# NOTES TO THE FINANCIAL STATEMENTS

*For the year ended 31 December 2005*

## 1. GENERAL

The Company is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The addresses of the registered office and principal place of business of the Company are disclosed on page 2 of the annual report.

The financial statements are presented in Hong Kong dollars, which is the same as the functional currency of the Company.

The Company is an investment holding company. The activities of its principal subsidiaries are set out in note 42.

## 2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES

In the current year, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are effective for accounting periods beginning on or after 1 January 2005. The application of the new HKFRSs has resulted in a change in the presentation of the consolidated income statement, consolidated balance sheet and the consolidated statement of changes in equity. In particular, the presentation of minority interests has been changed. The changes in presentation have been applied retrospectively. The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current or prior accounting year of the Group are prepared and presented:

### Business combinations

In the current year, the Group has applied HKFRS 3 "Business Combinations" which is effective for business combinations for which the agreement date is on or after 1 January 2005. The principal effects of the application of HKFRS 3 to the Group are summarised below:

*Excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost (previously known as "negative goodwill")*

In accordance with HKFRS 3, any excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition ("discount on acquisition") is recognised immediately in profit or loss in the period in which the acquisition takes place. In previous periods, negative goodwill arising on acquisitions prior to 1 January 2001 was held in reserves, and negative goodwill arising on acquisitions after 1 January 2001 was presented as a deduction from assets and released to income based on an analysis of the circumstances from which the balance resulted. In accordance with the relevant transitional provisions in HKFRS 3, the Group derecognised all negative goodwill on 1 January 2005 of which negative goodwill of HK$32,883,000 was previously recorded in reserves. A corresponding increase to retained profits of HK32,883,000 has been made.

## 2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES *(Continued)*

### Financial instruments

In the current year, the Group has applied HKAS 32 "Financial instruments: Disclosure and Presentation" and HKAS 39 "Financial instruments: Recognition and Measurement". HKAS 32 requires retrospective application. HKAS 39, which is effective for accounting periods beginning on or after 1 January 2005, generally does not permit the recognition, derecognition or measurement of financial assets and liabilities on a retrospective basis. The application of HKAS 32 has had no material impact on how the financial statements of the Group are presented for the current and prior accounting periods. The principal effects resulting from the implementation of HKAS 39 are summarised below:

*Classification and measurement of financial assets and financial liabilities*

The Group has applied the relevant transitional provisions in HKAS 39 with respect to the classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

*Debt or equity securities previously accounted for under the alternative treatment of Statement of Standard Accounting Practice ("SSAP") 24*

At 31 December 2004, the Group classified and measured its debt and equity securities in accordance with the alternative treatment of SSAP 24. Under SSAP 24, investments in debt or equity securities are classified as "trading securities", "non-trading securities" or "held-to-maturity investments" as appropriate. Both "trading securities" and "non-trading securities" are measured at fair value. Unrealised gains or losses of "trading securities" are reported in the profit or loss for the period in which gains or losses arise. Unrealised gains or losses of "non-trading securities" are reported in equity until the securities are sold or determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the profit or loss for that period. From 1 January 2005 onwards, the Group has classified and measured its debt and equity securities in accordance with HKAS 39. Under HKAS 39, financial assets are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables" or "held-to-maturity financial assets". "Financial assets at fair value through profit or loss" and "available-for-sale financial assets" are carried at fair value, with changes in fair values recognised in profit or loss and equity respectively. "Loans and receivables" and "held-to-maturity financial assets" are measured at amortised cost using the effective interest method after initial recognition.

All investments in securities of the Group as at 31 December 2004 amounting to HK$1,023,773,000 have been reclassified to available-for-sale investments, loan notes and investments held for trading in accordance with HKAS 39 on 1 January 2005.

Prior to the application of HKAS 39, the loan notes were stated at the nominal amount. HKAS 39 requires all financial assets and financial liabilities to be measured at fair value on initial recognition. Such loan notes were measured at amortised cost determined using the effective interest method at subsequent balance sheet dates. The Group has applied the relevant transitional provisions in HKAS 39. As a result of this change in the accounting policy, the carrying amount of the loan notes as at 1 January 2005 has been decreased by approximately HK$19,391,000 in order to state the loan notes at amortised cost in accordance with HKAS 39. Profit for the year of the Group has been increased by approximately HK$9,949,000 due to the recognition of imputed interest income which is included in other income (see note 3 for the financial impact).

## 2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES *(Continued)*

### Financial instruments *(Continued)*

*Financial assets and financial liabilities other than debt and equity securities*

From 1 January 2005 onwards, the Group classifies and measures its financial assets and financial liabilities other than debt and equity securities (which were previously outside the scope of SSAP 24) in accordance with the requirements of HKAS 39. As mentioned above, financial assets under HKAS 39 are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables" or "held-to-maturity financial assets". Financial liabilities are generally classified as "financial liabilities at fair value through profit or loss" or "other financial liabilities". Financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value being recognised in profit or loss directly. Other financial liabilities are carried at amortised cost using the effective interest method after initial recognition. This change has had no material effect on the results for the current and prior accounting periods.

### Owner-occupied leasehold interest in land

`In previous years, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured using the revaluation model. In the current year, the Group has applied HKAS 17 "Leases". Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid lease payments under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis. The surplus on revaluation in respect of the land interests accounted for as property, plant and equipment previously recognised in the asset revaluation reserve was adjusted retrospectively. Comparative figures for 2004 have been restated (see note 3 for the financial impact).

### Investment properties

In the current year, the Group, for the first time, applied HKAS 40 "Investment property". The Group has elected to use the fair value model to account for its investment properties which requires gains or losses arising from changes in the fair value of investment properties to be recognised directly in the profit or loss for the year in which they arise. In previous years, investment properties under predecessor standard SSAP 13 were measured at open market values, with revaluation surplus or deficit credited or charged to investment property revaluation reserve unless the balance on this reserve was insufficient to cover a revaluation decrease, in which case the excess of the revaluation decrease over the balance on the investment property revaluation reserve was charged to the income statement. Where a decrease had previously been charged to the income statement and a revaluation surplus subsequently arose, that increase was credited to the income statement to the extent of the decrease previously charged. The Group has applied the relevant transitional provisions in HKAS 40 and elected to apply HKAS 40 from 1 January 2005 onwards. This change has had no material effect on the results for prior periods and accordingly no prior period adjustment is required.

## 2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES *(Continued)*

### Deferred taxes related to investment properties

In previous years, deferred tax consequences in respect of revalued investment properties were assessed on the basis of the tax consequence that would follow from recovery of the carrying amount of the properties through sale in accordance with the predecessor interpretation (SSAP – Interpretation 20). In the current year, the Group has applied HK(SIC) Interpretation 21 ("HK(SIC) INT-21") "Income taxes – recovery of revalued non-depreciable assets" which removes the presumption that the carrying amount of investment properties is to be recovered through sale. Therefore, the deferred tax consequences of the investment properties are now assessed on the basis that reflect the tax consequences that would follow from the manner in which the Group expects to recover the property at each balance sheet date. In the absence of any specific transitional provisions in HK(SIC) INT-21, this change in accounting policy has been applied retrospectively. This change has had no material effect on the results for prior years and accordingly no prior period adjustment is required.

