THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or transferred all your shares in **Zhong Hua International Holdings Limited** (the "Company"), you should at once hand this circular and the accompanying form of proxy to the purchaser or transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

This circular is for information only and does not constitute an invitation or offer to acquire, purchase or subscribe for any securities in the Company.

ZHONG HUA INTERNATIONAL HOLDINGS LIMITED

中華國際控股有限公司*

(Incorporated in Bermuda with limited liability)

(Stock code: 1064)

VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION AND INCREASE IN AUTHORISED SHARE CAPITAL

Financial Adviser to Zhong Hua International Holdings Limited

OPTIMA CAPITAL

Optima Capital Limited

Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders

taifook

TAIFOOK CAPITAL LIMITED

A letter from the independent committee (the "**Independent Board Committee**") of the board of directors of the Company is set out on pages 28 to 29 of this circular. A letter from Taifook Capital Limited, the independent financial adviser, containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 30 to 50 of this circular.

A notice convening a special general meeting of Zhong Hua International Holdings Limited to be held at Conference Room, 1st Floor, The Star Hotel, 89 Lin He Xi Road, Tianhe, Guangzhou, China at 11:00 a.m. on 12 December 2007 is set out on pages 192 to 193 of this circular. Whether or not you intend to attend the special general meeting, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon to the Company's branch share registrar in Hong Kong, Tricor Tengis Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as practicable and in any event not later than 48 hours before the time appointed for holding of the meeting. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting or any adjournment thereof should you so wish.

* *For identification only*

26 November 2007

CONTENTS

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

"Acquisition"	the proposed acquisition by the Company of the Sale Shares pursuant to the Agreement
"acting in concert"	the meaning ascribed to it in the Takeovers Code
"Agreement"	the conditional sale and purchase agreement dated 9 October 2007 (and as amended on 26 October 2007) entered into between, among others, the Purchaser and the Vendors in respect of the Sale Shares
"Announcement"	the announcement of the Company dated 26 October 2007 in relation to the Acquisition and the Placing
"associate(s)"	the meaning ascribed to it in the Listing Rules
"Board"	the board of Directors
"Bondholder(s)"	holder(s) of the Convertible Bonds
"Business Day"	a day (other than a Saturday or a Sunday or public holiday or a day on which a tropical cyclone warning No. 8 or above or a "black rainstorm warning signal" is hoisted in Hong Kong at any time between 9:00 a.m. and 5:00 p.m.) on which banks are open in Hong Kong for general commercial business
"Clear Smart"	Clear Smart Group Limited, a company incorporated in the British Virgin Islands and wholly owned by Ho Family
"Company"	Zhong Hua International Holdings Limited, a company incorporated in Bermuda with limited liability whose issued Shares are listed on the Main Board of the Stock Exchange
"Completion"	completion of the First Tranche, completion of the Second Tranche, completion of the Third Tranche or completion of the Fourth Tranche, as the context may indicate
"connected person(s)"	the meaning ascribed to it in the Listing Rules

"Consideration"	the aggregate consideration of RMB1,814,800,000 (equivalent to approximately HK$1,880,000,000) payable by the Company for the Sale Shares under the Agreement
"Consideration Shares"	the 243,800,000 Shares to be allotted and issued at the price of HK$0.25 per Share, credited as fully paid, to the Vendors (or their designated nominee) on completion of the First Tranche
"Conversion Shares"	the 2,819,000,000 Shares expected to be issued by the Company upon conversion in full by the holders of the Convertible Bonds of the conversion rights attaching to the Convertible Bonds at the initial conversion price of HK$0.28 per Share (subject to adjustment)
"Convertible Bond(s)"	all of a series of non-interest bearing convertible bonds to be issued by the Company in part satisfaction of the Consideration. The aggregate principal amount of all such non-interest bearing convertible bonds to be issued is HK$789.32 million
"Directors"	directors of the Company
"Enlarged Group"	the Group immediately after Completion
"First Tranche"	such number of Sale Shares as represent 25% of the Target Company as at the date of Completion
"Fourth Tranche"	such number of Sale Shares not then owned by the Purchaser at the date of Completion
"General Mandate"	the general mandate granted to the Directors to exercise the powers of the Company to allot, issue and deal with shares of the Company up to 20% of the then issued share capital of the Company pursuant to the ordinary resolution of the Shareholders passed in the annual general meeting of the Company held on 20 July 2007
"Group"	the Company and its subsidiaries

"Guangzhou Property"	the property comprising three parcels of land located to the west of Jiefang Road South; to the north of Daxin Road Lot No. 571; to the south of Yede Road Lot No: 519; and to the east of Xieen Street, Yuexiu District, Guangzhou Province, the PRC
"Guangzhou Zheng Da"	廣州市正大房地產開發有限公司, a sino-foreign joint venture company established in the PRC which is wholly owned by the Target Company
"Ho Family"	Ho Kam Hung, Ho Tsam Hung and Ho Pak Hung
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Independent Board Committee"	a committee of the Board comprising the three independent non-executive Directors formed for the purpose of advising and giving recommendations to the Independent Shareholders regarding the Acquisition
"Independent Shareholders"	Shareholders other than Ho Family and its members' respective associates
"Last Trading Day"	9 October 2007, being the last day on which the Shares were traded on the Stock Exchange prior to the release of the Announcement
"Latest Practicable Date"	23 November 2007, being the latest practicable date prior to the printing of this circular for the purposes of ascertaining certain information contained herein
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Placing"	the "best-efforts" placing of new Shares pursuant to a placing agreement dated 9 October 2007 entered into between the Company and the Placing Agent and which was completed on 21 November 2007
"Placing Agent"	Dao Heng Securities Limited, a corporation licensed to conduct business in type 1 (dealing in securities), type 4 (advising on securities), and type 6 (advising on corporate finance) regulated activities under the SFO

"Placing Shares"	145,000,000 new Shares placed by the Placing Agent under the Placing
"PRC"	the People's Republic of China
"Promissory Notes"	the promissory notes in the principal amount of HK$100,000,000 in aggregate to be issued by the Company to the Vendors on completion of the First Tranche and up to an additional sum of the equivalent to the balance of the Consideration which is not satisfied by the Convertible Bonds
"Purchaser"	Hero Master Group Limited, a company incorporated in the British Virgin Islands and the entire capital of which is indirectly wholly owned by the Company
"Sale Shares"	the aggregate ordinary shares of HK$1 each in the share capital of the Target Company, representing 100% of the issued share capital of the Target Company
"Savills"	Savills Valuation and Professional Services Limited, a firm of professional property surveyors
"Second Tranche"	such number of Sale Shares as represent 26% of the Target Company as at the date of Completion
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"SGM"	the special general meeting of the Company convened to approve the Acquisition (including the issue of Consideration Shares, Convertible Bonds and Conversion Shares) and increase in authorised share capital of the Company
"Share(s)"	share(s) of HK$0.20 each in the share capital of the Company
"Shareholder(s)"	holder(s) of Shares
"Stock Exchange"	The Stock Exchange of Hong Kong Limited

"Taifook"	Taifook Capital Limited, a corporation licensed to carry on type 6 (advising on corporate finance) regulated activity for the purpose of the SFO and the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Acquisition
"Takeovers Code"	the Hong Kong Code on Takeovers and Mergers
"Target Company"	Zheng Da Real Estate Development Co. Ltd, a company incorporated in Hong Kong with limited liability
"Target Group"	the Target Company and its subsidiaries
"Third Tranche"	such number of Sale Shares as represent 24% of the Target Company as at the date of Completion
"Vendors"	(i) Paton Bay Limited, a company incorporated in the British Virgin Islands with limited liability; and (ii) Clear Smart
"Vigers"	Vigers Appraisal and Consulting Limited, a firm of professional property surveyors
"RMB"	Renminbi, the lawful currency of the PRC
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"sq.m."	square metre
"%"	per cent.

This circular contains translations between RMB and HK$ at RMB1.00 = HK$1.036. The translation rate is for indication purposes only and should not be taken as a representation that the relevant currency could actually be converted into HK$ at that rate or at all.

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

(Incorporated in Bermuda with limited liability)
(Stock code: 1064)

Executive Directors:
Ho Tsam Hung *(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

Head office and principal place of business in Hong Kong:
Suite 2911, West Tower
Shun Tak Centre
168-200 Connaught Road Central
Central
Hong Kong

Registered office:
Clarendon House
2 Church Street
Hamilton HM11
Bermuda

26 November 2007

To the Shareholders

Dear Sir or Madam,

VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION AND INCREASE IN AUTHORISED SHARE CAPITAL

INTRODUCTION

On 26 October 2007, the Board announced that the Purchaser and the Vendors had entered into a conditional sale and purchase agreement dated 9 October 2007 (as amended on 26 October 2007), pursuant to which, amongst other things, the Vendors agreed to sell and the Purchaser agreed to acquire the entire issued share capital of the Target Company at a consideration of RMB1,814,800,000 (equivalent to approximately HK$1,880,000,000). The principal asset held by the Target Company is the entire equity interest in Guangzhou Zheng Da, which in turn holds the Guangzhou Property. The Guangzhou Property comprises three contiguous land parcels located at Yuexiu District, Guangzhou, the PRC. One of the conditions precedent to the Agreement is the completion of the issue and allotment of the Placing Shares under the Placing. As disclosed in the announcement of the Company dated 22 November 2007, the Placing was completed on 21 November 2007.

* *For identification only*

By virtue of Ho Family's interests in the Vendors and the Company, the Acquisition constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules. The Acquisition also constitutes a very substantial acquisition for the Company under the Listing Rules. The Acquisition is subject to approval by the Independent Shareholders at the SGM.

This circular provides you with, among other things, (i) further details of the Acquisition and the transactions contemplated thereunder (including the issue of the Consideration Shares, the Convertible Bonds and the Conversion Shares); (ii) an accountants' report on the Target Group; (iii) unaudited pro forma financial information on the Enlarged Group; (iv) property valuation reports on the Enlarged Group; and (v) a notice of the SGM.

THE ACQUISITION

The Agreement

Parties

Vendors:

(i) Paton Bay Limited, the entire issued capital of which is wholly owned by Ho Kam Hung, Ho Tsam Hung and Ho Pak Hung. The principal business activity of Paton Bay Limited is investment holding.

(ii) Clear Smart Group Limited, the entire issued capital of which is wholly owned by Ho Kam Hung, Ho Tsam Hung and Ho Pak Hung. Clear Smart is principally engaged in investment holding.

Purchaser: Hero Master Group Limited, the entire issued capital of which is indirectly wholly-owned by the Company

Listed issuer: The Company

Guarantors: Ho Kam Hung, Ho Tsam Hung and Ho Pak Hung

Ho Kam Hung, Ho Tsam Hung and Ho Pak Hung are brothers. Ho Kam Hung and Ho Tsam Hung are executive Directors. The guarantors jointly and severally, unconditionally and irrevocably, have undertaken to the Purchaser to procure the performance by the Vendors of all their obligations under the Agreement.

Assets to be acquired

Pursuant to the Agreement, the Vendors agreed to sell, and the Purchaser agreed to acquire the Sale Shares, being the entire issued share capital of the Target Company. The principal asset held by the Target Company is the entire equity interest in Guangzhou Zheng Da, which in turn holds the Guangzhou Property. The Guangzhou Property comprises three contiguous land parcels located at Yuexiu District, Guangzhou, the PRC. Further information on the Guangzhou Property is set out in the section headed "Information on the Target Group" below.

Paton Bay Limited is currently interested in 25% of the issued share capital of the Target Company while the remaining 75% interest is directly held by Clear Smart. Upon Completion, the Company will own the Sale Shares representing 100% of the issued share capital of the Target Company.

Consideration

The aggregate Consideration of RMB1,814,800,000 (equivalent to approximately HK$1,880,000,000) payable by the Company to the Vendors has been arrived at after arm's length negotiations between the Company and the Vendors with reference to the unaudited consolidated net asset value of the Target Company taking into account the valuation by Vigers of the Guangzhou Property as set out in Appendix IV to this circular. The Directors consider that the Consideration is fair and reasonable.

The Acquisition is to be completed in four tranches. The consideration for the First Tranche is RMB453,700,000 (equivalent to approximately HK$470,000,000) which is to be satisfied at the completion of the First Tranche as follows:

(i) by the issue of 243,800,000 Consideration Shares to the Vendors (or their designated nominee) at an issue price of HK$0.25 per Consideration Share;

(ii) by the procurement of the issue of a Convertible Bond or Convertible Bonds in the aggregate principal amount of HK$84,000,000 to the Vendors (or their designated nominee);

(iii) a promissory note or notes issued by the Company to the Vendors for HK$100,000,000 in aggregate (or the equivalent amount in RMB) in an agreed form; and

(iv) the balance of HK$225,050,000 (or the equivalent amount in RMB) to be settled in cash.

The consideration for the Second Tranche is RMB471,848,000 (equivalent to approximately HK$488,800,000) which will be satisfied at the completion of the Second Tranche as follows:

(i) the issuance of a Convertible Bond or Convertible Bonds in the aggregate principal amount of HK$244,440,000; and

(ii) the balance to be settled by way of cash and/or promissory notes in the agreed form.

The consideration for the Third Tranche is RMB435,552,000 (equivalent to approximately HK$451,200,000) which will be satisfied at the completion of Third Tranche as follows:

(i) the issuance of a Convertible Bond or Convertible Bonds in the aggregate principal amount of HK$225,680,000; and

(ii) the balance to be settled by way of cash and/or promissory notes in an agreed form.

The consideration for the Fourth Tranche is RMB453,700,000 (equivalent to approximately HK$470,000,000) which will be satisfied at the completion of the Fourth Tranche as follows:

(i) the issuance of a Convertible Bond or Convertible Bond in the aggregate principal amount of HK$235,200,000; and

(ii) the balance to be settled by way of cash and/or promissory notes in an agreed form.

The cash portion of the consideration for the First Tranche will be satisfied from the internal resources of the Group and the proceeds from the Placing of approximately HK$36.1 million completed on 21 November 2007. The cash portion of the consideration for the Second Tranche, the Third Tranche and the Fourth Tranche is expected to be satisfied from the proceeds of further equity and/or debt fund raising of the Company. Announcements will be made by the Company as and when appropriate.

Adjustment to the Consideration

The Consideration is to be adjusted on a dollar-for-dollar basis if the audited consolidated net asset value of the Target Group as at 30 June 2007 adjusted for the valuation by Vigers of the Guangzhou Property as at 31 August 2007 is not exactly RMB1,814,800,000. In the event of a shortfall, there will be a reduction in the cash portion of the Consideration for each of the First Tranche, the Second Tranche, the Third Tranche and the Fourth Tranche by a percentage equal to the percentage that Sale Shares which are the subject of the relevant Tranche as divided by the total Sale Shares. The accountants' report of the Target Group and the valuation of the Guangzhou Property to be used as basis for adjustment is set out in Appendix II and Appendix IV to this circular respectively. Based on the audited consolidated net asset value of the Target Group as at 30 June 2007 and adjusted for the valuation of the Guangzhou Property as at 31 August 2007, there will be no adjustment to the Consideration.

It was stated in the Announcement that the Consideration is to be adjusted on a dollar-for-dollar basis if the audited consolidated net asset value of the Target Group as at 30 June 2007 is not exactly RMB1,814,800,000. This adjustment basis was based on the assumption that the audited consolidated net asset value of the Target Group as at 30 June 2007 would have reflected the fair value of the Guangzhou Property as at 31 August 2007, which formed the basis of the Consideration. However, the accountants' report of the Target Group as set out in Appendix II was based on the fair value of the Guangzhou Property as at 30 June 2007. Therefore, for the avoidance of doubt, it is stated in the above paragraph that the adjustment of the Consideration should be based on the audited consolidated net asset value of the Target Group as at 30 June 2007 and adjusted for the valuation by Vigers of the Guangzhou Property as at 31 August 2007 in order to reflect the terms of the Agreement.

Principal terms of the Convertible Bonds

Set out below are the principal terms of the Convertible Bonds to be issued by the Company under the Agreement:

Principal amount:	Up to HK$789,320,000 in aggregate.
Maturity date:	The outstanding principal amount of the Convertible Bonds will be repaid by the second anniversary of the issue date of the relevant Convertible Bonds.
Interest:	The Convertible Bonds will be interest free.
Conversion period:	The period commencing on the date of issue of the Convertible Bonds and up to and excluding 7 days prior to the maturity date.
Conversion:	Each of the Bondholders shall have the right to convert, on any business day commencing on the date of issue of the Convertible Bond up to and including the date which is 7 days prior to the maturity date, the whole or any part (in an amount of HK$1,000,000 or integral multiple thereof, or if the entire outstanding principal amount at the relevant time is less than the authorised denomination, the entire outstanding principal amount) of the principal amount of the Convertible Bonds into Shares at the then prevailing conversion price.
Early redemption:	The Company may at any time and from time to time redeem the whole or any part (in an amount of HK$1,000,000 or an integral multiple thereof, or if the entire outstanding principal amount at the relevant time is less than the authorised denomination, the entire outstanding principal amount) of the then outstanding principal amount of the Convertible Bonds at an amount equal to 105% of the principal amount of the Convertible Bonds being redeemed.
Listing:	No application will be made for the listing of the Convertible Bonds on any stock exchange. Application has been made for the listing of and permission to deal in the Conversion Shares on the Stock Exchange.
Conversion Shares:	On the basis of the principal amount of HK$789,320,000 and the initial conversion price of HK$0.28 per Share, a total of 2,819,000,000 Conversion Shares will be issued upon full conversion of the Convertible Bonds. The Conversion Shares will (subject to adjustment) represent approximately 306.3% of the existing issued shares of the Company, or approximately 70.8% of the issued shares of the Company as enlarged by the issue of the Consideration Shares and the Conversion Shares.

Transferability:	The Convertible Bonds will not be assignable or transferable except with the prior written consent of the Company. Save as aforesaid, there will be no other restrictions on the sale of the Convertible Bonds and the Conversion Shares.
Voting:	A holder of Convertible Bonds shall not be entitled to receive notices of, attend or vote at any meetings of the Company by reason only of being a holder of a Convertible Bond.
Ranking:	The Conversion Shares will rank pari passu in all respects with all the Shares in issue at the date on which the conversion rights attaching to the Convertible Bonds are exercised.
Restriction on conversion:	The conversion right attaching to the Convertible Bonds will not be capable of exercise by the Bondholder if and to the extent the Bondholder and parties acting in concert with it (within the meaning under the Takeovers Code) would beneficially hold 30% (or such percentage as may from time to time be specified in the Takeovers Code as being the level for triggering a mandatory general offer) or more of the then enlarged issued share capital of the Company at the relevant date of conversion of the relevant Convertible Bond.

Conversion price of Conversion Shares

The initial conversion price of HK$0.28 per Share was determined after arm's length negotiations between the Company and the Vendors with reference to the prevailing market price of the Shares. The conversion price represents:

(i) the closing price of HK$0.28 per Share as quoted on the Stock Exchange on the Last Trading Day;

(ii) the average closing price of HK$0.28 per Share as quoted on the Stock Exchange over the last five trading days up to the Last Trading Day;

(iii) a discount of approximately 6.7% to the average closing price of HK$0.30 per Share as quoted on the Stock Exchange over the last 30 trading days up to the Last Trading Day; and

(iv) a discount of approximately 28.2% to the closing price of HK$0.39 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

The conversion price is subject to customary anti-dilution adjustments on events such as a share consolidation, share subdivision, capitalization issue, capital distribution, rights issue and other equity or equity derivative issues.

Application has been made by the Company to the Stock Exchange for the listing of and permission to deal in the Conversion Shares on the Stock Exchange.

Issue price of Consideration Shares

The issue price of HK$0.25 per Consideration Share represents:

(i) a discount of approximately 10.7% to the closing price of HK$0.28 per Share as quoted on the Last Trading Day;

(ii) a discount of approximately 10.7% to the average closing price of HK$0.28 per Share as quoted on the Stock Exchange over the last five trading days up to the Last Trading Day;

(iii) a discount of approximately 16.6% to the average closing price of HK$0.30 per Share as quoted on the Stock Exchange over the last 30 trading days up to the Last Trading Day; and

(iv) a discount of approximately 35.9% to the closing price of HK$0.39 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

The issue price of the Consideration Shares was negotiated on an arm's length basis between the Company and the Vendors with reference to the prevailing market prices of the Shares. The Consideration Shares represent approximately 26.5% of the existing issued Shares, and 20.9% of the issued Shares as enlarged by the issue of Consideration Shares. There is no restriction on dealing in the Consideration Shares. The Directors (including the independent non-executive Directors) consider the terms of issue of the Consideration Shares are fair and reasonable and in the interests of the Company and Shareholders as a whole.

Application has been made by the Company to the Stock Exchange for the grant of the listing of and the permission to deal in the Consideration Shares on the Stock Exchange.

Promissory Note

Promissory Note(s) will be issued by the Company to the Vendors or their nominee(s) at completion of the First Tranche (and if applicable, the Second Tranche, the Third Tranche and the Fourth Tranche) as part of the Consideration. The principal terms of the Promissory Notes are as follows:

Principal sum:	HK$100,000,000 for the First Tranche plus an additional sum of up to the equivalent of the balance of the Consideration which is not satisfied by the Convertible Bonds and cash.
Repayment:	The principal sum is to be repaid in full 15 months from the date of issue of the relevant Promissory Notes.
Interest:	4% per annum, payable on a quarterly basis.
Listing:	No application will be made for the listing of the Promissory Notes on the Stock Exchange or any other stock exchange.
Transfer:	The Promissory Notes will be freely transferable.

The terms of the Promissory Notes were arrived at based on arm's length negotiations between the Company and the Vendors. The Directors consider that the terms of the Promissory Note, including the interest rate (taking into account the prevailing interest rates offered by commercial banks in Hong Kong for commercial loans and/or property mortgage loans), are fair and reasonable.

Conditions precedent

Completion of the Acquisition is conditional upon the satisfaction or waiver of the following conditions:

(i) a due diligence review of the business, operations and financial position on the Target Group having been completed to the satisfaction of the Purchaser in its sole discretion;

(ii) the issue of a legal opinion as to Guangzhou Zheng Da and the Guangzhou Property in form and substance satisfactory to the Purchaser by a PRC lawyer approved by the Company which covers, amongst other things, the due incorporation of Guangzhou Zheng Da and its title to the Guangzhou Property;

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

(iv) the Company being satisfied that there has not been any material adverse change (being any change which has a material and adverse effect on the financial position, business or operations) of the Target Group since 30 June 2007;

(v) the passing by the Independent Shareholders of a resolution to approve the Agreement and the transactions contemplated thereby in accordance with the Listing Rules;

(vi) the Stock Exchange not having indicated that it will treat (a) the transactions contemplated under the Agreement as a "reverse takeover" under Rule 14.06(6) of the Listing Rules and/or (b) the Company as a new listing applicant under Rule 14.54 of the Listing Rules;

(vii) the issue and allotment of 145,000,000 Placing Shares under the Placing;

(viii) the Securities and Futures Commission not having indicated that it objects to the issue of the Consideration Shares, the Conversion Shares and the Placing Shares;

(ix) an increase in authorised share capital of the Company from HK$200,000,000 divided into 1,000,000,000 Shares to HK$2,000,000,000 divided into 10,000,000,000 Shares by the creation of an additional 9,000,000,000 new Shares; and

(x) the obtaining of all relevant consents and approvals (whether from governmental authorities or not) required for Completion lawfully to take place.

Only conditions (i), (ii), (iv) and (x) are capable of being waived. If any of the above conditions precedent is not fulfilled or waived by any of the parties to the Agreement, as the case may be, on or before 31 December 2007 or such later time and date as may be agreed in writing between the parties, the Agreement shall lapse automatically.

As at the Latest Practicable Date, only condition (vii) had been satisfied.

Completion

Subject to the fulfilment or waiver of the conditions referred to above, completion of the four Tranches is expected to take place as set out below:

Tranches	Interests of the Target Company acquired	Interests of the Target Company held by the Group immediately following completion of each tranche	Expected completion date of each tranche
First Tranche	25%	25%	31 December 2007
Second Tranche	26%	51%	31 May 2008
Third Tranche	24%	75%	31 October 2008
Fourth Tranche	25%	100%	31 March 2009

Pursuant to the terms of the Agreement, the structure of the Acquisition does not have any option element granted to the Purchaser or the Vendor. Upon fulfillment (or wavier) of the conditions of the Agreement on or before 31 December 2007, both the Purchaser and the Vendors are obliged to proceed to Completion in respect of the entire equity interests in the Target Company.

Completion of the sale and purchase of the Second, the Third and the Fourth Tranche are conditional upon completion of the sale and purchase of the First Tranche which is expected to take place no later than 31 December 2007. If the completion of the sale and purchase of the First Tranche does not take place by 31 December 2007 or the entire Agreement does not complete by 31 March 2009, the Agreement shall lapse (save for any part of completed tranches) and the Purchaser shall have no liabilities save for its deferred interest payment obligations. The Purchaser is obliged to complete the relevant Tranche on or before the aforesaid completion date. In the event that the Purchaser fails to complete any part of the Tranche on or before the relevant completion date, the Purchaser is obliged to pay to the Vendors the deferred interest payment which is calculated at the rate of 4% p.a. on the relevant Consideration based on the period from the relevant completion date of each tranche as mentioned above and ending on and excluding the day when the relevant Consideration is settled by the Purchaser or 31 March 2009, whichever the earlier.

Shareholders' Agreement

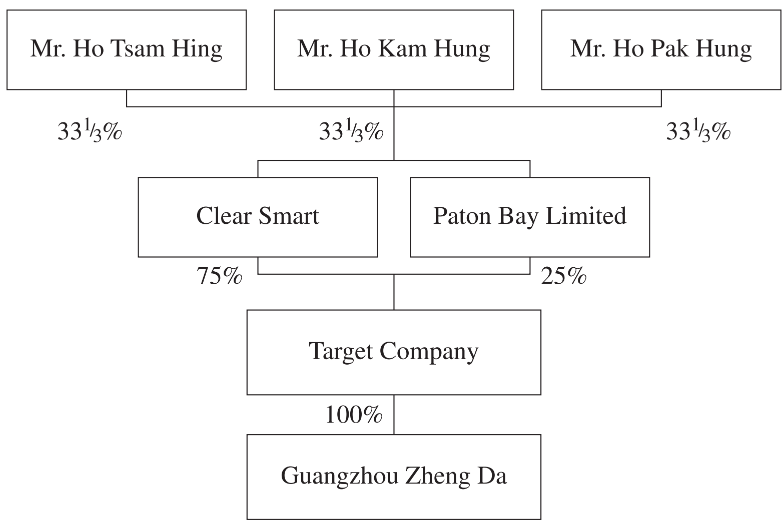
Upon completion of the First Tranche, Clear Smart and the Purchaser shall enter into a shareholders' agreement, the principal terms of which are set out below:

Parties:	Clear Smart and the Purchaser
Shareholders:	Clear Smart and the Purchaser
Subject matter:	Formation and operation of the Target Company
Share capital:	The issued share capital of the Target Company is HK$4.00, divided into 4 shares. Of the 4 shares, 3 shares (equivalent to 75% of the issued share capital of the Target Company) are beneficially owned by the Vendors and 1 share (equivalent to 25% of the issued share capital of the Target Company) will be beneficially owned by the Purchaser upon completion of the First Tranche. Clear Smart and the Purchaser shall procure the Target Company to further issue and allot such number of shares as is necessary in order to facilitate the sale of the Sale Shares for the Second Tranche, Third Tranche and the Fourth Tranche.
Disposal of shares:	There is a first right of refusal for the Purchaser and Clear Smart if either party intends to dispose of any interest in the Target Company to third parties.
Business objective:	The business objective of Target Company and its subsidiaries will be confined to operation of, development of and investment in the Guangzhou Property, and such related activities to be carried on both in Hong Kong and other jurisdictions as the directors of the Target Company shall decide.
Board of directors:	For so long as the Purchaser is a shareholder of the Target Company, the Purchaser has the right to appoint 1 director (or such further number of directors so that its pro rata representation on the board is the same as its pro rata shareholding interest in the Target Company at the relevant time). It is the intention of the Company to appoint a third party independent of Ho Family to be the director of the Target Company.
Working capital and financing:	The shareholders of the Target Company shall seek to procure that the Target Company obtains financing without credit support but in the event that the Target Company requires financing which cannot be satisfied by other means, the shareholders of the Target Company shall provide shareholders' loans to it pro rata of their respective shareholding proportions. In the event that the Company provides any financial assistance (as defined in the Listing Rules) to the Target Company, the Company will comply with the relevant provisions of the Listing Rules accordingly.

