



ZHONG HUA INTERNATIONAL HOLDINGS LIMITED

中華國際控股有限公司*

(Incorporated in Bermuda with limited liability)

Stock Code: 1064

ZHONG
HUA



2006

Annual Report

* For identification purpose only

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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*)
Young Kwok Sui

Independent Non-Executive Directors

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

Company Secretary

Goh Choo Hwee, *Solicitor*

Registered Office

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

Head Office and Principal Place of Business

Suite 2911, West Tower
Shun Tak Centre
168-200 Connaught Road Central
Central
Hong Kong

Principal Office in China

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
Richards Butler
20th Floor, Alexandra House
16-20 Chater Road
Central
Hong Kong

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

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 (collectively the “Group”) for the year ended 31 December 2006.

Review of Results

The Group recorded a turnover of HK\$12,739,000 (31 December 2005: HK\$17,213,000) for the year ended 31 December 2006, representing a decrease of 26% compared with 2005. Net loss for the year attributable to ordinary equity holders of the Company was HK\$145,761,000 (31 December 2005: HK\$13,771,000).

Final Dividend

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2006.

Closure of Register of Members

The Register of Members of the Company will be temporarily closed from Thursday, 19 July 2007 to Friday, 20 July 2007, both dates inclusive, during which period no transfer of shares will be effected. In order to qualify for the attendance at the Company’s annual general meeting to be held on Friday, 20 July 2007 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 Wednesday, 18 July 2007.

Business Review

The Group’s turnover in the year mainly comprised of the rental income generated from the commercial podium in Chongqing, the leasing of Point-of-sale (“POS”) equipment in Guangzhou and the provision of telecommunication and other related services in Mainland China.

Property investment

The rental income generated from leasing of the commercial units in Gang Yu Square in Chongqing was increased in the year compared with 2005. 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.

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.

Management Discussion and Analysis

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, 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. The Directors therefore considered it appropriate to liquidate the investment in the Telesuccess Group (as defined below) for immediate cash and focused its resources on other more promising investment opportunities in future.

On 6 November 2006, pursuant to a sales and purchase agreement entered into between the Group and an independent third party, the Group agreed to dispose of its entire equity interest in Telesuccess International Limited and its wholly-owned subsidiary, Sky City Network Communication Limited (collectively known as the "Telesuccess Group"), and net inter-company balances payable to the Group for a consideration of HK\$50,000,000, which recognised a loss on disposal of HK\$106,187,000.

The transaction was completed on 29 December 2006. Following the disposal of the entire interest in Telesuccess Group, the Group ceased the operation of provision of telecommunication and other related services.

Financial Review

Liquidity and financial resources

The Group generally financed its businesses with internally generated cash flows, banking facilities, net proceeds from placing of new shares and exercise of share options during the year.

Cash and bank balances of the Group as at 31 December 2006 amounted to HK\$178,602,000 (2005: HK\$133,151,000) and pledged deposits of HK\$404,000 (2005: HK\$354,000).

As at 31 December 2006, the Group had outstanding borrowings of approximately HK\$25,543,000 (2005: HK\$84,437,000) comprising interest-bearing bank loans amounted to HK\$22,933,000 (2005: HK\$54,140,000), convertible bonds payable amounted to HK\$nil (2005: HK\$29,782,000) and finance lease payable amounted to HK\$2,610,000 (2005: HK\$515,000). Of the Group's interest-bearing bank loans, 22%, 24% and 54% respectively are repayable within one year or on demand, in the second year, in the third to fifth years, inclusive. No bank loan as at 31 December 2006 was charged at fixed interest rates. An amount of HK\$26,564,000 bank loans as at 31 December 2005 was charged at fixed interest rates.

The Group's gearing ratio as at 31 December 2006 was 0.2 (2005: 0.28), calculated based on the Group's total liabilities, excluding deferred income, of HK\$118,848,000 (2005: HK\$210,531,000) over total assets of HK\$589,795,000 (2005: HK\$754,633,000).

Currency structure

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

Management Discussion and Analysis

Pledge of assets

The Group had utilised bank loan facilities amounting to approximately HK\$22,933,000 (2005: HK\$54,140,000) as at 31 December 2006. The bank loans were supported by certain of the Group's investment properties and corporate guarantees executed by the Company.

Contingent liabilities

As at 31 December 2006, guarantees given for mortgage loans granted by banks to certain purchasers of the Group's properties amounted to HK\$4,039,000 (2005: HK\$3,395,000).

Postponement of payment of the balance of a consideration

In November 2002, it was announced that the Group was contracted to dispose of certain assets to an independent third party at a consideration of HK\$350,000,000 payable by installments. Pursuant to a second supplemental agreement dated 26 January 2005, the timing for payment of the balancing consideration of HK\$90,000,000 in relation to the subject disposal was extended without interest to not later than 26 July 2005. However, given the total gross floor area of a proposed site of the underlying properties was not yet determined by the relevant governmental authorities, the purchaser to the transaction therefore requested that the payment of an amount of HK\$40,000,000 be further deferred to not later than 30 January 2006 without interest. On 23 January 2006, the Group entered into an agreement with the purchaser to reschedule the repayment date of the remaining consideration of HK\$40,000,000 on or before 31 January 2007.

Subsequent to the balance sheet date, on 25 January 2007, the Group entered into an agreement with the purchaser to further reschedule the repayment date of the remaining consideration of HK\$40,000,000 on or before 31 January 2008. In this connection, the Group has received a sum of HK\$310,000,000 out of HK\$350,000,000 from the purchaser to the transaction.

Conversion of Convertible Bond

On 24 February 2006, Asia Pacific Broadband Entertainment Corporation Limited (formerly known as CNC Broadband Entertainment Corporation Limited), the holder of the Convertible Bond, exercised the conversion rights attached to the Convertible Bond. 20,000,000 shares with a par value of HK\$0.20 each in the capital of the Company were converted at the conversion price of HK\$1.50 per share.

The above number of shares and conversion price have been adjusted to reflect the capital reorganisation becoming effective on 27 April 2006 as further detailed in the section "Capital reorganisation" below.

Placement of new shares

On 28 March 2006, the Company entered into a subscription agreement with an independent third party which had conditionally agreed to subscribe for 17,000,000 shares to be issued and allotted by the Company at a subscription price of HK\$0.30 per share. On 25 April 2006, the Company issued and allotted 17,000,000 shares at HK\$0.30 per share resulting in raising a gross proceed of HK\$5.1 million, which was used for general working capital of the Group.

Management Discussion and Analysis

The above number of shares and subscription price have been adjusted to reflect the capital reorganisation becoming effective on 27 April 2006 as further detailed in the section “Capital reorganisation” below.

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 20,000,000 new shares (the “Subscription Shares”) at a subscription price of HK\$0.36 per share, and the Company had conditionally agreed to grant an option (the “Option”) to the subscriber at a price of HK\$2,280,000. Pursuant to the terms of the deed of the Option, the subscriber was entitled to subscribe a maximum of 57,000,000 new shares (the “Option Shares”) at an exercise price of HK\$0.38 per share 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 the subscriber in October 2005.

On 18 April 2006, the subscriber served the notice for subscription of 10,000,000 Option Shares at an exercise price of HK\$0.38. The 10,000,000 Option Shares were allotted and issued on 25 April 2006 and a gross proceed of HK\$3,800,000 was raised by the Company.

On 11 August 2006 and 22 August 2006, the subscriber served notices for subscription of 25,000,000 and 22,000,000 Option Shares at an exercise price of HK\$0.38. The 25,000,000 and 22,000,000 Option Shares were allotted and issued on 14 August 2006 and 23 August 2006 respectively, and gross proceeds of HK\$17,860,000 were raised by the Company. The Option had been fully exercised.

The above number of shares, subscription price and exercise price have been adjusted to reflect the capital reorganisation becoming effective on 27 April 2006 as further detailed in the section “Capital reorganisation” below.

Capital reorganisation

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\$0.20 each in the capital of the Company. The Reorganisation was approved by shareholders at the Company’s special general meeting on 27 April 2006.

Litigation

- (a) A writ of summons was issued in Hong Kong 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 in February 2006. No further development took place since then.

Management Discussion and Analysis

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 for the year.

- (b) Two writs of summons were issued in Chongqing in November 2006 by a third party (the "Plaintiff") against a wholly-owned subsidiary of the Group (the "Defendant"). According to the two summons, the Plaintiff claimed certain damages in relation to the unilateral termination of an estate management contract by the Defendant. In the Endorsement of Claims, the Plaintiff demanded for payment of compensation and amounts due to the Plaintiff in an aggregate amount of RMB29.0 million (HK\$28.8 million). The Defendant then filed another writ of summons in the capacity of plaintiff against the Plaintiff in Chongqing in November 2006 for counter-claim of an aggregate amount of RMB68.5 million (HK\$68.2 million) plus interest. The Chongqing Municipal High People's Court (重慶市高級人民法院) has given direction to consolidate the proceedings of the three writs of summons.

Having consulted with the Defendant's legal counsel in Mainland China, the Group is of the view that the legal ground of the Plaintiff is thin and therefore no provision for the proceedings has been made at this stage.

Employee and remuneration policy

The Group employed 19 full time staff in Hong Kong, Chongqing and Guangzhou as at 31 December 2006. 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 and leasing of point-of-sale equipment in the Mainland China upon disposal of Telesuccess Group in December 2006. Given that the Group had extensive experience in property development and investment in the Mainland China since 1992, the Directors consider that they should capitalise 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 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 operation, 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 2006 were:

Executive Directors

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

Non-Executive Directors

Ms. Lam Kuo (*Chairman*)
Ms. Yeung Mo Sheung, Ann (retired on 30 August 2006)
Mr. Young Kwok Sui (re-designated from Independent Non-Executive Director on 16 March 2006)

Independent Non-Executive Directors

Mr. Wong Ting Kon (retired on 30 August 2006)
Mr. Lawrence K. Tam
Ms. Wong Miu Ting, Ivy
Mr. Wong Kui Fai (appointed on 1 December 2006)

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

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 August 2006, following retirement of an Independent Non-Executive Director, the Board temporarily had two Independent Non-Executive Directors and thus failed to meet the requirements under Rule 3.10(1) of the Listing Rules which required the Company should appoint at least three Independent Non-Executive Directors. The vacancy was filled in December 2006.