## 3. SUMMARY OF THE EFFECT OF THE CHANGES IN ACCOUNTING POLICIES

The cumulative effects of the application of the new HKFRSs on 31 December 2004 and 1 January 2005 are summarised below:

| | As at 31.12.2004 (originally stated) | Adjustments | As at 31.12.2004 (restated) | Adjustments | As at 1.1.2005 (restated) |
|---|---|---|---|---|---|
| | HK$'000 | HK$'000 *(Note)* | HK$'000 | HK$'000 | HK$'000 |
| Investment properties | 44,640 | – | 44,640 | – | 44,640 |
| Prepaid lease payments | – | 2,542 | 2,542 | – | 2,542 |
| Property, plant and equipment | 6,426 | (2,542) | 3,884 | – | 3,884 |
| Loan notes | 156,247 | – | 156,247 | (19,391) | 136,856 |
| Other assets/liabilities | 1,016,339 | – | 1,016,339 | – | 1,016,339 |
| Net assets | 1,223,652 | – | 1,223,652 | (19,391) | 1,204,261 |
| Share capital | 3,018 | – | 3,018 | – | 3,018 |
| Share premium | 676,818 | – | 676,818 | – | 676,818 |
| Negative goodwill | 32,883 | – | 32,883 | (32,883) | – |
| Retained profits | 473,761 | – | 473,761 | 13,492 | 487,253 |
| Investment revaluation reserve | 34,188 | – | 34,188 | – | 34,188 |
| Building revaluation reserve | 1,064 | – | 1,064 | – | 1,064 |
| Other reserves | 1,920 | – | 1,920 | – | 1,920 |
| Total equity | 1,223,652 | – | 1,223,652 | (19,391) | 1,204,261 |

*Note:* The amounts represent adjustments to comparative figures for 2004 arising from reclassification of leasehold interests in land to prepaid lease payments under operating lease according to HKAS 17. This change of accounting policy has been applied retrospectively.

## 3. SUMMARY OF THE EFFECT OF THE CHANGES IN ACCOUNTING POLICIES *(Continued)*

The Group has not early applied the following new standards, interpretations and amendments that have been issued but are not yet effective.

| | |
|---|---|
| HKAS 1 (Amendment) | Capital disclosure [1] |
| HKAS 19 (Amendment) | Actuarial gains and losses, group plans and disclosures [2] |
| HKAS 21 (Amendment) | Net investment in foreign operation [2] |
| HKAS 39 (Amendment) | Cash flow hedge accounting of forecast intragroup transactions [2] |
| HKAS 39 (Amendment) | The fair value option [2] |
| HKAS 39 and HKFRS 4 (Amendments) | Financial guarantee contracts [2] |
| HKFRS 6 | Exploration for and evaluation of mineral resources [2] |
| HKFRS 7 | Financial instruments: Disclosures [1] |
| HK(IFRIC)-INT 4 | Determining whether an arrangement contains a lease [2] |
| HK(IFRIC)-INT 5 | Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds [2] |
| HK(IFRIC)-INT 6 | Liabilities arising from participating in a specific market – waste electrical and electronic equipment [3] |
| HK(IFRIC)-INT 7 | Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies [4] |

1 Effective for accounting periods beginning on or after 1 January 2007.
2 Effective for accounting periods beginning on or after 1 January 2006.
3 Effective for accounting periods beginning on or after 1 December 2005.
4 Effective for accounting periods beginning on or after 1 March 2006.

The Group has not early applied the above new standards, amendments and interpretations that have been issued but are not yet effective. The Directors of the Company do not expect the application of these standards, amendments or interpretations will have material effect on the results of operations and financial position of the Group.

## 4. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost basis except for certain properties and financial instruments, which are measured at revalued amounts or fair values, as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities of the Stock Exchange and by the Hong Kong Companies Ordinance.

### Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Basis of consolidation *(Continued)*

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

### Excess of an acquirer's interest in the net fair value of an acquiree's identifiable assets, liabilities and contingent liabilities over cost ("discount on acquisitions")

A discount on acquisition arising on an acquisition of a subsidiary for which an agreement date is on or after 1 January 2005 represents the excess of the net fair value of an acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the business combination. Discount on acquisition is recognised immediately in profit or loss.

Negative goodwill arising on acquisitions prior to 1 January 2001 was held in reserves and negative goodwill arising on acquisition after 1 January 2001 is presented as deduction from assets and will be released to income based on an analysis of the circumstances from which the balance resulted.

As explained in note 2 above, all negative goodwill as at 1 January 2005 has been derecognised with a corresponding adjustment to the Group's retained profits.

### Revenue recognition

Trading of securities is recognised on trade date basis when the relevant contracts are executed.

Sales of goods are recognised when goods are delivered and title has passed.

Dividend income from investments is recognised when the Group's rights to receive payment have been established.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Commission income is recognised when services are provided.

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Investment properties

On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured using the fair value model. Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the period in which they arise.

### Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost or fair value less subsequent accumulated depreciation and accumulated impairment losses.

Construction in progress represents property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Buildings held for use in the production or supply of goods or services, or for administrative purposes, are stated in the balance sheet at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

Any revaluation increase arising on the revaluation of buildings is credited to the building revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised as expenses, in which case the increase is credited to income statement to the extent of the decrease previously charged. A decrease in carrying amount arising on revaluation of an asset is dealt with as an expense to the extent that it exceeds the balance, if any, on the building revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus is transferred directly to retained profits.

Depreciation is charged so as to write off the cost or fair value of items of property, plant and equipment, other than land and properties under construction, over their estimated useful lives, using the straight-line method.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year in which the item is derecognised.

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

#### *Financial assets*

The Group's financial assets are classified into one of the three categories, including financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of each category of financial assets are set out below.

*Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss comprises of investments held for trading. At each balance sheet date subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables including loan notes, amount due from a minority shareholder, debtors and deposits and loan receivables are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

*Available-for-sale financial assets*

Available-for-sale financial assets are non-derivatives that are either designated or not classified as any of the other categories (set out above). At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognised in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in profit or loss. Any impairment losses on available-for-sale financial assets are recognised in profit or loss. Impairment losses on available-for-sale equity investments will not be reversed in profit or loss in subsequent periods.

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Financial instruments *(Continued)*

***Financial liabilities and equity***

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

*Financial liabilities*

Financial liabilities including creditors and accrued charges, receipt in advance and other borrowings are subsequently measured at amortised cost, using the effective interest method.

*Equity instruments*

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

*Derivative financial instruments*

Derivative financial instruments are initially measured at fair value on the contract date, and are re-measured to fair value at subsequent reporting dates.

The Group's derivative financial instruments not qualify as hedging instrument are deemed as financial assets/liabilities for trading, changes in the fair value of derivative financial instruments are recognised in profit or loss.

### Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

For financial liabilities, they are removed from the Group's balance sheet when, and only when they are extinguished (i.e. when the obligation specified in the relevant contract is discharged, cancelled or expires). The difference between the carrying amount of the financial liability derecognised and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

### Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

### Impairment

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another HKFRS, in which case the impairment loss is treated as a revaluation decrease under that HKFRS.

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Impairment *(Continued)*

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another HKFRS, in which case the reversal of the impairment loss is treated as a revaluation increase under that HKFRS.

### Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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 profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

### Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the Directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

*The Group as lessor*

Rental income from operating leases is recognised in the income statement on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

*The Group as lessee*

Rentals payable under operating leases, including the leasehold interests in land, are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

### Retirement benefits scheme

Payments to the Group's defined contribution scheme or Mandatory Provident Fund Scheme are charged as an expense as they fall due.

### Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Company's net investment in a foreign operation, in which case, such exchange differences are recognised in equity in the consolidated financials statements. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Company (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

## 5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include, inter alia, equity investments, loan notes, loan receivables, debtors and deposits, creditors and accrued charges, other borrowings and bank balances. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

### Market risk

*(i) Currency risk*

The Group is engaged in securities trading and investments which are denominated in foreign currencies and is therefore exposed to foreign currency risk. The Group currently does not have a foreign currency hedging policy.

However, the Group's management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises. The management would seek financial consultant to advise on the investment portfolio held by the Group, if necessary.

*(ii) Price risk*

The Group's available-for-sale investments and investments held for trading are measured at fair value at each balance sheet date. Therefore, the Group is exposed to equity price risk. The Group's investment committee manages this exposure by maintaining a portfolio of investments with different risk profiles.

*(iii) Interest rate risk*

The Group's fair value interest rate risk relates primarily to fixed rate loan notes and fixed rate loan receivables. The Group's cash flow interest rate risk relates to its variable rate loan receivables and other borrowings.

The Group currently does not have a interest rate hedging policy. However, the management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arises.

*(iv) Credit risk*

The Group's credit risk are primarily attributable to trade receivables, loan notes, loan receivables, bank balances and counter-party financial obligations in financial instruments.

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31 December 2005 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet.