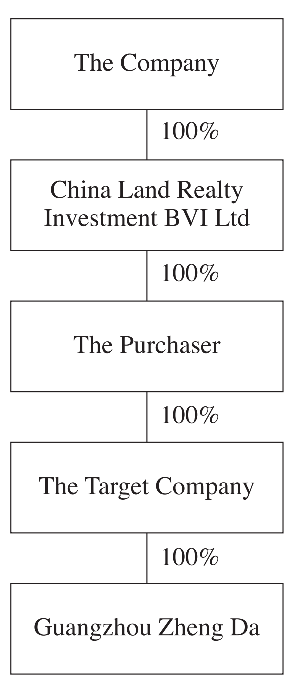
SHAREHOLDING STRUCTURE OF THE TARGET GROUP

The following diagrams illustrate the shareholding structure of the Target Company immediately before and after Completion.

Immediately before Completion



Immediately after Completion



EFFECT ON SHAREHOLDING OF THE COMPANY

The following is a summary of the shareholding in the Company (i) as at the Latest Practicable Date; (ii) upon completion of the First Tranche of the Acquisition; and (iii) upon full completion of the Acquisition and assuming full conversion of the Conversion Bond:

Shareholders	As at the Latest Practicable Date		Upon completion of the First Tranche of the Acquisition		Upon full completion of the Acquisition and assuming full conversion of the Convertible Bond *(note 5)*	
	Number of Shares	*%*	*Number of Shares*	*%*	*Number of Shares*	*%*
High Rank Enterprises Limited *(note 1)*	31,700,000	3.4	31,700,000	2.7	31,700,000	0.8
On Tai Profits Limited *(note 2)*	27,000,000	2.9	27,000,000	2.3	27,000,000	0.7
Morcambe Corporation *(note 3)*	27,000,000	2.9	27,000,000	2.3	27,000,000	0.7
Morgan Estate Assets Limited *(note 4)*	14,500,000	1.6	14,500,000	1.2	14,500,000	0.3
Vendors	–	0.0	243,800,000	20.9	3,062,800,000	76.9
Ho Family	100,200,000	10.8	344,000,000	29.4	3,163,000,000	79.4
Public Shareholders	820,041,300	89.2	820,041,300	70.6	820,041,300	20.6
Total	920,241,300	100.0	1,164,041,300	100.0	3,983,041,300	100.0

Notes:

1. Each of Messrs. Ho Tsam Hung and Ho Kam Hung, each being an executive Director, is interested in approximately 31.58% of the issued share capital of High Rank Enterprises Limited. Messrs. Ho Tsam Hung and Ho Kam Hung are brothers.

2. On Tai Profits Limited is wholly owned by Mr. Ho Pak Hung, a former Director and a brother of Messrs. Ho Tsam Hung and Ho Kam Hung.

3. Morcambe Corporation is wholly owned by Mr. Ho Kam Hung, an executive Director.

4. Morgan Estate Assets Limited is wholly owned by Mr. Ho Tsam Hung, an executive Director.

5. This column is for illustration only. The conversion right attaching to the Convertible Bonds will not be capable of exercise by the Vendors if and to the extent the Vendors and parties acting in concert with it (within the meaning under the Takeovers Code) will beneficially hold 30% (or such percentage as may from time to time be specified in the Takeovers Code as being the level for triggering a mandatory general offer) or more of the then enlarged issued share capital of the Company at the relevant date of conversion. On this basis, the Acquisition will not result in any insufficiency of public float of the Company.

6. The above figures are based on the information available to the Company at the Latest Practicable Date.

Dilution effect on Shareholders

In view of the potential future dilution of existing Shareholders on the exercise of the conversion rights pursuant to the Convertible Bonds, the Company will keep the Shareholders informed as to the level of dilution and details of conversion as follows:

(a) the Company will make a monthly announcement (the "Monthly Announcement") on the website of the Stock Exchange after Completion. Such announcement will be made on or before the fifth Business Day following the end of each calendar month and will include the following details in a table form:

(i) whether there has been any conversion of the Convertible Bonds during the relevant month. If there is a conversion, details thereof, including the conversion date, number of new Shares issued and conversion price for each conversion. If there is no conversion during the relevant month, a negative statement to that effect;

(ii) the number of Convertible Bonds outstanding after the conversion, if any;

(iii) the total number of new Shares issued pursuant to other transactions during the relevant month, including new Shares issued pursuant to exercise of options under any share option scheme(s) of the Company; and

(iv) the total issued share capital of the Company as at the commencement and the last day of the relevant month; and

(b) in addition to the Monthly Announcement, if the cumulative amount of new Shares issued pursuant to the conversion of the Convertible Bonds reaches 5% of the issued share capital of the Company as disclosed in the previous Monthly Announcement or any subsequent announcement made by the Company in respect of the Convertible Bonds (as the case may be) (and thereafter in a multiple of such 5% threshold), the Company will make an announcement on the website of the Stock Exchange including details as stated in (a) above for the period commencing from the date of the previous Monthly Announcement or any subsequent announcement in respect of the Convertible Bonds (as the case may be) up to the date on which the total amount of Shares issued pursuant to the conversion amounted to 5% of the issued share capital of the Company as disclosed in the previous Monthly Announcement or any subsequent announcement made by the Company in respect of the Convertible Bonds (as the case may be).

INFORMATION ON THE TARGET GROUP

Target Company

Zheng Da Real Estate Development Co. Ltd was incorporated in Hong Kong with limited liability and is engaged in the business of investment holding. The principal asset held by the Target Company is the entire issued capital of Guangzhou Zheng Da. The total capital injection by the Ho Family for setting up of the Target Company was approximately HK$150 million.

Guangzhou Zheng Da and the Guangzhou Property

Guangzhou Zheng Da is a wholly-owned subsidiary of the Target Company. Guangzhou Zheng Da is a Sino-foreign joint venture established in the PRC with limited liability. The principal activities of Guangzhou Zheng Da are the investment, development, sales and rental of properties. Save for the entire interest in Guangzhou Property, Guangzhou Zheng Da has no other material assets. The Guangzhou Property comprises three contiguous land parcels located at to the west of Jiefang Road South; to the north of Daxin Road Lot No. 571; to the south of Yede Road Lot No.: 519; and to the east of Xieen Street, Yuexiu District, Guangzhou province, the PRC. The total site area is approximately 16,772.77 sq.m. Guangzhou Zheng Da has been granted land-use rights with the terms of 40 years to be expired in 2039 for commercial, tourism and entertainment uses and 50 years to be expired in 2049 for other uses.

The Guangzhou Property is located in a prime commercial site area and is considered to be one of the good developed commercial areas in Guangzhou, the capital city in Guangdong Province. The Vendors represented to the Purchaser that all required permits and development approvals are or will be in place for the Guangzhou Property upon Completion, failing which the Vendors would indemnify to the Purchaser and the Company from and against all land premium unpaid. Currently, part of the Guangzhou Property is used as open car park whereas the remaining part is occupied by a 2-storey non-permanent commercial building and an old building. The 2-storey non-permanent commercial building is mainly occupied by tenants engaging in the footwear wholesale business.

It is planned that the proposed development to be erected on the Guangzhou Property after the completion of the First Tranche will be divided into two phases. The first phase development will be a redevelopment of the open carpark to a 22-storey composite building for shopping arcade and commercial office, the construction of which is expected to commence in early 2008. The shopping arcade will be specialized in footwear wholesale business and it is planned that the existing tenants of the 2-storey non-permanent commercial building will be invited to move into the phase one building. The total investment amount is expected to be approximately RMB650 million and the construction is expected to be completed in 2010.

The construction of second phase development will be commenced after the completion of phase one building. The existing 2-storey non-permanent building will be demolished and redeveloped as another composite building for shopping arcade and office with ancillary facilities such as carpark and loading area whereas the existing old building will be demolished and developed as road and greenery space. It is expected that the total investment cost of the second phase development is approximately RMB600 million and the construction is expected to be completed in 2012.

As set out in Appendix IV to this circular, the current market value of the Guangzhou Property in its existing state as valued by Vigers is RMB2,600,000,000 (equivalent to approximately HK$2,693,600,000) as at 31 August 2007.

Set out below is a summary of the audited consolidated financial results of the Target Group prepared in accordance with the Hong Kong Financial Reporting Standards for each of the three years ended 31 December 2004, 2005 and 2006 and the six months ended 30 June 2007:

Income statements

	Year ended 31 December			**Six months ended 30 June**	
	2004	**2005**	**2006**	**2006**	**2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(audited)	*(audited)*	*(audited)*	*(unaudited)*	*(audited)*
Revenue	1,444	1,453	2,162	1,098	1,074
Other income and gains	201	265	2,443	–	109
Changes in fair value of investment properties	112,800	379,980	665,046	173,731	867,028
Administrative expenses	(1,566)	(4,111)	(5,980)	(556)	(952)
Finance costs	(5,520)	(5,545)	(5,500)	(2,889)	(2,879)
PROFIT BEFORE TAX	107,359	372,042	658,171	171,384	864,380
Tax	(35,402)	(123,564)	(216,202)	(56,378)	(111,197)
PROFIT FOR THE YEAR/PERIOD	71,957	248,478	441,969	115,006	753,183
Dividend	–	–	–	–	–

Balance sheets

	31 December			30 June
	2004	**2005**	**2006**	**2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(audited)	*(audited)*	*(audited)*	*(audited)*
NON-CURRENT ASSETS				
Property and equipment	94	77	38	28
Investment properties	552,140	948,103	1,654,776	2,554,400
Total non-current assets	552,234	948,180	1,654,814	2,554,428
CURRENT ASSETS				
Properties held for sale	–	–	–	34,084
Prepayments, deposits and other receivables	3,242	3,822	3,778	1,481
Cash and bank balances	202	87	7,968	5,317
Total current assets	3,444	3,909	11,746	40,882
CURRENT LIABILITIES				
Trade payables	(11,412)	(11,656)	(12,080)	(12,505)
Other payables and accruals	(109,826)	(113,933)	(116,818)	(115,937)
Interest-bearing bank borrowings	(7,520)	(7,681)	(7,960)	(8,240)
Tax payable	(3,877)	(3,960)	(4,391)	(4,247)
Total current liabilities	(132,635)	(137,230)	(141,249)	(140,929)
NET CURRENT LIABILITIES	(129,191)	(133,321)	(129,503)	(100,047)
TOTAL ASSETS LESS CURRENT LIABILITIES	423,043	814,859	1,525,311	2,454,381
NON-CURRENT LIABILITIES				
Loan from a director	(60,141)	(61,427)	(63,660)	(65,899)
Due to a director	(41,118)	(48,560)	(59,048)	(63,635)
Deferred tax liabilities	(67,941)	(194,297)	(421,865)	(548,992)
Total non-current liabilities	(169,200)	(304,284)	(544,573)	(678,526)
Net assets	253,843	510,575	980,738	1,775,855
EQUITY				
Issued capital	–	–	–	–
Reserves	253,843	510,575	980,738	1,775,855
Total equity	253,843	510,575	980,738	1,775,855

Management discussion and analysis

Set out in Appendix II to this circular is the accountants' report on the Target Group covering each of the three financial years ended 31 December 2004, 2005 and 2006 and the six months ended 30 June 2007. Based on information provided by the Target Group, the management discussion and analysis in relation to the Target Group for each of the aforesaid periods is set out below.

Business review

As the Target Group had only generated minimal rental income from the rental of an old building erected on the Guangzhou Property, immaterial turnover were recorded for the period under review.

Property investment

For the financial years ended 31 December 2004, 2005, 2006 and for the six months ended 30 June 2007, Guangzhou Property was the principal asset of the Target Group, which did not hold any other significant investment. The fair values of the Guangzhou Property for the financial years ended 31 December 2004, 2005, 2006 and for the six months ended 30 June 2007 were approximately HK$517 million, HK$912 million, HK$1,621 million and HK$2,554.4 million respectively. There were only minimal rental incomes generated from the rental of an old building erected on the Guangzhou Property in the past years. It is generally expected that the property market in the PRC will continue to grow in coming years and as set out in paragraph headed "Guangzhou Zheng Da and the Guangzhou Property" above, the proposed development project will deliver attractive returns to the Group in the medium to long term spectrum.

As the Target Group only generated insignificant income, its performance was not largely affected by changes in industry and other macroeconomic market conditions. Prior to the Acquisition, the management of the Target Group had no particular future plans for major investments. According to the Target Group's audited consolidated income statements as set out in Appendix II to this circular, the Target Group recorded net profits for the three years ended 31 December 2004, 2005 and 2006 and for six months ended 30 June 2007 which mainly represented the revaluation surplus of the Guangzhou Property. Administrative expenses and finance cost were recorded in its respective income statements. Set out below is a business review for the three years ended 31 December 2004, 2005 and 2006 and for the six months ended 30 June 2007.

For the year ended 31 December 2004

Revenue for the year ended 31 December 2004 was approximately HK$1.4 million. The Target Group's revaluation surplus and net profit were approximately HK$112.8 million and HK$72.0 million respectively. As at 31 December 2004, the audited consolidated net asset value of the Target Group was approximately HK$253.8 million and included in the audited balance sheet were the Guangzhou Property at a fair value of approximately HK$517 million and an amount due to and loan from a director of the Target Group of an aggregate of approximately HK$101.3 million. The cost of the Guangzhou Property in the accounts of the Target Group was principally financed by the amount advanced by its directors. The Guangzhou Property was the principal asset of the Target Group.

For the year ended 31 December 2005

Revenue for the year ended 31 December 2005 was approximately HK$1.5 million. The Target Group's revaluation surplus and net profit were approximately HK$380.0 million and HK$248.5 million respectively. The audited consolidated net asset value of the Target Group was approximately HK$510.6 million and included in the audited balance sheet was the Guangzhou Property at a fair value of approximately HK$912 million. The increase of net asset value from 2004 was mainly attributable to the increase of fair value of the Guangzhou Property. The amount due to and loan from a director of the Target Group was in an aggregate of approximately HK$110.0 million.

For the year ended 31 December 2006

Revenue for the year ended 31 December 2006 was approximately HK$2.2 million. The Target Group's revaluation surplus and net profit were approximately HK$665 million and HK$442 million respectively. The Target Group's net assets were approximately HK$980.7 million and included in the audited balance sheet was the Guangzhou Property at a fair value of approximately HK$1,621 million and an amount due to and loan from a director of the Target Group of an aggregate of approximately HK$122.7 million.

For the six months ended 30 June 2007

Revenue for the six months ended 30 June 2007 was approximately HK$1.1 million. The Target Group's revaluation surplus and net profit were approximately HK$867 million and HK$753.2 million respectively. The Target Group's net assets were approximately HK$1,775.9 million and included in the audited balance sheet was the Guangzhou Property at a fair value of approximately HK$2,554.4 million. The amount due to and loan from a director of the Target Group were in aggregate of approximately HK$129.5 million as at the balance sheet date.

Financial position

Current fund, financial resources and treasury policies

As at each of 31 December 2004, 2005, 2006 and 30 June 2007, the cash position of the Target Group was approximately HK$0.2 million, HK$0.09 million, HK$8.0 million and HK$5.3 million, respectively. The current ratios (calculated on the basis of current assets over current liabilities) were 2.6%, 2.8%, 8.3% and 29.0%, respectively.

The Target Group consistently maintains a prudent financial policy and its operation is generally financed by its internal resources and loan from and amount due to its director. As at each of 31 December 2004, 2005 and 2006 and 30 June 2007, the Target Group had loan from and amount due to a director of an aggregate of HK$101.3 million, HK$110.0 million, HK$122.7 million and HK$129.5 million, respectively. Interest-bearing bank borrowings with fixed interest rates ranging from 6.02% p.a. to 6.43% p.a. were HK$7.5 million, HK$7.7 million, HK$8.0 million and HK$8.2 million respectively. The gearing ratio, calculated as total liabilities over total assets, was approximately 54.3%, 46.4%, 41.2% and 31.6%, respectively.

Foreign currency risk

The monetary assets and transactions of the Target Group are principally denominated in RMB, and the exposure of the Target Group to foreign currency risk is regarded as insignificant.

Capital commitments and contingent liabilities

As at each of 31 December 2004, 2005, 2006 and 30 June 2007, the Target Group did not have any material capital commitment.

Significant investment, material acquisition and disposal during the periods

Save for the Guangzhou Property, the Target Group did not have any significant investment, material acquisition or disposal for the years ended 31 December 2004, 2005, 2006 and for the six months ended 30 June 2007.

Employees and remuneration policies

As at each of 31 December 2004, 2005, 2006 and 30 June 2007, the Target Group maintained a head count of 10. Total staff costs incurred during the years ended 31 December 2004, 2005, 2006 and the six months ended 30 June 2007 were approximately HK$0.49 million, HK$0.43 million, HK$0.44 million and HK$0.2 million, respectively.

Material acquisitions and disposals of subsidiaries and associated companies

During the three years ended 31 December 2006 and the six months ended 30 June 2007, there were no material acquisitions and disposals carried out by the Target Group.

Charges on assets

As at each of 31 December 2004, 2005, 2006 and 30 June 2007, the Target Group did not have any charge on group assets.

Comparison

As set out in Appendix IV to this circular, the valuation of the Guangzhou Property as at 31 August 2007 is RMB2,600,000,000 as compared with RMB2,480,000,000 as at 30 June 2007 as disclosed in the accountants' report of Target Company set out in Appendix II to this circular, representing a difference of RMB120 million in valuation figure.

As set out in Appendix II to this circular, the audited consolidated net book value of the Target Group as at 30 June 2007 was approximately HK$1,775.9 million. Accordingly, taking into account the valuation of Guangzhou Property as at 31 August 2007, the Consideration represents a discount of 1.9% to the 100% interest in the Target Company's consolidated net book value.

REASONS FOR THE ACQUISITION

The Group is principally engaged in property investment and the leasing of point-of-sale equipment in the PRC. Currently, the Company holds a property investment in Guang Yu Square in Chongqing, the PRC which provides a steady income stream to the Group.

The Directors consider that the Guangzhou Property is a prime property development project in the PRC, and it is generally expected that the property market in the PRC will continue to grow in coming years. The Directors believe the Guangzhou Property development project will deliver attractive return, both in terms of capital gain and future recurring income from the rental of commercial units and property sales, to the Group in the medium to long term spectrum. The strengthening of the asset base of the Group by the Acquisition would, in the opinion of the Directors, enhance its asset backing to support the expansion of the business of the Group.

Looking ahead, the Directors are optimistic about the development potential and prospects of the PRC property market. The Acquisition will result in the Group expanding its property investment portfolio in the PRC. In light of the above, the Directors (including the independent non-executive Directors) consider that the terms of the Agreement are fair and reasonable so far as the Independent Shareholders are concerned and the Acquisition is in the interests of the Company and the Shareholders as a whole.

PROPOSED INCREASE IN AUTHORISED SHARE CAPITAL

As at the Latest Practicable Date, the authorised share capital of the Company was HK$200,000,000 divided into 1,000,000,000 Shares of which 920,241,300 Shares were in issue. In order to accommodate further expansion and growth of the Group, the Board proposes an increase in the authorised share capital of the Company from HK$200,000,000 divided into 1,000,000,000 Shares to HK$2,000,000,000 divided into 10,000,000,000 Shares by the creation of an additional 9,000,000,000 new Shares. Currently, the Company does not have any concrete plan to issue further Shares except for the Consolidation Shares and the Conversion Shares. The proposed increase in authorised share capital is conditional on the approval by Shareholders at the SGM. No Shareholders will be required to abstain from voting for this resolution.

LISTING RULES IMPLICATIONS

As at the date of the Agreement, the Ho Family was interested in approximately 12.9% of the issued share capital of the Company and therefore was a substantial shareholder of the Company. The Vendors are wholly owned by the Ho Family and thus connected persons of the Company. By virtue of the Ho Family's interests in the Vendors and the Company respectively, the Acquisition constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules. Given that certain of the applicable percentage ratios exceed 100%, the Acquisition also constitutes a very substantial acquisition of the Company under the Listing Rules.

Pursuant to the Listing Rules, the Acquisition is conditional on the approval by the Independent Shareholders by way of poll at the SGM. The Ho Family and its members' respective associates will be required to abstain from voting in relation to the resolution to approve, among other things, the Agreement and the transactions contemplated thereunder (including the issue of the Consideration Shares, the Convertible Bonds and the Conversion Shares) at the SGM.

FINANCIAL IMPACT OF THE ACQUISITION

Upon Completion, the Target Group will become a wholly-owned subsidiary of the Company and the financial results of the Target Group will be consolidated with those of the Group.

Set out in Appendix III to this circular is certain unaudited pro forma financial information on the Enlarged Group illustrating the financial impact of the Acquisition on the results and cash flows of the Group assuming the Acquisition had taken place on 1 January 2006 and on the assets and liabilities of the Group assuming the Acquisition had taken place on 30 June 2007.

Based on the unaudited pro forma consolidated balance sheet in Appendix III to this circular, the total assets of the Group would increase by approximately 420.3% from HK$616.5 million to HK$3,207.9 million; and its total liabilities would increase by approximately 1,497.4% from HK$156.0 million to HK$2,491.9 million, as a result of the Acquisition. The Directors consider that the Acquisition will contribute to the earnings base of the Enlarged Group but the extent of such impact will depend on the future performance of the Target Group.

FINANCIAL AND TRADING PROSPECTS OF THE ENLARGED GROUP

The Group is principally engaged in property investment and the leasing of point-of-sale equipment in the PRC. According to the 2006 annual report of the Company, the Group recorded an audited net loss of HK$145.8 million and HK$13.8 million respectively for each of the two years ended 31 December 2006. As at 31 December 2006, the Group had audited net current assets of HK$152.3 million and net asset value of HK$452.9 million. Currently the Company holds a property investment in Guang Yu Square in Chongqing, the PRC, and the rental income generated from leasing of commercial units has grown in recent years and provides a steady income stream to the Group.

According to the interim report of the Company for the six months ended 30 June 2007, the Group recorded an unaudited net loss of HK$4.9 million. As at 30 June 2007, the Group had unaudited net current assets of HK$153.0 million and net asset value of HK$460.5 million. Given that the Group has extensive experience in property development and investment in the PRC since 1992, the Directors consider that they should capitalise their expertise and connections in this area for the Group's future business development.

Aligned with the initiative to broaden the Group's business horizon and diversify its income stream, the Board will proactively seek new viable business opportunities. The Acquisition is consistent with the Company's growth strategy by increasing the Company's property investments in the PRC, which has had one of the fastest-growing economies in recent years. It is expected that the Acquisition has good potential to contribute earnings to the Group and strengthens the assets base of the Group.

SGM

The SGM will be held at Conference Room, 1st Floor, The Star Hotel, 89 Lin He Xi Road, Tianhe, Guangzhou, China on 12 December 2007 at 11:00 a.m.. Notice of it is set out on pages 192 to 193 to this circular. The purpose of SGM is, to consider and, if thought fit, approve ordinary resolutions to approve the Acquisition (including the issue of the Consideration Shares, the Convertible Bonds and the Conversion Shares) and an increase in authorised share capital of the Company.

A form of proxy for use at the SGM accompanies this circular. Whether or not you will be able to attend the SGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return it to the Hong Kong branch share registrar of the Company, Tricor Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, as soon as possible and in any event not less than 48 hours before the time appointed for holding the SGM. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjourned meeting thereof if you so wish.

PROCEDURES BY WHICH A POLL MAY BE DEMANDED

Pursuant to Bye-law 66 of the Bye-laws of the Company, a resolution put to the vote of the meeting shall be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is duly demanded:

(a) by the chairman of the meeting; or

(b) by at least three Shareholders present in person or by proxy for the time being entitled to vote at the meeting; or

(c) by a Shareholder or Shareholders present in person or by proxy and representing not less than one-tenth of the total voting rights of all Shareholders having the right to vote at the meeting; or

(d) by a Shareholder or Shareholders present in person or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the shares conferring that right; or

(e) if required by the rules of the Stock Exchange, by any Director or Directors who, individually or collectively, hold proxies in respect of shares representing five per cent. (5%) or more of the total voting rights at such meeting.

RECOMMENDATION

The Directors are of the opinion that the terms of the Agreement and the increase in authorised share capital are fair and reasonable and in the interests of the Company and the Shareholders as a whole. The Directors recommend the Independent Shareholders or the Shareholders (as the case may be) to vote in favour of the resolutions as set out in the notice of the SGM to approve the Acquisition (including the issue of the Consideration Shares, the Convertible Bonds and the Conversion Shares) and the increase in authorised share capital of the Company at the SGM.

GENERAL

Your attention is drawn to the letter from the Independent Board Committee, the letter from Taifook, the additional information set out in the appendices to this circular and the notice of the SGM.

For and on behalf of the Board
Ho Kam Hung
Executive Director

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

(Incorporated in Bermuda with limited liability)
(Stock code: 1064)

26 November 2007

To the Independent Shareholders

Dear Sir or Madam,

**VERY SUBSTANTIAL ACQUISITION
AND
CONNECTED TRANSACTION**

INTRODUCTION

We refer to the circular dated 26 November 2007 (the "Circular") of Zhong Hua International Holdings Limited (the "Company") of which this letter forms part. Terms used in this letter shall have the meanings as defined in the Circular unless the context requires otherwise.

We, being the independent non-executive Directors, have been appointed to form the Independent Board Committee to advise you as to whether the terms of the Agreement are fair and reasonable so far as the Independent Shareholders are concerned and whether the Acquisition is in the interests of the Company and the Shareholders as a whole.

Taifook have been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders on the fairness and reasonableness of the terms of Acquisition.

We wish to draw your attention to the letter from the Board as set out on pages 6 to 27 of the Circular and the letter from Taifook as set out on pages 30 to 50 of the Circular which contain, among other things, their advice, and recommendations to us regarding the terms of the Acquisition and the principal factors and reasons taken into consideration for its advice and recommendations.

* *For identification only*

RECOMMENDATION

Having taken into account the advice and recommendations of Taifook and the principal factors and reasons taken into consideration by them in arriving at their opinion, we consider that the terms of the Agreement are fair and reasonable so far as the Independent Shareholders are concerned and the Acquisition is in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the SGM to approve the Acquisition and the transactions contemplated thereunder.

Yours faithfully,
For and on behalf of the
Independent Board Committee

Mr. Lawrence K. Tam	**Ms. Wong Miu Ting**	**Mr. Wong Kui Fai**
Independent non-executive Director	*Independent non-executive Director*	*Independent non-executive Director*

The following is the text of a letter of advice from Taifook in connection with the Acquisition to the Independent Board Committee and the Independent Shareholders, which has been prepared for the purpose for inclusion in this circular.

taifook
TAIFOOK CAPITAL LIMITED

25th Floor
New World Tower
16-18 Queen's Road Central
Hong Kong

26 November 2007

To the Independent Board Committee and the Independent Shareholders
Zhong Hua International Holdings Limited
Suite 2911
West Tower
Shun Tak Centre
168-200 Connaught Road Central
Central
Hong Kong

Dear Sirs,

VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION

INTRODUCTION

We refer to our appointment as the independent financial adviser to the Independent Board Committee and the Independent Shareholders with respect to the terms of the Agreement, details of which are set out in the letter from the Board (the "Letter") contained in the circular of the Company dated 26 November 2007 (the "Circular"), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

As referred to in the Letter, on 9 October 2007, the Purchaser (an indirect wholly-owned subsidiary of the Company) entered into a conditional sale and purchase agreement (as amended on 26 October 2007) with the Vendors (which are both wholly-owned by the Ho Family), pursuant to which the Vendors agreed to sell and the Purchaser agreed to acquire the entire issued share capital of the Target Company at a consideration of RMB1,814,800,000 (equivalent to approximately HK$1,880,000,000). The principal asset held by the Target Company is the entire equity interest in Guangzhou Zheng Da, which in turn holds the Guangzhou Property. The Guangzhou Property comprises three contiguous land parcels located at Yuexiu District, Guangzhou, the PRC.