During the year, the Board held 7 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	4/7
Mr. Ho Kam Hung	6/7
Mr. Yang Jia Jian	4/7
Non-executive Directors	
Ms. Lam Kuo	4/7
Ms. Yeung Mo Sheung, Ann	(retired on 30 August 2006) 0/5
Mr. Young Kwok Sui	(re-designated from Independent Non-Executive Director on 16 March 2006) 6/7
Independent Non-executive Directors	
Mr. Wong Ting Kon	(retired on 30 August 2006) 1/5
Mr. Lawrence K. Tam	6/7
Ms. Wong Miu Ting, Ivy	6/7
Mr. Wong Kui Fai	(appointed on 1 December 2006) 0/0

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, remained to act as the Non-Executive Chairman and Mr. Ho Kam Hung remained to act as the Managing Director during the year.

Corporate Governance Report

Non-Executive Directors

Code Provision A.4.1 stipulates that non-executive directors should be appointed for a specific term, subject to re-election. All Non-Executive Directors were offered a specific term of one year and were subject to retirement by rotation in accordance with the Company's Bye-laws.

The Company has received from each of its Independent Non-Executive Directors an annual written confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company, based on such 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 three Independent Non-Executive Directors, Mr. Lawrence K. Tam, Ms. Wong Miu Ting, Ivy and Mr. Wong Kui Fai, 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 the Company's general meetings in the past years. The Directors consider that this practice is in line with the spirit of the Code's practice.

Corporate Governance Report

Audit Committee

The present members of the Audit Committee are three Independent Non-executive Directors, Mr. Wong Kui Fai, 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	1/2
Mr. Wong Ting Kon (retired on 30 August 2006)	1/1
Ms. Wong Miu Ting, Ivy	2/2
Mr. Lawrence K. Tam	2/2
Mr. Wong Kui Fai (appointed on 1 December 2006)	0/0

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 2005 and the interim financial statements for 2006 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	1,180
– non-audit services	
Preparation of accountants' report for inclusion in a circular to shareholders in respect of a major transaction	315
	<u>1,495</u>

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 2006.

Principal Activities

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 17 to the financial statements. During the year, as a result of the disposal of the entire shareholding of Telesuccess International Limited, a wholly-owned subsidiary of the Group, and its subsidiary, the Group ceased the telecommunication and other related services business. Apart from that, 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 2006 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 22 to 88.

The Directors do not recommend the payment of any dividend in respect of the year ended 31 December 2006.

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 89 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 13 and 14, 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 29, 30 and 27 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 31 to the financial statements and in the consolidated statement of changes in equity, respectively.

Distributable Reserves

At the balance sheet date, the Company had no reserves available for cash distribution and distribution in specie. In accordance with the Bermuda Companies Act 1981, the Company's share premium account, in the amount of HK\$350,953,000, 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\$179,006,000.

At the balance sheet date, the Group had aggregate bank loans of approximately HK\$22,933,000, of which approximately HK\$5,087,000 is repayable within one year from the balance sheet date.

Major Customers and Suppliers

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

- (i) The aggregate amount of sales attributable to the Group's five largest customers represented 100% of the total sales for the year. The sales attributable to the Group's largest customer represented 70% 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 largest supplier.

Report of the Directors

Directors

The directors of the Company during the year were:

Executive Directors:

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

Non-Executive Directors:

Lam Kuo, *Chairman*
Young Kwok Sui (re-designated from Independent Non-Executive Director to Non-Executive Director on 16 March 2006)
Yeung Mo Sheung, Ann (retired on 30 August 2006)

Independent Non-Executive Directors:

Lawrence K. Tam
Wong Miu Ting, Ivy
Wong Kui Fai (appointed on 1 December 2006)
Wong Ting Kon (retired on 30 August 2006)

In accordance with the Company's bye-laws, Ho Kam Hung, Young Kwok Sui and Wong Kui Fai 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' 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.

Report of the Directors

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, housing benefits and share options.

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 anytime 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 2006, 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)	14,500,000	2.36
Ho Kam Hung	(b)	27,000,000	4.40
		<hr/>	
		41,500,000	6.76

Notes:

- (a) 14,500,000 shares are held by Morgan Estate Assets Limited ("Morgan"), a company beneficially owned by Ho Tsam Hung.
- (b) 27,000,000 shares are held by Morcambe Corporation ("Morcambe"), a company beneficially owned by Ho Kam Hung.

Morgan and Morcambe are controlled corporations owned by Ho Tsam Hung and Ho Kam Hung respectively.

The interests of the directors in the share options of the Company are separately disclosed in note 30 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

The rights and restrictions attached to the aforementioned non-voting deferred shares are set out in note 17 to the financial statements.

Save as disclosed above, as at 31 December 2006, 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

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 business of 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. A temporary distribution centre for shoes and related products is currently erected on the site and it is currently managed by a separate management team which is independent from the management of the Group. Given the location and market segment of the distribution centre, which is situated at Yuexiu District, Guangzhou 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	54	Vice Chairman	16	Over 16 years' experience in property development and investment in Mainland of the People's Republic of China ("Mainland China")
Ho Kam Hung	52	Managing Director	16	Over 16 years' experience in property development and investment in Mainland China
Yang Jia Jian	42	Executive Director	2	Over 20 years' experience in project management
Lam Kuo	58	Non-Executive Chariman	2	Over 21 years' business experience
Young Kwok Sui	49	Non-Executive Director	4	Over 19 years' experience in accountancy and management consultancy services
Lawrence K. Tam	62	Independent Non-Executive Director	1	Over 26 years' experience in banking and finance

Report of the Directors

Profiles of Directors and Senior Management (continued)

Name	Age	Position	Number of years of service with the Group	Business experience
Wong Miu Ting, Ivy	45	Independent Non-Executive Director	1	Over 21 years' experience in auditing and business advisory
Wong Kui Fai	49	Independent Non-Executive Director	Newly appointed on 1 December 2006	Over 20 years' experience in information technology and investment operation
Senior management				
Goh Choo Hwee	35	Company Secretary	2	Over 11 years' experience in legal and corporate finance
Lee Tao Wai, Edward	28	Financial Controller	2	Over 7 years' experience in accounting and auditing
Chun Wai Yin, Alex	41	Accounting Manager	15	Over 19 years' experience in accounting and treasury management

Employees and Remuneration Policy

The Group employed 19 full-time staff in Hong Kong and Mainland China as at 31 December 2006. 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.

Report of the Directors

Substantial Shareholders' and Other Persons' Interests and Short Positions in Shares and Underlying Shares

At 31 December 2006, the following interests and short positions of 5% or more of the issued share capital 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
Hero Grand Investments Limited (<i>Note 1</i>)	Directly beneficially owned	77,000,000	12.56
Leung Po Wa (<i>Note 1</i>)	Through controlled corporation	77,000,000	12.56
Noble Idea Investments Limited (<i>Note 2</i>)	Directly beneficially owned	45,100,000	7.35
Choi Kwan Yee (<i>Note 2</i>)	Through controlled corporation	45,100,000	7.35
High Rank Enterprises Limited (<i>Note 3</i>)	Directly beneficially owned	31,700,000	5.17

Notes:

1. Hero Grand Investments Limited is wholly-owned by Leung Po Wa.
2. Noble Idea Investments Limited is wholly-owned by Choi Kwan Yee.
3. Each of Ho Tsam Hung and Ho Kam Hung, being the executive directors of the Company, 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.

Save as disclosed above, as at 31 December 2006, 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.

Post Balance Sheet Events

Details of the significant post balance sheet events of the Company and of the Group are set out in note 39 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 26 April 2007 (being the latest practicable date prior to the printing of this annual report).

Report of the Directors

Auditors

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

ON BEHALF OF THE BOARD

Ho Kam Hung

Managing Director

Hong Kong
26 April 2007

Independent Auditors' Report



To the shareholders of

Zhong Hua International Holdings Limited

(Incorporated in Bermuda with limited liability)

We have audited the financial statements of Zhong Hua International Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") set out on pages 22 to 88, which comprise the consolidated and company balance sheets as at 31 December 2006, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' Responsibility for the Financial Statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. Our report is made 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.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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 2006 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

ERNST & YOUNG

Certified Public Accountants

18th Floor, Two International Finance Centre
8 Finance Street
Central
Hong Kong
26 April 2007

Consolidated Income Statement

Year ended 31 December 2006

	Notes	2006 HK\$'000	2005 HK\$'000 (Restated)
CONTINUING OPERATIONS			
REVENUE	5	12,562	10,400
Cost of sales		<u>(5,656)</u>	<u>(5,656)</u>
Gross profit		6,906	4,744
Other income		1,944	1,602
Changes in fair value of investment properties	14	–	97,932
Gain on disposal of interests in subsidiaries	26	–	22,568
Administrative expenses		(16,561)	(17,672)
Other operating expenses, net		(10,511)	(6,000)
Finance costs	6	<u>(2,367)</u>	<u>(3,167)</u>
PROFIT/(LOSS) BEFORE TAX	7	(20,589)	100,007
Tax	9	<u>(223)</u>	<u>(34,090)</u>
PROFIT/(LOSS) FOR THE YEAR FROM CONTINUING OPERATIONS	10	(20,812)	65,917
DISCONTINUED OPERATION			
Loss for the year from a discontinued operation		<u>(124,949)</u>	<u>(79,677)</u>
LOSS FOR THE YEAR		<u>(145,761)</u>	<u>(13,760)</u>
Attributable to:			
Equity holders of the Company	11, 31	(145,761)	(13,771)
Minority interests	31	–	11
		<u>(145,761)</u>	<u>(13,760)</u>
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY			
	12		
Basic			
– For loss for the year		<u>HK(26.02) cents</u>	HK(3.10) cents
– For profit/(loss) for the year from continuing operations		<u>HK(3.71) cents</u>	HK14.81 cents
Diluted			
– For loss for the year		<u>N/A</u>	N/A
– For profit/(loss) for the year from continuing operations		<u>N/A</u>	HK14.39 cents