The Group's bank balances are deposited with banks of high credit quality in Hong Kong and the Group has exposure limit to any single financial institution.

The Group has no significant concentration of credit risk, with exposure spread over a number of counter-parties and customers.

## 5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

### Market risk *(Continued)*

*(iv) Credit risk (Continued)*

In order to minimise credit risk, management has delegated a team to be responsible for the determination of credit limits, credit approvals and other monitoring procedures. In addition, management reviews the recoverable amount of each individual trade debt, loan notes and loan receivables regularly to ensure that adequate impairment losses are recognised for irrecoverable debts. In this regard, management considers that the Group's credit risk is significant reduced.

## 6. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

### Income taxes

As at 31 December 2005, no deferred tax asset was recognised in the Group's consolidated balance sheet in relation to the unused tax losses of approximately HK$1,691 million. The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In case where the actual future profits generated are more than expected, further recognition of deferred tax asset in relation to unutilised tax losses may arise, which would be recognised in the income statement for the period in which such a recognition takes place.

## 7. TURNOVER

| | **2005** | 2004 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Sales of mobile phones | **66,309** | 237,205 |
| Proceeds from sales of investments held for trading/ listed trading investments | **130,655** | 581,128 |
| Dividend income from listed investments | **11,706** | 10,927 |
| Interest income from loan receivables | **11,693** | 11,933 |
| Commission income | **–** | 3,854 |
| Rental income | **2,723** | 2,444 |
| | **223,086** | 847,491 |

## 8. BUSINESS AND GEOGRAPHICAL INFORMATION

### Business segments

For management purposes, the Group is currently organised into four main operating divisions – mobile phone distribution, securities trading and investments, financial services and property investment. These divisions are the bases on which the Group reports its primary segment information.

Segment information about these businesses is presented below:

**For the year ended 31 December 2005**

| | Mobile phone distribution HK$'000 | Securities trading and investments HK$'000 | Financial services HK$'000 | Property investment HK$'000 | Consolidated HK$'000 |
|---|---|---|---|---|---|
| **Revenue** | | | | | |
| External sales | 66,309 | 142,361 | 11,693 | 2,723 | 223,086 |
| Other operating income | – | 14,077 | 20 | – | 14,097 |
| | 66,309 | 156,438 | 11,713 | 2,723 | 237,183 |
| **Result** | | | | | |
| Segment result | (2,086) | 104,524 | 11,528 | 12,166 | 126,132 |
| Gain on disposal of a subsidiary | | | | | 3,544 |
| Fair value changes on buildings | | | | | 773 |
| Unallocated other operating income | | | | | 853 |
| Unallocated corporate expenses | | | | | (25,124) |
| Finance costs | | | | | (1,571) |
| Profit before taxation | | | | | 104,607 |
| Tax charge | | | | | (99) |
| Profit for the year | | | | | 104,508 |

## 8. BUSINESS AND GEOGRAPHICAL INFORMATION *(Continued)*

### Business segments *(Continued)*

#### For the year ended 31 December 2005 *(Continued)*

| | Mobile phone distribution HK$'000 | Securities trading and investments HK$'000 | Financial services HK$'000 | Property investment HK$'000 | Consolidated HK$'000 |
|---|---|---|---|---|---|
| **BALANCE SHEET** | | | | | |
| **Assets** | | | | | |
| Segment assets | 5,965 | 1,150,463 | 75,034 | 195,760 | 1,427,222 |
| Unallocated corporate assets | | | | | 29,089 |
| Consolidated total assets | | | | | 1,456,311 |
| **Liabilities** | | | | | |
| Segment liabilities | 3,789 | 101,834 | 1,550 | 35,518 | 142,691 |
| Unallocated corporate liabilities | | | | | 11,890 |
| Consolidated total liabilities | | | | | 154,581 |

| | Mobile phone distribution HK$'000 | Securities trading and investments HK$'000 | Financial services HK$'000 | Property investment HK$'000 | Unallocated segment HK$'000 | Consolidated HK$'000 |
|---|---|---|---|---|---|---|
| **Other information** | | | | | | |
| Capital expenditure | 56 | – | – | 17 | 15 | 88 |
| Depreciation | 281 | – | – | 112 | 224 | 617 |
| Write-down of inventories | 92 | – | – | – | – | 92 |
| Acquisition of a subsidiary in relation to investment property and construction in progress | – | – | – | 127,039 | – | 127,039 |

## 8. BUSINESS AND GEOGRAPHICAL INFORMATION *(Continued)*

### Business segments *(Continued)*

For the year ended 31 December 2004

| | Mobile phone distribution HK$'000 | Securities trading and investments HK$'000 | Financial services HK$'000 | Property investment HK$'000 | Consolidated HK$'000 |
|---|---|---|---|---|---|
| **Revenue** | | | | | |
| External sales | 237,205 | 592,055 | 15,787 | 2,444 | 847,491 |
| Other operating income | – | 7,478 | 20 | – | 7,498 |
| | 237,205 | 599,533 | 15,807 | 2,444 | 854,989 |
| **Result** | | | | | |
| Segment result | 21,791 | 191,026 | 15,747 | 6,321 | 234,885 |
| Fair value changes on buildings | | | | | 1,704 |
| Unallocated other operating income | | | | | 5,660 |
| Unallocated corporate expenses | | | | | (38,318) |
| Finance costs | | | | | (530) |
| Profit before taxation | | | | | 203,401 |
| Tax charge | | | | | (127) |
| Profit for the year | | | | | 203,274 |

## 8. BUSINESS AND GEOGRAPHICAL INFORMATION *(Continued)*

### Business segments *(Continued)*

For the year ended 31 December 2004 *(Continued)*

| | Mobile phone distribution HK$'000 | Securities trading and investments HK$'000 | Financial services HK$'000 | Property investment HK$'000 | Consolidated HK$'000 |
|---|---|---|---|---|---|
| **BALANCE SHEET** | | | | | |
| **Assets** | | | | | |
| Segment assets | 31,928 | 1,043,315 | 104,034 | 44,986 | 1,224,263 |
| Unallocated corporate assets | | | | | 39,600 |
| Consolidated total assets | | | | | 1,263,863 |
| **Liabilities** | | | | | |
| Segment liabilities | 5,152 | 21,536 | 1,048 | 1,540 | 29,276 |
| Unallocated corporate liabilities | | | | | 10,935 |
| Consolidated total liabilities | | | | | 40,211 |

| | Mobile phone distribution HK$'000 | Securities trading and investments HK$'000 | Financial services HK$'000 | Property investment HK$'000 | Unallocated segment HK$'000 | Consolidated HK$'000 |
|---|---|---|---|---|---|---|
| **Other information** | | | | | | |
| Capital expenditure | 177 | – | – | 249 | 41 | 467 |
| Depreciation | 572 | – | – | 271 | 243 | 1,086 |
| Other non-cash expenses | – | – | – | – | 41 | 41 |

## 8. BUSINESS AND GEOGRAPHICAL INFORMATION *(Continued)*

### Geographical segments

The Group's operations are located in Hong Kong and Mainland China ("China").

The Group's distribution of mobile phones, securities trading and investments, and financial services are carried out in Hong Kong. Rental income from property investment is from Hong Kong and China.

The following table provides an analysis of the Group's revenue by geographical market:

| | Revenue by geographical market | |
|---|---|---|
| | **2005** | 2004 |
| | **HK$'000** | HK$'000 |
| Hong Kong | **236,029** | 853,621 |
| China | **1,154** | 1,368 |
| | **237,183** | 854,989 |

The following is an analysis of the carrying amount of segment assets, and additions to investment properties, property, plant and equipment, analysed by the geographical area in which the assets are located:

| | Carrying amount of segment assets | | Additions to investment properties, property, plant and equipment | |
|---|---|---|---|---|
| | **At 31.12.2005** | At 31.12.2004 | **Year ended 31.12.2005** | Year ended 31.12.2004 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Hong Kong | **1,288,556** | 1,237,996 | **88** | 218 |
| China | **167,755** | 25,867 | **127,039** | 249 |
| | **1,456,311** | 1,263,863 | **127,127** | 467 |

# NOTES TO THE FINANCIAL STATEMENTS

*For the year ended 31 December 2005*

## 9. NET GAIN ON INVESTMENTS

| | **2005** | 2004 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Change in fair value of investments held for trading | **61,506** | – |
| Discount on early redemption of loan note *(Note)* | **(1,000)** | (1,500) |
| Net realised gain on derivatives | **1,464** | 3,939 |
| Net unrealised gain on trading investments | **–** | 56,580 |
| | **61,970** | 59,019 |

*Note:* SHK (as defined in note 20) early redeemed part of the loan note at HK$60,000,000 (2004: HK$100,000,000) with a discount on early redemption of HK$1,000,000 (2004: HK$1,500,000) at the request by the Group. The net redemption proceed was HK$59,000,000 (2004: HK$98,500,000).