The Acquisition constitutes a very substantial acquisition for the Company. As at the Latest Practicable Date, the Ho Family was interested in approximately 10.8% of the issued share capital of the Company and therefore was a substantial shareholder of the Company. As the Vendors are wholly-owned by the Ho Family and thus the associates of the substantial shareholder of the Company, the Vendors are connected persons of the Company. The Acquisition therefore also constitutes connected transaction for the Company under the Listing Rules and is therefore subject to the approval of the Independent Shareholders at the SGM, at which the votes will be taken by poll. The Ho Family and its members' respective associates will be required to abstain from voting in relation to the resolution(s) to approve, among other things, the Agreement and the transactions contemplated thereunder (including the issue of the Consideration Shares, the Convertible Bonds and the Conversion Shares) at the SGM.

The Independent Board Committee comprising all independent non-executive Directors, namely Messrs. Lawrence K. Tam, Wong Miu Ting, Ivy and Wong Kui Fai, has been established to advise the Independent Shareholders whether or not to vote in favour of the Acquisition. In our capacity as the independent financial adviser to the Independent Board Committee and the Independent Shareholders, our role is to provide the Independent Board Committee and the Independent Shareholders with an independent opinion and recommendation as to whether the terms of the Agreement are fair and reasonable so far as the Independent Shareholders are concerned and whether the entering into of the Agreement is in the interests of the Company and the Independent Shareholders as a whole.

BASIS OF OUR OPINION

In formulating our recommendation, we have relied on the information, financial information and facts supplied to us and representations expressed by the Directors and/or management of the Company and have assumed that all such information, financial information and facts and any representations made to us, or referred to in the Circular, in all material aspects, are true, accurate and complete as at the time they were made and as at the date of the Circular, has been properly extracted from the relevant underlying accounting records (in the case of financial information) and made after due and careful inquiry by the Company and/or the management of the Company. The Directors and/or the management of the Company have confirmed that, having made all reasonable enquiries and to the best of their knowledge and belief, all relevant information has been supplied to us and that no material facts have been omitted from the information supplied and representations expressed to us. We have also relied on certain information available to the public and have assumed such information to be accurate and reliable. We have no reason to doubt the completeness, truth or accuracy of the information and facts provided and we are not aware of any facts or circumstances which would render such information provided and representations made to us untrue, inaccurate or misleading.

We considered we have reviewed sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent verification of the information nor have we conducted any form of in-depth investigation into the businesses, affairs, financial position or prospects of the Group or that of Target Company.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the terms of the Acquisition, we have considered the following principal factors and reasons:

1 The Acquisition

1.1 Background to and reasons for the Acquisition

The Group is principally engaged in property investment and the leasing of point-of-sale ("POS") equipment in the PRC. The Company currently holds a property investment in Gang Yu Square, Chongqing, the PRC for leasing of commercial units. In addition, the Group has engaged in the business of leasing corded and cordless POS equipment in Guangzhou, the PRC, since 2003. Set out below is a summary of the financial highlights for the two years ended 31 December 2006 as extracted from the Company's latest published annual report:

	For the year ended 31 December 2006			For the year ended 31 December 2005 (restated)		
	Property investment	Leasing of equipment	Total	Property investment	Leasing of equipment	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Sales	8,790	3,772	12,562	6,722	3,678	10,400
Segment results	908	(7,960)	(7,052)	5,751	(4,192)	1,559
Other revenue/ gains	–	–	–	–	–	120,500
Operating (loss)/profit before finance costs			(18,222)			103,174
Net (loss)/profit for the year from continuing operations			(20,812)			65,917
Net loss for the year from a operation discontinued in 2006 *(Note)*			(124,949)			(79,677)
Net loss for the year attributable to equity holders of the Company			(145,761)			(13,771)

Note: The operation discontinued in 2006 was the provision of integrated telecommunication network services to online game developers and other broadband media providers.

As shown from the above, the Group has been making loss in recent years, mainly derived from the leasing of POS equipment and the provision of integrated telecommunication network services (the "Telecommunication Network Services") to online game developers and other broadband media providers via its operating subsidiary. As stated in the Company's annual report for the year ended 31 December 2006, due to cut-throat competition in the dynamic online business market in Guangzhou, it was difficult for the providers of the Telecommunication Network Services to secure a steady profit margin unless new and attractive online games and/or related broadband media products kept emerging from the market to drum up demand for such services. In consideration of the foregoing and with a view to focusing its resources on other more promising business opportunities, the Group liquidated the investment in Telecommunication Network Services in December 2006. As stated in the Company's interim report for the six months ended 30 June 2007, the Group would continue to explore business opportunities for other value added services adhered to its POS equipment leasing business.

For the business of property investment, the rental income generated from leasing of commercial units continued to grow in recent years. As stated in the Company's interim report for the six months ended 30 June 2007, the occupancy rate of the Group's commercial podium remained satisfactory and it is expected that the business will continue to generate a steady stream of income to the Group. Given the business and financial performance of the Group in recent years, the Directors considered, as stated in the Company's interim report for the six months ended 30 June 2007, that they should capitalize on the Group's extensive experience in property development and investment in the PRC and connection in this area for the Group's future business development.

1.2 Information of the Target Group

1.2.1 Background

The Acquisition involves the transfer by the Vendors to the Purchaser of the entire issued share capital of the Target Company, the principal asset of which is the entire equity interest in Guangzhou Zheng Da, a Sino-foreign joint venture established in the PRC with limited liability. Guangzhou Zheng Da is principally engaged in the investment, development, sales and rental of properties and has no other major assets save for its entire interest in the Guangzhou Property. The Guangzhou Property comprises three contiguous land parcels located at Yuexiu District, Guangzhou, the PRC, with a total site area of approximately 16,772.77 sq.m.. As stated in the Letter, Guangzhou Zheng Da has been granted land-use rights with the terms of 40 years (to be expired in 2039) for commercial, tourism and entertainment uses and 50 years (to be expired in 2049) for other uses.

The Guangzhou Property is located at a prime commercial site area and is considered to be one of good developed commercial areas in Guangzhou, the capital city in Guangdong Province. The Vendors represented to the Purchaser that all required permits and development approvals are or will be in place for the Guangzhou Property upon Completion, failing which the Vendors would indemnify to the Purchaser and the Company from and against all land premium unpaid. As referred to in the Letter, part of the Guangzhou Property is currently used as open car park whereas the remaining part is occupied by a two-storey non-permanent commercial building mainly occupied by tenants conducting footwear wholesale business and an old commercial building.

The proposed development to be erected on the Guangzhou Property after the completion of the First Tranche will be divided into two phases, the first phase of which will be a 22-storey composite building for shopping arcade and commercial office. The new shopping arcade will be specialized in footwear wholesale business and the existing tenants of the two-storey non-permanent commercial building will be invited to move into it. The total investment amount of the phase one development is expected to be approximately RMB650 million (which shall be financed by bank borrowing) and the construction is expected to commence in early 2008 and complete in 2010. The construction of the second phase development will commence after the completion of phase one building. The existing two-storey non-permanent commercial building will be demolished and redeveloped as another composite building for shopping arcade and commercial office with ancillary facilities such as carpark and loading area whereas another old commercial building will be demolished and development as road and greenery space. The expected total investment cost of the second phase development is approximately RMB600 million (which shall be financed by bank borrowing) and the construction is expected to be completed in 2012.

In accordance with the valuation report as set out in Appendix IV to the Circular, the current market value of the Guangzhou Property in its existing state as at 31 August 2007 was estimated at RMB2,600,000,000 (equivalent to approximately HK$2,693,600,000).

1.2.2 Financial highlights

Set out below is the audited financial information of the Target Group for the two financial years ended 31 December 2005 and 2006 and the six months ended 30 June 2007 as extracted from its accountant's report as set out in Appendix II to the Circular.

	For the six months ended 30 June 2007 *HK$'million*	**For the year ended 31 December 2006** *HK$'million*	**For the year ended 31 December 2005** *HK$'million*
Turnover	1.1	2.2	1.5
Profit before taxation	864.4	658.2	372.0
Profit for the period/year	753.2	442.0	248.5
Net assets value	1,775.9	980.7	510.6

The consolidated net profit of the Target Group for the two financial years ended 31 December 2005 and 2006 and the six months ended 30 June 2007 mainly represented the revaluation surplus of the Guangzhou Property.

As at the Latest Practicable Date, the Guangzhou Property was the principal asset of the Target Group. In accordance with the latest development plan of the Company, the first phase development of the Guangzhou Property is expected to commence in 2008 and complete in 2010, which is expected to have positive contribution to the Group's revenue from 2011 onwards.

1.3 Business prospects of the Enlarged Group

1.3.1 Retail property market in Guangzhou

According to the China Statistical Yearbook 2007 issued by National Bureau of Statistics of China, the PRC's gross domestic products ("GDP") increased from approximately RMB7,897.3 billion in 1997 to approximately RMB21,087.1 billion in 2006, representing a compound annual growth rate ("CAGR") of approximately 10.3%, which signified the rapid growth of the PRC economy. Based on the statistics published on the website of Statistics Bureau of Guangzhou Municipality, the GDP of Guangzhou increased from approximately RMB167.8 billion in 1997 to approximately RMB606.8 billion in 2006, representing a CAGR of approximately 13.7%, which exceeded the national growth rate for the same period. Furthermore, the annual disposable income of Guangzhou's urban residents per capita increased from approximately RMB10,445 in 1997 to approximately RMB19,851 in 2006, representing a CAGR of approximately 6.6%. The sustained rapid growth of Guangzhou's economy and increase in annual disposable income of Guangzhou's urban residents per capita will lead to continuous growth in retail sales of consumer goods as a result of rapid growth in income levels and burgeoning middle-class, which is evidenced by an increase in total retail sales of consumer goods in Guangzhou from approximately RMB80.3 billion in 1997 to approximately RMB218.3 billion in 2006, representing a CAGR of approximately 10.5%. Coupled with the liberalisation of the PRC retail sector accelerated by the relaxation of restrictions on foreign retailers entering the PRC after the accession of the PRC into the World Trade Organisation since 2000, the demand for high quality retail space in prime location in Guangzhou has been stimulated and the Directors believe that the shopping arcade to be developed in the Guangzhou Property will be welcomed by potential investors or tenants.

1.3.2 Office property market in Guangzhou

In accordance with the statistics published on the website of Statistics Bureau of Guangzhou Municipality, the total number of enterprises in Guangzhou increased from 226,016 in 2000 to 285,557 in 2005, presenting a CAGR of approximately 4.8%. Since the PRC's accession into the World Trade Organisation in 2000, foreign investors are allowed to participate in more business sectors in the PRC, which is evidenced by an increase in the number of wholly foreign funded enterprises in Guangzhou from 2,620 in 2000 to 4,964 in 2005, representing a CAGR of approximately 13.6%. Coupled with strong economic growth in Guangzhou as stated above, the Directors anticipate that more investors (both local and foreign) will be attracted to Guangzhou to pursue investment opportunities which leads to the demand for offices and shopping arcades in Guangzhou.

The Directors consider that the re-development plan of the Guangzhou Property is a prime property development project in the PRC in terms of its prime location, and it is generally expected that the property market in the PRC will continue to grow in coming years. The Directors believe the Guangzhou Property development project will deliver attractive return, both in terms of capital gain and future recurring income from the rental of commercial units and property sales, to the Group in the medium to long term spectrum. The strengthening of the Group's position in property development and investment in the PRC after the Acquisition would, in the opinion of the Directors, further enhance the expansion of the business of the Group. Looking ahead, the Directors are optimistic about the development potentials and prospects of the PRC property market, and believe that the Acquisition will enable the Group to diversify its property investment portfolio in the PRC. Based on the statistics set out above, we concur with the view of the Directors on the business prospects of the Enlarged Group.

In view that (i) the Acquisition is in line with the Company's business development strategy to strengthen its position in property development and investment in the PRC; (ii) the Group's management can leverage on its extensive experience in property development and investment in the PRC and connection in this area; and (iii) persistent growth in Guangzhou's commercial property market can be derived from the strong economic growth in Guangzhou and PRC's accession into the World Trade Organisation since 2000, we are of the view that the Acquisition represents a rational business opportunity of the Group to diversify its property investment portfolio in the PRC and is beneficial to the Group and the Shareholders as a whole.

2 Principal terms of the Agreement

2.1 Consideration for the Acquisition and the adjustment mechanism

The aggregate Consideration of RMB1,814,800,000 (equivalent to approximately HK$1,880,000,000) payable by the Company to the Vendors was arrived at after arm's length negotiation between the Vendors and the Company with reference to the unaudited consolidated net assets value of the Target Company taking into account the valuation by Vigers of the Guangzhou Property. Pursuant to the terms of the Agreement, in the event that the audited consolidated net assets value of the Target Group as at 30 June 2007 (adjusted for the valuation by Vigers of the Guangzhou Property as at 31 August 2007) is not exactly RMB1,814.8 million, the Consideration is to be adjusted on a dollar-for-dollar basis. In the event of a shortfall, there will be reduction in the cash portion of the

Consideration for each of the First Tranche, the Second Tranche, the Third Tranche and the Fourth Tranche by a percentage equal to the percentage that Sale Shares which are the subject of the relevant Tranche as divided by the total Sale Shares. As stated in the accountant's report of the Target Company as at 30 June 2007 as set out in Appendix II to the Circular, the audited consolidated net assets value of the Target Group was approximately HK$1,775.9 million (which was prepared based on the fair value of the Guangzhou Property as at 30 June 2007 of RMB2,480,000,000). As set out in Appendix IV to this Circular, the valuation of the Guangzhou Property as at 31 August 2007 was RMB2,600,000,000 as estimated by Vigers. Based on the audited consolidated net asset value of the Target Group as at 30 June 2007 and adjusted for the valuation of the Guangzhou Property as at 31 August 2007, there will be no adjustment to the Consideration.

In view that there is a mechanism to adjust the Consideration if the Consideration is greater than the audited consolidated net assets value of the Target Group as at 30 June 2007 and adjusted for the valuation by Vigers of the Guangzhou Property as at 31 August 2007, we consider that the Consideration and adjustment mechanism to the Consideration are fair and reasonable and are in the interests of Company and the Independent Shareholders as a whole.

2.2 Settlement method of the Consideration

As set out in the Letter, the Acquisition is expected to be completed in four tranches. The consideration for the First Tranche is RMB453,700,000 (equivalent to approximately HK$470,000,000) which is to be satisfied at the completion of the First Tranche as follows:

(i) by the issue of 243,800,000 Consideration Shares to the Vendors (or their designated nominee) at an issue price of HK$0.25 per Consideration Share;

(ii) by the procurement of the issue of a Convertible Bond or Convertible Bonds in the principal amount of HK$84,000,000 to the Vendors (or their designated nominee);

(iii) a promissory note or notes issued by the Company to the Vendors for HK$100,000,000 in aggregate (or the equivalent amount in RMB) in an agreed form; and

(iv) the balance (equivalent to approximately HK$255,050,000) to be settled in cash.

The consideration for the Second Tranche shall be RMB471,848,000 (or equivalent to approximately HK$488,800,000) which shall be satisfied at the completion of the Second Tranche as follows:

(i) the issuance of the Convertible Bond(s) in the aggregate principal amount of HK$244,440,000; and

(ii) the balance to be settled by way of cash and/or promissory notes in an agreed form.

The consideration for the Third Tranche shall be RMB435,552,000 (or equivalent to approximately HK$451,200,000) which shall be satisfied at the completion of Third Tranche as follows:

(i) the issuance of the Convertible Bond(s) in the aggregate principal amount of HK$225,680,000; and

(ii) the balance to be settled by way of cash and/or promissory notes in an agreed form.

The consideration for the Fourth Tranche shall be RMB453,700,000 (or equivalent to approximately HK$470,000,000) which shall be satisfied at the completion of Fourth Tranche as follows:

(i) the issuance of the Convertible Bond(s) in the aggregate principal amount of HK$235,200,000; and

(ii) the balance to be settled by way of cash and/or promissory notes in an agreed form.

2.2.1 Consideration Shares

As set out in the Letter, 243,800,000 Consideration Shares will be issued by the Company to the Vendors (or their designated nominee) at an issue price of HK$0.25 per Consideration Share to settle the consideration for the First Tranche of HK$60.95 million.

The issue price of the Consideration Shares was negotiated on an arm's length basis between the Company and the Vendors with reference to the prevailing market prices of the Shares. The Consideration Shares represent approximately 26.5% of the Shares in issue as at the Latest Practicable Date and 20.9% of the issued Shares as enlarged by the issue of Consideration Shares. There is no restriction on dealing with the Consideration Shares.

The issue price of the Consideration Shares of HK$0.25 represents:

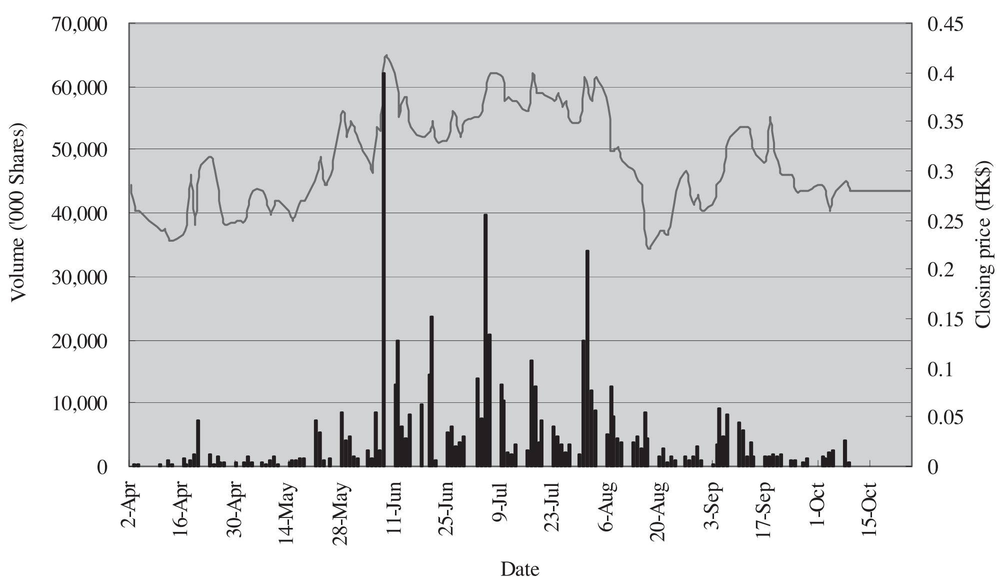
	Share price	Premium/ (discount) of the issue price of the Consideration Shares over/(to) the Share price
	HK$	*%*
As at the Latest Practicable Date	0.39	(35.9)
As at the last full trading day prior to the suspension of the trading in the Shares pending the release of the Announcement (the "Last Trading Day"	0.28	(10.7)
Five-day average up to and including the Last Trading Day	0.28	(10.7)
Thirty-day average up to and including the Last Trading Day	0.30	(16.6)
The unaudited consolidated net assets value per Share of approximately HK$0.59 as at 30 June 2007 (the "Latest NAV per Share") *(Note)*		(57.6)

Note: based on 775,241,300 Shares in issue as at the date of the Announcement

Although the issue price of the Consideration Shares is at a discount of approximately 57.6% to the Latest NAV per Share of approximately HK$0.59, we consider that, the relevant share price performance is, in general, a key determining factor when considering the issue price for new shares (including consideration shares). As such, in assessing the fairness and reasonableness of the Issue Price, we have considered the following principal factors and reasons:

Share price performance

The chart below shows the closing prices and the trading volume of the Shares on the Stock Exchange from 2 April 2007 up to the Last Trading Day (the "Review Period"):



During the Review Period, the Shares were trading between HK$0.22 and approximately HK$0.42. The average daily number of the Shares traded per month, and the respective percentage of the Shares' monthly trading volume as compared to (i) the total number of issued Shares held by the public as at the Last Trading Day; and (ii) the total number of issued Shares as at the Last Trading Day during the Review Period are tabulated as below:

Month	**Average daily trading volume (the "Average Volume")** *Shares*	**% of average volume to total number of issued Shares held by the public as at the Last Trading Day** *(Note 1)* %	**% of average volume to total number of issued Shares as at the Last Trading Day** *(Note 2)* %
April 2007	1,089,027	0.18	0.14
May 2007	2,150,877	0.36	0.28
June 2007	10,098,981	1.70	1.30
July 2007	9,391,847	1.58	1.21
August 2007	5,602,216	0.94	0.72
September 2007	3,037,419	0.51	0.39
October 2007	2,015,000	0.34	0.26

Source: the website of Stock Exchange

Notes:

1. Based on 595,041,300 Shares in public hands as at the Last Trading Day.

2. Based on 775,241,300 Shares in issue as at the Last Trading Day.

We noted from the above table that trading in the Shares was relatively thin during the Review Period, with ranges of approximately 0.18% to approximately 1.70% and approximately 0.14% to approximately 1.30% of the total number of issued Shares held by the public as at the Last Trading Day and the total number of issued Shares as at the Last Trading Day respectively. Since trading in the Shares had been inactive historically, we consider that the historical price of the Shares may not serve as a good benchmark to determine the fairness and reasonableness of the issue price of the Consideration Shares.

Comparison with other issues of consideration shares

In order to assess the fair and reasonableness of the issue price of the Consideration Shares, we have identified and reviewed for acquisition transactions involving the issue of the consideration shares by the companies listed on main board of the Stock Exchange from 1 September 2007 to the date of the Agreement. To the best of our knowledge and as far as we are aware of, we found fourteen companies which met these criteria (the "CS Comparables"). The table below summarises our relevant findings:

Name of company	Date of announcement	Relevant consideration	Premium/(discount) of the issue price of the consideration shares over/to the closing price of the shares at the last trading day	Premium/(discount) of the issue price of the consideration shares over/to the average closing price of the shares for the last 5 trading days up to and including the last trading day	Premium/(discount) of the issue price of the consideration shares over/to the average closing price of the shares for the last 10 trading days up to and including the last trading day
		HK$'million	%	%	%
Kiu Hung International Holdings Ltd.	4-Sep-07	420.0	(44.9)	(48.1)	(50.7)
Shougang Concord Technology Holdings Ltd.	5-Sep-07	102.0	(23.6)	(11.2)	0
Dore Holdings Ltd.	10-Sep-07	304.8	0	9.4	(6.8)
Chi Cheung Investment Company Ltd.	11-Sep-07	469.7	(10.1)	(12.8)	(9.5)
Sino Union Petroleum & Chemical International Ltd.	12-Sep-07	200.0	6.7	5.4	4.6
Henry Group Holdings Limited	14-Sep-07	132.4	0	(5.9)	1.3
Regent Pacific Group Ltd.	14-Sep-07	1,238.0	(11.6)	(4.0)	1.9
Fintronics Holdings Company Ltd.	18-Sep-07	23.1	20.5	19.6	17.8
Shanghai Allied Cement Ltd.	18-Sep-07	530.0	(76.7)	(75.0)	(73.4)
China Motion Telecom International Ltd	19-Sep-07	249.2	(54.5)	(49.0)	(43.5)
China Fair Land Holdings Ltd	2-Oct-07	57.1	(45.1)	(34.4)	(24.0)
China Renji Medical Group Ltd.	2-Oct-07	37.5	53.4	50.4	45.4
Capital Estate Ltd.	8-Oct-07	78.8	(26.0)	(20.1)	(20.9)
Chitaly Holdings Ltd.	9-Oct-07	18.0	(4.5)	(4.3)	(11.8)
Maximum			53.4	50.4	45.4
Minimum			(76.7)	(75.0)	(73.4)
Average			(15.5)	(12.9)	(12.1)
The Company	26-Oct-07	61.0	(10.7)	(10.7)	(10.7)

Source: the website of the Stock Exchange

With reference to the above table, all of the discount of the issue price of the Consideration Shares to the closing price of the Shares as at the Last Trading Day, to the average closing price of the Shares for the last 5 trading days up to and including the Last Trading Day, and to the average closing price of the Shares for the last 10 trading days up to and including the Last Trading Day of approximately 10.7% is less than the average discount of the CS Comparables of approximately 15.5%, 12.9%, and 12.1% respectively. Hence, we are of the view that the issue price of the Consideration Shares is fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

2.2.2 Convertible Bonds

As set out in the Letter, Convertible Bonds of aggregate principal amount of HK$84 million, HK$244.44 million, HK$225.68 million and HK$235.2 million will be issued by the Company to the Vendors to settle the consideration for the First Tranche, the Second Tranche, the Third Tranche and the Fourth Tranche respectively at respective completion date of each tranche, totalling HK$789.32 million.

Upon full conversion of the Convertible Bonds of principal amount of HK$789.32 million at the initial Conversion Price of HK$0.28 per Share, a total of 2,819,000,000 Conversion Shares will be issued, representing approximately 306.3% of the issued share capital of the Company as at the Latest Practicable Date and approximately 75.4% of the issued shares of the Company as enlarged by the issue of Conversion Shares. Under the terms of the Convertible Bonds, the Bondholders are restricted to exercise the conversion right attaching to the Convertible Bond to the extent that no Bondholder together with parties acting in concert with it (as defined under the Takeovers Code) will beneficially hold 30% (or such percentage as may from time to time be specified in the Takeovers Code as being the level for triggering a mandatory general offer) or more of the then enlarged issued share capital of the Company immediately upon conversion of the Convertible Bond.

The initial Conversion Price of HK$0.28 per Share represents:

	Share price	**Premium/ (discount) of the initial Conversion Price over/(to) the Share price**
	HK$	*%*
As at the Latest Practicable Date	0.39	(28.2)
As at the Last Trading Day	0.28	0
Five-day average up to and including the Last Trading Day	0.28	0
Thirty-day average up to and including the Last Trading Day	0.30	(6.7)
The Latest NAV per Share		(52.5)

Share price performance

As detailed in the paragraph headed "Share price performance" under section headed "2.2.1 Consideration Shares", since trading in the Shares had been inactive historically, the historical price of the Shares may not serve as a good benchmark to determine the fairness and reasonableness of the initial Conversion Price of the Convertible Bond.