Consolidated Balance Sheet

31 December 2006

	Notes	2006 HK\$'000	2005 HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	13,962	118,176
Investment properties	14	291,800	285,000
Intangible assets	15	7,861	16,490
Goodwill	16	–	79,788
Interests in jointly-controlled entities	18	–	–
Prepaid rental	20	–	17,179
Deposits and other receivable	21	57,953	40,000
Pledged deposits	22	404	354
Total non-current assets		371,980	556,987
CURRENT ASSETS			
Trade receivables	19	25,954	45,954
Prepayments, deposits and other receivables	21	13,259	18,541
Cash and cash equivalents	22	178,602	133,151
Total current assets		217,815	197,646
CURRENT LIABILITIES			
Trade payables	23	(12,649)	(31,333)
Tax payable		(12,039)	(16,895)
Other payables and accruals	24	(17,187)	(22,773)
Interest-bearing bank and other borrowings	25	(5,602)	(31,762)
Deferred income	26	(18,057)	(18,057)
Convertible bond	25, 27	–	(29,782)
Total current liabilities		(65,534)	(150,602)
NET CURRENT ASSETS		152,281	47,044
TOTAL ASSETS LESS CURRENT LIABILITIES		524,261	604,031
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	25	(19,941)	(22,893)
Deferred tax liabilities	28	(51,430)	(55,093)
Total non-current liabilities		(71,371)	(77,986)
Net assets		452,890	526,045
EQUITY			
Equity attributable to equity holders of the Company			
Issued capital	29	122,648	98,048
Reserves	31	330,242	427,997
Total equity		452,890	526,045

Ho Tsam Hung
Director

Ho Kam Hung
Director

Consolidated Summary Statement of Changes in Equity

Year ended 31 December 2006

	Notes	2006 HK\$'000	2005 HK\$'000
Total equity at 1 January		526,045	524,531
Issue of shares, including share premium	29(d)	5,100	22,860
Share option scheme reserve	30	2,767	–
Issue of a share option		–	2,280
Exercise of share options, including share premium	29(b), 29(e)	27,820	–
Exercise of a convertible bond	27	29,833	–
Acquisition of an additional interest in a subsidiary	31	–	(16,094)
Release of exchange fluctuation reserve upon disposal of subsidiaries	31	(3,835)	–
Exchange differences on translation of the financial statements of foreign entities	31	10,921	6,228
Total income and expense for the year recognised directly in equity		10,921	6,228
Loss for the year attributable to Equity holders of the Company	31	(145,761)	(13,771)
Minority interests		–	11
		(145,761)	(13,760)
Total equity at 31 December		452,890	526,045

Consolidated Cash Flow Statement

Year ended 31 December 2006

	Notes	2006 HK\$'000	2005 HK\$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) before tax			
From continuing operations		(20,589)	100,007
From a discontinued operation		(124,949)	(79,677)
Adjustments for:			
Interest expense	6	5,145	6,168
Interest income	7	(1,909)	(1,613)
Loss on disposal of interests in subsidiaries	10	106,187	–
Gain on disposal of interests in subsidiaries	7	–	(22,568)
Depreciation	7	14,156	14,453
Changes in fair value of investment properties	7	–	(97,932)
Amortisation of intangible assets	7	5,656	7,356
Amortisation of a prepaid rental	7	1,025	1,000
Impairment of intangible assets	7	3,587	–
Impairment of goodwill	7	–	49,000
Provision for deposits paid for online game platform and Internet cafe project	7	–	19,144
Equity-settled share option scheme expenses	7, 31	2,767	–
		(8,924)	(4,662)
Decrease/(increase) in trade receivables		9,977	(210)
Decrease/(increase) in prepayments, deposits and other receivables		(18,778)	51,833
Decrease in trade payables		(18,684)	(153)
Increase in other payables and accruals		5,965	5,708
Exchange differences on translation of financial statements of foreign entities		(2,791)	163
Cash generated from/(used in) operations		(33,235)	52,679
Interest received		1,909	1,613
Interest paid		(5,004)	(5,661)
Interest element on finance lease rental payments	6	(90)	(151)
Overseas taxes paid		–	(24)
Net cash inflow/(outflow) from operating activities		(36,420)	48,456

Consolidated Cash Flow Statement

Year ended 31 December 2006

	Notes	2006 HK\$'000	2005 HK\$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		(471)	(358)
Acquisition of additional interest in a subsidiary		–	(24,000)
Disposal of subsidiaries	32	49,895	–
Increase in time deposits with original maturity of more than three months		(176,400)	–
Decrease/(increase) in deposits pledged to a bank		(50)	422
Net cash outflow from investing activities		(127,026)	(23,936)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		32,920	22,860
Proceeds from issue of share options		–	2,280
Repayments of bank loans		(4,668)	(23,160)
Capital element of finance lease rental payments		(335)	(108)
Net cash inflow from financing activities		27,917	1,872
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS			
		(135,529)	26,392
Cash and cash equivalents at beginning of year		133,151	106,254
Effect of foreign exchange rate changes, net		4,580	505
CASH AND CASH EQUIVALENTS AT END OF YEAR		2,202	133,151
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	22	2,202	133,151

Balance Sheet

31 December 2006

	Notes	2006 HK\$'000	2005 HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	49	90
Interests in subsidiaries	17	290,218	290,218
Deposits	21	17,953	–
Total non-current assets		308,220	290,308
CURRENT ASSETS			
Due from subsidiaries	17	121,492	194,798
Prepayments, deposits and other receivables	21	429	902
Cash and bank balances		1,608	7,041
Total current assets		123,529	202,741
CURRENT LIABILITIES			
Tax payable		(3,610)	(3,610)
Other payables and accruals	24	(4,285)	(5,002)
Convertible bond	25, 27	–	(29,782)
Total current liabilities		(7,895)	(38,394)
NET CURRENT ASSETS		115,634	164,347
Net assets		423,854	454,655
EQUITY			
Issued capital	29	122,648	98,048
Reserves	31	301,206	356,607
Total equity		423,854	454,655

Ho Tsam Hung
Director

Ho Kam Hung
Director

Notes to Financial Statements

31 December 2006

1. CORPORATE INFORMATION

Zhong Hua International Holdings Limited (the “Company”) was incorporated in Bermuda on 23 May 1997 as an exempted company with limited liability under the Bermuda Companies Act 1981.

The register office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda. During the year, 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 involved in the following principal activities:

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

As a result of the disposal of Telesuccess International Limited, a wholly-owned subsidiary of the Group and its wholly-owned subsidiary, during the year, the Group ceased the 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 investment properties which have been measured at fair value, as further explained below. These financial statements are presented in Hong Kong dollars (“HK\$”) and all values are rounded to the nearest thousand 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 2006. 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 identifiable 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.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

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

HKAS 21 Amendment	Net Investment in a Foreign Operation
HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts
HKAS 39 Amendment	The Fair Value Option
HKAS 39 Amendment	Cash Flow Hedge Accounting
HK(IFRIC)-Int 4	Determining Whether an Arrangement Contains a Lease

The principal change in accounting policies are as follows:

(a) **HKAS 21 *The Effects of Changes in Foreign Exchange Rates***

Upon the adoption of the HKAS 21 Amendment regarding a net investment in a foreign operation, all exchange differences arising from a monetary item that forms part of the Group's net investment in a foreign operation are recognised in a separate component of equity in the consolidated financial statements irrespective of the currency in which the monetary item is denominated. This change has had no material impact on these financial statements as at 31 December 2006 or 31 December 2005.

(b) **HKAS 39 *Financial Instruments: Recognition and Measurement***

(i) ***Amendment for financial guarantee contracts***

This amendment has revised the scope of HKAS 39 to require financial guarantee contracts issued that are not considered insurance contracts, to be recognised initially at fair value and to be remeasured at the higher of the amount determined in accordance with HKAS 37 "*Provisions, Contingent Liabilities and Contingent Assets*" and the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 "*Revenue*". The adoption of the amendment has had no material impact on these financial statements.

(ii) ***Amendment for the fair value option***

This amendment has changed the definition of a financial instrument classified as fair value through profit or loss and has restricted the use of the option to designate any financial asset or any financial liability to be measured at fair value through the income statement. The Group had not previously used this option, and hence the amendment has had no effect on the financial statements.

Notes to Financial Statements

31 December 2006

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

(b) HKAS 39 Financial Instruments: Recognition and Measurement (continued)

(iii) *Amendment for cash flow hedge accounting of forecast intragroup transactions*

This amendment has revised HKAS 39 to permit the foreign currency risk of a highly probable intragroup forecast transaction to qualify as a hedged item in a cash flow hedge, provided that the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and that the foreign currency risk will affect the consolidated income statement. As the Group currently has no such transactions, the amendment has had no effect on these financial statements.

