets	14	-	2,856
Cash and bank balances		-	5,612
Trade receivables		-	24,175
Prepaid rental		-	18,455
Prepayments, deposits and other receivables		-	29,278
Interest-bearing bank loans		-	(56,310)
Other payables and accruals		-	(5,679)
Finance lease payables		-	(959)
Tax payable		-	(4,129)
Deferred tax liabilities	27	-	(4,200)
Minority interests		-	(19,660)
		-	111,405
Goodwill on acquisition	15	-	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 14 December 2004, Telesuccess, a wholly-owned subsidiary of the Group, entered into a sales and purchase agreement with the then existing shareholder, to acquire the remaining 19.1% interest in Sky City at a cash consideration of HK\$60,000,000. The consideration was satisfied by deposit of HK\$36,000,000 paid in 2004 and the remaining consideration of HK\$24,000,000, which was paid in current year. The acquisition was completed on 7 February 2005 and goodwill of HK\$43,906,000 arose from the acquisition (note 15).

Notes to Financial Statements

31 December 2005

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

Acquisition of Subsidiaries (continued)

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

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
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	–	(135,956)

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

32. CONTINGENT LIABILITIES

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

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

33. PLEDGE OF ASSETS

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

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

	Group		Company	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Contracted, but not provided for:				
Property Development project	35,902	35,902	-	-
Internet cafe project	-	17,080	-	-
	35,902	52,982	-	-

(b) Commitments under Operating Leases**(i) As lessor**

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

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

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

Notes to Financial Statements

31 December 2005

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

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

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

Cash Flow Interest Rate Risk

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

Foreign Currency Risk

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

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

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit Risk

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

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

Liquidity Risk

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

36. LITIGATION

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

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

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

Notes to Financial Statements

31 December 2005

37. POST BALANCE SHEET EVENTS

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

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

38. COMPARATIVE AMOUNTS

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

39. APPROVAL OF THE FINANCIAL STATEMENTS

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

Summary Financial Information

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

RESULTS

	Year ended 31 December				
	2005 HK\$'000	2004 HK\$'000 (Restated)	2003 HK\$'000 (Restated)	2002 HK\$'000 (Restated)	2001 HK\$'000 (Restated)
Turnover	17,213	25,145	5,507	172,511	215,764
Profit/(loss) before tax	20,330	44,874	(148,136)	(183,620)	50,517
Tax	(34,090)	(2,320)	(126)	4,451	(17,742)
Profit/(loss) before minority interests	(13,760)	42,554	(148,262)	(179,169)	32,775
Minority interests	(11)	3,577	–	7,340	(1,893)
Net profit/(loss) for the year attributable to ordinary equity holders of the Company	(13,771)	46,131	(148,262)	(171,829)	30,882

ASSETS, LIABILITIES AND MINORITY INTERESTS

	2005 HK\$'000	2004 HK\$'000 (Restated)	2003 HK\$'000 (Restated)	2002 HK\$'000 (Restated)	2001 HK\$'000 (Restated)
TOTAL ASSETS	754,633	758,442	599,059	765,595	1,725,086
TOTAL LIABILITIES	(228,588)	(233,911)	(247,277)	(286,787)	(642,563)
MINORITY INTERESTS	–	(16,083)	–	–	(308,274)
	526,045	508,448	351,782	478,808	774,249

Schedule of Property Interest

Particular of the principal properties in Mainland China held by the Group as at 31 December 2005 is 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