Comparison with other issues of convertible bond

To assess and compare the terms of the Convertible Bond, we have identified and reviewed for transactions that involved the issue of convertible bond by the companies listed on main board of the Stock Exchange from 1 September 2007 to the date of the Agreement. To the best of our knowledge and as far as we are aware of, we found eleven companies which met these criteria (the "CB Comparables"). The table below summarises our relevant findings:

Name of company	Date of announcement	Principal amount	Maturity	Coupon rate	Premium/ (discount) of the initial conversion price over/to the closing price of the shares at the last trading day	Premium/ (discount) of the initial conversion price over/to the average closing price of the shares for the last 5 trading days up to and including the last trading day	Premium/ (discount) of the initial conversion price over/to the average closing price of the shares for the last 10 trading days up to and including the last trading day
		HK$'million	*years*	*%*	*%*	*%*	*%*
Kiu Hung International Holdings Ltd.	4-Sep-07	260.0	2	0	(44.9)	(48.1)	(50.7)
ITC Corporation Ltd.	5-Sep-07	200.0	2	5.0	8.7	9.0	9.6
Dore Holdings Ltd.	10-Sep-07	522.0	10	5.0	20.8	32.1	28.9
Chi Cheung Investment Company Ltd.	11-Sep-07	18,500.0	3	0.5	(10.1)	(12.8)	(9.5)
Henry Group Holdings Ltd.	14-Sep-07	42.6	5	1.7	0	(5.9)	1.3
Fintronics Holdings Company Ltd.	18-Sep-07	50.0	2	0	56.6	55.5	53.1
China Motion Telecom International Ltd.	19-Sep-07	1,898.7	5	1.5	(54.5)	(49.0)	(43.5)
China Fair Land Holdings Ltd.	2-Oct-07	2,701.7	10	0	(45.1)	(34.4)	(24.0)

Name of company	Date of announcement	Principal amount	Maturity	Coupon rate	Premium/ (discount) of the initial conversion price over/to the closing price of the shares at the last trading day	Premium/ (discount) of the initial conversion price over/to the average closing price of the shares for the last 5 trading days up to and including the last trading day	Premium/ (discount) of the initial conversion price over/to the average closing price of the shares for the last 10 trading days up to and including the last trading day
		HK$'million	*years*	*%*	*%*	*%*	*%*
China Golden Development Holdings Ltd.	5-Oct-07	1,231.6	5	2.8	(31.1)	(31.8)	(21.7)
Nam Tai Electronic & Electrical Products Ltd.	8-Oct-07	2,429.2	5	2.5	4.7	3.6	3.5
Golden Resources Development International Ltd.	8-Oct-07	85.5	3	4.0	(1.1)	16.6	15.5
Maximum			10	5.0	56.6	55.5	53.1
Minimum			2	0	(54.5)	(49.0)	(50.7)
Average			4.7	2.1	(8.7)	(5.9)	(3.4)
The Company	26-Oct-07	789.3	2	0	0	0	0

Source: the website of the Stock Exchange

With reference to the above table, the zero premium/discount of the initial Conversion Price over/to the closing price of the Shares as at the Last Trading Day, the average closing price of the Shares for the last 5 trading days up to and including the Last Trading Day and the average closing price of the Shares for the last 10 trading days up to and including the Last Trading Day falls within the range of those of the CB Comparables and is more favorable than those of the average of the CB Comparables (which were at a discount). In addition, the CB Comparables carried an annual coupon rate of 0% to 5% with an average of 2.1%. The zero coupon rate of the Convertible Bond was hence at minimum of the market range of the CB Comparables and the current effective borrowing rate of the Group for secured borrowings as detailed below in the paragraph headed "Promissory Note", which can lower the financial cost of borrowing of the Group. We are therefore of the view that the initial Conversion Price and the coupon rate of the Convertible Bond are in the interests of the Company and the Independent Shareholders as a whole.

Dilution of Independent Shareholders' shareholdings

Upon issuance of the Consideration Shares at Completion, a total of 243,800,000 new Shares will be issued, representing approximately 26.5% of the Shares in issue as at the Latest Practicable Date and approximately 20.9% of the issued Shares as enlarged by the issuance of such new Consideration Shares. The shareholding of the Independent Shareholders will be diluted from approximately 89.2% to approximately 70.6%. Upon full conversion of the Convertible Bonds at initial Conversion Price of HK$0.28 per Share, a total of 2,819,000,000 Conversion Shares will be issued, representing approximately 306.3% of the Shares in issue as at the Latest Practicable Date and approximately 70.8% of the issued Shares as enlarged by the issue of the Consideration Shares and the Conversion Shares. The shareholding of the Independent Shares will then be further diluted from approximately 70.6% to approximately 20.6%.

Shareholders should note that dilution effect on the shareholding is inevitable if the Convertible Bonds are converted. However, a similar level of dilution would also be faced with if more Consideration Shares are issued. Having considered the Group had cash and cash equivalent balance of approximately HK$191.1 million as at 30 June 2007, which together with the net proceeds received from the placings subsequent to 30 June 2007 of approximately HK$71.8 million will not be sufficient to settle the aggregate Consideration of RMB1,814.8 million, we considered the issue of Convertible Bonds which bear zero interest is one of the best alternative in settling part of the Consideration and is in the interest of the Company and the Shareholders. In addition, in view that (i) the discount of issue price of the Consideration Shares and the zero discount/premium of the initial Conversion Price of the Convertible Bonds to/over the closing price of the Shares as at the Last Trading Day are within the market range of the CS Comparables and the CB Comparables respectively; (ii) the issue of the Consideration Shares and the Convertible Bonds will enable the Group to preserve its working capital position following Completion; (iii) the issue of the Consideration Shares and zero coupon Convertible Bonds will help alleviate the financial burden to the Group, we consider the potential dilution on the shareholding of the Independent Shareholders to be acceptable so far as the Independent Shareholders are concerned.

2.2.3 Promissory Note

The promissory notes of HK$100 million will be issued by the Company to the Vendors or their nominee(s) at completion of the First Tranche (and if applicable, in the aggregate amount of approximately HK$244.36 million for the Second Tranche, approximately HK$225.52 million for the Third Tranche and approximately HK$234.8 million for the Fourth Tranche) as part of the Consideration.

As advised by the Directors, the Group has no unsecured borrowing and the current effective borrowing rate of the Group for secured borrowings is approximately 8.25%. Since the coupon rate of 4% of the promissory notes falls below the existing borrowing cost of the Group, we consider that the partial settlement of the Consideration in the form of promissory notes is fair and reasonable so far as the Company and Independent Shareholders are concerned as a whole.

2.3 Completion

As set out in the Letter, subject to the fulfillment or waiver of the conditions precedent to the Agreement, completion of the four tranches of the Acquisition is expected to take place as below:

Tranches	**Interests of the Target Company acquired**	**Interests of the Target Company held by the Group immediately following completion of each tranche**	**Expected completion date of each tranche**
First Tranche	25%	25%	31 December 2007
Second Tranche	26%	51%	31 May 2008
Third Tranche	24%	75%	31 October 2008
Fourth Tranche	25%	100%	31 March 2009

Completion of the sale and purchase of any portion of the Second Tranche, the Third Tranche and the Fourth Tranche are conditional upon completion of the sale and purchase of the First Tranche, which is expected to take place no later than 31 December 2007. If the completion of the sale and purchase of the First Tranche does not take place by 31 December 2007, the Agreement shall lapse and the Purchaser shall have no liabilities. If the completion of the sale and purchase of the First Tranche takes places by 31 December 2007 but the entire Agreement (meaning any of the Second Tranche, the Third Tranche or the Fourth Tranche) does not complete by 31 March 2009, save for the completed portion of any tranches, the Agreement shall also lapse therefrom and the Purchaser shall have no liabilities save for its deferred interest payment obligations. The Purchaser is obliged to complete the relevant Tranche on or before the aforesaid completion date. In the event that the Purchaser fails to complete any part of the Tranche on or before the relevant completion date, the Purchaser obliges to pay to the vendors the deferred interest payment. The deferred interest payment is calculated at the rate of 4% p.a. on the relevant Consideration based on the period from the relevant completion date of each tranche as mentioned above and ending on and excluding the day when the relevant Consideration is settled by the Purchaser or 31 March 2009, whichever is earlier. Based on the above, the deferred interest payment would in fact apply to the Second Tranche and the Third

Tranche only should any portion of these two tranches are not completed by their relevant completion dates. As confirmed with the Company, the maximum exposure of the deferred interest payment to the Purchaser is approximately HK$23.8 million, representing approximately 1.3% of the total Consideration, which we consider acceptable as the Company in return was granted a longer period for full settlement of the Consideration.

3 Financial effects of the Acquisition on the Group

The following illustrates the effect on net tangible assets value, earnings and cash position of the Group as a result of the Acquisition assuming that there will not be any changes to the total issued share capital of the Company as at the Latest Practicable Date.

3.1 Net tangible assets value

The Group had an unaudited consolidated net tangible assets value attributable to the equity shareholders of the Company of approximately HK$454.3 million as at 30 June 2007, representing a consolidated net tangible assets attributable to the equity shareholders of the Company per Share of approximately HK$0.74 based on the number of the Shares in issue of 613,241,300 Shares as at 30 June 2007. Based on the unaudited pro forma financial information of the Enlarged Group as set out in Appendix III to the Circular, assuming the Acquisition had taken place on 30 June 2007, the Group's net tangible assets value attributable to the equity shareholders of the Company would be increased by approximately HK$255.5 million, mainly as a result of the settlement of approximately HK$61.0 million of the Consideration by way of issue of 243,800,000 Consideration Shares at an issue price of HK$0.25 per Consideration Share by the Company to the Vendors, the recognition of approximately HK$158.3 million as equity portion of the Convertible Bonds issued to settle HK$789.32 million of the Consideration and the placing of 145 million Shares at the Placing price of 0.25 per Placing Share to partially finance for approximately HK$36.1 million of the cash portion of the First Tranche of the Consideration. Based on 145 million Shares were issued as a result of completion of the Placing on 21 November 2007 and assuming 243.8 million Consideration Shares are issued and the Convertible Bonds have not been converted, the total number of Shares in issue would be 1,164,041,300 Shares and the consolidated net tangible assets attributable to the equity shareholders of the Company per Share would be decreased to HK$0.61. In view that the issue of the Consideration Shares and the Convertible Bonds will not exert immediate pressure on cashflow of the Company, their terms are within the range of the market comparables as discussed above and the Acquisition will enable the Group to expand its property investment portfolio which help generate attractive return to the Group in terms of potential capital gain and future recurring income, we consider the slight decrease of the consolidated net tangible assets attributable to the equity shareholders of the Company per Share is acceptable so far as the Company and the Independent Shareholders are concerned.

3.2 Earnings

The Group had an audited consolidated net loss after taxation for the year ended 31 December 2006 of approximately HK$145.8 million. Based on the unaudited pro forma financial information of the Enlarged Group as set out in Appendix III to the Circular, assuming the Acquisition had taken place on 1 January 2006, the results of the Group would be improved to a net profit of approximately HK$209.9 million which would mainly be derived from the revaluation surplus of the Guangzhou Property offset with the recognition of nominal interest expense of the Convertible Bonds and the 4% coupon expenses of the promissory notes as a result of the Acquisition. Shareholders should note that, for the years onwards, the nominal interest expenses of the Convertible Bonds and the 4% coupon expenses of the promissory notes will continuously be incurred by the Group until full conversion or redemption of the Convertible Bonds and the full repayment of the promissory notes. In accordance with the latest development plan of the Company, the first phase development of the Guangzhou Property is expected to commence in 2008 and complete in 2010, which is therefore expected to have positive contribution to the Group's revenue since 2011 and the second phase development will commence after the completion of the first phase development and is expected to be completed in 2012. We concur with the Directors' view that the Acquisition would provide an opportunity to build up a recurring income base from the rental of commercial units and property sales after completion of the redevelopment, which is in the interests of the Company and the Independent Shareholders as a whole.

3.3 Cashflow

The cash portion of the consideration for the First Tranche of HK$225,050,000 will be satisfied from the internal resources of the Group and the proceeds from the Placing. The cash portion of the consideration for the Second Tranche, the Third Tranche and the Fourth Tranche is expected to be satisfied from the proceeds of further equity and/or debt fund raising of the Company.

As disclosed in its latest interim report, the Company had unaudited cash and cash equivalents balance of approximately HK$191.1 million as at 30 June 2007. Based on the unaudited cash and cash equivalents balance of approximately HK$191.1 million as at 30 June 2007 and taking into account of the total net proceeds from a placing received in July 2007 of approximately HK$35.7 million and from the Placing received in November 2007 of approximately HK$36.1 million, the settlement of the cash portion of the consideration under the First Tranche of approximately HK$225 million would not have any material impact on the Company's working capital. Moreover, as confirmed by the Board, the Company will not proceed to the completion of any portion of the Second Tranche, the Third Tranche or the Fourth Tranche if the Board expects that the Group's working capital cannot meet with the repayment obligation of the Convertible Bonds and the Promissory Notes. Based on the above, we concur with the Directors that after taking into account the existing banking facilities available, the existing internal financial resources, net proceeds from future equity and/or debt fund raising of the Company for the purpose of completing the Second Tranche, Third Tranche, and/or the Fourth Tranche, the Enlarged Group has sufficient working capital for its present requirements in the absence of unforeseeable circumstances.

3.4 Gearing

Based on the Company's latest interim report, the Group had an unaudited gearing ratio as at 30 June 2007 of approximately 22.4% (being the Group's total liabilities, excluding deferred income, of approximately HK$137.9 million over the Group's total assets of approximately HK$616.5 million). In accordance with the unaudited pro forma financial information of the Enlarged Group as set out in Appendix III to the Circular, assuming the Acquisition had taken place on 30 June 2007 and the consideration for the Second Tranche, the Third Tranche and the Fourth Tranche was settled by the issue of the Convertible Bonds and the Promissory Notes to the Vendors, the gearing ratio of the Group will be increased to 77.1% (being the Enlarged Group's total liabilities, excluding deferred income, of approximately HK$2,473.8 million over the Group's total assets of approximately HK$3,207.9 million) as a result of the Acquisition. The gearing ratio of the Group will decrease gradually from time to time during the term of the Convertible Bonds upon conversion which will reduce the Group's liabilities and in view that the Acquisition is beneficial to the long term development of the Group in terms of potential capital gain and future recurring income from the rental of commercial units and property sales and the strengthening of the asset base of the Group after the Acquisition would, in the opinion of the Directors, provide a more solid assets backing to support the expansion of the business of the Group, we consider that the increase in the gearing ratio as a result of the Acquisition is justifiable in so far as the Independent Shareholders and the Company are concerned.

RECOMMENDATION

Having considered the above principal factors and reasons in respect of the Acquisition, we are of the view that the terms of the Agreement are fair and reasonable so far as the Independent Shareholders are concerned and the Acquisition is on normal commercial terms, the business to be conducted by Target Group is in the normal and usual course of business of the Group and the entering into of the Agreement is in the interests of the Company and the Independent Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the SGM to approve the Acquisition and the transactions contemplated thereunder.

Yours faithfully,
For and on behalf of
Taifook Capital Limited

Derek C.O. Chan
Managing Director

April Chan
Executive Director

1. SUMMARY OF FINANCIAL RESULTS AND POSITION FOR THE THREE YEARS ENDED 31 DECEMBER 2006 AND FOR THE SIX MONTHS ENDED 30 JUNE 2007

Set out below is a summary of financial results of the Group for each of the year ended 31 December 2004, 2005 and 2006 and for each of the six months ended 30 June 2006 and 2007 respectively as extracted from the annual reports and interim reports of the Company for the respective periods. There is no qualification opinion issued for the three financial years ended 31 December 2004, 2005 and 2006.

	Six months ended 30 June		Year ended 31 December		
	2007	**2006**	**2006**	**2005**	**2004**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Unaudited)	*(Unaudited)*	*(Audited)*	*(Audited)*	*(Audited)* *(Note 1)*
RESULTS					
CONTINUING OPERATIONS					
Revenue	6,577	6,223	12,562	10,400	25,145
Cost of sales	(2,157)	(2,828)	(5,656)	(5,656)	(19,545)
Gross profit	4,420	3,395	6,906	4,744	5,600
Other income	2,095	1,048	1,944	1,602	1,157
Changes in fair value of investment properties	–	–	–	97,932	–
Gain on disposal of interests in subsidiaries	–	–	–	22,568	85,763
Selling and distribution costs	–	–	–	–	(12)
Administrative expenses	(7,398)	(7,109)	(16,561)	(17,672)	(9,657)
Other operating expenses, net	(1,875)	–	(10,511)	(6,000)	(33,437)
Finance costs	(1,211)	(1,218)	(2,367)	(3,167)	(4,540)
(LOSS)/PROFIT BEFORE TAX	(3,969)	(3,884)	(20,589)	100,007	44,874
Tax	(933)	(1,383)	(223)	(34,090)	(2,320)
(LOSS)/PROFIT FOR THE PERIOD/YEAR FROM CONTINUING OPERATIONS	(4,902)	(5,267)	(20,812)	65,917	42,554
DISCONTINUED OPERATION					
Loss for the period/year from a discontinued operation	–	(11,385)	(124,949)	(79,677)	–
(LOSS)/PROFIT FOR THE PERIOD/YEAR	(4,902)	(16,652)	(145,761)	(13,760)	42,554

	Six months ended 30 June		Year ended 31 December		
	2007	2006	2006	2005	2004
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Unaudited)	*(Unaudited)*	*(Audited)*	*(Audited)*	*(Audited)*
					(Note 1)
ATTRIBUTABLE TO:					
Equity holders of the Company	(4,902)	(16,652)	(145,761)	(13,771)	46,131
Minority Interest	–	–	–	11	(3,577)
	(4,902)	(16,652)	(145,761)	(13,760)	42,554
(LOSS)/PROFIT PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY					
Basic					
– For loss for the period/year	HK(0.80) cents	HK(3.21) cents	HK(26.02) cents	HK(3.10) cents	HK13.98 cents
– For (loss)/profit for the period/year from continuing operations	HK(0.80) cents	HK(1.02) cents	HK(3.71) cents	HK14.81 cents	N/A
Diluted					
– For profit for the period/year	N/A	N/A	N/A	N/A	HK13.82 cents
– For (loss)/profit for the period/year from continuing operations	N/A	N/A	N/A	HK14.39 cents	N/A

Note:

1. As the Group's business of telecommunication and other related services were disposed of in December 2006, the above presentation of the income statement for the year ended 31 December 2004 as extracted from 2004 annual report has not been revised accordingly.

	As at 30 June	As at 31 December		
	2007	2006	2005	2004
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(Unaudited)	*(Audited)*	*(Audited)*	*(Audited) (Restated)*
CONSOLIDATED BALANCE SHEETS				
NON-CURRENT ASSETS				
Property, plant and equipment	13,036	13,962	118,176	130,186
Investment properties	298,619	291,800	285,000	183,600
Intangible assets	6,169	7,861	16,490	23,303
Goodwill	–	–	79,788	84,882
Interests in jointly-controlled entities	–	–	–	–
Trade receivables	–	–	–	10,055
Prepaid rental	–	–	17,179	17,808
Deposits and other receivable	40,000	57,953	40,000	64,003
Pledged deposits	3,522	404	354	776
Total non-current assets	361,346	371,980	556,987	514,613
CURRENT ASSETS				
Trade receivables	32,660	25,954	45,954	35,689
Prepayments, deposits and other receivables	31,351	13,259	18,541	101,886
Cash and cash equivalents	191,134	178,602	133,151	106,254
Total current assets	255,145	217,815	197,646	243,829
CURRENT LIABILITIES				
Trade payables	(11,526)	(12,649)	(31,333)	(31,486)
Tax payable	(13,311)	(12,039)	(16,895)	(14,884)
Other payables and accruals	(33,767)	(17,187)	(22,773)	(17,065)
Interest-bearing bank and other borrowings	(25,532)	(5,602)	(31,762)	(50,322)
Deferred income	(18,057)	(18,057)	(18,057)	(40,625)
Convertible bond	–	–	(29,782)	–
Total current liabilities	(102,193)	(65,534)	(150,602)	(154,382)
NET CURRENT ASSETS	152,952	152,281	47,044	89,447
TOTAL ASSETS LESS CURRENT LIABILITIES	514,298	524,261	604,031	604,060
NON-CURRENT LIABILITIES				
Interest-bearing bank and other borrowings	(1,824)	(19,941)	(22,893)	(27,601)
Convertible bond	–	–	–	(29,426)
Deferred tax liabilities	(51,969)	(51,430)	(55,093)	(22,502)
Total non-current liabilities	(53,793)	(71,371)	(77,986)	(79,529)
Net assets	460,505	452,890	526,045	524,531
CAPITAL AND RESERVES				
Equity attributable to equity holders of the Company				
Issued capital	122,648	122,648	98,048	78,388
Reserves	337,857	330,242	427,997	430,060
Minority interests	–	–	–	16,083
Total equity	460,505	452,890	526,045	524,531

2. SUMMARY OF AUDITED FINANCIAL STATEMENTS

Set out below are the latest published unaudited consolidated financial statements of the Group for the six months ended 30 June 2007 and audited consolidated financial statements of the Group for the year ended 31 December 2006, together with the accompanying notes relating thereto and the comparative figures for the six months ended 30 June 2006 and the year ended 31 December 2005 as extracted from the interim report of the Company for the six months ended 30 June 2007 and the annual report of the Company for the year ended 31 December 2006.

Unaudited Interim Results
Six months ended 30 June 2007

Condensed Consolidated Income Statement

		For the six months ended 30 June	
	Notes	**2007** *HK$'000* (Unaudited)	**2006** *HK$'000* (Unaudited) (Restated)
CONTINUING OPERATIONS			
Revenue	*2*	6,577	6,223
Cost of sales		(2,157)	(2,828)
Gross profit		4,420	3,395
Other income		2,095	1,048
Administrative expenses		(7,398)	(7,109)
Other operating expenses, net		(1,875)	–
Finance costs	*3*	(1,211)	(1,218)
LOSS BEFORE TAX	*4*	(3,969)	(3,884)
Tax	*5*	(933)	(1,383)
LOSS FOR THE PERIOD FROM CONTINUING OPERATIONS		(4,902)	(5,267)
DISCONTINUED OPERATION			
Loss for the period from a discontinued operation	*2*	–	(11,385)
LOSS FOR THE PERIOD		(4,902)	(16,652)
ATTRIBUTABLE TO:			
Equity holders of the Company		(4,902)	(16,652)
Minority Interests		–	–
		(4,902)	(16,652)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	*7*		
Basic			
– For loss for the period		HK(0.80) cents	HK(3.21) cents
– For loss for the period from continuing operations		HK(0.80) cents	HK(1.02) cents
Diluted			
– For loss for the period		N/A	N/A
– For loss for the period from continuing operations		N/A	N/A

Condensed Consolidated Balance Sheet

	Notes	30 June 2007 HK$'000 (Unaudited)	31 December 2006 HK$'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		13,036	13,962
Investment properties		298,619	291,800
Intangible assets		6,169	7,861
Deposits and other receivable		40,000	57,953
Pledged deposits		3,522	404
Total non-current assets		361,346	371,980
CURRENT ASSETS			
Trade receivables	8	32,660	25,954
Prepayments, deposits and other receivables		31,351	13,259
Cash and cash equivalents		191,134	178,602
Total current assets		255,145	217,815
CURRENT LIABILITIES			
Trade payables	9	(11,526)	(12,649)
Tax payable		(13,311)	(12,039)
Other payables and accruals		(33,767)	(17,187)
Interest-bearing bank and other borrowings		(25,532)	(5,602)
Deferred income		(18,057)	(18,057)
Total current liabilities		(102,193)	(65,534)
NET CURRENT ASSETS		152,952	152,281
TOTAL ASSETS LESS CURRENT LIABILITIES		514,298	524,261
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings		(1,824)	(19,941)
Deferred tax liabilities		(51,969)	(51,430)
Total non-current liabilities		(53,793)	(71,371)
Net assets		460,505	452,890
CAPITAL AND RESERVES			
Equity attributable to equity holders of the Company			
Issued capital		122,648	122,648
Reserves		337,857	330,242
Total equity		460,505	452,890

Condensed Consolidated Statement of Changes in Equity

	Issued capital HK$'000 (Unaudited)	Share premium account HK$'000 (Unaudited)	Contributed surplus HK$'000 (Unaudited)	Capital reserve HK$'000 (Unaudited)	Equity component of convertible bond HK$'000 (Unaudited)	Other reserve HK$'000 (Unaudited)	Exchange fluctuation reserve HK$'000 (Unaudited)	Retained profits/ (accumulated losses) HK$'000 (Unaudited)	Total HK$'000 (Unaudited)
At 1 January 2007	122,648	350,953	80,258	118	–	–	13,756	(114,843)	452,890
Exchange adjustment on translation of financial statements of foreign entities	–	–	–	–	–	–	11,525	–	11,525
Equity-settled share option scheme	–	–	–	992	–	–	–	–	992
Loss for the period	–	–	–	–	–	–	–	(4,902)	(4,902)
At 30 June 2007 (Unaudited)	122,648	350,953	80,258	1,110	–	–	25,281	(119,745)	460,505

	Issued capital HK$'000 (Unaudited)	Share premium account HK$'000 (Unaudited)	Contributed surplus HK$'000 (Unaudited)	Capital reserve HK$'000 (Unaudited)	Equity component of convertible bond HK$'000 (Unaudited)	Other reserve HK$'000 (Unaudited)	Exchange fluctuation reserve HK$'000 (Unaudited)	Retained profits/ (accumulated losses) HK$'000 (Unaudited)	Total HK$'000 (Unaudited)
At 1 January 2006	98,048	307,164	80,258	–	707	2,280	6,670	30,918	526,045
Exchange adjustment on translation of financial statements of foreign entities	–	–	–	–	–	–	3,503	–	3,503
Issue of new shares	3,400	1,700	–	–	–	–	–	–	5,100
Conversion of the Bond	4,000	26,540	–	–	(707)	–	–	–	29,833
Shares issued upon exercise of a share option	2,000	1,800	–	–	–	–	–	–	3,800
Equity-settled share option scheme	–	–	–	1,855	–	–	–	–	1,855
Shares issued under employee share option scheme	5,800	2,118	–	(1,758)	–	–	–	–	6,160
Loss for the period	–	–	–	–	–	–	–	(16,652)	(16,652)
At 30 June 2006 (Unaudited)	113,248	339,322	80,258	97	–	2,280	10,173	14,266	559,644

Condensed Consolidated Cash Flow Statement

	For the six months ended 30 June 2007	For the six months ended 30 June 2006
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
NET CASH INFLOW FROM OPERATING ACTIVITIES	12,476	8,887
NET CASH OUTFLOW FROM INVESTING ACTIVITIES	(3,480)	(366)
NET CASH INFLOW FROM FINANCING ACTIVITIES	3,536	12,771
INCREASE IN CASH AND CASH EQUIVALENTS	12,532	21,292
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	178,602	133,151
CASH AND CASH EQUIVALENTS AT END OF PERIOD	191,134	154,443
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	191,134	154,443

1. SIGNIFICANT ACCOUNTING POLICIES

The condensed consolidated interim financial statements are prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting". The accounting policies and basis of preparation adopted in the preparation of the interim financial statements are the same as those used in the annual financial statements for the year ended 31 December 2006, except in relation to the following new and revised Hong Kong Financial Reporting Standards ("HKFRSs", which also include HKASs and Interpretations) that affect the Group and are mandatory for the accounting period beginning on or after 1 January 2007:

HKAS 1 (Amendment)	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies
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

The adoption of the above HKFRSs did not result in material impact on the accounting policies of the Group's condensed consolidated interim financial statements.

2. SEGMENT INFORMATION

The following table presents revenue and results information for the Group's business segments.

For the six months ended 30 June (Unaudited)

	Continuing operations								Discontinued operation			
	Property investment		Leasing of equipment		Corporate and others		Total		Telecommunication and other related services		Consolidated	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Segment revenue:												
Sales to external customers	4,603	4,355	1,974	1,868	–	–	6,577	6,223	–	176	6,577	6,399
Other revenue and gains	–	–	–	–	–	–	–	–	–	–	–	–
Total	4,603	4,355	1,974	1,868	–	–	6,577	6,223	–	176	6,577	6,399
Segment results	1,842	4,199	(1,343)	(2,280)	(5,352)	(5,633)	(4,853)	(3,714)	–	(10,016)	(4,853)	(13,730)
Other income							2,095	1,048	–	–	2,095	1,048
Finance costs							(1,211)	(1,218)	–	(1,369)	(1,211)	(2,587)
Loss before tax							(3,969)	(3,884)	–	(11,385)	(3,969)	(15,269)
Tax							(933)	(1,383)	–	–	(933)	(1,383)
Loss for the period							(4,902)	(5,267)	–	(11,385)	(4,902)	(16,652)

No geographical segment information is presented as over 90% of the Group's revenue is derived from customers based in the Mainland of the People's Republic of China ("Mainland China").