(c) HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease

The Group has adopted this interpretation as of 1 January 2006, which provides guidance in determining whether arrangements contain a lease to which lease accounting must be applied. This interpretation has had no material impact on these 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:

HKAS 1 Amendment	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HKFRS 8	Operating Segments
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 <i>Financial Reporting in Hyperinflationary Economies</i>
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment
HK(IFRIC)-Int 11	HKFRS2 – Group and Treasury Share Transactions
HK(IFRIC)-Int 12	Service Concession Arrangements

HKAS 1 Amendment shall be applied for annual periods beginning on or after 1 January 2007. The revised standard will affect the disclosures on qualitative information about the Group's objectives, 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.

HKFRS 7 shall be applied for annual periods beginning on or after 1 January 2007. The standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments.

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

HKFRS 8 shall be applied for annual periods beginning on or after 1 January 2009. The standard requires the disclosure of information about the operating segments of the Group, the products and services provided by the segments, the geographical areas in which the Group operates, and revenues from the Group's major customers. This standard will supersede HKAS 14 Segment Reporting.

HK(IFRIC)-Int 7, HK(IFRIC)-Int 8, HK(IFRIC)-Int 9, HK(IFRIC)-Int 10, HK(IFRIC)-Int 11 and HK(IFRIC)-Int 12 shall be applied for annual periods beginning on or after 1 March 2006, 1 May 2006, 1 June 2006, 1 November 2006, 1 March 2007 and 1 January 2008, respectively.

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, it has concluded that while the adoption of HKAS 1 Amendment and HKFRS 7 may result in new or amended disclosures, these new and revised HKFRSs should not have any significant impact on the Group's results of operations and financial position.

2.4 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

A joint venture is an entity set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture 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 is treated as:

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

Notes to Financial Statements

31 December 2006

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Joint venture (continued)

- (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's registered capital and is in a position to exercise significant influence over the joint ventures; 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's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

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 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".

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill (continued)

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

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

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

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.

Notes to Financial Statements

31 December 2006

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets other than goodwill

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, in those expense categories consistent with the function of the impaired asset, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Property, plant and equipment and depreciation

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation (continued)

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 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 that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

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

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

Investment properties

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

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

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

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases

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

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

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

Investments and other financial assets

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 considers whether a contract contains an embedded derivative when the Group first becomes a party to it. The embedded derivatives are separated from the host contract which is not measured at fair value through profit or loss when the analysis shows that the economic characteristics and risks of embedded derivatives are not closely related to those of the host contract.

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, that is, the date that the Group commits to purchase or sell 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

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 subsequently carried at amortised cost using the effective interest method. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of effective interest rate and transaction costs. 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 other 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 a group of financial assets is impaired.

Assets carried at amortised cost

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

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

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Assets carried at amortised cost (continued)

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.

In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of an invoice. The carrying amount of the receivables is reduced through the use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

Derecognition of financial assets

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities at amortised cost (including interest-bearing loans and borrowings)

Financial liabilities, including trade and other payables and interest-bearing loans and borrowings, are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

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.

Financial guarantee contracts

Financial guarantee contracts under the scope of HKAS 39 are accounted for as financial liabilities. A financial guarantee contract is recognised initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial guarantee contract, except when such contract is recognised at fair value through profit or loss. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with HKAS 37 "*Provisions, Contingent Liabilities and Contingent Assets*"; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 "*Revenue*".

Derecognition of financial liabilities

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.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets

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

Cash and cash equivalents

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

For the purpose of the balance 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 taxation authorities.

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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

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

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

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

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

Revenue recognition

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

- (i) from the sale of completed properties held for sale, when all of the conditions of sale have been met and the risks and rewards of ownership have been transferred to the buyer;
- (ii) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

- (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 or an appropriate pricing model. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company ("market conditions"), if applicable.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

Share-based payment transactions (continued)

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.

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 dollar. 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.

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3. SIGNIFICANT ACCOUNTING JUDGEMENT

Judgement

In the process of applying the Group's accounting policies, management has made the following judgement, 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.

Impairment allowances for trade and other receivables

The Group makes impairment allowances for trade and other receivables 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 impairment allowances for trade and other receivables requires the use of judgement. Where the expectation is different from the original estimate, such difference will impact the carrying value of trade and other receivables and impairment allowances in the year in which such estimate has been changed.

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:

Continuing operations

- (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

Discontinued operation

- (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.

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4. SEGMENT INFORMATION (continued)

	Continuing operations						Discontinued operation					
	Property investment		Corporate and others		Leasing of equipment		Total		Telecommunication and other related services		Consolidated	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:												
Sales to external customers	8,790	6,722	-	-	3,772	3,678	12,562	10,400	177	6,813	12,739	17,213
Other revenue and gains	-	97,932	-	22,568	-	-	-	120,500	-	-	-	120,500
Total	8,790	104,654	-	22,568	3,772	3,678	12,562	130,900	177	6,813	12,739	137,713
Segment results	908	103,683	(13,114)	2,081	(7,960)	(4,192)	(20,166)	101,572	(15,984)	(76,687)	(36,150)	24,885
Other income							1,944	1,602	-	11	1,944	1,613
Finance costs							(2,367)	(3,167)	(2,778)	(3,001)	(5,145)	(6,168)
Profit/(loss) before tax							(20,589)	100,007	(18,762)	(79,677)	(39,351)	20,330
Tax							(223)	(34,090)	-	-	(223)	(34,090)
Loss on disposal of interests in subsidiaries							-	-	(106,187)	-	(106,187)	-
Profit/(loss) for the year							(20,812)	65,917	(124,949)	(79,677)	(145,761)	(13,760)

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4. SEGMENT INFORMATION (continued)

	Continuing operations						Discontinued operation					
	Property investment		Corporate and others		Leasing of equipment		Total		Telecommunication and other related services		Consolidated	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment assets	331,545	317,888	64,710	48,073	16,667	26,980	412,922	392,941	-	238,966	412,922	631,907
Unallocated assets							176,873	122,726	-	-	176,873	122,726
							589,795	515,667	-	238,966	589,795	754,633
Segment liabilities	26,121	40,418	47,191	107,496	124	110	73,436	148,024	-	8,576	73,436	156,600
Unallocated liabilities							63,469	71,988	-	-	63,469	71,988
							136,905	220,012	-	8,576	136,905	228,588
Other segment information:												
Capital expenditure	321	-	3,095	50	-	-	3,416	50	-	308	3,416	358
Depreciation and amortisation	227	218	350	60	7,861	7,805	8,438	8,083	12,399	14,726	20,837	22,809
Impairment of goodwill recognised in the income statement	-	-	-	-	-	-	-	-	-	49,000	-	49,000
Write-back of provision for other receivables	-	-	-	-	-	-	-	-	(678)	(7,171)	(678)	(7,171)
Write-back of impairment allowances on trade receivables	-	-	-	-	-	-	-	-	-	(229)	-	(229)
Provision for deposits paid for online game platform and Internet cafe project	-	-	-	-	-	-	-	-	-	19,144	-	19,144
Provision for other deposit	-	-	-	-	-	-	-	-	-	6,000	-	6,000
Impairment of intangible assets	-	-	-	-	3,587	-	3,587	-	-	-	3,587	-

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5. REVENUE

Revenue, which is also the Group's turnover, represents the telecommunication and other related services income and gross rental income, after elimination of all significant intra-group transactions less any applicable turnover taxes.

An analysis of revenue is as follows:

	2006	2005
	HK\$'000	HK\$'000
Rental income from investment properties	8,790	6,722
Rental income from equipment held for operating lease purposes	3,772	3,678
Attributable to continuing operations reported in the consolidated income statement	12,562	10,400
Attributable to a discontinued operation (<i>note 10</i>)	177	6,813
	12,739	17,213

6. FINANCE COSTS

	Group	
	2006	2005
	HK\$'000	HK\$'000
Interest on:		
Bank loans	4,879	4,836
Finance leases	90	151
Convertible bond	176	1,181
	5,145	6,168
Attributable to continuing operations	2,367	3,167
Attributable to a discontinued operation (<i>note 10</i>)	2,778	3,001
	5,145	6,168

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7. PROFIT/(LOSS) BEFORE TAX

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

	2006 HK\$'000	2005 HK\$'000
Cost of services provided*	17,758	21,292
Depreciation	14,156	14,453
Amortisation of intangible assets	5,656	7,356
Amortisation of a prepaid rental	1,025	1,000
Impairment of goodwill***	–	49,000
Impairment of intangible assets**	3,587	–
Minimum lease payments under operating leases on land and buildings	1,019	1,726
Employee benefits expense (including directors' remuneration – note 8):		
Pension scheme contributions#	183	250
Wages and salaries##	3,387	5,529
	3,570	5,779
Changes in fair value of investment properties	–	(97,932)
Auditors' remuneration	1,180	1,100
Write-back of impairment allowances on trade receivables***	–	(229)
Provision for deposits paid for online game platform and Internet cafe project***	–	19,144
Provision for an other deposit**	–	6,000
Write-back of provision for other receivables***	(678)	(7,171)
Gross and net rental income	(8,790)	(6,722)
Foreign exchange differences, net	(1,850)	(1,330)
Gain on disposal of interests in subsidiaries	–	(22,568)
Bank interest income	(1,909)	(1,613)
Equity-settled share option scheme expenses	2,767	–

The disclosures presented in this note include those amounts charged/credited in respect of the discontinued operation.

* The cost of services provided includes amounts aggregating HK\$17,609,000 (2005: HK\$20,390,000) 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.

*** Included in "Other operating expenses, net" as set out in note 10 "Discontinued operation" below.

At 31 December 2006, the Group had no forfeited contributions available to reduce its contributions to the pension scheme in future years (2005: Nil).

The wages and salaries include amount of HK\$118,000 (2005: Nil) relating to share option scheme expenses which is also included in the "Equity-settled share option scheme expenses" as described above.

