

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

1. GENERAL INFORMATION

The Company is a limited liability company incorporated and domiciled in Hong Kong. The address of its registered office and its principal place of business is 39th Floor, New World Tower 1, 16-18 Queen's Road Central, Hong Kong. The Company's shares are listed on The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange").

The Group are principally engaged in property development, operations of web sites and related services, provision of information technology services, distance learning and application services, sale of securities and provision of financial information and related services.

Details of the principal activities of the Company's subsidiaries are set out in note 17.

As at 31 December 2005, the ultimate parent company of the Group is Nan Hai Corporation Limited ("Nan Hai", formerly known as South Sea Holding Company Limited), a company incorporated in Bermuda and its shares are listed on the Hong Kong Stock Exchange.

The financial statements on pages 41 to 119 have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") as issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the disclosure requirements of the Hong Kong Companies Ordinance. The financial statements include the applicable disclosure requirements of the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (the "Listing Rules").

The financial statements for the year ended 31 December 2005 were approved by the board of directors on 20 April 2006.

Group reorganisation

The Company and Nan Hai, the former subsidiary of the Group and a company listed on the Hong Kong Stock Exchange, put forward a shareholding restructure plan as detailed in the Company's circular dated 23 March 2004. Pursuant to the shareholding restructure plan, the following events took place during the year:

- (a) Convertible notes of Nan Hai of HK\$200 million which bore interest at 1% per annum were converted by the noteholder, Robina Profits Limited, a wholly owned subsidiary of the Company into 11,111,111,111 ordinary shares of HK\$0.01 each of Nan Hai at a conversion price of HK\$0.018 per share on 26 July 2005.
- (b) On 26 July 2005, the authorised share capital of the Company was by virtue of a special resolution passed at an Extraordinary General Meeting of the Company held on 16 April 2004 and with the sanction of an order of the High Court dated 21 June 2005, reduced from HK\$3,000,000,000 divided into 30,000,000,000 ordinary shares of HK\$0.10 each to HK\$300,000,000 divided into 30,000,000,000 ordinary shares of HK\$0.01 each and that such reduction be effected by cancelling paid-up capital to the extent of HK\$0.09 upon each of the 19,914,504,877 fully-paid ordinary shares in issue.

At the same time, part of the share premium account of the Company was by virtue of a special resolution passed at an Extraordinary General Meeting of the Company held on 16 April 2004 and with the sanction of an order of the High Court dated 21 June 2005, reduced by HK\$433,541,063.

- (c) On 27 July 2005, the credit arising from the aforesaid reduction of nominal value of ordinary share and share premium account (the "Capital Reduction") was then applied to effect a distribution of 31,377,831,111 ordinary shares of Nan Hai held by the Company's wholly-owned subsidiaries to the qualifying shareholders (the "Distribution") on the basis of 15,756 ordinary shares of HK\$0.01 each of Nan Hai for every 10,000 ordinary shares of HK\$0.01 each of the Company. The remaining balance of 537,228 ordinary shares of Nan Hai were disposed of by the Company in the market. Upon the Distribution, Nan Hai ceased to be a subsidiary of the Company.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

1. GENERAL INFORMATION (Continued)

Group reorganisation (Continued)

- (d) On 30 August 2005, a total number of 27,120,395,500 ordinary shares of HK\$0.01 each in Nan Hai were allotted and issued as partial satisfaction of the consideration payable to the vendors following the completion of a sale and purchase agreement dated 29 December 2003 made between Nan Hai as purchaser and (1) First Best Assets Limited, (2) Rosewood Assets Limited, (3) Pippen Limited, (4) Staverley Assets Limited, (5) 中信信息科技投资有限公司 (CITIC Information Technology Investment Company Limited), (6) Macro Resources Limited and (7) Empire Gate Industrial Limited as vendors in respect of the acquisition by Nan Hai of 12,515,795,316 ordinary shares of HK\$0.01 each of the Company, representing approximately 62.85% of the total issued share capital of the Company. The market price of each Nan Hai share was HK\$0.038 as at 30 August 2005.

Upon the completion of the Group's shareholding restructure plan, Nan Hai has become the ultimate holding company of the Company since 30 August 2005.

2. ADOPTION OF NEW OR REVISED HKFRS AND CHANGES IN ACCOUNTING POLICIES

From 1 January 2005, the Group has adopted for the first time the new or revised standards and interpretations of HKFRS, which are relevant to its operations. These include the following new, revised and renamed standards:

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39 Amendment	Transitional and Initial Recognition of Financial Assets and Financial Liabilities
HKAS 40	Investment Property
HKFRS 2	Share-based Payment
HKFRS 3	Business Combinations
HKFRS 4	Insurance Contracts
HKFRS 5	Non-current Assets Held for Sale and Discontinued Operations
HK-Int 2	The Appropriate Accounting Policies for Hotel Properties
HKAS-Int 21	Income Taxes – Recovery of Revalued Non-Depreciable Assets

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

2. ADOPTION OF NEW OR REVISED HKFRS AND CHANGES IN ACCOUNTING POLICIES (Continued)

All the standards have been applied retrospectively except where specific transitional provisions require a different treatment and accordingly the 2004 financial statements and their presentation have been amended in accordance with HKAS 8.

In the prior years, land or properties held for development are stated at cost less impairment while properties under development are stated at estimated open market value. From 1 January 2005 onwards, the Group changed its accounting policy on all properties held for and/or under development, such that all properties held for and/or under development for sale are stated at the lower of cost and net realisable value and included under current assets unless the sale of such properties are not expected to be realised within twelve months after the balance sheet date. The unification and change in accounting policy on properties held for and/or under development for sale provide a unified policy for the Group's development properties and the new accounting policy is commonly used among property development companies. The new accounting policy has been applied retrospectively. Certain properties under development previously included under property, plant and equipment of HK\$279,000,000 has been reclassified as properties held for and under development in the financial statements for the prior years. Other than the reclassification, the change in accounting policy on properties held for and/or under development has no effect on the current and the prior years' financial statements.

Due to the change in accounting policies, the 2004 comparatives contained in these financial statements differ from those published in the financial statements for the year ended 31 December 2004.

Significant effects on current, prior or future periods arising from the first-time application of the new or revised standards listed above in respect to presentation, recognition and measurement of accounts are described in the following notes:

2.1 Adoption of HKAS 1

The application of HKAS 1 has resulted in a change in the presentation of the financial statements. Minority interests are now included as a separate line item within equity. Profit and loss attributable to minority interests and that attributable to equity holders of the Company is now presented as an allocation of the net result of the year. In addition, in previous years, the Group's share of tax attributable to associates was included as a component of the Group's taxation charge/credit in the consolidated income statement. Upon the adoption of HKAS 1, the Group's share of the post-acquisition results of associates is presented net of the Group's share of tax attributable to associates.