3. FINANCE COSTS

	For the six months ended 30 June	
	2007	**2006**
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Interest on bank loans	1,129	2,411
Interest on finance lease	82	–
Interest on convertible bond	–	176
	1,211	2,587
Attributable to continuing operations	1,211	1,218
Attributable to a discontinued operation	–	1,369
	1,211	2,587

4. LOSS BEFORE TAX

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

	For the six months ended 30 June	
	2007	**2006**
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Depreciation	1,628	7,315
Amortisation of intangible assets	2,157	2,828
Interest income	(2,050)	(1,013)
Net rental income	(4,603)	(4,355)
Write back of other receivables	–	(575)

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

5. TAX

	For the six months ended 30 June 2007 HK$'000 (Unaudited)	2006 HK$'000 (Unaudited)
Provision for the period:		
Hong Kong	–	–
Elsewhere	933	1,383
Deferred taxation	–	–
	933	1,383
Attributable to continuing operations	933	1,383
Attributable to a discontinued operation	–	–
	933	1,383

No provision for Hong Kong profits tax has been made as the Group did not generate any taxable profits in Hong Kong during the six months ended 30 June 2007 (the "Period") (2006: Nil).

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 rate of 33% (2006: 33%).

6. INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the Period (2006: Nil).

7. LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of basic loss per share for the Period is based on the loss attributable to ordinary equity holders of the Company of HK$4,902,000 (2006: HK$16,652,000) and the weighted average number of 613,241,300 (2006: 518,103,178) ordinary shares in issue during the Period.

The calculation of basic loss per share from continuing operations for the Period is based on the loss attributable to ordinary equity holders of the Company of HK$4,902,000 (2006: HK$5,267,000) and the weighted average number of 613,241,300 (2006: 518,103,178) ordinary shares in issue during the Period.

Diluted loss per share amounts for the six months ended 30 June 2006 and 2007 have not been disclosed as the share options outstanding during these periods had anti-dilutive effects on the basic loss per share for these periods.

Diluted loss per share amounts for the six months ended 30 June 2006 and 2007 from continuing operations have not been disclosed as the share options outstanding during these periods had anti-dilutive effects on the basic loss per share for these periods.

8. TRADE RECEIVABLES

The aged analysis of the trade receivables at the balance sheet date, net of provisions, is as follows:

	30 June 2007		31 December 2006	
	HK$'000	*Percentage*	*HK$'000*	*Percentage*
	(Unaudited)		(Audited)	
Within 6 months	6,554	20	10,027	39
More than 6 months but within 1 year	9,619	29	–	–
More than 1 year but within 2 years	–	–	4,195	16
More than 2 years	16,487	51	11,732	45
	32,660	100	25,954	100
Portion classified as current assets	(32,660)		(25,954)	
Non-current assets	–		–	

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

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

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

9. TRADE PAYABLES

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

	30 June 2007		31 December 2006	
	HK$'000	*Percentage*	*HK$'000*	*Percentage*
	(Unaudited)		(Audited)	
Within 6 months	31	1	37	1
More than 6 months but within 1 year	–	–	3,581	28
More than 1 year but within 2 years	2,146	19	–	–
More than 2 years but within 3 years	–	–	84	1
Over 3 years	9,349	80	8,947	70
	11,526	100	12,649	100

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

10. CONTINGENT LIABILITIES

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

	30 June 2007 HK$'000 (Unaudited)	31 December 2006 HK$'000 (Audited)
Guarantees given for mortgage loans granted by banks to certain purchasers of the Group's properties	3,939	4,039

11. PLEDGE OF ASSETS

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

12. COMMITMENTS

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 30 June 2007, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	30 June 2007 HK$'000 (Unaudited)	31 December 2006 HK$'000 (Audited)
Within one year	5,782	10,312
In the second to fifth years, inclusive	1,329	3,210
	7,111	13,522

(ii) As lessee

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

At 30 June 2007, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	30 June 2007	**31 December 006**
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Within one year	1,104	272
In the second to fifth years, inclusive	1,012	–
	2,116	272

13. LITIGATION

(a) A writ of summon was issued in August 2005 by a former director of a subsidiary of the Company (the "Former Director") against certain defendants which include, inter alia, the Company, a wholly owned subsidiary of the Company, and a director and certain accounting staff of the Company. According to the 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. Having consulted the Group's legal counsel, the directors concluded that no provision for the proceedings is required in this stage.

(b) A wholly-owned subsidiary (the "Subsidiary") of the Group received two notices issued by the court in Mainland China in 2006. 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.

14. POST BALANCE SHEET EVENTS

(a) On 4 July 2007, the Company entered into subscription agreements with two independent subscribers which had conditionally agreed to subscribe for an aggregate of 120 million shares to be issued and allotted by the Company at a subscription price of HK$0.30 per share. On 17 July 2007, the Company issued and allotted 120 million shares at HK$0.30 per share resulting in raising net proceeds of approximately HK$35.7 million, which will be utilised for business development and general working capital of the Group.

(b) On 31 August 2007, 42,000,000 share options with an exercise price of HK$0.20 per share were exercised.

15. COMPARATIVE AMOUNTS

Following the disposal of the Group's business of telecommunication and other related services in December 2006, 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.

Audited annual results
Year ended 31 December 2006

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		(5,656)	(5,656)
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	(2,367)	(3,167)
PROFIT/(LOSS) BEFORE TAX	7	(20,589)	100,007
Tax	9	(223)	(34,090)
PROFIT/(LOSS) FOR THE YEAR FROM CONTINUING OPERATIONS	10	(20,812)	65,917
DISCONTINUED OPERATION			
Loss for the year from a discontinued operation		(124,949)	(79,677)
LOSS FOR THE YEAR		(145,761)	(13,760)
Attributable to:			
Equity holders of the Company	11, 31	(145,761)	(13,771)
Minority interests	31	–	11
		(145,761)	(13,760)

	Notes	**2006** *HK$'000*	**2005** *HK$'000* (Restated)
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	*12*		
Basic			
– For loss for the year		HK(26.02) cents	HK(3.10) cents
– For profit/(loss) for the year from continuing operations		HK(3.71) cents	HK14.81 cents
Diluted			
– For loss for the year		N/A	N/A
– For profit/(loss) for the year from continuing operations		N/A	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

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	*31*		
Equity holders of the Company		(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

	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

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.

(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 *Financial Reporting in Hyperinflationary Economies*
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.

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;

(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".

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.

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.

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.

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.

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.

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.

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.

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.

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;

(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.

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.

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.

	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)
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	–

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 *(note 10)*	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 *(note 10)*	2,778	3,001
	5,145	6,168

7. PROFIT/(LOSS) BEFORE TAX

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

	2006	2005
	HK$'000	*HK$'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.

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	Salaries, allowances and benefit in kind	Pension scheme contributions	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
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

2005

	Directors' fees *HK$'000*	Salaries, allowances and benefit in kind *HK$'000*	Pension scheme contributions *HK$'000*	Total *HK$'000*
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.

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.

9. TAX

	Group 2006	2005
	HK$'000	*HK$'000*
Group:		
Current – elsewhere	223	1,773
Deferred *(note 28)*	–	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 *(note 10)*					–	
					223	

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)*					–	
					34,090	

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 *HK$'000*	**2005** *HK$'000*
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)

The net cash flows of discontinued operation are as follows:

	2006 *HK$'000*	**2005** *HK$'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

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.

13. PROPERTY, PLANT AND EQUIPMENT

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 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

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

Company

	Leasehold improvements *HK$'000*	Computer and office equipment, furniture and fixtures *HK$'000*	Total *HK$'000*
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
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

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.

15. INTANGIBLE ASSETS

Group

	Software	Operating rights	Total
	HK$'000	*HK$'000*	*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

	Software *HK$'000*	Operating rights *HK$'000*	Total *HK$'000*
Cost:			
At beginning of year	2,856	37,000	39,856
Exchange realignment	57	740	797
At 31 December 2005	2,913	37,740	40,653
Accumulated amortisation and impairment:			
At beginning of year	1,173	15,380	16,553
Provided during the year	1,700	5,656	7,356
Exchange realignment	40	214	254
At 31 December 2005	2,913	21,250	24,163
Net book value:			
At 31 December 2005	–	16,490	16,490
At 31 December 2004	1,683	21,620	23,303

* 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.

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 *(note 32)*	(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 *(note 32)*	(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).

17. INTERESTS IN SUBSIDIARIES

	Company 2006	2005
	HK$'000	*HK$'000*
Unlisted shares, at cost	467,158	467,158
Provision for impairment	(176,940)	(176,940)
	290,218	290,218
Due from subsidiaries	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 2006	2005	Principal activities
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
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:

a. CQ Smart Hero, GZ Proland and Sky City are wholly-foreign-owned enterprises established in the PRC.

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

c. The Group 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.

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 Ownership interest	Voting power	Profit sharing	Principal activities
I-Mall Investments Limited	Corporate	British Virgin Islands	68.6	33.3	68.6	Investment holding
B2B Market Investments Limited	Corporate	British Virgin Islands	35.0	33.3	35.0	Investment holding
Cyber Union Enterprise Limited	Corporate	Hong Kong	35.0	50.0	35.0	Investment holding
Shi Lian	Corporate	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.

19. TRADE RECEIVABLES

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

	Group			
	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.

20. PREPAID RENTAL

	Group	
	2006	**2005**
	HK$'000	*HK$'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.

21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2006	**2005**	**2006**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'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.

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**	
	HK$'000	*Percentage*	*HK$'000*	*Percentage*
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**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
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

25. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Effective interest rate	**Maturity**	Group	
	(%)		**2006**	**2005**
			HK$'000	*HK$'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	**2005**
	HK$'000	*HK$'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.

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.

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

	2006		
	Fair value adjustment on property, plant and equipment *HK$'000*	**Revaluation of investment properties** *HK$'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

	2005		
	Fair value adjustment on property, plant and equipment *HK$'000*	**Revaluation of investment properties** *HK$'000*	**Total** *HK$'000*
At 1 January 2005	4,200	18,302	22,502
Deferred tax charged to the income statement during the year *(note 9)*	–	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 *HK$'000*	**2005** *HK$'000*
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

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** *HK$'000*	**Share premium account** *HK$'000*	**Total** *HK$'000*
At 1 January 2005	3,919,413,009	78,388	303,964	382,352
Issue of shares *(notes (a)&(b))*	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 *(note (c))*	200,000,000	4,000	26,540	30,540
Issue of shares *(note (d))*	170,000,000	3,400	1,700	5,100
Exercise of the 2005 Option *(note (b))*	147,000,000	11,400	10,260	21,660
Exercise of the First Option and Second Option *(note (e))*	29,000,000	5,800	3,009	8,809
Release of other reserve *(note 31)*	–	–	2,280	2,280
Capital reorganisation *(note (f))*	(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.

(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.

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.

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

Name/category of participant	Number of share options[1] At 1 January 2006	Granted during the year	Exercised during the year	At 31 December 2006	Date of grant of share options	Exercise period of share options	Exercise price of share options[1] *HK$*	Market value per share on exercise of options[2] *HK$*
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.

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.

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:

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

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

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.

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	–

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	**2005**	**2006**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'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

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

(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	**2005**	**2006**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'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.

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.

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.

3. MANAGEMENT DISCUSSION AND ANALYSIS ON THE GROUP

Set out below is the management discussion and analysis (modified as appropriate) extracted from the interim report of the Company for the six months ended 30 June 2007 and annual reports of the Company for each of the three financial years ended 31 December 2004, 2005 and 2006:

(i) For the six months ended 30 June 2007

Review of Results

The Directors would like to report that the Group recorded a turnover of HK$6,577,000 (30 June 2006: HK$6,223,000) for the six months ended 30 June 2007 (the "Period"), representing an increase of 6% compared with the corresponding period. Loss attributable to ordinary equity holders of the Company was HK$4,902,000 (30 June 2006: HK$16,652,000) for the Period.

Review of Operations

The Group's turnover during the Period mainly comprised of rental income generated from the commercial podium in Chongqing, the People's Republic of China (the "PRC") and the leasing of point-of-sale ("POS") equipment in Guangzhou, the PRC.

Property investment

The rental income generated from leasing of the commercial units in Gang Yu Square in Chongqing in the PRC increased in the Period compared with 2006.

The occupancy rate of the square remained satisfactory during the Period. It was expected that the business would continue to generate a steady stream of income to the Group.

Leasing of POS equipment

Since 2003, the Group had engaged in the business of leasing corded and cordless POS equipment in Guangzhou, the PRC. The demand for POS equipment remained steady during the Period. The Group will explore business opportunities for other value added services adhered to the leasing of the POS equipment.

Postponement of payment of the balance of a consideration

In November 2002, it was announced that the Group was contracted to dispose 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.

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.

Litigation

(a) A writ of summons was issued in August 2005 by a former director of a subsidiary of the Company (the "Former Director") against, inter alia, the Company. 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.

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

(b) 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.

Financial Review

Liquidity and financial resources

The Group generally financed its businesses with internally generated cash flows and banking facilities during the Period. Cash and bank balances of the Group as at 30 June 2007 amounted to HK$191,134,000 (31 December 2006: HK$178,602,000) and pledged deposits of HK$3,522,000 (31 December 2006: HK$404,000).

As at 30 June 2007, the Group had outstanding borrowings of approximately HK$27,356,000 (31 December 2006: HK$25,543,000) comprising interest-bearing bank loans amounted to HK$25,000,000 (31 December 2006: HK$22,933,000) and finance lease payable amounted to HK$2,356,000 (31 December 2006: HK$2,610,000). All the Group's interest-bearing bank loans are repayable within one year or on demand. The bank loans as at 30 June 2007 were charged at fixed interest rate (31 December 2006: HK$nil).

The Group's gearing ratio as at 30 June 2007 was 0.22 (31 December 2006: 0.2), calculated based on the Group's total liabilities, excluding deferred income, of HK$137,929,000 (31 December 2006: HK$118,848,000) over total assets of HK$616,491,000 (31 December 2006: HK$589,795,000).

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 Period.

Pledge of assets

The Group had utilized bank loan facilities amounting to approximately HK$25,000,000 (31 December 2006: HK$22,933,000) as at 30 June 2007. The bank loans were supported by certain of the Group's investment properties and a corporate guarantee executed by the Company.

Contingent liabilities

As at 30 June 2007, guarantees given for mortgage loans granted by banks to certain purchasers of the Group's properties amounted to HK$3,939,000 (31 December 2006: HK$4,039,000).

Material acquisitions and disposals of subsidiaries and associated companies

There was no material acquisitions and disposals of subsidiaries and associated companies for the six months ended 30 June 2007.

Employees and Remuneration Policy

Total staff cost for the six months ended 30 June 2007 was approximately HK$1.7 million. The Group employed about 16 full time staff in Hong Kong, Chongqing and Guangzhou as at 30 June 2007. Employees were 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 provided staff welfare and bonuses to its employees in accordance with the prevailing labour law. In Hong Kong, other staff benefits included medical schemes and Mandatory Provident Fund Schemes.

Future plan and prospects

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

(ii) 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).

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.

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.

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.

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.

    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

Total staff cost for the year was approximately HK$3.6 million. 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.

Future plan and 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.

(iii) For the year ended 31 December 2005

Review of Results

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

Business Review

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

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

Property investment

The rental income generated from leasing of the commercial units in Gang Yu Square in Chongqing in Mainland China, was increased in the year compared with 2004. The occupancy rate of the square in the year remained satisfactory. It is expected that the business will continue to generate a steady stream of income to the Group. HK$97,932,000 was attributable to property revaluation surplus following the adoption of new accounting standards since January 2005.

Leasing of equipment

Since 2003, the Group had engaged in leasing of corded and cordless POS equipment in Guangzhou for a term of five years with an option to extend till 17 July 2011. The demand for POS equipment remained steady during the year. The Group will explore business opportunities for other value added services adhered to the leasing of the POS equipment.

Provision of telecommunication and other related services

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

Financial Review

Liquidity and financial resources

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

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

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

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

Currency structure

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

Pledge of assets

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

Contingent liabilities

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

Acquisition of remaining interest of a subsidiary

On 14 December 2004, Telesuccess International Limited, a wholly-owned subsidiary of the Company, entered into an agreement with then existing shareholder of Sky City Network Communication Limited ("Sky City") to acquire the remaining 19.1% equity interest in Sky City at a cash consideration of HK$60,000,000. The acquisition was completed in February 2005 and details of which had been set out in a circular to shareholders of the Company dated 21 January 2005.

Placement of new shares

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

Termination of a proposed rights issue

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

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

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

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

Deferred payment of balance of a consideration

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

Subscription of new shares and grant of option

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

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

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

Litigation

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

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

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

Employee and remuneration policy

Total staff cost for the year was approximately HK$5.8 million. The Group employed approximately 28 full time staff in Hong Kong, Chongqing and Guangzhou as at 31 December 2005. Employees are remunerated according to the nature of their job and market trend, with built-in merit components incorporated in the annual increment to reward and motivate individual performance. In Chongqing and Guangzhou, the Group provides staff welfare and bonuses to its employees in accordance with the prevailing labour law. In Hong Kong, other staff benefits include medical schemes, Mandatory Provident Fund Scheme and employee share option scheme.

Future plan and prospects

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

(iv) For the year ended 31 December 2004

Review of Results

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

Business Review

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

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

Property investment

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

Provision of online English learning services

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

Leasing of equipment

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

Provision of telecommunication and other related services

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

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

Financial Review

Liquidity and financial resources

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

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

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

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

Currency structure

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

Pledge of assets

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

Contingent liabilities

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

Material acquisitions of subsidiaries

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

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

Issue of convertible bonds

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

Placing of new shares

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

Employee and remuneration policy

Total staff cost for the year was approximately HK$3.8 million. The Group employed approximately 53 full time staff in Hong Kong, Chongqing and Guangzhou, as at 31 December 2004. Employees are remunerated according to the nature of their job and market trend, with built-in merit components incorporated in the annual increment to reward and motivate individual performance. In Chongqing and Guangzhou, the Group provides staff welfare and bonuses to its employees in accordance with the prevailing labour law. In Hong Kong, other staff benefits include medical schemes, Mandatory Provident Fund Schemes and employee share option scheme.

Future plan and prospects

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

4. INDEBTEDNESS

At the close of business on 30 September 2007, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Enlarged Group had total outstanding bank borrowings of approximately HK$33.3 million, comprising secured bank loans of approximately HK$25.0 million and unsecured bank loan of HK$8.3 million, and outstanding obligation under finance leases of approximately HK$2.2 million.

As at 30 September 2007, the Enlarged Group also had a loan from a director of HK$66 million and an amount due to a director of HK$64 million.

As at 30 September 2007, the banking facilities of the Enlarged Group were supported by charges over certain investment properties of the Enlarged Group and a corporate guarantee executed by the Company and corporate guarantees provided by certain entities in the PRC.

As at 30 September 2007, the Enlarged Group had given guarantees of approximately HK$4.1 million for mortgage loans granted by a bank to certain purchasers of properties of the Enlarged Group.

Save as aforesaid or as otherwise mentioned herein and apart from intra-group liabilities and normal trade payables in the ordinary course of business, at the close of business on 30 September 2007, the Enlarged Group did not have any outstanding indebtedness, any loan capital, bank overdrafts and liabilities under acceptances or other similar indebtedness, debentures, mortgages, charges or loans or acceptance credits or hire purchase or finance lease commitments, guarantees or other contingent liabilities.

There have been no material changes in the indebtedness and contingent liabilities of the Enlarged Group since 30 September 2007.

5. WORKING CAPITAL

The Directors are satisfied after due and careful enquiry that after taking into account the existing banking facilities available, the existing internal financial resources, net proceeds from future equity and/or debt fund raising of the Company for the purpose of completing the Second Tranche, Third Tranche and/or Fourth Tranche and in the absence of unforeseeable circumstances, the Enlarged Group has sufficient working capital for its present requirements, that is for at least the next 12 months from the date of publication of this circular.

6. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2006 (being the date to which the latest published audited consolidated financial statements of the Group were made up).

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

ERNST & YOUNG
安永會計師事務所

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

26 November 2007

The Board of Directors
Zhong Hua International Holdings Limited

Dear Sirs,

We set out below our report on the financial information (the "Financial Information") regarding Zheng Da Real Estate Development Company Limited (正大房地產開發有限公司) ("Zheng Da") and its sole subsidiary (hereinafter collectively referred to as the "Zheng Da Group") for the years ended 31 December 2004, 2005 and 2006 and the six months ended 30 June 2007 (the "Periods"), prepared on the basis as set out in Sections I and II below, for inclusion in the circular of Zhong Hua International Holdings Limited (the "Company") dated 26 November 2007 (the "Circular") in connection with the proposed acquisition of the entire equity interest in Zheng Da (the "Acquisition") pursuant to a sale and purchase agreement (the "Agreement") dated 9 October 2007 (as amended on 26 October 2007) made among Hero Master Group Limited ("Hero Master"), a wholly-owned subsidiary of the Company, and Paton Bay Limited ("Paton Bay") and Clear Smart Group Limited ("Clear Smart"). Zheng Da was jointly owned by Ho Kam Hung, Ho Tsam Hung, Ho Pak Hung and Paton Bay during the Periods. In October 2007, Ho Kam Hung, Ho Tsam Hung and Ho Pak Hung transferred their interests in Zheng Da to Clear Smart and Zheng Da is owned as to 25% and 75% by Paton Bay and Clear Smart, respectively, thereafter. Clear Smart is considered to be the ultimate holding company of Zheng Da at the date of this report by the directors of Zheng Da. The entire equity interest of Paton Bay and Clear Smart are each jointly owned by Ho Kam Hung, Ho Tsam Hung and Ho Pak Hung. Ho Kam Hung and Ho Tsam Hung are two directors of the Company.

Zheng Da is a company incorporated in Hong Kong with limited liability on 25 April 1997. During the Periods, the principal activity of Zheng Da is investment holding. The Zheng Da Group is principally engaged in holding properties for investment purpose.

廣州市正大房地產開發有限公司 ("Zheng Da GZ") was established on 31 December 1993 in Mainland China between Shun Fat Group Limited ("Shun Fat"), a company incorporated in Hong Kong, and 廣州市越秀房地產開發經營公司 (the "JV Partner"), as a sino-foreign joint venture. The principal activity of Zheng Da GZ consisted of property development. Pursuant to a supplementary agreement dated 31 May 1994 (the "Supplementary Agreement"), Zheng Da agreed to pay management fee of RMB50,000 per month for 200 months commencing from July 1994 and an amount of RMB38,000,000 to the JV Partner upon the completion of the properties development project to be carried out by Zheng Da GZ and, in return, Shun Fat shall be entitled to all the profit and shall bear all losses of Zheng Da GZ. Up to the date of the Acquisition, no payment of RMB38,000,000 was made because the management of Zheng Da Group had no particular future plans for material investments or capital assets prior to the Acquisition. On 29 May 1997, Shun Fat entered into a share transfer agreement with Zheng Da to transfer its entire equity interest in Zheng Da GZ to Zheng Da at no consideration (the "Transfer").

The statutory financial statements of Zheng Da for each of the three years ended 31 December 2004, 2005 and 2006 were audited by W.H. Wong & Co. (CPA), Certified Public Accountants and were prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by Hong Kong Institute of Certified Public Accountants (the "HKICPA") except for a qualified opinion arising from the disagreement about non-preparation of consolidated financial statements as required by Hong Kong Accounting Standard 27 "Consolidated and Separate Financial Statements" issued by the HKICPA and the Hong Kong Companies Ordinances for the three years ended 31 December 2006. Such qualification has been removed in this report because, for the purpose of this report, the financial information of Zheng Da GZ is consolidated in the preparation of this Financial Information. The statutory financial statements of Zheng Da GZ for each of the three years ended 31 December 2004, 2005 and 2006 were prepared in accordance with relevant accounting principles and financial regulations applicable in the Mainland China and were audited by Guang Dong Huanaan Certified Public Accountants, Certified Public Accountants registered in the Mainland China. No audited financial statements of Zheng Da and Zheng Da GZ have been issued for the six months ended 30 June 2007.

For the purpose of this report, the directors of Zheng Da have prepared the consolidated management accounts of the Zheng Da Group for the Periods in accordance with HKFRSs, which also include Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the HKICPA, accounting principles generally accepted in Hong Kong. We have undertaken an independent audit of the consolidated financial statements of the Zheng Da Group for the Periods in accordance with Hong Kong Standards on Auditing issued by the HKICPA. We have also carried out additional procedures as considered necessary in accordance with Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA.

The consolidated income statements, the consolidated cash flow statements and the consolidated statements of changes in equity of the Zheng Da Group for the Periods, and the consolidated balance sheets of the Zheng Da Group and the balance sheets of Zheng Da as at 31 December 2004, 2005 and 2006 and 30 June 2007 as set out in this report have been prepared from the consolidated financial statements of the Zheng Da Group for the Periods, and are presented on the basis set out in Sections I and II below.

The directors of Zheng Da are responsible for preparing the Financial Information and the financial information for the six months ended 30 June 2006 (the "30 June 2006 Financial Information") which gives a true and fair view. In preparing the Financial Information and the

30 June 2006 Financial Information , it is fundamental that appropriate accounting policies are selected and applied consistently. The Financial Information and the 30 June 2006 Financial Information and the notes thereto are the responsibility of the directors of Zheng Da. It is our responsibility to form an independent opinion and a review conclusion, based on our examination and review, on the Financial Information and the 30 June 2006 Financial Information and to report our opinion and review conclusion solely to you.

In our opinion, the Financial Information together with the notes thereto give, for the purpose of this report, a true and fair view of the state of affairs of the Zheng Da Group and Zheng Da as at 31 December 2004, 2005 and 2006 and 30 June 2007 and the consolidated results and cash flows of the Zheng Da Group for each of the Periods.

The comparative consolidated income statement, consolidated cash flow statement and consolidated statement of changes in equity of the Zheng Da Group for the 30 June 2006 Financial Information together with the notes thereto were prepared by the directors of the Company solely for the purpose of this report. We have reviewed the 30 June 2006 Financial Information in accordance with Statement of Auditing Standards 700 "Engagements to review interim financial reports" issued by the HKICPA. Our review consisted principally of making enquiries of management and applying analytical procedures to the 30 June 2006 Financial Information and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the 30 June 2006 Financial Information. On the basis of our review, for the purpose of the report, we are not aware of any material modifications that should be made to the 30 June 2006 Financial Information.

I. BASIS OF PRESENTATION

The Zheng Da Group recorded a profit before tax of HK$864 million for the period ended 30 June 2007 and had net cash inflows from operating activities of HK$2,083,000 before exchange differences on translation of financial statements of a foreign entity for the same period. A director of Zheng Da GZ has undertaken to the Zheng Da Group not to demand repayment of the loan from and amount due to the director in aggregate of approximately HK$129 million as at 30 June 2007 before 31 December 2008 and until the Zheng Da Group is able to generate sufficient profit and cash inflows to meet its daily working capital requirements. Furthermore, subsequent to 30 June 2007, Zheng Da GZ entered into an agreement with certain major creditors in Mainland China for not demanding repayment of certain outstanding payables, included in the balance of other payables and accruals as at 30 June 2007, of approximately HK$96,700,000, before 31 December 2008 and until the Zheng Da Group is able to generate sufficient profit and cash inflows to meet the daily working capital.

Based on the above, the directors of Zheng Da considered that the Zheng Da Group will have sufficient financial resources to meet its working capital requirements. Accordingly, the directors of Zheng Da are satisfied that it is appropriate to prepare the Financial Information on a going concern basis.

II. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted by the Zheng Da Group in arriving at the Financial Information and the 30 June 2006 Financial Information set out in this report are set out below:

(a) Basis of preparation

The Financial Information and the 30 June 2006 Financial Information have been prepared in accordance with HKFRSs (which also include HKASs and Interpretations) issued by the HKICPA, 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 investment properties, which have been measured at fair value. The Financial Information and the 30 June 2006 Financial Information are presented in Hong Kong dollars ("HK$") and all values are rounded to the nearest thousand except when otherwise indicated.

The HKICPA has issued a number of new and revised HKFRSs which are effective for the accounting periods beginning on or after 1 January 2005. The Financial Information has early adopted these new and revised HKFRSs.