Notes to Financial Statements

31 December 2006

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:

2006

	Directors' fees <i>HK\$'000</i>	Salaries, allowances and benefit in kind <i>HK\$'000</i>	Pension scheme contributions <i>HK\$'000</i>	Total <i>HK\$'000</i>
Executive Directors				
Ho Tsam Hung	240	–	24	264
Yang Jia Jian	240	–	–	240
Ho Kam Hung	240	–	24	264
	720	–	48	768
Non-executive Directors				
Yeung Mo Sheung, Ann	93	–	–	93
Lam Kuo	160	–	–	160
Young Kwok Sui	210	–	–	210
	463	–	–	463
Independent Non-executive Directors				
Wong Ting Kon	93	–	–	93
Lawrence K. Tam	180	–	–	180
Wong Miu Ting, Ivy	180	–	–	180
Wong Kui Fai	13	–	–	13
	466	–	–	466
	1,649	–	48	1,697

Notes to Financial Statements

31 December 2006

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

2005

	Directors' fees <i>HK\$'000</i>	Salaries, allowances and benefit in kind <i>HK\$'000</i>	Pension scheme contributions <i>HK\$'000</i>	Total <i>HK\$'000</i>
Executive Directors				
Ho Tsam Hung	240	–	12	252
Yang Jia Jian	150	–	–	150
Ho Kam Hung	240	–	12	252
Ho Pak Hung	80	–	4	84
	710	–	28	738
Non-executive Directors				
Yeung Mo Sheung, Ann	88	–	–	88
Lam Kuo	40	–	–	40
	128	–	–	128
Independent Non-executive Directors				
Young Kwok Sui	210	–	–	210
Wong Ting Kon	88	–	–	88
Lawrence K. Tam	7	–	–	7
Wong Miu Ting, Ivy	7	–	–	7
Ng Kin Sun	100	–	–	100
Zhang Jie	–	–	–	–
	412	–	–	412
	1,250	–	28	1,278

The Executive Directors of the Company are the key management personnel of the Group.

Notes to Financial Statements

31 December 2006

8. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES

(continued)

Five highest paid employees

The five highest paid employees during the year included three (2005: Nil) directors, details of whose remuneration are set out above. Details of the remuneration of the two (2005: five) non-director, highest paid employees for the year are as follows:

	Group	
	2006 HK\$'000	2005 HK\$'000
Salaries, allowances and benefits in kind	764	2,063
Pension scheme contributions	48	48
Share option benefits	118	–
	930	2,111

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

	Number of employees	
	2006	2005
Nil – HK\$1,000,000	2	5

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

During the year, 800,000 share options were granted to one non-director, highest paid employee, further details of which are included in the disclosures in note 30 to the financial statements. The fair value of such options, which has been recognised to the income statement over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above non-director, highest paid employees' remuneration disclosures.

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 2006

9. TAX

	Group	
	2006	2005
	HK\$'000	HK\$'000
Group:		
Current – elsewhere	223	1,773
Deferred (<i>note 28</i>)	–	32,317
Total tax charge for the year	223	34,090

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 the tax rate of 33% (2005: 33%).

A reconciliation of the tax expense applicable to profit/(loss) 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 – 2006

	Hong Kong		Mainland China		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Loss before tax (including loss from a discontinued operation)	(122,707)		(22,831)		(145,538)	
Tax at the statutory tax rate	(21,474)	(17.5)	(7,534)	(33.0)	(29,008)	(19.9)
Income not subject to tax	–	–	(8,715)	(38.2)	(8,715)	(6.0)
Expenses not deductible for tax	18,359	15.0	14,651	64.2	33,010	22.7
Tax losses not recognised	3,115	2.5	1,821	8.0	4,936	3.4
Tax charge at the Group's effective rate	–	–	223	1.0	223	0.2
Represented by:						
Tax charge attributable to continuing operations					223	
Tax charge attributable to a discontinued operation (<i>note 10</i>)					–	
					223	

Notes to Financial Statements

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9. TAX (continued)

Group – 2005

	Hong Kong		Mainland China		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Profit/(loss) before tax (including loss from a discontinued operation)	(53,963)		74,293		20,330	
Tax 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	–	–	34,090	45.8	34,090	167.7
Represented by:						
Tax charge attributable to continuing operations					34,090	
Tax charge attributable to a discontinued operation (note 10)					–	
					<u>34,090</u>	

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10. DISCONTINUED OPERATION

During the year, on 6 November 2006, pursuant to a sale and purchase agreement entered into between the Group and an independent third party, the Group agreed to dispose of its entire equity interest in a subsidiary, Telesuccess International Limited and its wholly-owned subsidiary (the "Disposed Group"), which is engaged in the provision of telecommunication and other related services, and the net inter-company balances payable to the Group for a consideration of HK\$50,000,000. The loss on disposal of the Disposed Group amounted to HK\$106,187,000. The transaction was completed on 29 December 2006. The results of the telecommunication and other related services for the year are presented below:

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
REVENUE	177	6,813
Cost of sales	(12,102)	(15,636)
Gross loss	(11,925)	(8,823)
Other income	–	11
Administrative expenses	(4,737)	(7,120)
Other operating expenses, net	678	(60,744)
Finance costs	(2,778)	(3,001)
Loss before tax from a discontinued operation	(18,762)	(79,677)
Tax	–	–
Loss after tax from a discontinued operation	(18,762)	(79,677)
Loss on disposal of the Disposed Group	(106,187)	–
	(124,949)	(79,677)
Attributable to:		
Equity holders of the Company	(124,949)	(79,688)
Minority interest	–	11
	(124,949)	(79,677)

Notes to Financial Statements

31 December 2006

10. DISCONTINUED OPERATION (continued)

The net cash flows of discontinued operation are as follows:

	2006	2005
	HK\$'000	HK\$'000
Operating activities	(141)	14,074
Investing activities	-	(308)
Financing activities	-	(19,629)
Net cash outflow	(141)	(5,863)

	2006	2005
Loss per share:		
Basic, from the discontinued operation	HK22.31 cents	HK17.91 cents
Diluted, from the discontinued operation	N/A	N/A

Diluted loss per share amounts from the discontinued operation for the years ended 31 December 2005 and 2006 have not been disclosed as the convertible bond and share options outstanding during these years had anti-dilutive effects on the basic loss per share for these years.

The calculations of basic loss per share from the discontinued operation are based on:

	2006	2005
Loss attributable to equity holders of the Company from the discontinued operation	HK\$124,949,000	HK\$79,688,000
Weighted average number of ordinary shares in issue during the year used in the basic loss per share calculation	560,120,752	444,847,328

Notes to Financial Statements

31 December 2006

11. LOSS ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The consolidated loss attributable to equity holders of the Company for the year ended 31 December 2006 includes a loss of HK\$96,321,000 (2005: HK\$27,252,000) which has been dealt with in the financial statements of the Company (note 31).

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

The calculation of basic loss per share is based on the loss for the year attributable to ordinary equity holders of the Company of HK\$145,761,000 (2005: HK\$13,771,000), and the weighted average number of 560,120,752 (2005: 444,847,328) ordinary shares in issue during the year.

Diluted loss per share amounts for the years ended 31 December 2005 and 2006 have not been disclosed as the convertible bond and share options outstanding during these years had anti-dilutive effects on the basic loss per share for these years.

The calculation of basic loss (2005: earnings) for the year from continuing operations per share is based on the loss for the year attributable to ordinary equity holders of the Company of HK\$20,812,000 (2005: profit of HK\$65,917,000), and the weighted average number of 560,120,752 (2005: 444,847,328) ordinary shares in issue during the year.

The calculation of diluted earnings per share for the year ended 31 December 2005 from continuing operations is based on the profit for the year from continuing operations of HK\$65,917,000, adjusted to reflect the interest on the convertible bond of HK\$983,000, and the weighted average number of ordinary shares used in the calculation is the 444,847,328 ordinary shares in issue during that year, as used in the basic earnings per share calculation and the weighted average of 20,000,000 ordinary shares assumed to have been issued at no consideration on the deemed conversion of the convertible bond into ordinary shares.

No diluted loss per share for the year ended 31 December 2006 from continuing operations has been disclosed as the convertible bond and share options outstanding during the year had anti-dilutive effects on the basic loss per share.

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13. 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 2006	122,875	7,789	939	11,407	1,217	520	144,747
Additions	-	-	-	13	-	3,403	3,416
Disposal of subsidiaries (note 32)	(127,272)	-	(793)	-	(587)	(416)	(129,068)
Exchange realignment	4,397	283	74	400	49	40	5,243
At 31 December 2006	-	8,072	220	11,820	679	3,547	24,338
Accumulated depreciation:							
At 1 January 2006	18,088	1,169	666	5,203	1,152	293	26,571
Provided during the year	10,917	219	196	2,277	41	506	14,156
Disposal of subsidiaries (note 32)	(30,635)	-	(793)	-	(587)	(391)	(32,406)
Exchange realignment	1,630	48	68	223	51	35	2,055
At 31 December 2006	-	1,436	137	7,703	657	443	10,376
Net book value:							
At 31 December 2006	-	6,636	83	4,117	22	3,104	13,962
At 31 December 2005	104,787	6,620	273	6,204	65	227	118,176

Notes to Financial Statements

31 December 2006

13. PROPERTY, PLANT AND EQUIPMENT (continued)

Group

	Telecom- munication network and equipment HK\$'000	Land and buildings HK\$'000	Leasehold improvements HK\$'000	Equipment HK\$'000	Computer and office equipment, furniture and fixtures HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
At cost:							
At 1 January 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 2006

13. 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 2006	37	1,033	1,070
Additions	–	–	–
At 31 December 2006	37	1,033	1,070
Accumulated depreciation:			
At 1 January 2006	36	944	980
Provided during the year	–	41	41
At 31 December 2006	36	985	1,021
Net book value:			
At 31 December 2006	1	48	49
At 31 December 2005	1	89	90
Company			
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

Notes to Financial Statements

31 December 2006

13. 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 a cost of HK\$11,052,000 (2005: HK\$10,664,000) and accumulated depreciation of HK\$7,025,000 (2005: HK\$4,646,000).