## 10. OTHER INCOME

| | **2005** | 2004 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Interest income from: | | |
| – Loan notes | **4,128** | – |
| – Debt securities | **–** | 7,478 |
| – Bank deposits | **695** | 602 |
| – Others | **65** | 166 |
| | **4,888** | 8,246 |
| Imputed interest income on loan notes | **9,949** | – |
| Others | **113** | 244 |
| Net exchange gain | **–** | 4,668 |
| | **14,950** | 13,158 |

## 11. FINANCE COSTS

The amounts represent interest on other borrowings wholly repayable within five years.

## 12. DIRECTORS' EMOLUMENTS AND FIVE HIGHEST PAID INDIVIDUALS

### Directors' emoluments

The Directors' emoluments are analysed as follows:

| | For the year ended 31 December 2005 | | | | |
|---|---|---|---|---|---|
| | Directors' fees HK$'000 | Salaries and other benefits HK$'000 | Performance related incentive payments HK$'000 | Retirement benefits scheme contributions HK$'000 | Total emoluments HK$'000 |
| **Executive Directors** | | | | | |
| Ms. Chong Sok Un | – | 455 | 13,000 | 12 | 13,467 |
| Dato' Wong Peng Chong | – | 1,300 | – | 12 | 1,312 |
| Mr. Kong Muk Yin | – | 715 | – | 12 | 727 |
| **Independent Non-executive Directors** | | | | | |
| Mr. Lo Wai On | 180 | – | – | – | 180 |
| Mr. Lau Siu Ki | 180 | – | – | – | 180 |
| Mr. Yu Qi Hao | 53 | – | – | – | 53 |
| | 413 | 2,470 | 13,000 | 36 | 15,919 |

| | For the year ended 31 December 2004 | | | | |
|---|---|---|---|---|---|
| | Directors' fees HK$'000 | Salaries and other benefits HK$'000 | Performance related incentive payments HK$'000 | Retirement benefits scheme contributions HK$'000 | Total emoluments HK$'000 |
| **Executive Directors** | | | | | |
| Ms. Chong Sok Un | – | 455 | 12,000 | 12 | 12,467 |
| Dato' Wong Peng Chong | – | 1,300 | 250 | 12 | 1,562 |
| Mr. Kong Muk Yin | – | 715 | 110 | 12 | 837 |
| **Independent Non-executive Directors** | | | | | |
| Mr. Lo Wai On | 100 | – | – | – | 100 |
| Mr. Lau Siu Ki# | – | – | – | – | – |
| Mr. Yu Qi Hao# | – | – | – | – | – |
| Mr. Cheng Mo Chi, Moses* | 100 | – | – | – | 100 |
| | 200 | 2,470 | 12,360 | 36 | 15,066 |

# Mr. Lau Siu Ki and Mr. Yu Qi Hao were appointed as Independent Non-executive Directors on 3 June 2004 and 10 November 2004 respectively.

* Mr. Cheng Mo Chi, Moses resigned as Independent Non-executive Director on 3 June 2004.

## 12. DIRECTORS' EMOLUMENTS AND FIVE HIGHEST PAID INDIVIDUALS *(Continued)*

During the year, no remuneration was paid by the Group to the Directors as an inducement to join or upon joining the Group or as compensation for loss of office. None of the Directors has waived any remuneration during the year.

### Five highest paid individuals

During the year, the five highest paid individuals included three Directors (2004: three), details of their emoluments are set out above. The emoluments for the remaining two (2004: two) highest paid individuals of the Group are as follows:

| | **2005**<br>**HK$'000** | 2004<br>HK$'000 |
|---|---|---|
| Salaries and other benefits | **1,245** | 1,302 |
| Retirement benefits scheme contributions | **24** | 24 |
| | **1,269** | 1,326 |

The emoluments are within the following bands:

| | **2005**<br>**Number of employees** | 2004<br>Number of employees |
|---|---|---|
| Nil to HK$1,000,000 | **2** | 2 |

## 13. TAX CHARGE

| | **2005**<br>**HK$'000** | 2004<br>HK$'000 |
|---|---|---|
| Current tax: | | |
| Profits Tax in Hong Kong | **–** | (13) |
| Income tax in China | **(99)** | (114) |
| | **(99)** | (127) |

No provision for Hong Kong Profits Tax has been made for the year either the Group has no assessable profits arising in Hong Kong or the Group's assessable profits were wholly absorbed by estimated tax losses brought forward.

Hong Kong Profits Tax is calculated at 17.5% of the estimated assessable profit for the year 2004.

Income tax in China is calculated at 33% of estimated assessable profit for both years except for the subsidiary eligible for certain tax holidays and concessions on China income tax.

## 13. TAX CHARGE *(Continued)*

The tax charge for the year can be reconciled to the profit before taxation per the consolidated income statement as follows:

| | 2005<br>HK$'000 | 2004<br>HK$'000 |
|---|---|---|
| Profit before taxation | **104,607** | 203,401 |
| Tax at the income tax rate of 17.5% (2004: 17.5%) | **(18,306)** | (35,595) |
| Tax effect of expenses that are not deductible | **(2,029)** | (5,797) |
| Tax effect of income that is not taxable | **6,055** | 6,843 |
| Utilisation of tax losses previously not recognised | **14,914** | 35,439 |
| Tax effect of tax losses not recognised | **(1,019)** | (1,174) |
| Effect of different tax rates of subsidiaries operating in other jurisdictions | **(45)** | (54) |
| Others | **331** | 211 |
| Tax charge for the year | **(99)** | (127) |

## 14. PROFIT FOR THE YEAR

| | 2005<br>HK$'000 | 2004<br>HK$'000 |
|---|---|---|
| Profit for the year has been arrived at after charging (crediting): | | |
| Auditors' remuneration | **918** | 800 |
| Cost of inventories recognised as expenses | **60,103** | 201,511 |
| Amortisation of prepaid lease payments | **59** | 59 |
| Depreciation of property, plant and equipment | **617** | 1,086 |
| Write-down of inventories | **92** | – |
| Loss on disposal of property, plant and equipment | **–** | 41 |
| Net exchange loss | **159** | – |
| Realised fair value gain on investments held for trading | **17,592** | 114,377 |
| Staff costs, inclusive of directors' emoluments | **24,095** | 23,899 |
| Gross rental income from properties | **(2,723)** | (2,444) |
| Less: Direct operating expenses that generated rental income | **1,671** | 1,410 |
| Direct operating expenses that did not generate rental Income | **246** | 253 |
| Net rental income | **(806)** | (781) |

## 15. DIVIDENDS

| | **2005** | 2004 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Ordinary shares: | | |
| Interim dividend paid – HK$0.01 (2004: HK$0.01) per share | **2,990** | 3,017 |
| Final dividend proposed – HK$0.04 (2004: HK$0.04) per share | **11,879** | 12,070 |

The final dividend of HK$0.04 per share for the year ended 31 December 2005 has been proposed by the Directors and is subject to approval by the shareholders in the annual general meeting.