2.2 Adoption of HKAS 16 and HK-Int 2

The adoption of HKAS 16 and HK-Int 2 has resulted in a change in the accounting policy for the Group's hotel properties, which is now stated at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Depreciation is calculated to write off the carrying values of hotel properties on a straight-line basis over the shorter of the unexpired period of the land lease and the anticipated remaining useful lives of the assets. In prior years, the hotel properties are stated at their estimated open market value on the basis of annual professional valuation performed at the end of each financial year. The adoption of HKAS 16 and HK-Int 2 has no material effect to the financial statements for the current and prior years, thus, no adjustment to prior periods has been made.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

2. ADOPTION OF NEW OR REVISED HKFRS AND CHANGES IN ACCOUNTING POLICIES (Continued)

2.3 Adoption of HKAS 17

The adoption of HKAS 17 has resulted in a change in the accounting policy relating to the reclassification of land use rights from property, plant and equipment and land held for development to prepaid land lease payments under operating leases. The prepaid land lease payments under operating leases are carried at cost and subsequently recognised in the income statement on a straight-line basis over the period of the lease. In prior years, the land use rights were accounted for at cost and accumulated impairment. The change in accounting policy has been applied retrospectively which has no material effect to the income statement for the prior years, thus, no adjustment to income statement for the prior periods has been made.

2.4 Adoption of HKAS 36, HKAS 38 and HKFRS 3

These standards stipulate a prospective change to the accounting policies:

Goodwill

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

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

In accordance with the provisions of HKFRS 3, with respect to goodwill previously capitalised on the consolidated balance sheet, the amortisation of goodwill has ceased from 1 January 2005 and the accumulated amortisation at 31 December 2004 was eliminated against the original gross amount of goodwill. Goodwill is now subject only to annual testing for impairment as well as when there is an indication of impairment. The Group has allocated the carrying amount of its goodwill to its cash generating units.

In respect of goodwill previously eliminated against or credited to reserves, HKFRS 3 does not require the Group to recognise that goodwill in profit or loss when it disposes of all or part of the business to which that goodwill relates or when a cash-generating unit to which the goodwill relates becomes impaired. Moreover, the Group is not required nor permitted to restate goodwill previously eliminated against reserves. Goodwill previously recognised in reserves as at 1 January 2005 continues to be held in reserves and will be transferred to retained profits at the time when the business to which the goodwill relates is disposed of or when a cash-generating unit to which the goodwill relates becomes impaired.

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 is recognised immediately in profit or loss in the period in which the acquisition takes place.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

2. ADOPTION OF NEW OR REVISED HKFRS AND CHANGES IN ACCOUNTING POLICIES (Continued)

2.4 Adoption of HKAS 36, HKAS 38 and HKFRS 3 (Continued)

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") (Continued)

In prior years, negative goodwill arising from acquisition prior to 1 January 2001 was credited to reserves, and those arising from acquisition 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 the carrying amounts of negative goodwill on 1 January 2005 against retained profits.

The effect of the above changes is summarised in note 2.10 and 2.11 to the financial statements. In accordance with the transitional provision of HKFRS 3, comparative figures have not been restated.

Intangible assets

No adjustments to prior year financial statements were deemed to be necessary as a result of the reassessment of the useful lives of its intangible assets in accordance with the provision of HKAS 38.

2.5 Adoption of HKFRS 2

Prior to the adoption of HKFRS 2 on 1 January 2005, the Group did not recognise the financial effect of share options until they were exercised.

The principal impact of HKFRS 2 on the Group is in relation to the expensing of the fair value of share options granted to directors and employees of the Company and/or its subsidiaries, determined at the date of grant of the share options, over the vesting period with a corresponding credit to equity, unless the transaction is cash settled share-based payment.

According to the transitional provisions of HKFRS 2, the Group applies HKFRS 2 retrospectively to share options that were granted after 7 November 2002 and had not vested on 1 January 2005. As the adoption of HKFRS 2 has no material effect to the financial statements for the prior years, no adjustment to prior periods has been made.

2.6 Adoption of HKFRS 5

HKFRS 5 specifies the accounting for assets held for sale, and the presentation and disclosure of discontinued operations and replaces SSAP 33 "Discontinuing Operations", in accordance with the transitional provision of HKFRS 5, this HKFRS is applied prospectively. Under SSAP 33, the Group would have recognised a discontinued operation at the earlier of:

- the date the Group entered into a binding sale agreement; and
- the date the board of directors had approved and announced a formal disposal plan.

HKFRS 5 classifies an operation as discontinued at the date the operation meets the criteria to be classified as held for sale or when the entity has disposed of the operation. The principal impact of the adoption of HKFRS 5 to the Group is on the presentation and disclosure in relation to discontinued operations.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

2. ADOPTION OF NEW OR REVISED HKFRS AND CHANGES IN ACCOUNTING POLICIES (Continued)

2.7 Adoption of HKAS 32 and HKAS 39

Prior to the adoption of HKAS 39, the Group has recorded its investment securities at cost less any provision for impairment losses and other securities at fair values with changes in value being recognised in the income statement as they arose.

On the adoption of HKAS 39, the Group classified its investments into the following categories: held-to-maturity, available-for-sale and fair value through profit or loss and measured its financial assets at either fair value or at amortised cost according to the classification. It also requires the recognition of derivative financial instruments at fair value.

In accordance with the transitional provisions of HKAS 39, it does not permit the recognition, derecognition and measurement of financial assets and liabilities in accordance with the standard on a retrospective basis. Accordingly, any adjustment to the previous carrying amount is recognised in the opening balance of retained profits on 1 January 2005 and the comparative figures have not been restated.

In previous years, convertible notes were classified as liabilities on the balance sheet. HKAS 32 requires an issuer of a compound financial instrument that contains both financial liability and equity components to separate the compound financial instrument into liability and equity components on initial recognition and to account for these components separately. The liability component is subsequently measured at amortised cost using the effective interest method. The adoption of HKAS 32 has no material impact to the financial statements for the prior years, thus, no adjustment to prior periods has been made.

HKAS 32 requires all disclosure and presentation rules regarding financial instruments to be applied retrospectively.

2.8 Adoption of HKAS 40 and HKAS-Int 21

In previous years, the Group stated its investment properties at valuation and recorded the increase in valuation in the investment properties revaluation reserve. Decreases in the valuation are first set off against increases on earlier valuations on a portfolio basis and thereafter are expensed in the income statement. Where a decrease had previously been charged to the income statement, the increase that subsequently arose was credited to the income statement to the extent of the decrease previously charged with the remaining part of the increase credited to the investment properties revaluation reserve. Investment properties held on leases with unexpired periods of 20 years or less are depreciated over the remaining period of the lease.

The adoption of HKAS 40 has led to the changes in the fair value of investment properties being recorded in the income statement and the investment properties are no longer subject to depreciation where the unexpired periods of the lease are 20 years or less.

The adoption of HKAS-Int 21 has resulted in a change in the accounting policy relating to the deferred taxation of the Group's investment properties. In accordance with the provision of HKAS-Int 21, the deferred tax liability arising from the revaluation of investment properties is measured on the basis of tax consequences that would follow from recovery of the carrying amount of that asset through use. In previous years, the carrying amount of that asset is expected to be recovered through sale.