The net book value of the Group's property, plant and equipment held under finance leases included in the total amount of motor vehicles and telecommunication network and equipment as at 31 December 2006 amounted to HK\$2,785,000 (2005: Nil) and Nil (2005: HK\$792,000) respectively.

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

14. INVESTMENT PROPERTIES

	Group	
	2006	2005
	HK\$'000	HK\$'000
Carrying amount at 1 January	285,000	183,600
Changes in fair value of investment properties	-	97,932
Exchange realignment	6,800	3,468
Carrying amount at 31 December	291,800	285,000

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 2006 by Savills Valuation and Professional Services Limited, independent professionally qualified valuers, at HK\$291,800,000 on an open market, existing use basis. The investment properties are leased to third parties under operating leases, further summary details of which are included in note 36(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 for the year ended 31 December 2005.

At the balance sheet date, the Group's investment properties were pledged to secure banking facilities granted to the Group as set out in note 25 to the financial statements.

Notes to Financial Statements

31 December 2006

15. INTANGIBLE ASSETS

Group

	Software HK\$'000	Operating rights HK\$'000	Total HK\$'000
Cost:			
At beginning of year	2,913	37,740	40,653
Disposal of subsidiaries (note 32)	(3,019)	–	(3,019)
Exchange realignment	106	1,618	1,724
At 31 December 2006	–	39,358	39,358
Accumulated amortisation and impairment:			
At beginning of year	2,913	21,250	24,163
Provided during the year	–	5,656	5,656
Disposal of subsidiaries (note 32)	(3,019)	–	(3,019)
Impairment*	–	3,587	3,587
Exchange realignment	106	1,004	1,110
At 31 December 2006	–	31,497	31,497
Net book value:			
At 31 December 2006	–	7,861	7,861
At 31 December 2005	–	16,490	16,490
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

* The operating rights were valued by Savills Valuation and Professional Services Limited, an independent firm of professionally qualified valuers, on a discounted cash flow basis at HK\$7,861,000 as at 31 December 2006. Based on such valuation, an impairment loss on intangible assets of HK\$3,587,000 was charged to the income statement for the year ended 31 December 2006.

Notes to Financial Statements

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16. GOODWILL

The movements in the amounts of the goodwill during the year are as follows:

	Group	
	2006	2005
	HK\$'000	HK\$'000
Cost:		
At 1 January	128,788	84,882
Acquisition of an additional interest in a subsidiary	–	43,906
Disposal of subsidiaries (<i>note 32</i>)	(128,788)	–
At 31 December	–	128,788
Accumulated amortisation and impairment:		
At 1 January	49,000	–
Impairment during the year recognised in the income statement	–	49,000
Disposal of subsidiaries (<i>note 32</i>)	(49,000)	–
At 31 December	–	49,000
Net book value:		
At 31 December	–	79,788
At 31 December	79,788	84,882

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).

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17. INTERESTS IN SUBSIDIARIES

	Company	
	2006 HK\$'000	2005 HK\$'000
Unlisted shares, at cost	467,158	467,158
Provision for impairment	(176,940)	(176,940)
	290,218	290,218
Due from subsidiaries	346,157	410,639
Provision against amounts due from subsidiaries	(224,665)	(215,841)
	121,492	194,798
	411,710	485,016

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

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued share/ registered capital	Percentage of equity attributable to the Company		Principal activities
			2006	2005	
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

Notes to Financial Statements

31 December 2006

17. INTERESTS IN SUBSIDIARIES (continued)

Particulars of the principal subsidiaries are as follows: (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued share/ registered capital	Percentage of equity attributable to the Company		Principal activities
			2006	2005	
Indirectly held (continued)					
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
Telesuccess International Limited ("Telesuccess") (Note c)	British Virgin Islands	US\$1 Ordinary	-	100	Investment holding
Sky City Network Communication Limited ("Sky City") (Note c)	PRC/Mainland China	RMB110,000,000 Registered capital (Note a, c)	-	100	Provision of telecommunication and other related services

Notes:

- CQ Smart Hero, GZ Proland and Sky City are wholly-foreign-owned enterprises established in the PRC.
- The non-voting deferred shares carry no rights to dividends, to receive notice of or to attend or vote at any general meeting of the company, or to participate in any distribution on winding-up.
- The Group disposed the entire interest of Telesuccess and Sky City during the year.

The above table lists the subsidiaries of the Company as at 31 December 2006 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.

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18. INTERESTS IN JOINTLY-CONTROLLED ENTITIES

	Group	
	2006 HK\$'000	2005 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. The carrying amounts of the loans approximate to their fair values.

世聯匯通信息科技有限公司 (“Shi Lian”), an indirectly held jointly-controlled entity of the Group, engages 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

All of the above investments in jointly-controlled entities are directly held by the I-Action Agents Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of the Company.

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19. TRADE RECEIVABLES

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

	2006		2005	
	HK\$'000	Percentage	HK\$'000	Percentage
Within 6 months	10,027	39	5,088	11
More than 6 months but within 1 year	-	-	5,986	13
More than 1 year but within 2 years	4,195	16	16,895	37
More than 2 years	11,732	45	13,938	30
Not due as at 31 December	-	-	4,047	9
	25,954	100	45,954	100
Portion classified as current assets	(25,954)		(45,954)	
Non-current assets	-		-	

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\$20,121,000 (2005: HK\$19,415,000) 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

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20. PREPAID RENTAL

	Group	
	2006 HK\$'000	2005 HK\$'000
At cost:		
At 1 January	18,769	18,387
Disposal of subsidiaries (note 32)	(19,451)	–
Exchange realignment	682	382
At 31 December	–	18,769
Accumulated amortisation:		
At 1 January	1,590	579
Provided during the year	1,025	1,000
Disposal of subsidiaries (note 32)	(2,695)	–
Exchange realignment	80	11
At 31 December	–	1,590
Net book value:		
At 31 December	–	17,179
At 31 December	17,179	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 the straight-line basis over the lease terms of 20 years.

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21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Non-current assets:				
Deposits for property development projects	17,953	–	17,953	–
Other receivable [#]	40,000	40,000	–	–
	57,953	40,000	17,953	–
Current assets:				
Prepayments	100	251	100	40
Deposits and other receivables	13,159	18,290	329	862
	13,259	18,541	429	902

Other receivable of HK\$40,000,000 as at 31 December 2006 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 26 below, the repayment date of HK\$40,000,000 was rescheduled from 31 January 2007 to 31 January 2008, subsequent to the balance sheet date.

22. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

At 31 December 2006, bank deposits of approximately HK\$404,000 (2005: HK\$354,000) were pledged to a bank to secure mortgage loans granted by the bank to certain purchasers of the Group's properties.

At 31 December 2006, the cash and cash equivalents balances of the Group included time deposits with original maturity of more than three months of HK\$176,400,000 (2005: Nil).

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK\$176,978,000 (2005: HK\$125,991,000). 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 rates based on daily bank deposit rates. The carrying amounts of the cash and cash equivalents and the pledged deposits approximate to their fair values.

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23. TRADE PAYABLES

An aged analysis of the trade payables as at the balance sheet date, based on the invoice date, is as follows:

	Group			
	2006		2005	
	<i>HK\$'000</i>	<i>Percentage</i>	<i>HK\$'000</i>	<i>Percentage</i>
Within 6 months	37	1	–	–
More than 6 months but within 1 year	3,581	28	–	–
More than 1 year but within 2 years	–	–	105	1
More than 2 years but within 3 years	84	1	–	–
Over 3 years	8,947	70	31,228	99
	12,649	100	31,333	100

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

24. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2006	2005	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Other payables	9,444	12,335	582	583
Accruals	7,743	10,438	3,703	4,419
	17,187	22,773	4,285	5,002

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25. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Effective interest rate (%)	Maturity	Group	
			2006 HK\$'000	2005 HK\$'000
Current				
Finance lease payables	6.5	2007	515	515
Bank loans – unsecured	–	–	–	26,564
Bank loans – secured	8.25	2007	5,087	4,683
			5,602	31,762
Convertible bond (note 27)	–	–	–	29,782
Non-current				
Finance lease payables	6.5	2011	2,095	–
Bank loans – secured	8.25	2010	17,846	22,893
			19,941	22,893
			25,543	84,437

As at 31 December 2006, the secured bank loans of HK\$22,933,000 (2005: HK\$27,576,000) and the finance lease payables of HK\$2,610,000 (2005: HK\$515,000) bear interest at floating interest rates and fixed interest rate, respectively. All secured bank loans and finance lease payables are denominated in Hong Kong dollars. As at 31 December 2005, the unsecured bank loan of HK\$26,564,000 borne interest at fixed interest rates and denominated in RMB.

	Group	
	2006 HK\$'000	2005 HK\$'000
Analysed into:		
Bank loans repayable:		
Within one year or on demand	5,087	31,247
In the second year	5,523	5,084
In the third to fifth years, inclusive	12,323	17,809
	22,933	54,140
Other borrowings repayable:		
Within one year	515	30,297
In the second year	550	–
In the third to fifth years, inclusive	1,545	–
	2,610	30,297
	25,543	84,437

The bank loans are secured by certain of the Group's investment properties and a corporate guarantee executed by the Company.

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

Finance lease payables

The Group leases certain of its motor vehicles and telecommunication equipment as at 31 December 2006 and 31 December 2005, respectively, for its business use. These leases are classified as finance leases and have remaining lease terms of one to five years.