## 16. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share attributable to the ordinary equity holders of the Company is based on the following data:

| | **2005** | 2004 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Earnings for the purpose of basic and diluted earnings per share (Profit for the year attributable to equity holders of the Company) | **104,511** | 203,274 |

| | **Number of shares** | Number of shares |
|---|---|---|
| Weighted average number of ordinary shares for the purposes of basic and diluted earnings per share | **300,660,114** | 347,849,919 |

### Impact of changes in accounting policy

Changes in the Group's accounting policies during the year are described in details in note 2. To the extent that those changes have had an impact on results reported for the year ended 31 December 2005, they have had an impact on the amounts reported for earnings per share. The following table summaries that impact on earnings per share:

| | **2005 Impact on earnings per share HK$** |
|---|---|
| Fair value changes on investment properties | **0.04** |
| Imputed interest income on loan notes | **0.03** |
| | **0.07** |

The changes in the Group's accounting policies during the year had no impact on results reported for the year ended 31 December 2004, hence they had no impact on the amounts reported for earnings per share.

## 17. INVESTMENT PROPERTIES

| | HK$'000 |
|---|---|
| FAIR VALUE | |
| At 1 January 2004 | 31,550 |
| Revaluation increase | 5,540 |
| Transfer from building | 7,550 |
| At 31 December 2004 | 44,640 |
| Acquired on acquisition of a subsidiary | 80,005 |
| Disposal | (100) |
| Fair value changes | 11,360 |
| Exchange adjustments | 621 |
| At 31 December 2005 | 136,526 |

The Group's investment properties are analysed as follows:

| | **2005** **HK$'000** | 2004 HK$'000 |
|---|---|---|
| Properties held under medium term leases: | | |
| – in Hong Kong | **30,510** | 20,990 |
| – in China | **103,176** | 20,850 |
| Properties situated in China held under long leases | **2,840** | 2,800 |
| | **136,526** | 44,640 |

All of the Group's property interests held under operating leases to earn rentals or for capital appreciation purposes are measured using the fair value model and are classified and accounted for as investment properties.

The fair value of the Group's investment properties at 31 December 2005 have been arrived at on the basis of a valuation carried out on that date by DTZ Debenham Tie Leung Limited and Norton Appraisals Limited, independent qualified professional valuers not connected with the Group. DTZ Debenham Tie Leung Limited and Norton Appraisals Limited have appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations. The valuation, which conforms to The Hong Kong Institute of Surveyors Valuation Standards on Properties published by the Hong Kong Institute of Surveyors, was arrived at by reference to market evidence of transaction prices for similar properties.

## 18. PROPERTY, PLANT AND EQUIPMENT

| | Construction in progress | Buildings in Hong Kong under medium-term lease | Computer and electronic equipment | Furniture and fixtures | Motor vehicles | Total |
|---|---|---|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| COST OR VALUATION | | | | | | |
| At 1 January 2004 | | | | | | |
| – as originally stated | – | 10,625 | 2,088 | 2,765 | 501 | 15,979 |
| – effect on adoption of HKAS 17 | – | (2,542) | – | – | – | (2,542) |
| – as restated | – | 8,083 | 2,088 | 2,765 | 501 | 13,437 |
| Additions | – | – | 92 | 375 | – | 467 |
| Disposals | – | – | (32) | (82) | – | (114) |
| Revaluation increase | – | 2,075 | – | – | – | 2,075 |
| Transfer to investment property | – | (7,550) | – | – | – | (7,550) |
| At 1 January 2005 | – | 2,608 | 2,148 | 3,058 | 501 | 8,315 |
| Additions | – | – | 37 | 51 | – | 88 |
| Revaluation increase | – | 712 | – | – | – | 712 |
| Acquired on acquisition of a subsidiary | 47,034 | – | – | – | – | 47,034 |
| Exchange adjustment | 663 | – | – | – | – | 663 |
| At 31 December 2005 | 47,697 | 3,320 | 2,185 | 3,109 | 501 | 56,812 |
| Comprising: | | | | | | |
| At cost | 47,697 | – | 2,185 | 3,109 | 501 | 53,492 |
| At valuation – 2005 | – | 3,320 | – | – | – | 3,320 |
| | 47,697 | 3,320 | 2,185 | 3,109 | 501 | 56,812 |
| ACCUMULATED DEPRECIATION | | | | | | |
| At 1 January 2004 | – | – | 1,223 | 1,922 | 501 | 3,646 |
| Provided for the year | – | 237 | 428 | 421 | – | 1,086 |
| Eliminated on disposals | – | – | (18) | (46) | – | (64) |
| Eliminated on revaluation | – | (237) | – | – | – | (237) |
| At 1 January 2005 | – | – | 1,633 | 2,297 | 501 | 4,431 |
| Provided for the year | – | 61 | 312 | 244 | – | 617 |
| Eliminated on revaluation | – | (61) | – | – | – | (61) |
| At 31 December 2005 | – | – | 1,945 | 2,541 | 501 | 4,987 |
| CARRYING VALUES | | | | | | |
| At 31 December 2005 | 47,697 | 3,320 | 240 | 568 | – | 51,825 |
| At 31 December 2004 | – | 2,608 | 515 | 761 | – | 3,884 |

## 18. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

The above items of property, plant and equipment are depreciated on a straight-line basis at the following rates per annum:

| | |
|---|---|
| Buildings | Over the shorter of the lease terms or 30 – 50 years |
| Computer and electronic equipment | 20% |
| Furniture and fixtures | 20% – 50% |
| Motor vehicles | 20% – 50% |

The buildings of the Group were revalued at 31 December 2005 by DTZ Debenham Tie Leung Limited, a firm of independent professional property valuers, on market value basis. The fair value changes on buildings of HK$773,000 has been credited to the consolidated income statement.

At 31 December 2005, had the buildings been carried at historical cost less accumulated depreciation, their carrying values would have been stated at HK$2,239,000 (2004: HK$2,292,000).

## 19. PREPAID LEASE PAYMENTS

The Group's prepaid lease payments represent leasehold land in Hong Kong held under medium term leases.

The leasehold land is amortised on a straight-line basis over the remaining term of the leases.

## 20. INVESTMENTS IN SECURITIES

Investments securities as at 31 December 2004 are set out below. Upon the application of HKAS 39 on 1 January 2005, investment securities were reclassified to appropriate categories under HKAS 39 (see note 2 for details).

| | **Trading investments** | **Other securities** | **Total** |
|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 |
| Equity securities | | | |
| – listed in Hong Kong | 456,312 | 128,176 | 584,488 |
| – listed overseas | 244,185 | 30,552 | 274,737 |
| | 700,497 | 158,728 | 859,225 |
| Debt securities | | | |
| – unlisted *(Note)* | – | 156,247 | 156,247 |
| Unit trusts | | | |
| – unlisted | – | 8,301 | 8,301 |
| | 700,497 | 323,276 | 1,023,773 |
| Carrying amount analysed for reporting purposes as: | | | |
| – Non-current | – | 313,919 | 313,919 |
| – Current | 700,497 | 9,357 | 709,854 |
| | 700,497 | 323,276 | 1,023,773 |
| Market value of listed securities | 700,497 | 158,728 | 859,225 |

*Note:* The debt securities represent the loan notes issued by Sun Hung Kai & Co. Limited ("SHK") and Allied Group Limited ("AG") which formed part of the consideration for the sale of SHK's and AG's shares by the Group in year 2003. The loan notes bear interest at 4% per annum for SHK and 2.25% per annum for AG and are redeemable by SHK and AG at SHK's and AG's option on or before 7 March 2008 and 15 August 2008 respectively unless specifically agreed by both parties.

## 21. AVAILABLE-FOR-SALE INVESTMENTS

Available-for-sale investments as at 31 December 2005 comprise:

| | HK$'000 |
|---|---|
| Listed investments: | |
| – Equity securities listed in Hong Kong | 134,261 |
| – Equity securities listed elsewhere | 19,272 |
| | 153,533 |
| Unlisted investments: | |
| – Unit trusts | 17,572 |
| – Club debentures | 528 |
| | 18,100 |
| Total | 171,633 |

At the balance sheet date, all available-for-sale investments are stated at fair value. Fair values of listed investments and unit trusts have been determined by reference to quoted market bid prices at the balance sheet date. Fair values of the club debentures have been determined by reference to the recent transaction prices of similar club debentures.