The adoption of HKAS 40 and HKAS-Int 21 does not have material impact to the financial statements for the current and prior years, thus, no adjustment to prior periods has been made.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

2. ADOPTION OF NEW OR REVISED HKFRS AND CHANGES IN ACCOUNTING POLICIES (Continued)

2.9 Other standards adopted

The adoption of other new or revised standards or interpretations did not result in significant changes to the Group's accounting policies. The specific transitional provisions contained in some of these standards were considered. The adoption of these other standards did not result in any changes to the amounts or disclosures in these financial statements.

2.10 The effect of changes in accounting policies on consolidated income statement is summarised below:

	Effect of adopting				Total HK\$'000
	HKAS 1 [#] HK\$'000	HKAS 17 [#] HK\$'000	HKFRS 2 [#] HK\$'000	HKFRS 3 [*] HK\$'000	
Year ended 31 December 2005					
<i>Increase/(Decrease) in other operating income</i>					
– Decrease in negative goodwill recognised as income	-	-	-	(10,592)	(10,592)
<i>(Increase)/Decrease in expenses</i>					
– Increase in staff costs and related expenses	-	-	(5,967)	-	(5,967)
– Increase in amortisation of prepaid land lease payments under operating leases	-	(525)	-	-	(525)
– Decrease in amortisation of goodwill	-	-	-	32,610	32,610
<i>Decrease in share of results of associates</i>	(254)	-	-	-	(254)
<i>Decrease in income tax expense</i>	254	-	-	-	254
Total increase/(decrease) in profit	-	(525)	(5,967)	22,018	15,526
	HK cents	HK cents	HK cents	HK cents	HK cents
Increase/(Decrease) in basic earnings per share	-	-	(0.03)	0.11	0.08

* adjustments which take effect prospectively from 1 January 2005

adjustments which take effect retrospectively

The change in accounting policies did not have material financial impact to the results and earnings per share for the year ended 31 December 2004, no adjustment to prior periods has been made.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

2. ADOPTION OF NEW OR REVISED HKFRS AND CHANGES IN ACCOUNTING POLICIES (Continued)

2.11 The effect of changes in the accounting policies on the consolidated balance sheet is summarised below:

	Effect of adopting			Effect of changes in accounting policy for properties held for and/or under development		Total HK\$'000
	HKAS 1# HK\$'000	HKAS 17# HK\$'000	HKFRS 2# HK\$'000	HKFRS 3' HK\$'000	development HK\$'000	
At 1 January 2004 (Equity only)						
<i>Increase in equity</i>						
Minority interests	1,011,248	-	-	-	-	1,011,248
At 31 December 2004						
<i>Increase/(Decrease) in assets</i>						
Property, plant and equipment	-	(13,029)	-	-	(279,000)	(292,029)
Prepaid land lease payments under operating leases	-	13,029	-	-	-	13,029
Properties held for and under development	-	-	-	-	279,000	279,000
<i>Increase in equity</i>						
Minority interests	969,668	-	-	-	-	969,668
At 1 January 2005						
<i>Increase/(Decrease) in assets</i>						
Goodwill	-	-	-	302,651	-	302,651
<i>Increase in equity</i>						
Retained profits	-	-	-	302,651	-	302,651
At 31 December 2005						
<i>Increase/(Decrease) in assets</i>						
Property, plant and equipment	-	(13,261)	-	-	(279,000)	(292,261)
Prepaid land lease payments under operating leases	-	12,736	-	-	-	12,736
Properties held for and under development	-	-	-	-	279,000	279,000
Goodwill	-	-	-	22,018	-	22,018
<i>Increase/(Decrease) in equity</i>						
Share option reserve	-	-	3,409	-	-	3,409
Retained profits	-	(525)	(5,967)	22,018	-	15,526
Minority interests	163,054	-	-	-	-	163,054

* adjustments which take effect prospectively from 1 January 2005

adjustments which take effect retrospectively

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

2. ADOPTION OF NEW OR REVISED HKFRS AND CHANGES IN ACCOUNTING POLICIES (Continued)

2.12 New standards or interpretations that have been issued but are not yet effective

The Group has not early adopted the following standards or interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the adoption of the standards and interpretations will not result in substantial changes to the Group's accounting policies.

HKAS 1 (Amendment)	Capital Disclosures ¹
HKAS 19 (Amendment)	Employee Benefits – Actuarial Gains and Losses, Group Plans and Disclosures ²
HKAS 21 (Amendment)	The Effects of Changes in Foreign Exchange Rates – Net Investment in a 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 & HKFRS 4 (Amendments)	Financial Instruments: Recognition and Measurement and Insurance Contracts – Financial Guarantee Contracts ²
HKFRS 1 & HKFRS 6 (Amendments)	First-time Adoption of Hong Kong Financial Reporting Standards and Exploration for and Evaluation of Mineral Resources ²
HKFRS 6	Exploration for and Evaluation of Mineral Resources ²
HKFRS 7	Financial Instruments: Disclosures ¹
HKFRS – Int 4	Determining whether an Arrangement contains a Lease ²
HKFRS – 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 <i>Financial Reporting in Hyperinflationary Economies</i> ⁴

¹ Effective for annual periods beginning on or after 1 January 2007

² Effective for annual periods beginning on or after 1 January 2006

³ Effective for annual periods beginning on or after 1 December 2005

⁴ Effective for annual periods beginning on or after 1 March 2006

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of preparation

The significant accounting policies that have been used in the preparation of these financial statements are summarised below.

The financial statements have been prepared on the historical cost basis except for certain financial assets and liabilities. The measurement bases are fully described in the accounting policies below.

It should be noted that accounting estimates and assumptions are used in preparation of the financial statements. Although these estimates are based on management's best knowledge of current events and actions, actual results may ultimately differ from those estimates and assumptions.

3.2 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December each year.

3.3 Subsidiaries

Subsidiaries, in accordance with the Hong Kong Companies Ordinance, are those entities in which the Company, whether directly or indirectly, controls more than half of the voting power, or holds more than half of the issued share capital, or controls the composition of the board of directors. Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are de-consolidated from the date that control ceases.

Acquired subsidiaries are subject to application of the purchase method. This involves the revaluation at fair value of all identifiable assets and liabilities, including contingent liabilities of the subsidiary, at the acquisition date, regardless of whether or not they were recorded in the financial statements of the subsidiary prior to acquisition. On initial recognition, the assets and liabilities of the subsidiary are included in the consolidated balance sheet at their revalued amounts, which are also used as the bases for subsequent measurement in accordance with the Group's accounting policies. Goodwill represents the excess of acquisition cost over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisition of subsidiaries is presented separately in the consolidated balance sheet. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

In the Company's balance sheet, subsidiaries are carried at cost less impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable at the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.4 Associates

Associates are those entities over which the Group is able to exert significant influence, generally accompanying a shareholding of between 20% and 50% of voting rights but which are neither subsidiaries nor investment in a joint venture. Investment in associates is initially recognised at cost and subsequently accounted for using the equity method. The Group's investment in associates includes goodwill or fair value adjustment attributable to the share in the associate identified on acquisition.