The Zheng Da Group has not applied the following new and revised HKFRS, that has been issued but is not yet effective and is relevant to the operation of the Zheng Da Group, in the Financial Information:

HKFRS 8	Operating Segments

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

The Zheng Da Group expects that the adoption of the pronouncement listed above will not have any significant impact on the Zheng Da Group's financial statements in the period of initial application.

(b) Basis of consolidation

The Financial Information and the 30 June 2006 Financial Information includes the financial statements of Zheng Da and its subsidiary for the Periods and the six months ended 30 June 2006, respectively. The results of the subsidiary are consolidated from the date of acquisition, being the date on which Zheng Da obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Zheng Da Group are eliminated on consolidation.

(c) Subsidiaries

A subsidiary is an entity in which Zheng Da, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors; or over which Zheng Da has a contractual right to exercise a dominant influence with respect to that entity's financial and operating policies.

The results of the subsidiary are included in Zheng Da's income statement to the extent of dividends received and receivable. Zheng Da's interest in the subsidiary is stated at cost less any impairment losses.

(d) Related parties

A party is considered to be related to the Zheng Da 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 Zheng Da Group; (ii) has an interest in Zheng Da that gives it significant influence over the Zheng Da Group; or (iii) has joint control over the Zheng Da Group;

(b) the party is a member of the key management personnel of the Zheng Da Group or its holding company;

(c) the party is a close member of the family of any individual referred to in (a) or (d);

(d) 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

(e) the party is a post-employment benefit plan for the benefit of the employees of the Zheng Da Group, or of any entity that is a related party of the Zheng Da Group.

(e) Impairment of non-financial assets

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

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

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

(f) 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 and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

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

Office equipment	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 the 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.

(g) Non-current assets held for sale

Non-current assets are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the asset must be available for immediate sale in its present condition subject only to terms that are usual and customary for the sale of such assets and its sale must be highly probable.

Non-current assets, other than investment properties, classified as held for sale are measured at the lower of their carrying amounts and fair values less costs to sell.

(h) 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.

(i) 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 the 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.

(j) Impairment of financial assets

The Zheng Da 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.

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

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

(k) 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 Zheng Da 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 Zheng Da 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 Zheng Da 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 Zheng Da 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 Zheng Da 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 Zheng Da Group's continuing involvement is the amount of the transferred asset that the Zheng Da 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 Zheng Da Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

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

Financial liabilities, including trade and other payables, interest-bearing loans and borrowings, a loan from a director and an amount due to a director, 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.

(m) 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.

(n) Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Zheng Da 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 Zheng Da Group is the lessor, assets leased by the Zheng Da 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 Zheng Da 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.

(o) 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 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, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

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

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

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

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

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

(p) Borrowing costs

Borrowing costs are expensed in the income statement in the year in which they are incurred, except to the extent that they are capitalised as being directly attributable to the financing of the construction of a qualifying asset. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale.

(q) Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Zheng Da Group and when the revenue can be measured reliably. Rental income is recognised on a time proportion basis over the lease terms.

(r) Foreign currencies

The Financial Information and 30 June 2006 Financial Information are presented in Hong Kong dollars, which is Zheng Da's functional and presentation currency. Each entity in the Zheng Da 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 currency of the subsidiary is a currency other than the Hong Kong dollar. As at the balance sheet date, the assets and liabilities of this entity is translated into the presentation currency of Zheng Da at exchange rates ruling at the balance sheet date and, its income statement is translated into Hong Kong dollars at the weighted average exchange rates for the year/period. The resulting exchange differences are included in a separate component of equity, the exchange fluctuation reserve. On disposal of the subsidiary, 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 statements, the cash flows of the subsidiary are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of the subsidiary which arise throughout the year/period are translated into Hong Kong dollars at the weighted average exchange rates for the year/period.

(s) Cash and cash equivalents

For the purpose of the consolidated cash flow statements, 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 Zheng Da's cash management.

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

III. SIGNIFICANT ACCOUNTING JUDGEMENT AND ESTIMATE

Judgement

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

Operating lease commitments – Zheng Da Group as lessor

The Zheng Da Group has entered into certain lease arrangements in respect of its investment property portfolio. The Zheng Da Group has determined that it retains all the significant risks and rewards of ownership of the properties which are leased out operating leases.

Estimation uncertainty

Estimation of fair value of investment properties

As described in note (b) of Section V, investment properties were revalued as at each balance sheet date at market value on an existing state basis by independent professional valuers. Such valuations were based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results. In making the judgement, the Zheng Da Group considers information from current prices in an active market for similar properties and uses assumptions that are mainly based on market conditions existing at each balance sheet date.

IV. RESULTS

The following are the results of the Zheng Da Group for the Periods and for the six months ended 30 June 2006, which are prepared on the basis set out in Sections I and II above:

	Notes	Year ended 31 December 2004 *HK$'000* (audited)	2005 *HK$'000* (audited)	2006 *HK$'000* (audited)	Six months ended 30 June 2006 *HK$'000* (unaudited)	2007 *HK$'000* (audited)
Revenue	*(a)*	1,444	1,453	2,162	1,098	1,074
Other gains	*(a)*	201	265	2,443	–	109
Changes in fair value of investment properties		112,800	379,980	665,046	173,731	867,028
Administrative expenses		(1,566)	(4,111)	(5,980)	(556)	(952)
Finance costs	*(b)*	(5,520)	(5,545)	(5,500)	(2,889)	(2,879)
PROFIT BEFORE TAX	*(c)*	107,359	372,042	658,171	171,384	864,380
Tax	*(e)*	(35,402)	(123,564)	(216,202)	(56,378)	(111,197)
PROFIT FOR THE YEAR/PERIOD		71,957	248,478	441,969	115,006	753,183
Dividend	*(f)*	–	–	–	–	–

Notes:

(a) REVENUE AND OTHER GAINS

Revenue, which is also the Zheng Da Group's turnover, represents rental income received during the year/period. An analysis of the Zheng Da Group's revenue, and other gains is as follows:

	Year ended 31 December 2004 *HK$'000* (audited)	2005 *HK$'000* (audited)	2006 *HK$'000* (audited)	Six months ended 30 June 2006 *HK$'000* (unaudited)	2007 *HK$'000* (audited)
Revenue					
Rental income	1,444	1,453	2,162	1,098	1,074
Gains					
Gains on disposal of investment properties	–	–	2,040	–	–
Gains on disposal of items of properties and equipment	–	–	154	–	–
Others	201	265	249	–	109
	201	265	2,443	–	109
	1,645	1,718	4,605	1,098	1,183

(b) FINANCE COSTS

	Year ended 31 December			Six months ended 30 June	
	2004	2005	2006	2006	2007
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(audited)	(audited)	(audited)	(unaudited)	(audited)
Interest on:					
Bank loans	817	741	521	463	302
Loan from a director	4,703	4,804	4,979	2,426	2,577
Total interest	5,520	5,545	5,500	2,889	2,879

(c) PROFIT BEFORE TAX

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

	Year ended 31 December			Six months ended 30 June	
	2004	2005	2006	2006	2007
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(audited)	(audited)	(audited)	(unaudited)	(audited)
Depreciation	52	52	34	24	11
Auditors' remuneration	16	21	22	14	14
Employee benefits expense (excluding directors' remuneration):					
Wages and salaries	438	378	387	159	170
Pension scheme contributions	53	51	50	21	31
Total employee benefits expense	491	429	437	180	201
Changes in fair value of investment properties	(112,800)	(379,980)	(665,046)	(173,731)	(867,028)
Foreign exchange differences, net	(77)	1,898	2,895	–	–

(d) DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES

Directors' remuneration for the Periods, disclosed pursuant to Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Year ended 31 December			Six months ended 30 June	
	2004	**2005**	**2006**	**2006**	**2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(audited)	(audited)	(audited)	(unaudited)	(audited)
Fees	–	–	–	–	–
Other emoluments:					
Salaries, allowances and benefits in kind	–	–	–	–	–
Performance related bonus	–	–	–	–	–
Pension scheme contributions	–	–	–	–	–

(e) TAX

	Year ended 31 December			Six months ended 30 June	
	2004	**2005**	**2006**	**2006**	**2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(audited)	(audited)	(audited)	(unaudited)	(audited)
Current year provision – Mainland China	–	–	351	–	–
Deferred *(note (g) of Section V)*	35,402	123,564	215,851	56,378	111,197
Total tax charge for the year/period	35,402	123,564	216,202	56,378	111,197

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

Under the PRC income tax law, enterprises are subject to corporate income tax ("CIT") at a rate of 33% during the Periods.

On 16 March 2007, the National People's Congress approved the CIT Law of the PRC (the "New CIT Law"), which will become effective from 1 January 2008. The New CIT Law introduces a wide range of changes which include, but are not limited to, the unification of the CIT rate for domestic and foreign investment enterprises at a rate of 25%. This change in the CIT rate will directly affect the Group's effective tax rate prospectively from 2008. The CIT rate of Zheng Da GZ will change from 33% to 25% effective from 1 January 2008. According to HKAS 12 "Income taxes", deferred tax assets and deferred tax 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, and the Group's deferred tax have been adjusted accordingly.

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

	Year ended 31 December						Six months ended 30 June			
	2004		2005		2006		2006		2007	
	(audited)		(audited)		(audited)		(unaudited)		(audited)	
	HK$'000	%	*HK$'000*	%	*HK$'000*	%	*HK$'000*	%	*HK$'000*	%
Profit before tax	107,359		372,042		658,171		171,384		864,380	
Tax charge at the statutory tax rate	35,428	33	122,774	33	217,196	33	56,557	33	285,245	33
Effect on opening deferred tax of decrease in tax rate from 33% to 25%	–	–	–	–	–	–	–	–	(104,916)	(12)
Change in deferred tax rate from 33% to 25%	–	–	–	–	–	–	–	–	(69,132)	(8)
Others	(26)	–	790	–	(994)	–	(179)	–	–	–
Tax at the effective rate	35,402	33	123,564	33	216,202	33	56,378	33	111,197	13

There was no unprovided deferred tax in respect of the Periods and the six months ended 30 June 2006 and as at 31 December 2004, 31 December 2005, 31 December 2006, 30 June 2006 and 30 June 2007.

(f) DIVIDEND

No dividend has been paid or declared by the Zheng Da Group to its former shareholders during the Periods and the six months ended 30 June 2006.

(g) EARNINGS PER SHARE

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

(h) SEGMENT INFORMATION

No business and geographical segment information is presented as the Zheng Da Group principally operates in the business of holding investment properties in Mainland China, and over 90% of the Zheng Da Group's assets are located in Mainland China.

V. CONSOLIDATED BALANCE SHEETS AND COMPANY BALANCE SHEETS

The following are consolidated balance sheets of the Zheng Da Group and balance sheets of Zheng Da as at 31 December 2004, 2005 and 2006 and 30 June 2007, which are prepared on the basis set out in Sections I and II above:

CONSOLIDATED BALANCE SHEETS

		31 December			30 June
		2004	**2005**	**2006**	**2007**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
		(audited)	(audited)	(audited)	(audited)
NON-CURRENT ASSETS					
Property and equipment	*(a)*	94	77	38	28
Investment properties	*(b)*	552,140	948,103	1,654,776	2,554,400
Total non-current assets		552,234	948,180	1,654,814	2,554,428
CURRENT ASSETS					
Properties held for sale		–	–	–	34,084
Prepayments, deposits and other receivables		3,242	3,822	3,778	1,481
Cash and bank balances		202	87	7,968	5,317
Total current assets		3,444	3,909	11,746	40,882
CURRENT LIABILITIES					
Trade payables	*(d)*	11,412	11,656	12,080	12,505
Other payables and accruals		109,826	113,933	116,818	115,937
Interest-bearing bank borrowings	*(e)*	7,520	7,681	7,960	8,240
Tax payable		3,877	3,960	4,391	4,247
Total current liabilities		132,635	137,230	141,249	140,929
NET CURRENT LIABILITIES		(129,191)	(133,321)	(129,503)	(100,047)
TOTAL ASSETS LESS CURRENT LIABILITIES		423,043	814,859	1,525,311	2,454,381
NON-CURRENT LIABILITIES					
Loan from director	*(f)*	60,141	61,427	63,660	65,899
Due to a director	*(f)*	41,118	48,560	59,048	63,635
Deferred tax liabilities	*(g)*	67,941	194,297	421,865	548,992
Total non-current liabilities		169,200	304,284	544,573	678,526
Net assets		253,843	510,575	980,738	1,775,855
EQUITY					
Issued capital	*(h)*	–	–	–	–
Reserves		253,843	510,575	980,738	1,775,855
Total equity		253,843	510,575	980,738	1,775,855

COMPANY BALANCE SHEETS

	Notes	31 December 2004 HK$'000 (audited)	2005 HK$'000 (audited)	2006 HK$'000 (audited)	30 June 2007 HK$'000 (audited)
NON-CURRENT ASSET					
Interests in a subsidiary	*(c)*	742	742	742	742
CURRENT ASSETS					
Cash and bank balances		5	5	5	5
CURRENT LIABILITIES					
Other payables and accruals		26	34	42	42
NET CURRENT LIABILITIES		(21)	(29)	(37)	(37)
NON-CURRENT LIABILITY					
Due to a director	*(f)*	1,409	1,411	1,414	1,417
Net liabilities		(688)	(698)	(709)	(712)
DEFICIENCY IN ASSETS					
Issued capital	*(h)*	–	–	–	–
Accumulated losses	*(i)*	(688)	(698)	(709)	(712)
Total deficiency in assets		(688)	(698)	(709)	(712)

Notes:

(a) PROPERTY AND EQUIPMENT – GROUP

	Office equipment *HK$'000* (audited)	Motor vehicles *HK$'000* (audited)	Total *HK$'000* (audited)
Cost:			
At 1 January 2004 and 31 December 2004	506	337	843
Accumulated depreciation:			
At 1 January 2004	482	213	695
Provided during the year	6	46	52
Exchange realignment	1	1	2
At 31 December 2004	489	260	749
Net book value:			
At 31 December 2004	17	77	94
Cost:			
At 1 January 2005	506	337	843
Additions	33	–	33
Exchange realignment	11	7	18
At 31 December 2005	550	344	894
Accumulated depreciation:			
At 1 January 2005	489	260	749
Provided during the year	6	46	52
Exchange realignment	10	6	16
At 31 December 2005	505	312	817
Net book value:			
At 31 December 2005	45	32	77
Cost:			
At 1 January 2006	550	344	894
Disposals	–	(229)	(229)
Exchange realignment	20	7	27
At 31 December 2006	570	122	692
Accumulated depreciation:			
At 1 January 2006	505	312	817
Provided during the year	19	15	34
Disposals	–	(223)	(223)
Exchange realignment	19	7	26
At 31 December 2006	543	111	654
Net book value:			
At 31 December 2006	27	11	38

	Office equipment HK$'000 (audited)	Motor vehicles HK$'000 (audited)	Total HK$'000 (audited)
Cost:			
At 1 January 2007	570	122	692
Exchange realignment	20	4	24
At 30 June 2007	590	126	716
Accumulated depreciation:			
At 1 January 2007	543	111	654
Provided during the period	6	5	11
Exchange realignment	19	4	23
At 30 June 2007	568	120	688
Net book value:			
At 30 June 2007	22	6	28

(b) INVESTMENT PROPERTIES – GROUP

	31 December			30 June
	2004 HK$'000 (audited)	**2005** HK$'000 (audited)	**2006** HK$'000 (audited)	**2007** HK$'000 (audited)
Carrying amount at beginning of year/period	438,157	552,140	948,103	1,654,776
Changes in fair value of investment properties	112,800	379,980	665,046	867,028
Disposals	–	–	(10,040)	–
Transfer to properties held for sale	–	–	–	(34,084)
Exchange realignment	1,183	15,983	51,667	66,680
Carrying amount at end of year/period	552,140	948,103	1,654,776	2,554,400

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

The Zheng Da Group's investment properties with carrying values of RMB550 million, RMB950 million, RMB1,630 million and RMB2,480 million as at 31 December 2004, 2005 and 2006 and 30 June 2007, respectively, were revalued by Vigers Appraisal and Consulting Limited, a firm of independent professionally qualified valuers, on an open market, existing state basis. The investment properties with carrying values of RMB34 million, RMB36 million and RMB32 million as at 31 December 2004, 2005 and 2006, respectively, were revalued by Merryshine Surveyors Limited, a firm of independent professionally qualified valuers, on an open market, existing state basis.

During the 6 months ended 30 June 2007, the directors decided to realise certain investment properties of carrying value of approximately HK$34 million through sale. They have appointed an agent to market these properties which have been reclassified as properties held for sale at 30 June 2007.

(c) INTERESTS IN A SUBSIDIARY

	Company			
	31 December			30 June
	2004	2005	2006	2007
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(audited)	(audited)	(audited)	(audited)
Unlisted shares, at cost	–	–	–	–
Due from a subsidiary	742	742	742	742
	742	742	742	742

The amounts due from a subsidiary are unsecured, interest-free and repayable on demand. The carrying amounts of the amount due from a subsidiary approximates to their fair values at the balance sheet dates.

Particulars of the subsidiary are as follows:

Name	Place of incorporation and operations	Registered and paid-up share capital	Percentage of equity attributable to Zheng Da	Principal activities
廣州市正大房地產開發有限公司	Mainland China	RMB150,000,000	100	Property investment business

(d) TRADE PAYABLES – GROUP

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

	31 December			30 June
	2004	2005	2006	2007
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(audited)	(audited)	(audited)	(audited)
Over 1 year	11,412	11,656	12,080	12,505

The age of the Zheng Da Group's trade payables are based on the date of the construction invoices.

The trade payables are non-interest-bearing and are normally settled on 60 to 90 days terms. The carrying amount of the trade payables approximate to its fair value at the balance sheet date.

(e) INTEREST-BEARING BANK BORROWINGS – GROUP

	31 December			30 June
	2004	**2005**	**2006**	**2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(audited)	(audited)	(audited)	(audited)
Current				
Bank loans, unsecured	7,520	7,681	7,960	8,240

The Zheng Da Group's bank loans were denominated in Renminbi with fixed interest rates ranging from 6.02% p.a. to 6.43% p.a. At the balance sheet date, the Zheng Da Group's banking facilities were supported by corporate guarantee provided by a company in Mainland China.

The carrying amounts of the Zheng Da Group's interest-bearing bank borrowings approximate to their fair values.

(f) BALANCES WITH A DIRECTOR – GROUP AND COMPANY

Except for the loan from a director which bears interest at 7.821% per annum for the Periods, the balance due to a director is unsecured, interest-free and not repayable before 31 December 2008 and until the Zheng Da Group is able to generate sufficient profit and cash inflows to meet the daily working capital requirement.

(g) DEFERRED TAX LIABILITIES – GROUP

	Revaluation of investment properties			
	31 December			30 June
	2004	**2005**	**2006**	**2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(audited)	(audited)	(audited)	(audited)
At beginning of year/period	32,448	67,941	194,297	421,865
Deferred tax charged to the income statement during the year/period *(note (e) of Section IV)*	35,402	123,564	215,851	111,197
Exchange realignment	91	2,792	11,717	15,930
At end of year/period	67,941	194,297	421,865	548,992

At each of the balance sheet dates, there was no significant unrecognised deferred tax liability for taxes that would be payable on the unremitted earnings of the Zheng Da Group's subsidiary as the Zheng Da Group has no liability to additional tax should such amounts be remitted.

(h) ISSUED CAPITAL

	31 December			30 June
	2004	**2005**	**2006**	**2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(audited)	(audited)	(audited)	(audited)
Authorised:				
10,000 ordinary shares of HK$1 each	10	10	10	10
Issued and fully paid:				
4 ordinary shares of HK$1 each	–	–	–	–

(i) ACCUMULATED LOSSES

(a) Details of movements in the reserves of the Zheng Da Group are included in the consolidated statements of changes in equity in Section VI below.

(b) The movements of the reserves of Zheng Da during the Periods are set out below:

	31 December			30 June
	2004	**2005**	**2006**	**2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(audited)	(audited)	(audited)	(audited)
At beginning of year/period	678	688	698	709
Loss for the year/period	10	10	11	3
At end of year/period	688	698	709	712

(j) OPERATING LEASE ARRANGEMENTS – GROUP

The Zheng Da Group leases certain of its investment properties under operating lease arrangements with leases negotiated for terms of two to four years.

At each of the balance sheet dates, the Zheng Da Group had total future minimum lease receivables under non-cancellable operating leases falling due as follows:

	31 December			30 June
	2004	**2005**	**2006**	**2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(audited)	(audited)	(audited)	(audited)
Within one year	1,523	2,107	2,209	1,452
In the second to fifth years, inclusive	1,805	3,212	1,119	798
	3,328	5,319	3,328	2,250

VI. CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

The following are the consolidated statements of changes in equity of the Zheng Da Group for the Periods, which are prepared on the basis set out in Section I and Section II above:

	Issued capital	Reserve on consolidation *(note)*	Exchange fluctuation reserve	Retained profits	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(audited)	(audited)	(audited)	(audited)	(audited)
At 1 January 2004	–	150,000	3,920	27,456	181,376
Profit for the year	–	–	–	71,957	71,957
Exchange realignment	–	–	510	–	510
At 31 December 2004 and 1 January 2005	–	150,000	4,430	99,413	253,843
Profit for the year	–	–	–	248,478	248,478
Exchange realignment	–	–	8,254	–	8,254
At 31 December 2005 and 1 January 2006	–	150,000	12,684	347,891	510,575
Profit for the year	–	–	–	441,969	441,969
Exchange realignment	–	–	28,194	–	28,194
At 31 December 2006 and 1 January 2007	–	150,000	40,878	789,860	980,738
Profit for the period	–	–	–	753,183	753,183
Exchange realignment	–	–	41,934	–	41,934
At 30 June 2007	–	150,000	82,812	1,543,043	1,775,855
At 1 January 2006	–	150,000	12,684	347,891	510,575
Profit for the period	–	–	–	115,006	115,006
Exchange realignment	–	–	5,788	–	5,788
At 30 June 2006	–	150,000	18,472	462,897	631,369

Note:

Reserve on consolidation of the Group represents the net assets value of Zheng Da GZ at the date of transfer when the entire equity interest of Zheng Da GZ held by Shun Fat was transferred to Zheng Da at no consideration.

VII. CONSOLIDATED CASH FLOW STATEMENTS

The following are the consolidated cash flow statements of the Zheng Da Group for the Periods and the six months ended 30 June 2006, which are prepared on the basis set out in Section I and Section II above:

	Year ended 31 December			Six months ended 30 June	
	2004	**2005**	**2006**	**2006**	**2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(audited)	(audited)	(audited)	(unaudited)	(audited)
CASH FLOWS FROM OPERATING ACTIVITIES					
Profit before tax	107,359	372,042	658,171	171,384	864,380
Adjustments for:					
Finance costs *(Section IV, note (b))*	5,520	5,545	5,500	2,889	2,879
Depreciation *(Section IV, note (c))*	52	52	34	24	11
Gain on disposal of items of property and equipment *(Section IV, note (a))*	–	–	(154)	–	–
Gains on disposal of investment properties *(Section IV, note (a))*	–	–	(2,040)	–	–
Changes in fair value of investment properties	(112,800)	(379,980)	(665,046)	(173,731)	(867,028)
	131	(2,341)	(3,535)	566	242
Decrease/(increase) in prepayments, deposits and other receivables	(350)	(580)	44	118	2,297
Increase/(decrease) in trade payables	(3,720)	244	424	172	425
Increase/(decrease) in other payables and accruals	10,129	4,107	2,885	1,410	(881)
Exchange differences on translation of financial statements of a foreign entity	(571)	(4,860)	(11,329)	(2,402)	(9,241)
Cash generated from/(used in) operations	5,619	(3,430)	(11,511)	(136)	(7,158)
Overseas tax paid	–	–	(351)	–	–
Net cash inflow/(outflow) from operating activities	5,619	(3,430)	(11,862)	(136)	(7,158)

	Year ended 31 December			Six months ended 30 June	
	2004	2005	2006	2006	2007
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(audited)	(audited)	(audited)	(unaudited)	(audited)
CASH FLOWS FROM INVESTING ACTIVITIES					
Proceeds from disposal of items of property and equipment	–	–	160	–	–
Proceeds from disposal of investment properties	–	–	12,080	–	–
Interest paid in investment properties	(5,520)	(741)	(521)	(463)	(302)
Purchase of items of property and equipment	–	(33)	–	–	–
Net cash inflow/(outflow) from investing activities	(5,520)	(774)	11,719	(463)	(302)
CASH FLOWS FROM FINANCING ACTIVITIES					
Increase in interest-bearing bank borrowings	20	161	279	77	280
Increase/(decrease) in balances with a director	(601)	3,924	7,742	1,100	4,249
Net cash inflow/(outflow) from financing activities	(581)	4,085	8,021	1,177	4,529
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	(482)	(119)	7,878	578	(2,931)
Cash and cash equivalents at beginning of year/period	682	202	87	87	7,968
Effect of foreign exchange rate changes, net	2	4	3	1	280
CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD	202	87	7,968	666	5,317
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS					
Cash and bank balances	202	87	7,968	666	5,317

VIII. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Zheng Da Group's exposure to risks arising from their financial assets are summarised below:

Foreign currency risk

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

Considering that the fluctuation in the exchange rate of RMB against the Hong Kong dollar is not significant, the Zheng Da Group believes its exposure to exchange rate risk is not significant.

Liquidity risk

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

Capital management

The Zheng Da Group manages its capital to ensure that the Zheng Da Group will be able to continue as a going concern while maximising the return to the equity holders through the optimisation of the debt and equity balance.

The capital structure of Zheng Da Group consists of cash and bank balances, interest-bearing bank borrowings, amount due to a director and loan from a director and equity attributable to equity holders of Zheng Da, comprising issued capital, reserve on consolidation, exchange fluctuation reserve and retained profits.

IX. CORPORATE INFORMATION

In the opinion of the directors, the ultimate holding company of Zheng Da is Clear Smart, a company incorporated in the British Virgin Islands, at the date of this report.

X. SUBSEQUENT EVENTS

Save as disclosed elsewhere, the Zheng Da Group has the following significant post balance sheet events:

(a) In October 2007, Zheng Da GZ entered into an agreement with certain major creditors in Mainland China for not demanding repayment of certain outstanding payables, included in the balance of other payables and accruals as at 30 June 2007, of approximately HK$96,700,000, before 31 December 2008 and until the Zheng Da Group is able to generate sufficient profit and cash inflows to meet daily working capital.

(b) On 9 October 2007, Hero Master entered into a sale and purchase agreement (as amended on 26 October 2007) with Paton Bay and Clear Smart to acquire the entire equity interest in the Zheng Da Group for an aggregate consideration of RMB1,814.8 million (equivalent to approximately HK$1,880.0 million). The Acquisition was not yet completed at the date of this report.

XI. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by Zheng Da in respect of any period subsequent to 30 June 2007.

Yours faithfully,
ERNST & YOUNG
Certified Public Accountants
Hong Kong

The following are the unaudited pro forma financial information on the Enlarged Group and the text of a comfort letter thereon received from the reporting accountants, Ernst & Young, Certified Public Accountants, Hong Kong, prepared for the purpose of inclusion in this circular:

(A) UNAUDITED PRO FORMA FINANCIAL INFORMATION

(i) Basis of the preparation of the unaudited pro forma financial information on the Enlarged Group

The information set out below is for illustrative purpose only and does not form part of the accountants' report prepared by the reporting accountants of the Company, Ernst & Young, Certified Public Accountants, Hong Kong, as set out in Appendix II to this circular.

To provide additional financial information, the unaudited pro forma financial information of the Enlarged Group have been prepared based on:

(i) the audited consolidated balance sheet of the Zheng Da Group as at 30 June 2007 which has been extracted from Appendix II to this circular;

(ii) the unaudited consolidated balance sheet of the Group as at 30 June 2007 which has been extracted from the published interim report of the Group for the six months ended 30 June 2007;

(iii) the audited consolidated income statement and consolidated cashflow statement of the Group and the Zheng Da Group for the year ended 31 December 2006 which have been extracted from the published annual report of the Group for the year ended 31 December 2006 and Appendix II to this circular, respectively; and

(iv) after taking into account of the unaudited pro forma adjustments as described in the notes thereto to demonstrate the effect of the Acquisition and the financing arrangements for the Acquisition might have affected the historical financial information in respect of the Group as if the Acquisition had taken place on 30 June 2007 in the case of unaudited pro forma consolidated balance sheet or as if the Acquisition had been taken place on 1 January 2006 in the case of unaudited pro forma consolidated income statement and consolidated cash flow statement.