## 22. LOAN NOTES

Other investments included in investments in securities (see note 20) as at 31 December 2004 were reclassified as loans and receivables and as available-for-sale investments respectively in accordance with HKAS 39. The loan notes were issued by SHK and AG which formed part of the consideration for the sale of SHK's and AG's shares by the Group in year 2003 and were classified as part of the other investments included in the investments in securities as at 31 December 2004. The loan notes bear interest at 4% per annum (effective interest rate: 7.9%) for SHK and 2.25% per annum (effective interest rate: 7.5%) for AG and are redeemable by SHK and AG at SHK's and AG's option on or before 7 March 2008 and 15 August 2008 respectively unless specifically agreed by both parties.

The Directors consider that the fair value of the Group's loan notes at 31 December 2005 approximates to the corresponding carrying amount.

## 23. INVESTMENTS HELD FOR TRADING

Trading investments included in investments in securities (see note 20) as at 31 December 2004 were reclassified as investments held for trading in accordance with HKAS 39.

Investments held for trading as at 31 December 2005 include:

| | HK$'000 |
|---|---|
| Listed securities: | |
| – Equity securities listed in Hong Kong | 571,410 |
| – Equity securities listed elsewhere | 315,054 |
| | 886,464 |

The fair values of the above held for trading investments are determined based on the quoted market bid prices available on the relevant exchanges.

As at 31 December 2005, particulars of the Group's investments in the equity securities which exceed 10% of the assets of the Group disclosed pursuant to Section 129(2) of the Hong Kong Companies Ordinance are as follows:

| Name of company | Place of incorporation | Class of shares | Percentage of issued share capital held by the Group |
|---|---|---|---|
| Allied Group Limited | Hong Kong | Ordinary | 9.5% |
| Tian An China Investments Company Limited | Hong Kong | Ordinary | 7.6% |
| Mulpha International Limited | Malaysia | Ordinary | 11.8% |

## 24. AMOUNT DUE FROM A MINORITY SHAREHOLDER

The amount is unsecured, interest bearing at prime rate and is repayable within six months.

The Directors consider that the carrying amount of amount due from a minority shareholder approximates its fair value.

## 25. DEBTORS, DEPOSITS AND PREPAYMENTS

The Group has a policy of allowing an average credit period of 30-90 days to its trade debtors.

An aged analysis of trade debtors is as follows:

| | **2005** | 2004 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Within 90 days | **2,409** | 8,792 |
| 91 – 180 days | **–** | 41 |
| 181 – 360 days | **93** | 48 |
| | **2,502** | 8,881 |
| Other debtors, deposits and prepayments | **9,999** | 19,524 |
| | **12,501** | 28,405 |

The Directors consider that the carrying amount of debtors approximates its fair value.

## 26. LOAN RECEIVABLES

| | **2005** | 2004 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Fixed-rate loan | **62,429** | 101,018 |
| Variable-rate loan | **12,000** | 2,000 |
| | **74,429** | 103,018 |

The average interest received for the fixed-rate loan receivables denominated in Hong Kong dollars and Renminbi was approximately 12% (2004: 12%) per annum.

The effective interest rates (which are also equal to contracted interest rates) of the variable-rate loan receivables are ranging from "The Hongkong and Shanghai Banking Corporation Limited ("HSBC") Prime rate" to "HSBC Prime rate plus 2%" denominated in Hong Kong dollars. Interest is normally repriced at every six months.

Fixed-rate loan receivables amounting to HK$2,400,000 and variable-rate loan receivables amounting to HK$12,000,000 are secured.

The Directors consider that the fair values of the Group's loan receivables as at 31 December 2005 approximate to the corresponding carrying amounts.

## 27. PLEDGED BANK DEPOSITS AND BANK BALANCES AND CASH

The pledged bank deposits are denominated in Hong Kong dollars bearing interest at prevailing market rate.

The Directors consider that the carrying amount of pledged bank deposits and bank balances approximates their fair values.

## 28. CURRENT FINANCIAL LIABILITIES

Creditors and accrued charges principally comprise amounts outstanding for trade purpose and ongoing costs.

An aged analysis of trade creditors is as follows:

| | 2005<br>HK$'000 | 2004<br>HK$'000 |
|---|---|---|
| Trade creditors due within 90 days | **35** | 24,776 |
| Other creditors and accrued charges | **41,141** | 7,607 |
| | **41,176** | 32,383 |

The Directors consider that the carrying amounts of the current financial liabilities listed above approximate their fair values.

## 29. OTHER BORROWINGS

Other borrowings represent securities margin financing received from stock broking, futures and options broking house. The entire borrowings are secured by the Group's pledged marketable securities, repayable on demand and bear interest at prevailing market rates.

In the opinion of the Directors, no aged analysis is disclosed as the aged analysis does not give additional value.

The Directors consider that the carrying amounts of the current financial liabilities listed above approximate their fair values.

## 30. SHARE CAPITAL

| | Number of shares | | Value | |
|---|---|---|---|---|
| | **2005** | 2004 | **2005** | 2004 |
| | | | **HK$'000** | HK$'000 |
| Ordinary shares of HK$0.01 each | | | | |
| Authorised: | | | | |
| At beginning and end of the year | **30,000,000,000** | 30,000,000,000 | **300,000** | 300,000 |
| Issued and fully paid: | | | | |
| At beginning of the year | **301,755,547** | 371,468,753 | **3,018** | 3,715 |
| Repurchase of shares | **(4,276,000)** | (69,713,206) | **(43)** | (697) |
| At end of the year | **297,479,547** | 301,755,547 | **2,975** | 3,018 |

During the year, the Company repurchased its own shares on the Stock Exchange as follows:

| Months of repurchase | Number of ordinary shares of HK$0.10 each | Price per share Highest | Price per share Lowest | Aggregate consideration paid |
|---|---|---|---|---|
| | | HK$ | HK$ | HK$'000 |
| September 2005 to November 2005 | 4,276,000 | 1.39 | 1.23 | 5,568 |

The repurchased shares were cancelled during the year and the issued share capital of the Company was reduced by the nominal value thereof. The premium payable on repurchase of the shares of HK$5,525,000 has been charged to the share premium account. An amount equivalent to the nominal value of the shares cancelled has been transferred from the retained profits of the Company to the capital redemption reserve.

The repurchases of the Company's shares during the year were effected by the Directors, pursuant to the mandate from shareholders, with a view to benefiting shareholders as a whole by enhancing the net asset value per share and earnings per share of the Group.

In August 2004, the Company repurchased 69,713,206 ordinary shares for HK$1.20 in cash per share. The excess of the offer price over the nominal value amounted to HK$82,958,000 was charged to the share premium account.

## 31. DEFERRED TAXATION

Deferred tax liability amounting to HK$5,391,000 is due to the acquisition of a subsidiary during the year.

At 31 December 2005, the Group has estimated unused tax losses of approximately HK$1,691 million (2004: HK$1,771 million), for offset against future profits. No deferred tax asset has been recognised in respect of the tax losses due to the unpredictability of future profit streams. These tax losses may be carried forward indefinitely.

The Group has deductible temporary differences of approximately HK$37 million (2004: HK$33 million). No deferred tax asset has been recognised in relation to such deductible temporary difference as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

## 32. CONTINGENT LIABILITIES

(a) In respect of the disposal of a subsidiary in prior years, the Group has given an indemnity to the purchaser against all liabilities, losses, costs and expenses suffered and/or incurred by the purchaser in relation to or arising out of the assignment of certain of the subsidiary's business contracts.

(b) In 1997, the Group had given a counter-indemnity to a former substantial shareholder and the ex-chairman of PCCW Limited (formerly Tricom Holdings Limited ("Tricom")), and Chambord Investment Inc. in respect of certain indemnities given to Tricom at the time of and to facilitate the listing of Tricom's shares on the Stock Exchange. These indemnities related to the use of the Tricom tradename, the infringement of the permitted use of properties, the guarantees granted to Tricom to secure banking facilities and tax liabilities.

The Directors consider it is not probable to estimate the financial effect of the indemnities and warranty given.