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment.

When the Group's share of losses in an associate equals or exceeds its interest in the associate (including any other unsecured receivables), the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

3.5 Property, plant and equipment

(i) Depreciation and amortisation

Depreciation and amortisation is provided to write off the cost of property, plant and equipment over their estimated useful lives, using the straight line method, at the following rates per annum:

Leasehold improvements, furniture, fixtures and equipment	10% to 33- $\frac{1}{3}$ %
Motor vehicles and pleasure yacht	10% to 33- $\frac{1}{3}$ %

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.5 Property, plant and equipment (Continued)

(ii) *Measurement bases*

Property, plant and equipment are stated at acquisition cost less accumulated depreciation and accumulated impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to the working condition and location for its intended use.

Subsequent expenditure relating to property, plant and equipment is added to the carrying amount of the assets if it can be demonstrated that such expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the assets and can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

When assets are sold or retired, any gain or loss resulting from their disposal, being the difference between the net disposal proceeds and the carrying amount of the assets, is recognised in the income statement.

3.6 Construction in progress

Construction in progress represents assets under construction and is carried at cost less any impairment losses, and is not depreciated. Cost comprises direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when the construction work is completed and the asset is ready for use.

3.7 Properties held for and under development

Properties held for and/or under development for sale are stated at the lower of cost and net realisable value, and are included under current assets unless the sale of such properties are not expected to be realised within twelve months after the balance sheet date.

Properties held for and/or under development comprise land held under operating lease and aggregate cost of development, materials and supplies, wages and other expenses. Other expenses include (a) those costs that are incurred in bringing the properties held for and/or under development to their present location and condition and (b) a systematic allocation of fixed overheads that had incurred on development of properties. Fixed overheads are indirect costs which remain relatively constant regardless of the size or volume of the development.

Net realisable value is the estimated selling price in the ordinary course of business less estimated selling expenses.

On completion, the properties are transferred to completed properties held for sale.

NOTES TO THE FINANCIAL STATEMENTS

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8 Goodwill

Goodwill arising on acquisition prior to 1 January 2005

Goodwill arising on acquisition of a subsidiary or an associate for which the agreement date is before 1 January 2005 represents the excess of the cost of acquisition over the Group's interest in fair value of the identifiable assets and liabilities of the relevant subsidiary or associate at the date of acquisition.

Goodwill arising on acquisition prior to 1 January 2001 continues to be held in reserves and will be charged to the retained profits at the time when the business to which the goodwill relates is disposed of or when a cash-generating unit to which goodwill relates becomes impaired.

For previously capitalised goodwill arising on acquisition after 1 January 2001, the Group has discontinued amortisation from 1 January 2005 onwards, and such goodwill is tested for impairment annually and whenever there is indication that the cash-generating unit to which the goodwill relates becomes impaired.

Goodwill arising on acquisition on or after 1 January 2005

Goodwill arising on acquisition of a subsidiary or an associate for which the agreement date is on or after 1 January 2005 represents the excess of the cost of acquisition over the fair value of the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the acquired subsidiary or associate at the date of acquisition. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses.

On subsequent disposal of a subsidiary or an associate, the attributable amount of goodwill capitalised is included in the determination of the amount of gain or loss on disposal.

3.9 Other intangible assets

Product development costs

Costs associated with research activities are expensed in the income statement as they occur. Costs incurred on projects in developing new products, including the respective cost of acquiring the rights to technical know-how for the production of the relevant new products, are recognised as intangible assets provided they meet the following recognition requirements:

- (i) demonstration of technical feasibility of the prospective product for internal use or sale;
- (ii) the intangible asset will generate probable economic benefits through internal use or sale;
- (iii) sufficient technical, financial and other resources are available for completion; and
- (iv) the intangible asset can be reliably measured

Product development costs which do not meet these recognition requirements are expensed when incurred.

Capitalised product development costs are amortised, using the straight line method, over their estimated commercial lives of not more than three years commencing in the year when the product is put into commercial use. When the circumstances which have justified the deferral of the costs no longer apply, or are considered doubtful, the costs, to the extent to which they are considered to be irrecoverable, will be written off immediately to the income statement.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.9 Other intangible assets (Continued)

Computer software

Computer software is stated at cost less accumulated amortisation and any accumulated impairment losses.

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the computer software to which it relates. All other expenditure is expensed as incurred.

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of four years.

3.10 Inventories

Inventories are stated at the lower of cost and net realisable value.

Cost comprises direct materials computed using the weighted average basis and, in case of finished goods, comprises direct labour and an appropriate proportion of overheads that have been incurred in bringing the inventories to their present location and condition.

Net realisable value is calculated as the actual or estimated selling price less all further costs of production and the estimated costs necessary to make the sale.

3.11 Income tax

Income tax for the year comprises current and deferred taxes.

Current tax is the expected tax payable on the taxable income for the year using tax rates enacted at the balance sheet date, and any adjustment to tax payable in respect of previous periods.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases 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 for all deductible temporary differences, tax losses available to be carried forward as well as other unused tax credits, to the extent that it is probable that taxable profits will be available against which deductible temporary differences, unused tax losses and unused tax credits 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 tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, 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. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.11 Income tax (Continued)

Deferred tax assets and liabilities are not discounted. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

3.12 Impairment of assets

Goodwill, other intangible assets, property, plant and equipment and interests in subsidiaries and associates are subject to impairment testing.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows ("cash-generating units"). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. Goodwill in particular is allocated to those cash-generating units that are expected to benefit from synergies of the related business combination and represent the lowest level within the Group at which management controls the related cash flows.

Individual assets or cash-generating units that include goodwill and other intangible assets with an indefinite useful life or those not yet available for use are tested for impairment at least annually, irrespective of whether there is any indication that they are impaired. All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised as an expense immediately for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount unless the relevant asset is carried at a revalued amount under another standard, in which case the impairment loss is treated as a revaluation decrease under that standard. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value in use based on an internal discounted cash flow evaluation. Impairment losses recognised for cash-generating units, to which goodwill has been allocated, are credited initially to the carrying amount of goodwill. Any remaining impairment loss is charged pro rata to the other assets in the cash-generating unit.

An impairment loss on goodwill is not reversed in subsequent periods. In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the asset's recoverable amount and only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

3.13 Operating leases

- (i) Leases where substantially all the risks and rewards of ownership of assets remain with the lessor are accounted for as operating leases. Annual rentals applicable to such operating leases are charged to the income statement on a straight line basis over the lease terms.
- (ii) Land use rights/Prepaid land lease payments are up-front payments to acquire the land use rights/leasehold land. The payments are stated at cost less accumulated amortisation and accumulated impairment losses. Amortisation is calculated on a straight line basis over the lease term.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.14 Foreign currency translation

The financial statements are presented in Hong Kong Dollars (HK\$), which is also the functional currency of the Company.