The unaudited pro forma financial information of the Enlarged Group presented below does not purport to present what the consolidated balance sheet would actually have been if the Acquisition had taken place on 30 June 2007 and the consolidated income statement and the consolidated cashflow statement would actually have been if the Acquisition had taken place on 1 January 2006, or to project the financial information for any future period and are included for illustrative purpose only.

The unaudited pro forma financial information should be read in conjunction with the financial information contained in this circular and the "Accountants' Report on Zheng Da Group" set out in Appendix II to this circular.

The unaudited pro forma financial information below has been prepared for illustrative purpose only, and because of its hypothetical nature, it may not give a true picture of the financial position of the Enlarged Group following the completion of the Acquisition.

(ii) Unaudited pro forma consolidated balance sheet of the Enlarged Group as at 30 June 2007 as if the Acquisition had been completed on 30 June 2007

	Unaudited The Group as at 30 June 2007	Audited Zheng Da Group as at 30 June 2007	Subtotal as at 30 June 2007	Unaudited pro forma adjustment		Unaudited pro forma adjustment		Unaudited pro forma consolidation adjustment		Unaudited pro forma Enlarged Group as at 30 June 2007
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*Notes*	*HK$'000*	*Notes*	*HK$'000*	*Notes*	*HK$'000*
Non-current assets										
Property, plant and equipment	13,036	28	13,064							13,064
Intangible assets	6,169	–	6,169							6,169
Interest in subsidiaries	–	–	–			1,880,000	*2a*	(1,880,000)	*4*	–
Investment properties	298,619	2,554,400	2,853,019					139,200	*3, 4*	2,992,219
Deposits and other receivable	40,000	–	40,000							40,000
Pledged deposits	3,522	–	3,522							3,522
Total non-current assets	361,346	2,554,428	2,915,774							3,054,974
Current assets										
Properties held for sales	–	34,084	34,084							34,084
Trade receivables	32,660	–	32,660							32,660
Derivative component of convertible bonds	–	–	–			45,689	*2c*			45,689
Prepayment, deposits and other receivables	31,351	1,481	32,832							32,832
Cash and cash equivalents	191,134	5,317	196,451	36,250	*1*	(225,050)	*2b*			7,651
Total current assets	255,145	40,882	296,027							152,916
Current liabilities										
Trade payables	(11,526)	(12,505)	(24,031)							(24,031)
Tax payable	(13,311)	(4,247)	(17,558)							(17,558)
Other payables and accruals	(33,767)	(115,937)	(149,704)							(149,704)
Interest-bearing bank and other borrowings	(25,532)	(8,240)	(33,772)							(33,772)
Deferred income	(18,057)	–	(18,057)							(18,057)
Total current liabilities	(102,193)	(140,929)	(243,122)							(243,122)
Net current assets/(liabilities)	152,952	(100,047)	52,905							(90,206)
Total assets less current liabilities	514,298	2,454,381	2,968,679							2,964,768
Non-current liabilities										
Convertible bonds	–	–	–			(676,715)	*2c*			(676,715)
Loan from a director	–	(65,899)	(65,899)							(65,899)
Due to a director	–	(63,635)	(63,635)							(63,635)
Interest-bearing bank and other borrowings	(1,824)	–	(1,824)							(1,824)
Deferred tax liabilities	(51,969)	(548,992)	(600,961)					(35,055)	*3, 4*	(636,016)
Promissory notes	–	–	–			(804,680)	*2b*			(804,680)
Total non-current liabilities	(53,793)	(678,526)	(732,319)							(2,248,769)
NET ASSETS	460,505	1,775,855	2,236,360							715,999

	Unaudited The Group as at 30 June 2007 *HK$'000*	Audited Zheng Da Group as at 30 June 2007 *HK$'000*	Subtotal as at 30 June 2007 *HK$'000*	Unaudited pro forma adjustment *HK$'000*	*Notes*	Unaudited pro forma adjustment *HK$'000*	*Notes*	Unaudited pro forma consolidation adjustment *HK$'000*	*Notes*	Unaudited pro forma Enlarged Group as at 30 June 2007 *HK$'000*
Equity										
Issued share capital	122,648	–	122,648	29,000	*1*	48,760	*2d*			200,408
Share premium	350,953	–	350,953	7,250	*1*	12,190	*2d*			370,393
Exchange fluctuation reserve	25,281	82,812	108,093					(82,812)	*4*	25,281
Contributed surplus	80,258	–	80,258							80,258
Share option reserves	1,110	–	1,110							1,110
Capital reserves	–	150,000	150,000					(150,000)	*4*	–
Equity component of convertible bonds	–	–	–			158,294	*2c*			158,294
Retained profits/(accumulated losses)	(119,745)	1,543,043	1,423,298					(1,543,043)	*4*	(119,745)
	460,505	1,775,855	2,236,360							715,999

Notes:

1. The adjustment represents the issue of 145,000,000 Placing Shares which resulted in a consideration of HK$36,250,000 of which the share capital of HK$29,000,000 and share premium of HK$7,250,000 are reflected in the unaudited pro forma adjustment as if the Acquisition and the Placing were completed on 30 June 2007.

2. In connection with the proposed acquisition of entire equity interest of Zheng Da Real Estate Development Company Limited (正大房地產開發有限公司) ("Zheng Da") and its wholly-owned subsidiary (hereinafter collectively referred to as the "Zheng Da Group") (the "Acquisition"), the Acquisition is to be completed in four tranches (or any part thereof) and the maximum aggregate consideration of RMB1,814.8 million (equivalent to approximately HK$1,880 million) which is determined with reference to the audited consolidated net asset value of the Zheng Da Group as at 30 June 2007 adjusted by the change in fair value of investment properties of the Zheng Da Group between 30 June 2007 and 31 August 2007 as valued by Vigers as at 31 August 2007 (the "Total Consideration") payable by the Company will be satisfied by way of the following:

   The consideration for the First Tranche is RMB453,700,000 (equivalent to HK$470,000,000) which is to be satisfied at the completion of the First Tranche by (i) the issuance of 243,800,000 shares at an issue price of HK$0.25 per share; (ii) the issuance of the zero coupon convertible and redeemable bonds of HK$84,000,000; (iii) cash of HK$225,050,000; and (iv) issuance of a promissory note of HK$100,000,000 to the Vendors.

   The Second, Third and Fourth Tranches will be satisfied as to the issuance of convertible and redeemable bonds in the aggregate principal amount of HK$244,440,000, HK$225,680,000 and HK$235,200,000 respectively. The remaining balance of each tranche will be settled by way of cash and/or promissory notes in the agreed form.

   For pro forma financial information illustration purpose, the Acquisition is assumed to have been completed on 30 June 2007 and the entire Second, Third and Fourth Tranches have been satisfied by way of issuance of convertible and redeemable bonds and promissory notes. Accordingly, the Acquisition is to be satisfied by way of (i) the issuance of 243,800,000 shares at an issue price of HK$0.25 per share; (ii) the issuance of the zero coupon convertible and redeemable bonds of HK$789,320,000; (iii) payment of cash of HK$225,050,000; and (iv) issuance of promissory notes of HK$804,680,000 to the Vendors.

   (a) Given that the Acquisition is assumed to have been completed on 30 June 2007, the consideration of HK$1,880,000,000 payable by the Company is included as a pro forma adjustment, accordingly.

   (b) The unaudited pro forma adjustment reflects the payment of cash consideration of HK$225,050,000 and the issuance of promissory notes of HK$804,680,000, as mentioned above.

(c) In connection with the Acquisition, the zero coupon convertible and redeemable bonds of HK$789,320,000 are assumed to be issued to the Vendor on the date of completion of the Acquisition.

The fair values of derivative portion (the "30 June 2007 Fair Value") and liability portion of the zero coupon convertible and redeemable bonds of HK$45,689,000 and HK$676,715,000 respectively as at 30 June 2007 are estimated by Savills, an independent valuer, by using an option pricing model and by using the market rate for an equivalent non-convertible bond on the issuance of convertible bonds, respectively. The residual amount of HK$158,294,000 is assigned as the equity portion and is included in the Group's equity component of convertible notes in accordance with HKAS 32 "Financial Instruments: Disclosure and Presentation".

The actual fair values of derivative portion and liability portion of the zero coupon convertible and redeemable bonds and the corresponding residual amount assigned as equity portion in accordance with HKAS 32 at the date of completion of Acquisition may be different from the respective amounts as shown in the unaudited pro forma consolidated balance sheet as shown above as the market interest rate at the date of completion of the Acquisition may fluctuate and vary from the market interest rate used in preparation of the unaudited pro forma financial information on the Enlarged Group.

The derivative component of the Convertible Bonds represents the embedded early redemption option of the Convertible Bonds. The option to early redeem all or part of the convertible bond is an asset of the bond issuer in nature.

(d) In connection with the Acquisition, 243,800,000 shares with total amounts of HK$60,950,000 at an issue price of HK$0.25 per share are assumed to be issued on the completion date of the Acquisition (the "Consideration Shares"). As a result of the issuance of the Consideration Shares, the Company's share capital of HK$48,760,000 and the estimated share premium of HK$12,190,000 was reflected in unaudited pro forma adjustments as if the Acquisition was completed on 30 June 2007.

The actual share premium amount at the date of completion of the Acquisition may be different from the estimated share premium as shown in the unaudited pro forma consolidated balance sheet because the market price of the shares of the Company may be different at the date of exchange.

3. The pro forma consolidation adjustments reflect elimination of the Group's entire equity interests in the Zheng Da Group after the completion of the Acquisition. A pro forma consolidation adjustment in relation to revaluation surplus of HK$139,200,000 (the "August Surplus") and deferred tax liabilities (the "August Deferred Tax") of HK$35,055,000 arising from such revaluation surplus was made to the investment properties of Zheng Da Group based on the valuation performed by Vigers Appraisal & Consulting Limited ("Vigers") as at 31 August 2007 as set out in Appendix IV to the circular.

The Consideration is based on the audited consolidated net asset value of the Zheng Da Group as at 30 June 2007, adjusted for the valuation as at 31 August 2007 by Vigers of the investment properties of Zheng Da Group. Therefore, the change in fair value of investment properties of HK$139,200,000 should be taken up in the pro forma consolidated balance sheet. Accordingly, the carrying value of the investment properties was RMB2,600,000,000 as at 31 August 2007.

In this connection, the revaluation surplus represents the fair value adjustment of the investment properties upon acquisition of Zheng Da Group. Therefore, the pro forma consolidated income statement does not take up such revaluation surplus.

4. Under Generally Accepted Accounting Principles in Hong Kong, the Group will apply the purchase method to account for the Acquisition. In applying the purchase method, the identifiable assets, liabilities and contingent liabilities of Zheng Da Group will be recorded on the unaudited pro forma consolidated balance sheet of the Enlarged Group at their fair values at the date of completion, and all the capital and reserves of the Zheng Da Group upon completion of the Acquisition will be eliminated as the pre-acquisition reserves of the Enlarged Group. Any goodwill arising on the Acquisition will be determined as the excess or deficit of the purchase consideration deemed to be incurred by the Group over the Group's interests in the net fair value of the identifiable assets, liabilities and contingent liabilities of the Zheng Da Group at the date of completion of the Acquisition. For the purpose of preparing the unaudited pro forma consolidated balance sheet of the Enlarged Group after the Acquisition, no goodwill was recognised because the net book value of the identifiable assets and liabilities of the Zheng Da Group, as extracted from the accountants' report of the Zheng Da Group set forth in Appendix II to this circular after adjusted for the net effect of August Surplus and August Deferred Tax, is equal to the Total Consideration. The actual goodwill arising at the date of completion of the Acquisition may be different as shown above because the fair value of the assets, liabilities and contingent liabilities of Zheng Da Group at the date of completion of the Acquisition may be substantially different from their adjusted book value used in preparation of the unaudited pro forma consolidated balance sheet above.

(iii) Unaudited pro forma consolidated income statement of the Enlarged Group as if the Acquisition had been completed on 1 January 2006

	For the year ended 31 December 2006							
	The Group	**Zheng Da Group**	**Subtotal**	**Unaudited pro forma adjustment**		**Unaudited pro forma adjustment**		**Unaudited pro forma Enlarged Group**
	HK$'000	*HK$'000* *(Note 3)*	*HK$'000*	*HK$'000*	*Notes*	*HK$'000*	*Notes*	*HK$'000*
Continuing operations								
Revenue	12,562	2,162	14,724					14,724
Cost of sales	(5,656)	–	(5,656)					(5,656)
Gross profit	6,906	2,162	9,068					9,068
Other income	1,944	2,443	4,387					4,387
Change in fair value of investment properties	–	665,046	665,046					665,046
Administrative expenses	(16,561)	(5,980)	(22,541)					(22,541)
Other operating expense, net	(10,511)	–	(10,511)					(10,511)
Finance costs	(2,367)	(5,500)	(7,867)	(32,187)	*1*	(54,137)	*2*	(94,191)
Profit/(loss) before tax	(20,589)	658,171	637,582					551,258
Tax	(223)	(216,202)	(216,425)					(216,425)
Profit/(loss) for the year from continuing operations	(20,812)	441,969	421,157					334,833
Discontinued operation								
Loss for the year from a discontinued operation	(124,949)	–	(124,949)					(124,949)
Profit/(loss) for the year	(145,761)	441,969	296,208					209,884

Notes:

1. The adjustment represents the interest expenses in respect of the promissory notes issued at the completion of the Acquisition. The promissory notes bear an interest rate of 4% per annum.

2. The adjustment represents the amortisation of the liability component of the zero coupon convertible and redeemable bonds upon the Acquisition.

3. The 30 June 2007 Fair Value is assumed to be same as the fair values of the derivative component as at 1 December 2006 and 31 December 2006.

(iv) Unaudited pro forma consolidated cash flow statement of the Enlarged Group

For the year ended 31 December 2006

	The Group HK$'000	Zheng Da Group HK$'000	Subtotal HK$'000	Unaudited pro forma adjustment HK$'000	*Notes*	Unaudited pro forma Enlarged Group HK$'000
Cash flows from operating activities						
Profit/(loss) before tax						
From continuing operations	(20,589)	658,171	637,582			637,582
From a discontinued operation	(124,949)	–	(124,949)			(124,949)
Adjustments for						
Interest expense	5,145	5,500	10,645			10,645
Interest income	(1,909)	–	(1,909)			(1,909)
Loss on disposal of interests in subsidiaries	106,187	–	106,187			106,187
Changes in fair value of investment properties	–	(665,046)	(665,046)			(665,046)
Amortisation of a prepaid rental	1,025	–	1,025			1,025
Depreciation	14,156	34	14,190			14,190
Amortisation of intangible assets	5,656	–	5,656			5,656
Impairment of intangible assets	3,587	–	3,587			3,587
Gain on disposal of items of property, plant and equipment	–	(154)	(154)			(154)
Gains on disposals of investment properties	–	(2,692)	(2,692)			(2,692)
Equity-settled share option scheme expenses	2,767	–	2,767			2,767
	(8,924)	(4,187)	(13,111)			(13,111)
Decrease in trade receivables	9,977	–	9,977			9,977
Decrease/(increase) in prepayments, deposits and other receivables	(18,778)	44	(18,734)			(18,734)
Increase/(decrease) in trade payables	(18,684)	424	(18,260)			(18,260)
Increase in other payables and accruals	5,965	2,885	8,850			8,850
Exchange differences on translation of financial statements of foreign entities	(2,791)	(11,329)	(14,120)			(14,120)
Cash used in operations	(33,235)	(12,163)	(45,398)			(45,398)
Interest received	1,909	–	1,909			1,909
Interest paid	(5,004)	–	(5,004)			(5,004)
Oversea taxes paid	–	(351)	(351)			(351)
Interest element on finance lease rental payments	(90)	–	(90)			(90)
Net cash outflow from operating activities	(36,420)	(12,514)	(48,934)			(48,934)

	For the year ended 31 December 2006					
	The Group HK$'000	Zheng Da Group HK$'000	Subtotal HK$'000	Unaudited pro forma adjustment HK$'000	Notes	Unaudited pro forma Enlarged Group HK$'000
Cash flows from investing activities						
Purchases of items of property, plant and equipment	(471)	–	(471)			(471)
Interest paid in investment properties	–	(521)	(521)			(521)
Proceeds from disposals of items of property, plant and equipment	–	160	160			160
Proceeds from disposals of investment properties	–	12,732	12,732			12,732
Decrease/(increase) in deposits pledged to a bank	(50)	–	(50)			(50)
Acquisition of subsidiaries	–	–	–	(225,050)	*(ii)2*	(225,050)
Disposal of subsidiaries	49,895	–	49,895			49,895
Increase in time deposits with original maturity of more than three months	(176,400)	–	(176,400)			(176,400)
Net cash inflow/(outflow) from investing activities	(127,026)	12,371	(114,655)			(339,705)
Cash flows from financing activities						
Proceeds from issue of shares	32,920	–	32,920	36,250	*(ii)1*	69,170
Increase in interest-bearing borrowings	–	279	279			279
Increase in balances with a director	–	7,742	7,742			7,742
Repayment of bank loans	(4,668)	–	(4,668)			(4,668)
Capital element of finance lease rental payments	(335)	–	(335)			(335)
Net cash inflow from financing activities	27,917	8,021	35,938			72,188
Increase/(decrease) in cash and cash equivalents	(135,529)	7,878	(127,651)			(316,451)
Cash and cash equivalents at 1 January	133,151	87	133,238			133,238
Effect of foreign exchange rate changes, net	4,580	3	4,583			4,583
Cash and cash equivalents at 31 December	2,202	7,968	10,170			(178,630)
Analysis of balances of cash and cash equivalents						
Cash and cash balances	2,202	7,968	10,170			*(178,630)

Note *: Time deposits with original maturity of more than three months of HK$176,400,000 was excluded in cash and cash equivalents.

ERNST & YOUNG
安永會計師事務所

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

26 November 2007

The Board of Directors
Zhong Hua International Holdings Limited
Suite 2911
West Tower
Shun Tak Centre
168-200 Connaught Road Central
Central
Hong Kong

Dear Sirs,

Zhong Hua International Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group")
Unaudited pro forma financial information

We report on the unaudited pro forma financial information (the "Unaudited Pro Forma Financial Information") of the Group, Zheng Da Real Estate Development Company Limited ("Zheng Da") and its wholly-owned subsidiary (hereinafter collectively referred to as the "Enlarged Group"), in connection with the circular for the proposed acquisition of the entire equity interest of Zheng Da (the "Transaction"), which has been prepared by the directors for illustrative purposes only, to provide information about how the Transaction might have affected the historical financial information in respect of the Group as at 30 June 2007, for inclusion in Appendix III to the circular dated 26 November 2007 (the "Circular") issued by the Company. The basis of preparation of the Unaudited Pro Forma Financial Information is set out on page 163 to the Circular.

Responsibilities

It is the responsibility solely of the directors of the Company to prepare the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

It is our responsibility to form an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements (HKSIR) 300 "Accountants' Report on Pro Forma Financial Information in Investment Circulars" issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information with the directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

The Unaudited Pro Forma Financial Information is for illustrative purposes only, based on the judgements and assumptions of the directors of the Company, and because of its hypothetical nature, it does not provide any assurance or indication that any event will take place in the future and may not be indicative of the financial position or results of

– the Enlarged Group had the transactions actually occurred as at the dates indicated therein; or

– the Enlarged Group at any future date or for any future periods.

Opinion

In our opinion:

(a) the accompanying Unaudited Pro Forma Financial Information has been properly compiled on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Yours faithfully,
ERNST & YOUNG
Certified Public Accountants
Hong Kong

Set out below are the respective valuation reports on the property interests of the Group and the Target Group:

(i) The Group

The following is the text of a property valuation report, prepared for the purpose of inclusion in this circular, received from Savills, in connection with its valuation as at 31 August 2007 of the property interest of the Group:

Zhong Hua International Holdings Limited
Suite 2911, West Tower
Shun Tak Centre
168-200 Connaught Road
Central
Hong Kong

savills
第一太平戴維斯

T : (852) 2801 6100
F : (852) 2501 5590

23/F Two Exchange Square
Central, Hong Kong

EA Licence: C-023750
savills.com

26 November 2007

Dear Sirs,

In accordance with your instructions to value the property held by Zhong Hua International Holdings Limited (the "Company") and its subsidiaries (hereinafter together referred to as the "Group") in the People's Republic of China (the "PRC"), we confirm that we have carried out an inspection, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of value of such property as at 31 August 2007 ("valuation date") for inclusion in a circular issued by the Company.

Our valuation of the property is our opinion of its market value which we would define as intended to mean "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion".

The market value is the best price reasonably obtainable in the market by the seller and the most advantageous price reasonably obtainable in the market by the buyer. This estimate specifically excludes an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangements, joint ventures, management agreements, special considerations or concessions granted by anyone associated with the sale, or any element of special value. The market value of a property is also estimated without regard to costs of sale and purchase, and without offset for any associated taxes.

In valuing the property in the PRC, we have assumed that transferable land use rights in respect of the property for a specific term at nominal land use fee have been granted and that all requisite land premium payable has been fully settled. We have also assumed that the owner of the property has enforceable title and has free and uninterrupted rights to use, occupy or assign the property for the whole of the unexpired term as granted.

In valuing the property which is held by the Group for investment, we have capitalized the net income as shown in the schedules provided to us with due allowance for the reversionary income potential of the property and also made reference to the comparable market transactions.

We have been provided with copies of extracts of title documents relating to the property. However, we have not inspected the original documents to ascertain any amendments that may not appear on the copies handed to us. We have relied to a very considerable extent on information given by the Group and its legal advisers regarding the title to the property. We have also accepted advice given to us on such matters as planning approvals, statutory notices, easements, tenure, particulars of occupancy, identification of the property and floor areas. Dimensions, measurements and areas included in the valuation certificate are based on information contained in the documents provided to us and are therefore only approximations. No on-site measurements have been made. We have had no reason to doubt the truth and accuracy of the information provided to us by the Group which is material to our valuation. We have also advised by the Group that no material facts have been omitted from the information provided.

We have inspected the exterior and where possible, the interior of the property. During the course of our inspection, we did not note any serious defects. However, no structural survey has been made and we are therefore unable to report that the property is free from rot, infestation or any other defects. No tests were carried out on any of the services.

No allowance has been made in our valuation for any charges, mortgages or amounts owing on the property nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the property is free from encumbrances, restrictions and outgoings of an onerous nature which could affect its value.

In valuing the property, we have complied with the requirements set out in Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities issued by the Stock Exchange of Hong Kong Limited and Valuation Standards on Properties (First Edition) published by the Hong Kong Institute of Surveyors.

Unless otherwise stated, all monetary amounts stated are in Hong Kong Dollars. The exchange rate adopted in our valuation is HK$1 = RMB0.9699, which was the approximate exchange rate prevailing as at the valuation date and there has been no significant fluctuation in such exchange rate between that date and the date of this letter.

Our valuation certificate is attached.

Yours faithfully,
For and on behalf of
Savills Valuation and Professional Services Limited
Charles C K Chan
MSc FRICS FHKIS MCIArb RPS(GP)
Managing Director

Note: Charles C K Chan, MSc, FRICS, FHKIS, MCIArb, RPS (GP), has been a qualified valuer and has about 23 years' experience in the valuation of properties in Hong Kong and has about 18 years' experience in the valuation of properties in the PRC.

VALUATION CERTIFICATE

Property held by the Group for investment

Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 August 2007
Retail, Office and Warehouse Portions of Gang Yu Square, Junction of No. 6 Lane of Shanxi Road and Chiao Dong Road, Yuzhong District, Chongqing, PRC	Gang Yu Square is a 15-storey plus a basement commercial building completed in 1997. The property comprises various retail units on the first, second, third, fourth, eighth and eleventh levels and various office units on the whole of fourteenth level and a warehouse unit on the basement level of Gang Yu Square. The property has a total gross floor area of approximately 26,460.39 sq m (284,820 sq ft). The land use rights of the property have been granted for a term of 40 years commencing on 1 May 1996 and expiring on 30 April 2036 for commercial uses.	Apart from the 14th Level of the property which is owner-occupied as office, the remaining portion of the property is currently subject to a lease for a term of 2 years expiring on 31 August 2007, yielding an annual rent of RMB9,500,000 exclusive of management fee and other charges. As advised by the Company, the tenancy will be renewed for a term of one year commencing on 31 August 2007 with other terms remain unchanged.	HK$322,000,000

Notes:

(1) Pursuant to the State-owned Land Use Certificate issued by Chongqing Yu Zhong District State Land Administration Bureau on 13 January 1997, the land use rights of Gang Yu Square have been granted to 重慶超霸房地產開發有限公司 (Chongqing Smart Hero Real Estate Development Company Limited, a wholly-owned subsidiary of the Company, hereinafter referred to as "Chongqing Smart Hero") for a term of 40 years commencing on 1 May 1996 and expiring on 30 April 2036 for commercial uses.

(2) Pursuant to the Building Ownership Certificate No. 049501 issued by Chongqing City Land and Building Administration Bureau on 6 August 2000, the ownership of Gang Yu Square with a total gross floor area of approximately 49,383.34 sq m is vested in Chongqing Smart Hero.

(3) Pursuant to the Distribution Agreement for Gang Yu Square made between 重慶市商業儲運公司 ("Chongqing Shangye") and Chongqing Smart Hero on 26 June 1997, Chongqing Smart Hero is entitled to the ownership of the whole of levels 1, 2, 3, 4, 8, 9, 10, 11 and 60 percent of area of the basement level.

According to the information provided by the Company, the property comprises a total gross floor area of approximately 26,460.39 sq m.

(4) The breakdown of the market value of the property is summarised as follows:

Portion	Market value in existing state as at 31 August 2007
Portion of Basement, L1, L2, L3, L4, L8 and L11	HK$315,000,000
L14	HK$7,000,000
Total:	HK$322,000,000

(5) We have been provided with a legal opinion on the title to the property issued by the Group's PRC legal adviser, which contains, inter-alia, the following information:

(i) Chongqing Smart Hero has acquired the State-owned Land Use Certificate and Building Ownership Certificate of Gang Yu Square with a total gross floor area of 49,377.34 sq m;

(ii) according to the Distribution Agreement for Gang Yu Square entered into between Chongqing Shangye and Chongqing Smart Hero, the ownership of Levels 1, 2, 3, 4, 8, 9, 10, 11 and 60% per cent. of area of the basement level of Gang Yu Square is vested in Chongqing Smart Hero;

(iii) the parties that entered into the said Distribution Agreement for Gang Yu Square have not proceeded to the procedure for change of ownership accordingly. Chongqing Smart Hero still holds the ownership of all the levels of Gang Yu Square as stated in the said Building Ownership Certificate; and

(iv) Chongqing Smart Hero is entitled to transfer, lease, manage or mortgage the property accordingly.

(ii) The Target Group

The following is the text of a property valuation report, prepared for the purpose of inclusion in this circular, received from Vigers, in connection with its valuation as at 31 August 2007 of the interest in the property of the Target Group:

Vigers Appraisal and Consulting Limited
International Property Consultants
10th Floor, The Grande Building
398 Kwun Tong Road
Kowloon
Hong Kong

VIGERS 威格斯

26 November 2007

The Board of Directors
Zhong Hua International Holdings Limited
Suite 2911
West Tower, Shun Tak Centre
Nos. 168-200 Connaught Road Central
Hong Kong

Dear Sirs,

In accordance with your instruction for us to value the interest in the property to be acquired and held by Zhong Hua International Holdings Limited (referred to as "the Company"), we confirm that we have inspected the property, made relevant enquiries and investigations as well as obtained such further information as we consider necessary for the purpose of providing our opinion of value of the interest in the property as at 31 August 2007 (the "Valuation Date").