## 33. LITIGATION

(a) In November 1998, a writ was issued against the Company's subsidiaries, Hongkong Digital Television Limited ("Digital TV", formerly Star Interactive Television Limited) and Star Telecom Services Limited ("STSL", formerly Hong Kong Star Internet Limited) by nCube Corporation ("nCube"), claiming the sum of approximately US$1,980,000 (equivalent to approximately HK$15,305,000) plus interest in relation to the alleged purchase of two MediaCube 3000 systems by Digital TV from nCube. The claim of nCube against STSL was on the basis of a chop of STSL on the contract between Digital TV and nCube. STSL had taken legal advice and had been advised that it was very unlikely that STSL would be held liable to the claim of nCube. Digital TV was also opposing the claim of nCube and had taken legal advice.

As advised by its lawyers, Digital TV had reasonable grounds in defending the claim and, accordingly, had not made any provision in the financial statements in connection with the claim. Digital TV filed a defence in this section on 14 December 1998 and nCube had failed to take further action since that date. There was no progress during the year in respect of the litigation.

## 33. LITIGATION *(Continued)*

(b) Stellar One Corporation ("Stellar One") served a statutory demand under Section 178 of the Hong Kong Companies Ordinance for the sum of approximately US$1,152,000 (equivalent to approximately HK$8,983,000) upon Digital TV in November 1998. Stellar One filed a winding up petition against Digital TV in December 1998 which was vigorously opposed by Digital TV. Digital TV applied for an order for security for the costs against Stellar One. On 4 May 1999, the Court ordered Stellar One to pay HK$200,000 to the court as security for the costs of Digital TV on or before 7 May 1999. Stellar One failed to pay that amount to the court.

The petition was dismissed in November 1999 and Stellar One was to pay Digital TV its cost of the petition, which amounted to HK$254,000. Stellar One had indicated that it would proceed to arbitration in Honolulu to recover the alleged amount.

Digital TV took legal advice and was advised that the arbitration proceedings had not commenced as of the date of approval of these financial statements. As advised by its lawyers, Digital TV had reasonable grounds in defending the claims and, accordingly, had not made any provision in the financial statements in connection with the claims.

Save and except for the matters specified above, the Group is not engaged in any litigation or claims of material importance and, so far as the Directors are aware, no litigation or claims of material importance are pending or threatened by or against any companies of the Group.

## 34. CAPITAL COMMITMENTS

| | **2005** | 2004 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Capital expenditure contracted for but not provided in the financial statements in respect of the acquisition of an investment property | **14,716** | – |

## 35. PLEDGE OF ASSETS

At the balance sheet date, the following assets of the Group were pledged to banks and securities brokers house to secure short term credit facilities:

| | **2005** | 2004 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Investment properties | **22,100** | 15,000 |
| Investments held for trading | **756,305** | – |
| Investments in securities | **–** | 631,924 |
| Bank deposits | **10,526** | 15,182 |
| | **788,931** | 662,106 |

## 36. LEASE COMMITMENTS

### The Group as lessee

| | 2005 HK$'000 | 2004 HK$'000 |
|---|---|---|
| Minimum lease payments paid under operating leases in respect of premises | **1,566** | 1,119 |

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of rented premises which fall due as follows:

| | 2005 HK$'000 | 2004 HK$'000 |
|---|---|---|
| Within one year | **2,008** | 428 |
| In the second to fifth year inclusive | **813** | – |
| | **2,821** | 428 |

Operating lease payments represent rentals payable by the Group for certain of its office premises. Leases are negotiated for an average term of two years and rentals are fixed for an average term of two years.

### The Group as lessor

Property rental income earned during the year was approximately HK$2,723,000 (2004: HK$2,444,000). The investment properties generated rental yields of 2.0% (2004: 5.5%). The properties held have committed tenants for an average of two years.

At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments under non-cancellable operating leases in respect of rented premises which fall due as follows:

| | 2005 HK$'000 | 2004 HK$'000 |
|---|---|---|
| Within one year | **3,528** | 2,459 |
| In the second to fifth year inclusive | **5,087** | 1,350 |
| | **8,615** | 3,809 |

## 37. RETIREMENT BENEFITS SCHEMES

The Group operates a defined contribution retirement benefits scheme for its qualifying employees in Hong Kong. The assets of the scheme are held separately from those of the Group in funds under the control of independent trustee.

The retirement benefits scheme contributions charged to the income statement represent contributions payable to the scheme by the Group at rates specified in the rules of the scheme. Where there are employees who leave the scheme prior to vesting fully in the contributions, the amount of the forfeited contributions will be used to reduce future contributions payable by the Group or will be refunded to the Company upon request.

As at 31 December 2005, there was no forfeited contributions (2004: Nil), which arose upon employees leaving the scheme and which were available to reduce the contributions payable by the Group in future years.

In addition to the defined contribution retirement benefits scheme, the Group is required to contribute to Mandatory Provident Fund for certain employees in Hong Kong based on applicable rates of monthly salary in accordance with the relevant regulations.

During the year, the retirement benefits scheme contributions net of forfeited contributions of nil (2004: HK$32,000), amounted to HK$329,000 (2004: HK$326,000).

## 38. RELATED PARTY TRANSACTIONS

During the year ended 31 December 2004, the Group entered the following transactions with related parties:

(a) On 2 April 2004, a credit facility with a maximum amount of US$40,000,000 was granted by a related company to finance the general working capital of the Group.

(b) One of the directors of the related company, Ms. Chong Sok Un is also a Director of the Company. The loan was unsecured, borne annual interest rate of HIBOR plus 0.5% and was repayable in one and a half year from the drawdown date. The loan was fully settled during the year ended 31 December 2004. The interest expense in respect of the loan from the related company was HK$511,000, which was included in finance costs per note 11.

### Compensation of key management personnel

The remuneration of Directors and other members of key management of the Group during the year was as follows:

| | **2005** | 2004 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Salaries and other short-term employee benefits | **17,128** | 16,332 |
| Retirement benefits costs | **60** | 60 |
| | **17,188** | 16,392 |

The remuneration of Directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

## 39. ACQUISITION OF A SUBSIDIARY

On 28 June 2005, the Group acquired 75% of the issued share capital of 深圳市天利安實業發展有限公司 ("天利安") for a consideration of HK$35,988,000. This acquisition has been accounted for using the purchase method of accounting.

The net assets acquired in the transaction are as follows:

| | **Acquiree's carrying amount before combination** | **Fair value adjustments** | **Fair value** |
|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 |
| Net assets acquired: | | | |
| Investment property | 44,065 | 35,940 | 80,005 |
| Construction in progress | 47,034 | – | 47,034 |
| Debtors, deposits and prepayments | 500 | – | 500 |
| Bank and cash balances | 9 | – | 9 |
| Creditors and accrued charges | (51,669) | – | (51,669) |
| Amount due to a previous shareholder | (22,503) | – | (22,503) |
| Tax liability | (1) | – | (1) |
| Deferred tax liability | – | (5,391) | (5,391) |
| | 17,435 | 30,549 | 47,984 |
| Minority interest | | | (11,996) |
| | | | 35,988 |
| Total consideration satisfied by: | | | |
| Cash consideration paid | | | 30,980 |
| Loan receivable | | | 5,008 |
| | | | 35,988 |
| Net cash outflow arising on acquisition: | | | |
| Cash consideration paid | | | (30,980) |
| Cash and cash equivalents acquired | | | 9 |
| | | | (30,971) |

In respect of the above acquisition, consideration of approximately HK$30,980,000 was satisfied by cash and the remaining amount of approximately HK$5,008,000 was satisfied by the loan receivable.

## 39. ACQUISITION OF A SUBSIDIARY *(Continued)*

If the acquisition had been completed on 1 January 2005, total group revenue for the year would have been HK$223,086,000, and profit for the year would have been HK$104,398,000. The proforma information is for illustrative purposes only and is not necessarily an indicative revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2005, nor is it intended to be a projection of future results.

The subsidiary acquired does not have significant contribution to the Group's turnover and result for the year between the date of acquisition and the balance sheet date.