In the separate financial statements of the consolidated entities, foreign currency transactions are translated into the functional currency of the individual entity using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year-end exchange rates are recognised in the income statement.

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 and are reported as part of the fair value gain or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

In the consolidated financial statements, all separate financial statements of subsidiaries, originally presented in a currency different from the Group's presentation currency, have been converted into Hong Kong dollars. Assets and liabilities have been translated into Hong Kong dollars at the closing rates at the balance sheet date. Income and expenses have been converted into the Hong Kong dollars at the average rates over the reporting period. Any differences arising from this procedure have been dealt with in the exchange reserve in equity. Goodwill and fair value adjustments arising on the acquisition of a foreign entity which occurred on or after 1 January 2005 have been treated as assets and liabilities of the foreign entity and translated into Hong Kong dollars at the closing rates.

Other exchange differences arising from the translation of the net investment in foreign entities are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

3.15 Employee benefits

(i) *Employee entitlements*

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

Non-accumulating compensated absences are not recognised until the time of leave.

(ii) *Retirement benefits scheme*

The Group operates several staff retirement schemes for employees in Hong Kong and Mainland China, the Peoples' Republic of China (the "PRC"), comprising defined contribution pension schemes and a Mandatory Provident Fund ("MPF") scheme. The assets of these schemes are held separately from those of the Group in independently administered funds. The retirement schemes are generally funded by payments from employees and by the relevant subsidiaries of the Group.

The subsidiaries operating in Mainland China are required to participate in the defined contribution retirement scheme for their employees, organised by the relevant local government authorities. They are required to make contributions to the retirement schemes at a rate of 15% to 22% of basic salaries of their employees and there are no other further obligations to the Group.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.15 Employee benefits (Continued)

(ii) Retirement benefits scheme (Continued)

Before 1 December 2000, the Group operated a defined contribution retirement scheme (the "ORSO Scheme") in Hong Kong for all qualified employees. The rate of contribution payable by the Group was 5% of the individual employees' monthly basic salaries. The Group's contributions under the ORSO Scheme were reduced by contributions forfeited by those employees who left the scheme prior to vesting fully in the contributions. There are no legal or constructive obligations to pay further contributions after payment of the fixed contribution.

The Mandatory Provident Fund Schemes Authority has approved the ORSO Scheme as a Mandatory Provident Fund Exempted Occupational Retirement Scheme under the Mandatory Provident Fund Schemes Ordinance (the "MPF Schemes Ordinance"). With effect from 1 December 2000, the MPF Scheme was also set up under the MPF Schemes Ordinance for existing staff who opt for this scheme and eligible staff recruited on or after that date. When the underlying staff elects the MPF Scheme, pension scheme benefits attributed to the staff under the ORSO Scheme remain unchanged in the MPF Scheme. Under the MPF Scheme, eligible employees are required to contribute 5% of their monthly basic salaries whereas the Group's monthly contribution will be 5% of the relevant employee's basic salaries with a maximum monthly contribution of HK\$1,000. There are no legal or constructive obligations to pay further contributions after payment of the fixed contribution.

The contributions recognised in respect to defined contribution retirement schemes are expensed as they fall due. Liabilities and assets may be recognised if underpayment or prepayment has occurred and are included in current liabilities or current assets as they are normally of a short term nature.

(iii) Share-based employee compensation

All share-based payment arrangements granted after 7 November 2002 and had not vested on 1 January 2005 are recognised in the financial statements. The Group operates equity-settled share-based compensation plans for remuneration of its employees.

All employee services received in exchange for the grant of any share-based compensation are measured at their fair values. These are indirectly determined by reference to the share options awarded. Their value is appraised at the grant date and excludes the impact of any non-market vesting conditions (for example, profitability and sales growth targets).

All share-based compensation is ultimately recognised as an expense in income statement, with a corresponding increase in equity (share option reserve). If vesting periods or other vesting conditions apply, the expense is recognised over the vesting period, based on the best available estimate of the number of share options expected to vest. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. Estimates are subsequently revised, if there is any indication that the number of share options expected to vest differs from previous estimates. No adjustment to expense recognised in prior periods is made if fewer share options ultimately are exercised than originally estimated.

At the time when the share options are exercised, the amount previously recognised in share option reserve will be transferred to capital reserve. When the share options are forfeited or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to retained profits.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.16 Borrowing costs

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are expensed.

3.17 Cash and cash equivalents

Cash comprises cash in hand and deposits repayable on demand with any bank or other financial institution. Cash includes deposits denominated in foreign currencies.

Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the cash flow statement.

3.18 Financial assets

The Group's financial assets include trade and other receivables, financial assets at fair value through profit or loss and available-for-sale financial assets. They are included in balance sheet items as 'Trade receivables, other receivables and deposits', 'Investments at fair value through profit or loss' and 'Other investments'.

In previous years, the Group classified its investments in securities, other than subsidiaries and associates as investment securities and other securities.

(a) *Investment securities*

Investment securities are securities which are intended to be held on a continuing basis for an identified long-term purpose. Investment securities are stated in the balance sheet at cost less any provisions for impairment losses. Provisions are made when the fair value of such securities has declined below the carrying amounts, unless there is evidence that the decline is temporary. The amount of the reduction is recognised as an expense in the income statement.

(b) *Other securities*

All other securities, whether held for trading or otherwise, are stated in the balance sheet at fair value. Changes in fair value are recognised in the income statement as they arise.

From 1 January 2005 onwards, the Group classifies its financial assets other than hedging instruments, into the following categories: loans and receivables, financial assets at fair value through profit or loss, available-for-sale financial assets and held-to-maturity investments. Management determines the classification of its financial assets at initial recognition depending on the purpose for which the financial assets were acquired and where allowed and appropriate, re-evaluates this designation at every reporting date.

All financial assets are recognised on their trade date. 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.18 Financial assets (Continued)

(b) Other securities (Continued)

Derecognition of financial assets occurs when the rights to receive cash flows from the investments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred. An assessment for impairment is undertaken at least at each balance sheet date whether or not there is objective evidence that a financial assets or a group of financial assets is impaired.

(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. Loans and receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any impairment losses. Any changes in their value are recognised in income statement.

Loans and receivables are provided against when objective evidence is received that the Group will not be able to collect all amounts due to it in accordance with the original terms of the receivables. The amount of the write-down is determined as the difference between the asset's carrying amount and the present value of estimated future cash flows.

(ii) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets that are either held for trading or are designated by the Group to be carried at fair value through profit or loss on initial recognition.

Subsequent to initial recognition, the financial assets included in this category are measured at fair value with changes in fair value recognised in income statement. Financial assets originally designated as financial assets at fair value through profit or loss may not subsequently be re-classified.