At 31 December 2006, the total future minimum lease payments under finance leases and their present values were as follows:

Group

	Minimum lease payments 2006 HK\$'000	Present value of minimum lease payments 2006 HK\$'000	Minimum lease payments 2005 HK\$'000	Present value of minimum lease payments 2005 HK\$'000
Amounts payable:				
Within one year	671	515	547	515
In the second year	671	550	–	–
In the third to fifth years, inclusive	1,678	1,545	–	–
Total minimum finance lease payments	3,020	2,610	547	515
Future finance charges	(410)		(32)	
Total net finance lease payables	2,610		515	
Portion classified as current liabilities	(515)		(515)	
Non-current portion	2,095		–	

26. DEFERRED INCOME

The total consideration of HK\$350,000,000 in respect of the disposal of the Disposed Subsidiaries during 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. On 23 January 2006, the repayment of the remaining consideration of HK\$40,000,000 was rescheduled to 31 January 2007. Subsequent to the balance sheet date, on 25 January 2007, the repayment of the remaining consideration was rescheduled to 31 January 2008. No gain on disposal of the Disposed Subsidiaries was recognised in the consolidated income statement during the year. During the year ended 31 December 2005, a gain of HK\$22,568,000 on disposal of the Disposed Subsidiaries was recognised in the consolidated income statement. The remaining deferred income of HK\$18,057,000 (2005: HK\$18,057,000) was included in the consolidated balance sheet.

27. CONVERTIBLE BOND

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

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

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27. CONVERTIBLE BOND (continued)

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

	2006 HK\$'000	2005 HK\$'000
Nominal value of the Bond issued	30,000	30,000
Equity component	(707)	(707)
Liability component at the issuance date	29,293	29,293
Interest expense	1,790	1,614
Interest paid	(1,250)	(1,125)
Conversion of the Bond (note 29(c))	(29,833)	–
Liability component at 31 December (note 25)	–	29,782

28. DEFERRED TAX

The movements in deferred tax liabilities during the year are as follows:

Deferred tax liabilities

Group

	Fair value adjustment on property, plant and equipment HK\$'000	2006 Revaluation of investment properties HK\$'000	Total HK\$'000
At 1 January 2006	4,200	50,893	55,093
Disposal of subsidiaries (note 32)	(4,200)	–	(4,200)
Exchange differences	–	537	537
Gross deferred tax liabilities at 31 December 2006	–	51,430	51,430

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31 December 2006

28. DEFERRED TAX (continued)

	Fair value adjustment on property, plant and equipment <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 during the year (<i>note 9</i>)	–	32,317	32,317
Exchange differences	–	274	274
Gross deferred tax liabilities at 31 December 2005	4,200	50,893	55,093

The Group has tax losses arising in Hong Kong of HK\$156,000 (2005: HK\$346,000) 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 and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

At 31 December 2006, there was no significant unrecognised deferred tax liability (2005: 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.

29. SHARE CAPITAL

Shares

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Authorised:		
1,000,000,000 (2005: 6,000,000,000) ordinary shares of HK\$0.2 (2005: HK\$0.02) each	200,000	120,000
Issued and fully paid:		
613,241,300 (2005: 4,902,413,009) ordinary shares of HK\$0.2 (2005: HK\$0.02) each	122,648	98,048

Notes to Financial Statements

31 December 2006

29. SHARE CAPITAL (continued)

A summary of the movements in the Company's issued ordinary share capital during the year is as follows:

	Number of shares in issue	Issued share capital <i>HK\$'000</i>	Share premium account <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2005	3,919,413,009	78,388	303,964	382,352
Issue of shares (<i>notes (a)&(b)</i>)	983,000,000	19,660	3,200	22,860
At 31 December 2005 and 1 January 2006	4,902,413,009	98,048	307,164	405,212
Conversion of the Bond (<i>note (c)</i>)	200,000,000	4,000	26,540	30,540
Issue of shares (<i>note (d)</i>)	170,000,000	3,400	1,700	5,100
Exercise of the 2005 Option (<i>note (b)</i>)	147,000,000	11,400	10,260	21,660
Exercise of the First Option and Second Option (<i>note (e)</i>)	29,000,000	5,800	3,009	8,809
Release of other reserve (<i>note 31</i>)	–	–	2,280	2,280
Capital reorganisation (<i>note (f)</i>)	(4,835,171,709)	–	–	–
At 31 December 2006	613,241,300	122,648	350,953	473,601

Notes:

- (a) Pursuant to a shares placement on 3 June 2005, a total of 783,000,000 shares of HK\$0.02 each were issued to an independent third party at an issue price of HK\$0.02 per share, payable in cash. The placement raised cash proceeds of HK\$15,660,000 for the Company for general working capital purposes.
- (b) 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 "2005 Option") to the Subscriber at a price of HK\$2,280,000. Pursuant to the 2005 Option, the Subscriber will be entitled to subscribe for a maximum of 570,000,000 new shares at an exercise price of HK\$0.038 per share, subject to adjustment, anytime from the date of the completion of the supplemental agreement and up to 31 December 2006.

On 18 April 2006, the Subscriber served the notice for subscription of 100,000,000 shares of the Company at an exercise price of HK\$0.038 per share (the "First Subscription"). 100,000,000 new shares were allotted and issued on 25 April 2006, and a gross proceed of HK\$3,800,000 was raised by the Company.

Pursuant to the Reorganisation as mentioned in note (f) below, the exercise price under the 2005 Option was adjusted from HK\$0.038 per share to HK\$0.38 per share and the number of the remaining shares to be subscribed under the 2005 Option was adjusted from 470,000,000 to 47,000,000.

On 11 August 2006 and 22 August 2006, the Subscriber served the notices for subscription of 25,000,000 and 22,000,000 new shares, respectively, at an exercise price of HK\$0.38 per share. 25,000,000 and 22,000,000 new shares were allotted and issued on 14 August 2006 and 23 August 2006, respectively, and the Company raised an aggregate gross proceeds of HK\$17,860,000.

29. SHARE CAPITAL (continued)

Notes: (continued)

- (c) On 24 February 2006, Asia Pacific 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 convertible price of HK\$0.15 per share. As a result, the related equity component of the Bond of HK\$707,000 was released to the share premium account.
- (d) On 28 March 2006, the Company entered into a subscription agreement with an independent party which 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 and raised gross proceeds of approximately HK\$5,100,000, which were used as general working capital of the Group.
- (e) On 10 February 2006, a total of 260,000,000 share options (the "First Option") at an exercise price of HK\$0.02 per share were granted to certain employees, advisors and consultants of the Group. These share options vested on 10 February 2006 and have an exercise period from 10 February 2006 to 9 February 2009.

On 30 March 2006, a total of 38,000,000 share options (the "Second Option") were granted to certain employees, advisors and consultants of the Group. These share options vested on 30 March 2006, and have an exercise price of HK\$0.032 per share and an exercise period from 30 March 2006 to 29 March 2009.

Pursuant to the Reorganisation as mentioned in note (f) below, the numbers of share options and the exercise prices of the First Option and the Second Option were adjusted to 26,000,000 and 3,800,000, respectively, and HK\$0.2 per share and HK\$0.32 per share, respectively.

22,000,000 shares and 4,000,000 shares under the First Option were exercised on 5 June 2006 and 20 June 2006, respectively, while 3,000,000 shares under the Second Option were exercised on 5 June 2006.

As a result of the above, cash proceeds of approximately HK\$6,160,000, before expenses, were raised and share option scheme reserve amounting to HK\$2,649,000 (note 31) was released to the share premium account.

At the balance sheet date, the Company had 800,000 share options outstanding under the Scheme, which represented approximately 0.13% of the Company's shares in issue as at that date.

- (f) 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 (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 held on 27 April 2006.

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30. 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").

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.

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30. SHARE OPTION SCHEMES (continued)

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

Name/category of participant	Number of share options ¹			At 31 December 2006	Date of grant of share options	Exercise period of share options	Exercise price of share options ¹	Market
	At 1 January 2006	Granted during the year	Exercised during the year					value per share on exercise of options ²
							HK\$	HK\$
Other employees, advisors and consultants	-	26,000,000	(26,000,000)	-	10 February 2006	10 February 2006 to 9 February 2009	0.20	0.24
In aggregate	-	3,800,000	(3,000,000)	800,000	30 March 2006	30 March 2006 to 29 March 2009	0.32	0.24
	-	29,800,000	(29,000,000)	800,000				

1. The above number and the exercise prices of the share options have been adjusted to reflect the share consolidation on a ten-to-one basis on 27 April 2006 (note 29(f)).
2. Being the weighted average closing price of the Company's ordinary shares on last trading day immediately before the dates on which the options were exercised.

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30. SHARE OPTION SCHEMES (continued)

The fair values of share options granted on 10 February 2006 and 30 March 2006 determined using the Black-Scholes valuation model were HK\$2,202,000 and HK\$565,000, respectively. The Group recognised a total share option expense of HK\$2,767,000 during the year ended 31 December 2006. The significant inputs into the model were as follows:

	Share option grant date	
	10 February 2006	30 March 2006
Share price at the grant date	HK\$0.19*	HK\$0.32*
Exercise price	HK\$0.20*	HK\$0.32*
Expected volatility	119.19%	120.61%
Expected dividend yield	Nil	Nil
Expected life of options	1 year	1 year
Risk free interest rate	4.08%	4.12%

* Share prices and exercise prices are consolidated on a ten-to-one basis.

The expected life of the options is based on the historical data over the past three years and is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

Subsequent to the balance sheet date, on 6 March 2007, a total of 50,000,000 share options were granted to certain eligible participants of the Company in respect of their services to the Group in the forthcoming year. These share options vested on 6 March 2007 and have an exercise price of HK\$0.20 per share and an exercise period ranging from 6 March 2007 to 5 March 2010. The price of the Company's shares at the date of grant was HK\$0.14 per share.