## 40. DISPOSAL OF A SUBSIDIARY

The net liabilities of the wholly-owned subsidiary at the date of disposal were as follows:

| | **20.9.2005** |
|---|---|
| | **HK$'000** |
| NET LIABILITIES DISPOSED OF | |
| Amounts due to group companies *(Note)* | **(9,077)** |
| Satisfied by: | |
| Cash | **3,544** |
| Net cash inflow arising on disposal: | |
| Cash consideration received during the year ended 31 December 2005 | **3,544** |

During the year, the disposed subsidiary did not make a significant contribution to the Group's profit and cash flows respectively.

During the year, the disposed subsidiary had a loss for the period of HK$5,000 which is included in the Group's profit for the year.

*Note:* Amounts due to group companies were waived at the date of disposal and therefore there was a gain on disposal of HK$3,544,000.

## 41. MAJOR NON-CASH TRANSACTION

During the year, the Group entered the following major non-cash transaction:

In respect of the Group's loan receivables, a previous shareholder of 天利安 agreed to settle a loan receivable of HK$27,511,000 on the borrower's behalf by assigning an amount of HK$22,503,000 due to him by 天利安 to the Group and off-setting part of the consideration of HK$5,008,000 payable to him for the Group's acquisition of the 75% of the registered capital of 天利安 (details are set out in note 39).

## 42. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Particulars of the principal subsidiaries as at 31 December 2005 are as follows:

| Name of subsidiary | Place of incorporation/ registration | Nominal value of issued ordinary share/ registered capital | Percentage of equity attributable to the Company | Principal activities |
|---|---|---|---|---|
| **Directly held** | | | | |
| Besford International Limited | The British Virgin Islands | Ordinary US$1 | 100% | Investment holding |
| Classic Fortune Limited | The British Virgin Islands | Ordinary US$1 | 100% | Investment holding |
| Mission Time Holdings Limited | The British Virgin Islands | Ordinary US$1 | 100% | Investment holding |
| Star Paging (BVI) Limited | The British Virgin Islands | Ordinary US$400 | 100% | Investment holding |
| Yuenwell Holdings Limited | The British Virgin Islands | Ordinary US$1 | 100% | Investment holding |
| **Indirectly held** | | | | |
| China Capital Holdings Limited | Hong Kong | Ordinary HK$2 | 100% | Treasury service |
| China Online (Bermuda) Limited | Hong Kong | Ordinary HK$2 | 100% | Investment holding |
| China Online Nominees Limited | Hong Kong | Ordinary HK$200 | 100% | Investment holding and provision of nominee services |
| China Online Secretaries Limited | Hong Kong | Ordinary HK$2 | 100% | Provision of secretarial services |

## 42. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

| Name of subsidiary | Place of incorporation/ registration | Nominal value of issued ordinary share/ registered capital | Percentage of equity attributable to the Company | Principal activities |
|---|---|---|---|---|
| **Indirectly held *(Continued)*** | | | | |
| Dualiane Limited | The British Virgin Islands | Ordinary US$1 | 100% | Investment holding |
| Focus Clear Limited | The British Virgin Islands | Ordinary US$1 | 100% | Securities trading in Hong Kong |
| Forepower Limited | The British Virgin Islands | Ordinary US$1 | 100% | Property investment in Hong Kong |
| Genwo Limited | Hong Kong | Ordinary HK$200,000 | 100% | Property investment |
| Gold Chopsticks Limited | The British Virgin Islands | Ordinary US$1 | 100% | Investment holding |
| Honest Opportunity Limited | The British Virgin Islands | Ordinary US$1 | 100% | Securities trading and investment in Hong Kong and overseas |
| Join Capital Limited | Hong Kong | Ordinary HK$2 | 100% | Money lending |
| Kintic Limited | Hong Kong | Ordinary HK$2 | 100% | Property investment |
| Konnic Limited | Hong Kong | Ordinary HK$2 | 100% | Property investment |
| New Fortress Investments Limited | The British Virgin Islands | Ordinary US$1 | 100% | Investment holding |

## 42. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

| Name of subsidiary | Place of incorporation/ registration | Nominal value of issued ordinary share/ registered capital | Percentage of equity attributable to the Company | Principal activities |
|---|---|---|---|---|
| **Indirectly held *(Continued)*** | | | | |
| Rich Investments Limited | Hong Kong | Ordinary HK$2 | 100% | Investment holding |
| Sinway Limited | Hong Kong | Ordinary HK$2 | 100% | Mobile handsets distribution |
| Sparkling Summer Limited | The British Virgin Islands | Ordinary US$6,500,000 | 100% | Securities trading in Hong Kong and overseas |
| Star Charter Limited | Hong Kong | Ordinary HK$2 | 100% | Investment holding |
| Star Telecom (China Investment) Limited | Hong Kong | Ordinary HK$2 | 100% | Investment holding |
| Star Telecom Holding Limited | Hong Kong | Ordinary HK$200 Deferred # HK$4,000,000 | 100% | Investment holding |
| Star Telecom Limited | Hong Kong | Ordinary HK$3,000,000 | 100% | Telecom and IT products and services |
| Star Telecom Properties Limited | Hong Kong | Ordinary HK$200 | 100% | Investment and property holding |
| Taskwell Limited | The British Virgin Islands | Ordinary US$1 | 100% | Investment holding |
| Tricom Tianchi Limited | Hong Kong | Ordinary HK$2 | 100% | Investment holding |
| Vinka Limited | Hong Kong | Ordinary HK$2 | 100% | Investment holding |

## 42. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

| Name of subsidiary | Place of incorporation/ registration | Nominal value of issued ordinary share/ registered capital | Percentage of equity attributable to the Company | Principal activities |
|---|---|---|---|---|
| **Indirectly held *(Continued)*** | | | | |
| Widerich Limited | Hong Kong | Ordinary HK$2 | 100% | Property investment |
| 星電電子技術發展(深圳)有限公司* | China | Registered HK$1,000,000 | 100% | Research and development for computer software and relevant technical consultancy services |
| 深圳市天利安實業發展有限公司** | China | Registered RMB46,000,000 | 75% | Property investment |

\# The deferred shares, which are not held by the Group, practically carry no rights to any dividend or to receive notice of or to attend or vote at any general meeting of the company or to any distribution in winding up.

* Wholly foreign-owned enterprise.

** 天利安 is a sino-foreign equity joint venture entity owned by the Group and independent third parties in the PRC. On 8 November 2005, the registered capital of 天利安 was increased by RMB20,000,000 (equivalent to HK$19,220,000) and the whole capital contribution was contributed by Star Charter Limited, an indirectly wholly owned subsidiary of the Company. Under the loan agreement entered into between Star Charter Limited and a minority shareholder of 天利安, 25% of the abovementioned capital contribution (ie. RMB5,000,000 equivalent to HK$4,805,000) was paid by Star Charter Limited on behalf of a minority shareholder. The Group therefore effectively has 75% attributable economic interest in 天利安.

The above table lists the subsidiaries of the Company which, in the opinion of the Directors, principally affected the results of the year or assets of the Group. To give details of other subsidiaries would, in the opinion of the Directors, result in particulars of excessive length.

All subsidiaries operate principally in their places of incorporation unless specified otherwise under "Principal activities".

None of the subsidiaries had any debts securities subsisting at 31 December 2005 or at any time during the year.

## 43. POST BALANCE SHEET EVENTS

Subsequent to 31 December 2005, the Group entered the following transactions:

(a) AG early redeemed part of the loan notes with par value of approximately HK43,465,000 with a discount on early redemption of approximately HK$3,962,000 at the request of the Group. The net redemption proceed is approximately HK39,503,000.

(b) The Group entered into a sale and purchase agreement with two independent third parties pursuant to which the Group agreed to dispose of and the two independent third parties agreed to purchase 30,000 ordinary shares at par value of HK$1.00 each in an associate of the Group which was fully impaired in previous year, at a total consideration of HK1,740,000.

(c) On 23 March 2006, the Group disposed of 天利安, a non-wholly owned subsidiary, together with the related shareholder loan and the amount due from a minority shareholder, to a third party at an aggregate consideration of RMB99,900,000 (equivalent to HK$96,058,000).

(d) On 27 March 2006, the Group disposed of 70,000,000 shares of Tian An China Investments Company Limited at HK$3.68 each.