(iii) Available-for-sale financial assets

Available-for-sale financial assets include non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets. All financial assets within this category are subsequently measured at fair value, with changes in value recognised in equity. Upon disposal, the cumulative gain or loss previously recognised in equity is transferred to the income statement. When a decline in the fair value of an available-for-sale financial asset has been recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in equity is removed from equity and recognised in the income statement even though the financial asset has not been derecognised. Impairment losses previously recognised in the income statement on equity instruments will not reverse in subsequent periods. Impairment losses previously recognised in income statement on debt securities are subsequently reversed if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.19 Financial liabilities

The Group's financial liabilities include bank loans and overdrafts, trade and other payables and other borrowings. They are included in balance sheet items as 'Bank and other borrowings', 'Amount due to a director', 'Amounts due to shareholders', 'Amount due to a minority shareholder', 'Amount due to ultimate holding company' and 'Trade payables, other payables and accruals'.

Financial liabilities are recognised when the Group becomes a party to the contractual agreements of the instruments. All interest related charges are recognised as an expense in finance costs in the income statement.

(i) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the balance sheet date.

(ii) Trade payables

Trade payables are recognised initially at their fair value and subsequently measured at amortised cost, using the effective interest rate method.

3.20 Segment reporting

In accordance with the Group's internal financial reporting, the Group has determined that business segments be presented as the primary reporting format and geographical segments as the secondary reporting format.

In respect of business segment reporting, unallocated costs represent corporate expenses. Segment assets consist primarily of properties held for and under development, intangible assets, property, plant and equipment, inventories, receivables, operating cash and investments in securities. Segment liabilities comprise operating liabilities and exclude items such as taxation and certain corporate borrowings.

Capital expenditure comprises additions to intangible assets, property, plant and equipment and properties held for and under development, including additions resulting from acquisitions through purchases of subsidiaries.

In respect of geographical segment reporting, revenue is based on the country in which the customer is located and total assets and capital expenditure are where the assets are located.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.21 Related parties

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

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

3.22 Income and expense recognition

Revenue comprises the fair value for the sales of goods and services and 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:

- for 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;
- for rendering of services, when services are provided;
- for royalty income, on an accrual basis in accordance with the substance of the relevant agreement; and
- for interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable.

Operating expenses are recognised in the income statement upon utilisation of services.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.23 Provisions, contingent liabilities and contingent assets

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

All provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the financial statements unless the probability of outflow of economic benefits is remote. When a change in the probability of an outflow occurs so that the outflow is probable, it will then be recognised as a provision.

3.24 Share capital

Ordinary shares are classified as equity. Share capital is determined using the nominal value of shares that have been issued.

Any transaction costs associated with the issuing of shares are deducted from share premium (net of any related income tax benefit) to the extent they are incremental costs directly attributable to the equity transaction.

3.25 Discontinued operations

A discontinued operation is a component of an entity that either has been disposed of, or that is classified as held for sale, and: (a) represents a separate major line of business or geographical area of operations; (b) is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or (c) is a subsidiary acquired exclusively with a view to resale.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

4.1 Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions 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:

Depreciation and amortisation

The Group depreciates and amortises the property, plant and equipment and computer software on a straight line basis over the estimated useful life, and after taking into account of their estimated residual value, using the straight-line method, at the rate 10% to 33-1/3% per annum and 25% per annum, respectively, commencing from the date on which the assets are placed into productive use. The estimated useful life and dates that the Group places the assets into productive use reflects the directors' estimate of the periods that the Group intend to derive future economic benefits from the use of the Group's property, plant and equipment and computer software.

Provision for impairment of receivables

The policy for the provision for impairment of receivables of the Group is based on the evaluation of collectability and aging analysis of accounts and on management's judgement. A considerable amount of judgment is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer. If the financial conditions of customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional provision for impairment may be required.

Provision for impairment of inventories

The management of the Group reviews an aging analysis at each balance sheet date, and provision for impairment of inventories is made for obsolete and slow-moving inventory items identified that are no longer suitable for sales. The Group carries out an inventory review on an item by item basis at each balance sheet date and writes off the impairment loss of the obsolete items.

Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy stated in note 3.8. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of judgement and estimates of the future cash flows expected to arise from the cash-generating units and the suitable discount rates in order to calculate the present value.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

4.2 Critical judgements in applying the Group's accounting policies

Current taxation and deferred taxation

The Group is subject to income taxes in the PRC. Significant judgement is required in determining the amount of the provision for taxation and the timing of payment of the related tax payments. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Deferred tax assets relating to certain temporary differences and tax losses will be recognised when management considers it is probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. Where the expectation is different from the original estimate, such differences will impact the recognition of deferred tax assets and taxation in the periods in which such estimate is changed.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial assets and liabilities include bank balances and cash, equity investments, borrowings, trade receivables and trade payables. 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.

5.1 Foreign currency risk

Majority of the subsidiaries of the Group operates in Mainland China with most of the transactions denominated in Renminbi. The Group is exposed to foreign exchange risk arising from the exposure of Renminbi against the Hong Kong dollars. It has not hedged its foreign exchange rate risk. However the management monitors foreign exchange exposure and will consider hedging significant currency exposure should the need arise.

In addition, the conversion of Renminbi into foreign currencies is subject to the rules and regulations of the foreign exchange control promulgated by the PRC government.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

5.2 Interest rate risk

The Group is exposed to interest rate risk through the impact of interest rate changes on interest bearing bank borrowings (bank borrowings carry interest at variable rate and fixed rate). The interest rates and terms of repayment of bank borrowings of the Group are disclosed in note 32. The Group currently does not have an interest rate hedging policy.

5.3 Credit risk

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. In order to minimise the credit risk, the management of the Group has formulated a defined fixed credit policy and delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade receivable regularly at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

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

5.4 Price risk

The Group's investments at fair value through profit or loss are measured at fair value at each balance sheet date. Therefore, the Group is exposed to equity security price risk. The management manages this exposure by maintaining a portfolio of investments with different risk profiles.

5.5 Liquidity risk

The Group ensures that it maintains sufficient cash, which is available to meet its liquidity requirements.

5.6 Fair values

The carrying amounts of the following financial assets and financial liabilities approximate their fair value as all of them are in short-term nature: cash, investment at fair value through profit or loss, trade receivables and payables, other receivables and payables, bank and other borrowings, amount due to a director/shareholders/minority shareholder/ultimate holding company. Analysis of the interest rate and carrying amounts of borrowings are presented in note 32 to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

6. REVENUE/TURNOVER AND OTHER OPERATING INCOME

	2005 HK\$'000	2004 HK\$'000
(a) Revenue, which is also the Group's turnover:		
<i>Continuing operations</i>		
Information technology business	421,954	378,184
Provision of financial information and related services	18,699	20,438
Royalty income	23,111	59,037
Property investment	–	1,467
Distance learning and application services	32,485	71,252
	496,249	530,378
<i>Discontinued operations</i>		
Sales of consumer packaged electronic products	478	1,215
Hotel operations	–	39,583
	478	40,798
	496,727	571,176
(b) Other operating income:		
<i>Continuing operations</i>		
Interest income	2,487	3,511
Gain on disposal of other investments	–	77
Gain on disposal of intangible assets	2,100	–
Negative goodwill recognised as income	–	18,158
Net gain on disposal and dissolution of subsidiaries (note 45(a))	24,850	2,304
Excess of the carrying value of the additional interests in Nan Hai over the consideration arising from conversion of convertible notes by the Group	185,501	–
Write-back on impairment loss of properties under development	–	3,992
Sundry income	2,201	5,927
	217,139	33,969
<i>Discontinued operations</i>		
Interest income	–	1,815
Sundry income	–	65
	–	1,880
	217,139	35,849

The Group's consumer packaged electronics and hotel operations were discontinued with effect from July 2005 and June 2004 respectively. Accordingly, the consumer packaged electronics and hotel business were treated as discontinued operations.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

7. SEGMENT INFORMATION

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the 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 other business segments.