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31. RESERVES

Group

	Share premium account HK\$'000	Contributed surplus HK\$'000	Equity component of convertible bond HK\$'000	Other reserve HK\$'000	Share option scheme reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Retained profits/ (accumulated loss) HK\$'000	Total HK\$'000	Minority interests HK\$'000
At 1 January 2005	303,964	80,258	707	-	-	442	44,689	430,060	16,083
Issue of new shares (note 29)	3,200	-	-	-	-	-	-	3,200	-
Issue of the 2005 Option (note 29)	-	-	-	2,280	-	-	-	2,280	-
Acquisition of an additional interest in a subsidiary	-	-	-	-	-	-	-	-	(16,094)
Exchange difference on translation of the financial statements of foreign entities	-	-	-	-	-	6,228	-	6,228	-
Total 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	-
At 1 January 2006	307,164	80,258	707	2,280	-	6,670	30,918	427,997	-
Issue of new shares (note 29)	1,700	-	-	-	-	-	-	1,700	-
Equity-settled share option scheme (note 30)	-	-	-	-	2,767	-	-	2,767	-
Conversion of the Bond (note 27)	26,540	-	(707)	-	-	-	-	25,833	-
Shares issued upon exercises of share options (notes 29 and 30)	15,549	-	-	(2,280)	(2,649)	-	-	10,620	-
Release of reserve upon disposal of subsidiaries (note 32)	-	-	-	-	-	(3,835)	-	(3,835)	-
Exchange difference on translation of the financial statements of foreign entities	-	-	-	-	-	10,921	-	10,921	-
Total income and expense recognised directly in equity	-	-	-	-	-	10,921	-	10,921	-
Loss for the year	-	-	-	-	-	-	(145,761)	(145,761)	-
At 31 December 2006	350,953	80,258	-	-	118	13,756	(114,843)	330,242	-

Notes:

- 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.
- The other reserve represents the consideration received for an option granted to a shareholder in 2005 as explained in note 29 to the financial statements.

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31. RESERVES (continued)

Company

	Share premium account HK\$'000	Contributed surplus HK\$'000	Equity component of convertible bond HK\$'000	Other reserve HK\$'000	Share option scheme reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 January 2005	303,964	547,326	707	-	-	(473,618)	378,379
Issue of new shares	3,200	-	-	-	-	-	3,200
Issue of a share option (note 29)	-	-	-	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
At 1 January 2006	307,164	547,326	707	2,280	-	(500,870)	356,607
Issue of new shares	1,700	-	-	-	-	-	1,700
Equity-settled share option arrangements (note 30)	-	-	-	-	2,767	-	2,767
Conversion of the Bond (note 27)	26,540	-	(707)	-	-	-	25,833
Shares issued upon exercises of share options (notes 29 and 30)	15,549	-	-	(2,280)	(2,649)	-	10,620
Loss for the year	-	-	-	-	-	(96,321)	(96,321)
At 31 December 2006	350,953	547,326	-	-	118	(597,191)	301,206

- (i) 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.
- (ii) In accordance with the Bermuda Companies Act 1981, the Company's share premium account, in the amount of HK\$350,953,000 as at 31 December 2006 (2005: HK\$307,164,000), may be distributed in the form of fully paid bonus shares.

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32. DISPOSAL OF SUBSIDIARIES

	Notes	2006 HK\$'000	2005 HK\$'000
Net assets disposed of:			
Property, plant and equipment	13	96,662	–
Intangible asset	15	–	–
Goodwill	16	79,788	–
Cash and bank balances		105	–
Trade receivables		10,023	–
Prepaid rental	20	16,756	–
Prepayments, deposits and other receivables		6,107	–
Interest-bearing bank and other borrowings		(20,979)*	–
Other payables and accruals		(18,637)*	–
Tax payable		(5,603)	–
Deferred tax liabilities	28	(4,200)	–
		160,022	–
Exchange fluctuation reserve released upon disposal		(3,835)	–
Loss on disposal of subsidiaries		(106,187)	–
		50,000	–
Satisfied by:			
Cash consideration		50,000	–

* During the year, a bank loan of HK\$7,086,000 was settled by a guarantor of that bank loan and was included in the balance of other payables and accruals.

An analysis of the net inflow of cash and cash equivalents in respect of the Disposed Group is as follows:

	2006 HK\$'000	2005 HK\$'000
Cash consideration	50,000	–
Cash and bank balances disposed of	(105)	–
Net inflow of cash and cash equivalents in respect of the Disposed Group	49,895	–

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33. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Disposal of subsidiaries

During the year, on 6 November 2006, pursuant to a sale and purchase agreement entered into between the Group and a third party, the Group agreed to dispose of its entire equity interest in the Disposed Group, and the net inter-company balances payable to the Group for a consideration of HK\$50,000,000. The loss on disposal of subsidiaries amounted to HK\$106,187,000. The transaction was completed on 29 December 2006. Please refer to note 32 to the financial statements for details.

(b) Acquisition of an additional interest in a subsidiary

On 14 December 2004, Telesuccess International Limited, a wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with the then existing shareholder, to acquire the remaining 19.1% interest in Sky City Network Communication Limited 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, was paid in 2005.

(c) Major non-cash transactions

- (i) During the year, the Group entered into finance lease arrangements in respect of motor vehicles with a total capital value at the inception of the leases of HK\$2,945,000. (2005: Nil).
- (ii) On 24 February 2006, Asia Pacific Broadband Entertainment Corporation Limited, the holder of the Bond, exercised the conversion rights of the Bond. Please refer to notes 27 and 29(c) to the financial statements for details.

34. CONTINGENT LIABILITIES

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

	Group		Company	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Guarantees given for mortgage loans granted by banks to certain purchasers of the Group's properties	4,039	3,395	-	-
Guarantees given to a bank in respect of facilities granted by a subsidiary	-	-	41,000	41,000
	4,039	3,395	41,000	41,000

Notes to Financial Statements

31 December 2006

35. PLEDGE OF ASSETS

Details of the Group's bank loans secured by the assets of the Group are included in note 25 to the financial statements.

36. COMMITMENTS

(a) Capital commitments

	Group		Company	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Contracted, but not provided for:				
Property development project	-	35,902	-	-

(b) Commitments under operating leases

(i) As lessor

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

At 31 December 2006, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2006 HK\$'000	2005 HK\$'000
Within one year	10,312	12,838
In the second to fifth years, inclusive	3,210	13,048
	13,522	25,886

Notes to Financial Statements

31 December 2006

36. 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 2006, the Company and the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Within one year	272	879	–	–
In the second to fifth years, inclusive	–	442	–	–
	272	1,321	–	–

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, comprise interest-bearing bank and other borrowings, finance leases, and cash and short term deposits. The Group has various other financial assets and liabilities such as trade and other receivables and trade and other 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 25 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 a substantial portion of its revenue and expenses generated and incurred by its operating units in RMB.

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

37. 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.

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans. 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.

38. 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 certain directors and 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 the 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 at this stage.

- (b) During the year, a wholly-owned subsidiary (the "Subsidiary") of the Group received two notices issued by the court in Mainland China. A former property agent (the "Former Agent") has claimed that the Subsidiary had improperly early terminated their business relationships in 2005 and the Former Agent also made a total claim of RMB29.0 million (equivalent to HK\$28.8 million) against the Subsidiary.

The Group has filed a counterclaim in relation to the above claims made by the Former Agent. Having consulted the Group's legal counsel, the directors concluded that the chance the claim will succeed is low and hence no provision for the proceedings is required at this stage.

Notes to Financial Statements

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39. POST BALANCE SHEET EVENTS

Save as disclosed elsewhere in the financial statements, the following post balance sheet events took place subsequent to 31 December 2006:

- (a) On 25 January 2007, 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 2008 (note 26). The remaining deferred income of HK\$18,057,000 was included in the consolidated balance sheet under current liabilities.
- (b) On 6 March 2007, 50,000,000 share options were granted to certain eligible participants (note 30).

40. COMPARATIVE AMOUNTS

Following the disposal of the Group's business of telecommunication and other related services during the year, the principal businesses of the Group now mainly comprise of property investment and leasing of equipment, and therefore the presentation of the financial statements has been revised accordingly.

41. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 26 April 2007.

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				
	2006 HK\$'000	2005 HK\$'000	2004 HK\$'000	2003 HK\$'000	2002 HK\$'000
Turnover					
Continuing operations	12,562	10,400	9,763	5,507	172,511
Discontinued operations	177	6,813	15,382	–	–
	12,739	17,213	25,145	5,507	172,511
Profit/(loss) before tax					
Continuing operations	(20,589)	100,007	(42,692)	(148,136)	(183,620)
Discontinued operations	(124,949)	(79,677)	87,566	–	–
	(145,538)	20,330	44,874	(148,136)	(183,620)
Tax	(223)	(34,090)	(2,320)	(126)	4,451
Profit/(loss) before minority interests	(145,761)	(13,760)	42,554	(148,262)	(179,169)
Minority interests	–	(11)	3,577	–	7,340
Net profit/(loss) for the year attributable to ordinary equity holders of the Company	(145,761)	(13,771)	46,131	(148,262)	(171,829)

ASSETS, LIABILITIES AND MINORITY INTERESTS

	2006 HK\$'000	2005 HK\$'000	2004 HK\$'000	2003 HK\$'000	2002 HK\$'000
TOTAL ASSETS	589,795	754,633	758,442	599,059	765,595
TOTAL LIABILITIES	(136,905)	(228,588)	(233,911)	(247,277)	(286,787)
MINORITY INTERESTS	–	–	(16,083)	–	–
	452,890	526,045	508,448	351,782	478,808

SCHEDULE OF PROPERTY INTEREST

Particular of the principal properties in Mainland China held by the Group as at 31 December 2006 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