Our valuation is our opinion of market value of the interest in the property in question which is defined as intended to mean "*the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller on an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion*". Our valuation has been prepared in accordance with "The HKIS Valuation Standards on Properties (First Edition 2005)" published by The Hong Kong Institute of Surveyors, the relevant provisions in the Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (Main Board).

In the course of our valuation, we have valued the interest in the property by adopting the comparison method of valuation on the assumption that the interest in the property can be sold with the benefit of vacant possession. Comparisons based on prices realized on actual sales or offerings of comparable properties have been made. Comparable properties with similar sizes, character, location and so on are analyzed and carefully weighed against all respective advantages and disadvantages of the property interest of the property in order to arrive at a fair comparison of value.

We have been given extracts of copies of relevant title documents for the property in concern. We have not checked title to the interest in the property nor scrutinized the original title documents, however. We have relied on the advice given by the Company and its legal advisors on the laws of the PRC (the "PRC Legal Advisors") regarding title to the property interests of the property. For the purpose of our valuation, we have taken into account the legal opinion of the PRC Legal Advisors. While we have exercised our professional judgement in arriving at our valuation, you are urged to consider our valuation assumptions with caution.

Our valuation has been made on the assumption that the property interest can be sold in the prevailing market in existing state without the effect of any deferred term contract, leaseback, joint venture, management agreement or any other similar arrangement which may serve to affect the value of the property interests of the property unless otherwise noted or stated. In addition, no account has been taken into of any option or right of pre-emption concerning or affecting the sale of the property interests of the property.

In valuing the property interest, we have assumed that the owner of the property interest has free and uninterrupted rights to use and assign the property during the whole of the unexpired term(s) granted subject to the payment of usual land-use fees.

No investigation has been carried out to determine the suitability of the ground conditions or the services for any property development erected or to be erected on the property. Our valuation has been carried out on the assumption that these aspects are satisfactory. We have also assumed that all necessary consents, approvals and licences from relevant government authorities have been or will be granted without onerous conditions or delay. Other special assumptions for the property interests have been stated in the footnotes of the valuation certificate, if any.

We have inspected the property included in the attached valuation certificate. During the course of our inspection, we did not note any serious defect. However, neither a structural survey nor a test on any of the services has been carried out and we are therefore unable to report as to whether the property is free from rot, infestation or other structural or non-structural defect.

Having examined all relevant documentation, we have relied to a considerable extent on the information given by the Company, particularly in respect of planning approvals, statutory notices, easements, tenure, land-use rights, site areas, development parameters, occupancy status, development costs and in the identification of the property in question.

Unless otherwise stated, all dimensions, measurements and areas included in the valuation certificate are based on the information contained in the documents provided to us by the Company and are therefore approximations. We have had no reason to doubt the truth and accuracy of the information made available to us and we have been advised by the Company that no material facts have been omitted from the information so given.

We have not carried out detailed on-site measurement to verify the correctness of the site and floor areas in respect of the property in concern but we have assumed that the site and floor areas shown on the documents handed to us are correct.

No allowance has been made in our valuation for any charges, mortgages or amounts owing on the property interests of the property being valued for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, we have assumed that the property interests of the property are free from any encumbrances, restrictions and outgoings of an onerous nature which may serve to affect the value of the property interests of the property.

We declare hereby that we are independent of the Company and we are not interested directly or indirectly in any shares in any member of the Company's group. We do not have any right or option whether legally enforceable or not to subscribe for or to nominate persons to subscribe for any shares in any member of the Company's group.

Unless otherwise stated, all monetary amounts stated herein are in the currency of Renminbi ("RMB").

We enclose herewith our Valuation Certificate.

Yours faithfully,
For and on behalf of
VIGERS APPRAISAL AND CONSULTING LIMITED
David W. I. CHEUNG
MRICS MHKIS RPS(GP) CREA MCIArb
Executive Director

Note: Mr. David W. I. Cheung is a Registered Professional Surveyor in General Practice Division with over 23 years' valuation experience on properties in various regions including the PRC, who has been vetted on the list of property valuers for undertaking valuations for incorporation or reference in listing particulars and circulars and valuations in connection with takeovers and mergers published by The Hong Kong Institute of Surveyors, and is suitably qualified for undertaking valuations relating to listing exercises.

VALUATION CERTIFICATE

Property Interest to be Held by the Group for Future Development Purpose

Property	Description and Tenure	Particulars of Occupancy	Capital Value in Existing State as at 31st August 2007
The Land Parcels located to the West of Jiefang Road South, to the North of Daxin Road; to the South of Yede Road and to the East of Xieen Street, Yuexiu District, Guangzhou Guangdong Province, The People's Republic of China	The property comprises three contiguous land parcels in irregular shape having a total site area of approximately 22,800.00 square metres inclusive of the registered net site area of approximately 16,772.77 square metres held in the form of granted land-use rights and the registered net site area of approximately 430.00 square metres held in the form of allocated land-use rights. The property is in its early planning stage and is planned to be developed into a 22-storey (with 3-level of basement) composite building for shopping arcade, office and apartment uses with ancillary facilities such as carpark and loading & unloading areas provided therein having a total gross floor area of approximately 233,818.00 square metres including shopping arcade of approximately 111,444.00 square metres, office of approximately 91,486.00 square metres and apartment of approximately 14,400.00 square metres. The remainder will comprise carpark and other ancillary facilities. Part of the property having a registered net site area of approximately 16,772.77 square metres is held under granted land-use rights with the terms of 40 years to be expired in 2039 for commercial, tourism and entertainment uses as well as 50 years for other uses to be expired in 2049; whilst part of the property having a registered net site area of approximately 430.00 square metres is held in the form of allocated land-use rights.	Part of the property is currently used as an open carpark, which will be developed as Phase 1 of the proposed development with the expected construction work commencement in 2008; a 2-storey commercial building, which will be demolished and redeveloped in 2009 as Phase 2 of the proposed development, is currently erected on the northern part of the property; whilst part of the property held in the form of allocated land-use rights is occupied by an old building which is to be demolished and developed as road and greenery space.	RMB2,600,000,000 *(Please also refer to Note 6. and Note 7.v. below for further details.)*

Notes:

1. i. Pursuant to State-owned Land-use Rights Grant Contract of Guangzhou City (Document No.: Sui Guo Di Chu He (98) No. 327) entered into between Bureau of Land Resources and Housing Management of Guangzhou Municipality and 廣州市正大房地產開發有限公司 on 31st July 1998 (the "First Contract"), the land-use rights of a parcel of land located to the east of Jiefang Road South and to the south of Daxin Road in Yuexiu District having a site area of approximately 9,952.00 square metres have been granted to the latter with the land-use rights terms of 40 years for commercial, tourism and entertainment uses as well as 50 years for other uses commencing on the date of Permission Agreement for Construction Land-use. According to the First Contract, the property is subject to the following salient development conditions.

Total Gross Floor Area	:	66,833.00 square metres
Use	:	Commercial Building
Building Covenants	:	The grantor has the right to forfeit the land-use rights if the grantee does not invest in construction for two consecutive years.

ii. Pursuant to State-owned Land-use Rights Grant Contract of Guangzhou City (Document No.: Sui Guo Di Chu He (98) No. 328) entered into between Bureau of Land Resources and Housing Management of Guangzhou Municipality and 廣州市正大房地產開發有限公司 on 31st July 1998 (the "Second Contract"), the land-use rights of a parcel of land located to the east of Jiefang Road South, to the south of Daxin Road and to the north of Yede Road in Yuexiu District having a site area of approximately 11,909.00 square metres have been granted to the latter with the land-use rights terms of 40 years for commercial, tourism and entertainment uses as well as 50 years for other uses commencing on the date of Permission Agreement for Construction Land-use. According to the Second Contract, the property is subject to the following salient development conditions.

Total Gross Floor Area	:	93,123.00 square metres
Use	:	Commercial Building
Building Covenants	:	The grantor has the right to forfeit the land-use rights if the grantee does not invest in construction for two consecutive years.

2. i. Pursuant to Certificate of State-owned Land-use of the People's Republic of China (Document No.: Sui Fu Guo Yung (1999) Zi Te No. 035) issued by Bureau of Land Resources and Housing Management of Guangzhou Municipality dated 9th February 1999, the land-use rights of a parcel of land located to the east of Jiefang Road South and to the south of Daxin Road with net site area of approximately 7,369.63 square metres is vested in the name of "廣州市正大房地產開發有限公司" for composite use.

ii. Pursuant to Certificate of State-owned Land-use of the People's Republic of China (Document No.: Sui Fu Guo Yung (1999) Zi Te No. 036) issued by Bureau of Land Resources and Housing Management of Guangzhou Municipality dated 9th February 1999, the land-use rights of a parcel of land located at Jiefang South, Yede Road Wuxian Lane, Jiuquhang with net site area of approximately 9,403.14 square metres are vested in the name of "廣州市正大房地產開發有限公司" for composite use.

iii. Pursuant to State-owned Land Allocation Resolution of Guangzhou City (Document No.: Sui Guo Di Hua Jue (2003) No. 187) issued by Bureau of Land Resources and Housing Management of Guangzhou Municipality dated 27th October 2002, the land-use rights of a parcel of land located to the east of Jiefang Road South and the north of Yede Road in Yuexiu District with site area and net site area of approximately 945 square metres and 430 square metres respectively have been allocated to "廣州市正大房地產開發有限公司" for road and greenery uses.

3. i. Pursuant to Permission Certificate of Construction Land-use of the People's Republic of China (Document No.: (92) Sui Cheng Gui Di No. 0033) issued by Bureau of Urban Planning of Guangzhou Municipality, the land parcel located to the east of Jiefang Road South, to the south of Daxin Road, to the West of Xieen Lane and to the North of Yede Road with site area of approximately 21,861.00 square metres has fulfilled the urban planning requirements.

ii. Pursuant to Permission Certificate of Construction Land-use of the People's Republic of China (Document No.: Sui Gui Di Zheng (2002) No. 198) issued by Bureau of Urban Planning of Guangzhou Municipality, the land parcel located to the east of Jiefang Road South, to the North of Yede Road and to the west of Province Exhibition Centre with site area of approximately 945 square metres has fulfilled the urban planning requirements.

4. A summary of the status of major certificates as of the Valuation Date is shown as follows:

	Certificate	**Obtained**
i.	State-owned Land-use Rights Grant Contract	Yes
ii.	Certificate of State-owned Land-use	Yes
iii.	State-owned Land Allocation Resolution	Yes
iv.	Permission Certificate for Construction Land-use Planning	Yes
v.	Permission Certificate for Construction Works Planning	No
vi.	Permission Certificate for Construction Works Commencement	No
vii.	Presale Permit of Commodity Housing	No

5. Our valuation has been made on the assumption that all land-use rights grant premium has been fully settled and the Company will not be liable for the likely extra land-use rights grant premium, if any.

6. In the course of our valuation, we have ascribed no commercial value to part of the property which is held in the form of allocated land-use rights due to the prohibition against transferral or assignment as well as the non-construction land-use in nature.

7. The PRC Legal Advisors have stated in their legal opinion, including but not limited to the following:

   i. The property is vested in the name of "廣州市正大房地產開發有限公司".

   ii. "廣州市正大房地產開發有限公司" has the right to develop the property with total gross floor area not exceeding 233,818.40 square metres.

   iii. "廣州市正大房地產開發有限公司" has the right to transfer, lease, mortgage or by other means dispose of the property except for the land-use rights held in the form of allocated land-use.

   iv. The land-use rights of the property is not subject to mortgage or other material encumbrances.

   v. The planned aboveground gross floor area exceeds the permitted gross floor area as stated in the State-owned Land-use Rights Grant Contract, 廣州市正大房地產開發有限公司 will be liable for the extra land-use rights grant fee upon completion.

RESPONSIBILITY STATEMENT

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

SHARE CAPITAL

The authorised and issued and fully paid up share capital of the Company as at the Latest Practicable Date was as follows:

		HK$
Authorised:		
1,000,000,000	Shares	200,000,000
Issued and fully paid:		
920,241,300	Shares	184,048,260

The authorised and issued and fully paid up share capital of the Company upon the increase in the authorised share capital of the Company becoming effective, and the issue of the Consideration Shares and the Conversion Shares will be as follows:

		HK$
Authorised:		
10,000,000,000	Shares	2,000,000,000
Issued and fully paid:		
920,241,300	Shares	184,048,260
243,800,000	Consideration Shares	48,760,000
2,819,000,000	Conversion Shares to be allotted and issued pursuant to the Convertible Bonds	563,800,000
3,983,041,300	Shares	796,608,260

DISCLOSURE OF INTERESTS

(i) Directors' interests and short positions in the securities of the Company and its associated corporations

As at the Latest Practicable Date, the interests and short positions of the Directors and the chief executives of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) (a) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which the Directors or the chief executives were taken or deemed to have under such provisions of the SFO); or (b) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code contained in the Listing Rules were as follows:

(a) The Company

Name of the Director	Nature of interests	Number of the Shares		Approximate % of total issued share capital as enlarged by the issue of Conversion shares and upon conversion of HK$1,000,000 (being the authorised denomination pursuant to the terms and conditions of the Convertible Bonds) at the initial conversion price of HK$0.28 per Share
		Long position	Short position	
Ho Tsam Hung	Interest through controlled corporations *(Note 1)*	293,571,428	–	25.14%
Ho Kam Hung	Interests through controlled corporations *(Note 2)*	306,071,428	–	26.21%

Notes:

1. 14,500,000 Shares, 247,371,428 Shares and 31,700,000 Shares were beneficially held by Mr. Ho Tsam Hung through Morgan Estate Assets Limited, Paton Bay Limited and High Rank Enterprises Ltd. respectively.

2. 27,000,000 Shares, 247,371,428 Shares and 31,700,000 Shares were beneficially held by Mr. Ho Kam Hung through Morcambe Corporation, Paton Bay Limited and High Rank Enterprises Ltd. respectively.

(b) Associated corporations

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

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

Name of the Director	Nature of interests	Number of shares: Long position	Number of shares: Short position	Approximate % of total issued share capital
Ho Tsam Hung	Beneficial interest	91	–	30.13%
Ho Kam Hung	Beneficial interest	91	–	30.13%

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

Name of the Director	Nature of interests	Number of shares: Long position	Number of shares: Short position	Approximate % of total issued share capital
Ho Tsam Hung	Beneficial interest	91	–	30.13%
Ho Kam Hung	Beneficial interest	91	–	30.13%

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

Save as disclosed above, as at the Latest Practicable Date, to the knowledge of the Company, none of the Directors or the chief executives of the Company had or was deemed to have any interests or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) (a) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which the Directors and the chief executives were taken or deemed to have under the provisions of the SFO); or (b) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code contained in the Listing Rules.

(ii) Interests of substantial Shareholders

As at the Latest Practicable Date, so far as is known to any Director or chief executive of the Company, other than a Director or chief executive of the Company, the following persons had interests or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group:

Long position in the Shares

Name of the Shareholder	Nature of interest	Number of the Shares	Approximate % of total issued share capital as enlarged by the issue of Conversion shares and upon conversion of HK$1,000,000 (being the authorised denomination pursuant to the terms and conditions of the Convertible Bonds) at the initial conversion price of HK$0.28 per Share
Hero Grand Investments Limited *(Note 1)*	Beneficial interest	77,000,000	6.59%
Leung Po Wa *(Note 1)*	Interest through a controlled corporation	77,000,000	6.59%
East Grand Group Limited *(Note 2)*	Beneficial interest	60,000,000	5.14%
Zou Shengming *(Note 2)*	Interest through a controlled corporation	60,000,000	5.14%
Super Grand Holdings Limited *(Note 3)*	Beneficial interest	60,000,000	5.14%
Henry Mong *(Notes 3, 8)*	Interest through a controlled corporation	60,000,000	5.14%
	Interest of a spouse	20,000,000	1.71%

Name of the Shareholder	Nature of interest	Number of the Shares	Approximate % of total issued share capital as enlarged by the issue of Conversion shares and upon conversion of HK$1,000,000 (being the authorised denomination pursuant to the terms and conditions of the Convertible Bonds) at the initial conversion price of HK$0.28 per Share
Ho Pak Hung *(Note 4)*	Interest through controlled corporations	306,071,428	26.21%
Liang Gui Fen *(Note 5)*	Interest of a spouse	306,071,428	26.21%
Ye Jia Li *(Note 6)*	Interest of a spouse	306,071,428	26.21%
Yeung Ching Yi *(Note 7)*	Interest of a spouse	293,571,428	25.14%
Xiong Shu Min *(Notes 3, 8)*	Interest of a spouse	60,000,000	5.14%
	Beneficial interest	20,000,000	1.71%
Paton Bay Limited	Beneficial interest	247,371,428	21.19%

Notes:

1. Hero Grand Investments Limited is wholly owned by Leung Po Wa.

2. East Grand Group Limited is wholly owned by Zou Shengming.

3. Super Grand Holdings Limited is wholly owned by Henry Mong.

4. 27,000,000 Shares, 247,371,428 Shares and 31,700,000 Shares were beneficially held by Mr. Ho Pak Hung through On Tai Profits Limited, Paton Bay Limited and High Rank Enterprises Ltd. respectively.

5. Ms. Liang Gui Fen is the wife of Mr. Ho Pak Hung.

6. Ms. Ye Jia Li is the wife of Mr. Ho Kam Hung.

7. Ms. Yeung Ching Yi is the wife of Ho Tsam Hung.

8. Ms. Xiong Shu Min is the wife of Mr. Henry Mong.

Save as disclosed above, as at the Latest Practicable Date, so far as is known to any Director or chief executive of the Company, other than a Director or chief executive of the Company, no persons had interests or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or any options in respect of such capital.

EXPERTS AND CONSENTS

The following are the experts, and their qualifications, who have given opinion contained in this circular:

Name	Qualification
Taifook	a licensed corporation licensed to carry on type 6 (advising on corporate finance) regulated activity for the purpose of the SFO
Ernst & Young	certified public accountants
Vigers	independent professional valuer
Savills	independent professional valuer

Each of Taifook, Ernst & Young, Vigers and Savills has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its report or opinion as set out in this circular and references to its name in the form and context in which they respectively appear.

As at the Latest Practicable Date, none of Taifook, Ernst & Young, Vigers and Savills was beneficially interested in the share capital of any member of the Enlarged Group, nor did it have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Enlarged Group, nor did it have any direct or indirect interest in any assets which were, since 31 December 2006 (being the date to which the latest published audited consolidated financial statements of the Group were made up), acquired or disposed of by or leased to, or proposed to be acquired or disposed of by or leased to, any member of the Enlarged Group.

MATERIAL CONTRACTS

The following contracts (not being contracts in the ordinary course of business) were entered into by members of the Enlarged Group within two years preceding the Latest Practicable Date and are or may be material:

(i) a supplementary agreement dated 23 January 2006 entered into between China Land Realty Investment (B.V.I.) Limited, a wholly-owned subsidiary of the Company, and Guangdong Properties Investment Limited as the purchaser relating to the disposal of 51% equity interest of Ample Dragon Limited, pursuant to which the repayment of the remaining consideration of HK$40 million by Guangdong Properties Investment Limited was deferred to not later than 31 January 2007;

(ii) a conditional subscription agreement dated 28 March 2006 entered into between the Company and Trendy Way Investments Limited in relation to the subscription of 170 million new ordinary shares of HK$0.02 each (before 10 into 1 share consolidation) in the share capital of the Company at a subscription price of HK$0.03 per share (before 10 into 1 share consolidation);

(iii) a conditional sale and purchase agreement dated 6 November 2006 entered into among China Land Realty Investment (B.V.I.) Limited, a wholly-owned subsidiary of the Company, Gain Idea Investments Limited as the purchaser and Mr. Luo Xing as the guarantor in relation to the disposal of (i) the entire interest in Telesuccess International Limited; and (ii) the benefit of and the interest in the net inter-company balances in an amount of approximately HK$68.6 million outstanding and owing from Telesuccess International Limited and its wholly-owned subsidiary, Sky City Network Communication Limited;

(iv) a supplementary agreement dated 25 January 2007 entered into between China Land Realty Investment (B.V.I) Limited, a wholly-owned subsidiary of the Company, and Guangdong Properties Investment Limited as the purchaser relating to the disposal of a 51% equity interest to Ample Dragon Limited, pursuant to which the repayment of the remaining consideration of HK$40 million by Guangdong Properties Investment Limited was deferred to not later than 31 January 2008;

(v) conditional subscription agreements dated 4 July 2007 entered into between the Company and East Grand Group Limited and Super Grand Holdings Limited in relation to the subscription of an aggregate of 120 million new ordinary shares of HK$0.20 each in the share capital of the Company at a subscription price of HK$0.30 per share;

(vi) a placing agreement dated 9 October 2007 entered into between the Company and the Placing Agent in relation to a "best-efforts" placing of an aggregate of 145,000,000 placing shares at a price of HK$0.25 per share; and

(vii) the Agreement.

LITIGATION

(i) A writ of summons was issued in August 2005 by, Ms. Suen Kwai Kam, a former director of a subsidiary of the Company (the "Former Director") against, inter alia, the Company. According to the summons, the Former Director claimed certain damages in relation to the acquisition of a subsidiary by the Group from China Dragon Ventures Inc., a private company controlled by the Former Director, in December 2000. In the indorsement of claim, 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 payment of allegedly outstanding consideration in the amount of HK$33,500,000. The indorsement of claims, however, did not provide any information to substantiate the Former Director's claims.

The Company has filed an acknowledgement of service to defend the proceedings in February 2006. No further action has been taken by the Former Director since then. No provision was made in the accounts of the Group in respect of this litigation as the Directors considered that the Company had a strong case in it.

(ii) 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.

Save for the aforesaid, there was no litigation or claim of material importance known to the Directors to be pending or threatened against any member of the Enlarged Group as at the Latest Practicable Date.

SERVICE CONTRACT

None of the Directors had entered into any service contract with the Company or any other member of the Enlarged Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)) as at the Latest Practicable Date.

COMPETING INTERESTS

As at the Latest Practicable Date, so far as the Directors are aware, none of the Directors or their respective associates had any interest in a business which competes or may compete with the business of the Group, or have or may have any other conflicts of interest with the Group pursuant to Rule 8.10 of the Listing Rules.

OTHER INTERESTS OF THE DIRECTORS

As at the Latest Practicable Date:

(a) save for the Acquisition, none of the Directors had any interest, either direct or indirect, in any assets which have, since 31 December 2006 (being the date to which the latest published audited accounts of the Group were made up), been acquired or disposed of by or leased to any member of the Enlarged Group, or are proposed to be acquired or disposed of by or leased to any member of the Enlarged Group; and

(b) none of the Directors was materially interested in any contract or arrangement entered into by any member of the Enlarged Group which is subsisting as at the Latest Practicable Date and is significant in relation to the business of the Enlarged Group.

MISCELLANEOUS

(i) The company secretary and qualified accountant of the Company is Mr. Lee Tao Wai, Edward who is a member of The Hong Kong Institute of Certified Public Accountants.

(ii) The Hong Kong branch share register and transfer office of the Company is Tricor Tengis Limited situated at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.

(iii) The English texts of this circular and the accompanying form of proxy shall prevail over the Chinese texts.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the principal place of business of the Company in Hong Kong during normal business hours on any weekdays other than public holidays up to and including 12 December 2007:

(i) the memorandum and articles of association of the Company;

(ii) the annual reports of the Company for the two years ended 31 December 2005 and 2006 and the interim report of the Company for the six months ended 30 June 2007;

(iii) the accountants' report on the Target Group, the text of which is set out in Appendix II to this circular;

(iv) the unaudited pro forma financial information on the Enlarged Group and the comfort letter thereon from Ernst & Young, the text of each of which is set out in Appendix III to this circular;

(v) the property valuation reports for the Group and the Target Group, the texts of which are set out in Appendix IV to this circular;

(vi) the letter from Taifook, the text of which is set out on pages 30 to 50 of this circular;

(vii) the written consents as referred to in the paragraphs headed "Experts and consents" in this appendix;

(viii) the material contracts as referred to in the paragraphs headed "Material contracts" in this appendix; and

(ix) a copy of each circular of the Company issued pursuant to the requirements set out in Chapters 14 and/or 14A of the Listing Rules since 31 December 2006 (being the date to which the latest published audited consolidated financial statements of the Group were made up).

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

(Incorporated in Bermuda with limited liability)
(Stock code: 1064)

NOTICE IS HEREBY GIVEN that a special general meeting of Zhong Hua International Holdings Limited ("Company") will be held at Conference Room, 1st Floor, The Star Hotel, 89 Lin He Xi Road, Tianhe, Guangzhou, China at 11:00 a.m. on 12 December 2007 for the purpose of considering and, if thought fit, passing the following resolutions which will be proposed (with or without amendment) as ordinary resolutions:

ORDINARY RESOLUTIONS

1. "**THAT** the conditional agreement relating to the sale and purchase of shares in Zheng Da Real Estate Development Co. Ltd. (正大房地產開發有限公司) dated 9 October 2007 (as amended on 26 October 2007, the "Share Purchase Agreement") between Paton Bay Limited, Hero Master Group Limited, the Company, Clear Smart Group Limited, Ho Kam Hung, Ho Tsam Hung and Ho Pak Hung (a copy of which together with a copy of the agreement supplemental thereto has been produced to this meeting and initialed by the chairman of the meeting for identification) be and is hereby approved, ratified and confirmed and that the Directors of the Company be and are hereby authorised to implement all the transactions referred to in the Share Purchase Agreement including but not limited to the issue of shares and securities convertible into shares as contemplated thereby and to do all such acts and things and execute all such documents as might in the opinion of the Directors be desirable or necessary to give effect to the Share Purchase Agreement and the arrangements contemplated thereunder."

2. "**THAT** the authorised share capital of the Company be and is hereby increased from HK$200,000,000 divided into 1,000,000,000 ordinary shares of HK$0.20 each to HK$2,000,000,000 divided into 10,000,000,000 ordinary shares of HK$0.20 each by the creation of an additional 9,000,000,000 ordinary shares of HK$0.20 each in the capital of the Company."

By Order of the Board
Zhong Hua International Holdings Limited
Lee Tao Wai
Company Secretary

Hong Kong, 26 November 2007

* *For identification only*

Head office and principal place of business in Hong Kong:
Suite 2911, West Tower
Shun Tak Centre
168-200 Connaught Road Central
Central, Hong Kong

Registered office:
Clarendon House
2 Church Street
Hamilton HM11
Bermuda

Notes:

1. A form of proxy to be used for the meeting is enclosed. Completion and return of the form of proxy will not preclude a member of the Company from attending and voting in person at the meeting or any adjournment thereof and in such event, the authority of the proxy will be deemed to be revoked.

2. Any member of the Company entitled to attend and vote at the meeting is entitled to appoint another person as his proxy to attend and, on a poll, vote instead of him. On a poll, votes may be given personally, by duly authorised corporate representative or by proxy. A proxy need not be a member of the Company. A member may appoint more than one proxy to attend on the same occasion.

3. The instrument appointing a proxy must be in writing under the hand of the appointor or of his attorney duly authorised in writing, or if the appointor is a corporation, either under seal or under the hand of an officer or attorney duly authorised.

4. To be valid, the instrument appointing a proxy and the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power or authority shall be deposited at the Company's branch share registrar in Hong Kong, Tricor Tengis Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time for holding the meeting and in default the instrument of proxy shall not be treated as valid.

5. Where there are joint registered holders of any share, any one of such persons may vote at the meeting, either personally or by proxy, in respect of such share as if he were solely entitled thereto but if more than one of such joint holders be present at any meeting personally or by proxy, that one of the said persons so present whose name stands first on the register in respect of such share shall alone be entitled to vote in respect thereof. Several executors or administrators of a deceased member in whose name any share stands shall for this purpose be deemed joint holders thereof.

6. At the date of this Notice, the directors of the Company are:

   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.