In accordance with the Group's internal financial reporting policy, its segment information is presented by way of two segments format: (a) on a primary segment reporting basis, by business segments; and (b) on a secondary segment reporting basis, by geographical segments.

Summary details of the business segments are as follows:

- (a) Provision of financial information and related services
- (b) Information technology business
- (c) Property development
- (d) Sales of securities
- (e) Distance learning and application services
- (f) Consumer packaged electronics
- (g) Hotel operations
- (h) The corporate and other segment comprises operations other than those as specified above

In determining the Group's geographical segments, revenues and results are attributed to the segments based on the locations of the customers, and assets are attributed to the segments based on the locations of the assets.

There were no inter-segment sales and transfers between segments.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

7. SEGMENT INFORMATION (Continued)

(a) Business segments

The following table presents revenue, results and certain assets, liabilities and capital expenditure information for the Group's business segments for the year ended 31 December 2005:

	Continuing operations						Discontinued operations					Consolidated	
	Provision of financial information and related services		Information technology	Property	Sales of securities	Distance learning and application services	Other segments	Consumer packaged electronics		Hotel operations	Total		Elimination
	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	39,454	421,954	-	-	32,485	2,356	496,249	478	-	478	-	496,727	
Segment results	3,663	113,076	(5,546)	(1,652)	12,574	(3,083)	119,032	(128)	-	(128)	-	118,904	
Interest income												2,487	
Net gain on disposal and dissolution of subsidiaries												24,850	
Excess of the carrying value of the additional interests in Nan Hai over the consideration arising from conversion of convertible notes by the Group												185,501	
Unallocated corporate expenses												(46,281)	
Profit from operations												285,461	
Finance costs												(8,460)	
Share of results of associates		1,150				(394)	756					756	
Profit before income taxes												277,757	
Income tax expense												(7,598)	
Profit for the year												270,159	
Segment assets	328,688	441,983	1,053,099	5,024	54,579	138	1,883,511	-	-	-	-	1,883,511	
Unallocated assets												356,722	
Interest in associates		36,505				(8,558)	27,947					27,947	
Total assets												2,268,180	
Segment liabilities	(17,368)	(77,439)	(28,111)	(16,871)	(2,094)	(56)	(141,939)	-	-	-	-	(141,939)	
Unallocated liabilities												(159,377)	
Total liabilities												(301,316)	
Other information													
Capital expenditure	395	39,286	73,825	-	167	525	114,198	-	-	-	-	114,198	
Depreciation and amortisation	1,134	18,462	-	-	766	857	21,219	47	-	47	-	21,266	
Other non-cash expenses	108	1,630	-	-	-	62	1,800	52	-	52	-	1,852	

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

7. SEGMENT INFORMATION (Continued)

(a) Business segments (Continued)

The following table presents revenue, results and certain assets, liabilities and capital expenditure information for the Group's business segments for the year ended 31 December 2004:

	Continuing operations						Discontinued operations					Consolidated
	Provision of financial information and related services		Information technology	Property	Distance learning and application services		Consumer packaged electronics operations			Hotel	Total	
	business development	securities			Other segments	Total	electronics	operations	Total			
			HK\$'000	HK\$'000						HK\$'000	HK\$'000	
Segment revenue												
Sales to external customers	78,468	378,184	-	-	71,252	2,474	530,378	1,215	39,583	40,798	-	571,176
Segment results	22,424	89,812	685	(563)	53,230	(14,868)	150,720	(4,834)	2,666	(2,168)	-	148,552
Interest income												5,326
Net gain on disposal and dissolution of subsidiaries												2,304
Unallocated corporate expenses												(44,257)
Profit from operations												111,825
Finance costs												(13,269)
Share of results of associates		2,084	(417)			(395)	1,272		56	56	417	1,745
Profit before income taxes												100,301
Income tax expenses												(8,939)
Profit for the year												91,362
Segment assets	360,439	216,422	4,582,051	8,606	53,250	2,063	5,222,831	2,474	200,000	202,474	-	5,425,305
Unallocated assets												91,310
Interest in associates		56,479	208,256			(8,167)	256,568			-	(208,256)	48,312
Total assets												5,564,927
Segment liabilities	(13,456)	(52,526)	(523,502)	(18,516)	(1,216)	(9,057)	(618,273)	(11,578)	-	(11,578)	-	(629,851)
Unallocated liabilities												(493,588)
Total liabilities												(1,123,439)
Other information												
Capital expenditure	2,225	80,188	155,737	-	1,174	-	239,324	7	-	7	-	239,331
Depreciation and amortisation	21,380	21,624	16,115	-	1,286	1,152	61,557	1,027	3,124	4,151	-	65,708
Negative goodwill recognised as income	-	-	(18,158)	-	-	-	(18,158)	-	-	-	-	(18,158)
Other non-cash expenses	-	8,208	-	-	-	12,714	20,922	164	2,777	2,941	-	23,863

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

7. SEGMENT INFORMATION (Continued)

(b) Geographical segments

The following table presents revenue, segment assets and capital expenditure information for the Group's geographical segments for the year ended 31 December 2005:

	Europe, other than United Kingdom HK\$'000	Hong Kong HK\$'000	Mainland China HK\$'000	Philippines HK\$'000	Other HK\$'000	Total HK\$'000
Segment revenue						
Sales to external customers	-	2,356	493,893	-	478	496,727
Other segment information						
Segment assets	-	5,162	2,263,018	-	-	2,268,180
Capital expenditure	-	-	114,198	-	-	114,198

The following table presents revenue, segment assets and capital expenditure information for the Group's geographical segments for the year ended 31 December 2004:

	Europe, other than United Kingdom HK\$'000	Hong Kong HK\$'000	Mainland China HK\$'000	Philippines HK\$'000	Other HK\$'000	Total HK\$'000
Segment revenue						
Sales to external customers	59	1,467	528,911	39,583	1,156	571,176
Other segment information						
Segment assets	1,201	10,617	5,353,109	200,000	-	5,564,927
Capital expenditure	-	7	239,324	-	-	239,331

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

8. PROFIT FROM OPERATIONS

	Continuing operations 2005 HK\$'000	Discontinued operations 2005 HK\$'000	Continuing operations 2004 HK\$'000	Discontinued operations 2004 HK\$'000
Profit from operations is arrived at after charging:				
Auditors' remuneration	3,634	-	2,508	850
Exchange loss	195	-	35	1,008
Depreciation and amortisation on property, plant and equipment	15,139	47	17,416	879
Operating lease charges on land and buildings	38,771	-	29,727	-
Operating lease charges on prepaid land lease	525	-	-	-
Redundancy costs	-	-	158	36
Retirement benefits contributions:				
Gross retirement benefit contributions	11,187	-	5,877	12
Less: forfeited contributions	(8)	-	(10)	-
Net retirement benefit contributions	11,179	-	5,867	12
Cost of provision of hotel services	-	-	-	24,086
Cost of provision of information technology business	55,817	-	108,277	-
Cost of provision of financial information and related services	6,169	-	3,797	-
Cost of provision of proprietary software	2,313	-	3,045	-
Cost of inventories sold – consumer electronic products	-	508	-	1,569
Cost of inventories sold – distance learning materials	8,326	-	11,750	-
Cost of sales and services provided	72,625	508	126,869	25,655
Impairment losses on short term investments	-	-	3,053	-
Provision for impairment of receivables	1,420	52	5,691	17
Provision for impairment of inventories	-	-	1,741	-
Loss on disposal of property, plant and equipment	198	-	12,305	-
Amortisation of intangible assets (included in other operating expenses)	6,080	-	43,823	3,124
Amortisation of goodwill on interests in associates (included in other operating expenses)	-	-	466	-
Write off of product development costs under intangible assets	-	-	-	148
Write off of property, plant and equipment	137	-	908	-
Share-based compensation	5,967	-	-	-
Fair value loss on investments at fair value through profit or loss	1,693	-	595	-

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

9. FINANCE COSTS

	2005 HK\$'000	2004 HK\$'000
<i>Continuing operations</i>		
Interest on:		
Bank loans and overdrafts wholly repayable within five years	19,385	24,064
Other borrowings, payable and convertible notes wholly repayable within five years	24,077	38,269
Total interest expenses	43,462	62,333
Less: Amounts capitalised directly attributable to properties held for and under development	(35,002)	(50,318)
	8,460	12,015
<i>Discontinued operations</i>		
Interest on:		
Bank loans and overdrafts wholly repayable within five years	–	1,254
	8,460	13,269

The interest was capitalised at the rates ranged from 3.51% to 18.25% (2004: 3.24% to 18.25%) per annum during the year.

10. INCOME TAX EXPENSE

	2005 HK\$'000	2004 HK\$'000
The tax charge/(credit) comprises:		
<i>Continuing operations</i>		
Current tax – overseas tax for the year	23,372	7,834
Overseas tax – over provision in respect of prior years	(15,774)	–
	7,598	7,834
<i>Discontinued operations</i>		
Current tax – overseas tax for the year	–	1,084
Hong Kong tax – under provision in respect of prior year	–	21
	–	1,105
	7,598	8,939

No Hong Kong profits tax has been provided in the financial statements as the Group did not derive any assessable profit subject to Hong Kong profits tax for the year.

Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

10. INCOME TAX EXPENSE (Continued)

Reconciliation between tax expenses and accounting profit/(loss) at applicable tax rates:

	2005 HK\$'000	2004 HK\$'000
Profit/(Loss) before income tax		
From continuing operations	277,885	101,852
From discontinued operations	(128)	(1,551)
	277,757	100,301
Tax calculated at the rates applicable to the jurisdictions concerned	51,646	212
Tax effect of expenses that are not deductible in determining taxable profit	17,655	33,750
Tax effect of non-taxable revenue	(50,166)	(23,205)
Tax effect of current year's tax losses not recognised	4,433	297
Tax effect of utilisation of tax losses previously not recognised	(208)	(2,152)
Tax effect of accelerated depreciation allowances previously not recognised	12	16
(Over)/Under provision in respect of prior years	(15,774)	21
Actual tax expenses	7,598	8,939

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

11. LOSS FOR THE YEAR FROM DISCONTINUED OPERATIONS

The Group disposed of a subsidiary in January 2004 and ceased to have control over the voting power and the composition of the board of directors of another subsidiary in June 2004. The subsidiaries were engaged in the hotel operations and, since their disposal and cessation of control, the Group ceased its hotel operations.

With effect from July 2005, the Group ceased its operations of consumer packaged electronics after the Distribution as disclosed in note 1.

The results from the consumer packaged electronics and hotel operations included in the consolidated income statement are as follows:

	2005 HK\$'000	2004 HK\$'000
Revenue	478	40,798
Cost of sales and services provided	(508)	(25,655)
Gross (loss)/profit	(30)	15,143
Other operating income	-	1,880
Administrative expenses	-	(9,116)
Other operating expenses	(98)	(8,260)
Loss from operations	(128)	(353)
Finance costs	-	(1,254)
Share of results of an associate	-	56
Loss before income tax	(128)	(1,551)
Income tax expense – current	-	(1,105)
Loss for the year from discontinued operations	(128)	(2,656)

12. PROFIT FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

Of the Group's profit for the year attributable to the equity holders of the Company of HK\$264,016,000 (2004: HK\$82,579,000), a loss of HK\$32,213,000 (2004: a profit of HK\$5,004,000) has been dealt with in the financial statements of the Company.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

13. EARNINGS/LOSS PER SHARE

The calculation of basic earnings per share for profit from continuing operations is based on the profit attributable to equity holders of the Company of HK\$264,144,000 (2004: HK\$87,033,000) and on 19,914,504,877 (2004: weighted average of 19,634,723,456) ordinary shares in issue during the year.

The profit from continuing operations attributable to the equity holders is calculated as follows:

	2005 HK\$'000	2004 HK\$'000
Profit attributable to equity holders of the Company	264,016	82,579
Loss from discontinued operations attributable to equity holders of the Company	128	4,454
	264,144	87,033

The calculation of basic loss per share for the loss from discontinued operations is based on the loss for the year from discontinued operations attributable to the equity holders and on 19,914,504,877 (2004: weighted average of 19,634,723,456) ordinary shares in issue during the year.

The loss for the year from discontinued operations attributable to the equity holders is calculated as follows:

	2005 HK\$'000	2004 HK\$'000
Loss for the year from discontinued operations	128	2,656
Profit attributable to minority interests from discontinued operations	-	1,798
	128	4,454

The calculation of diluted earnings per share for profit from continuing operations for the year ended 31 December 2004 is based on the adjusted net profit attributable to equity holders of the Company from continuing operations for the year of HK\$87,233,000 and the weighted average of 19,917,363,766 ordinary shares outstanding during the year, adjusted for the effects of all dilutive potential shares.

The adjusted net profit attributable to equity holders of the Company from continuing operations for the year ended 31 December 2004 is calculated based on the net profit attributable to equity holders of the Company from continuing operations for the year of HK\$87,033,000 plus the dilution in the results of interest payable of HK\$200,000 on the convertible notes.

The calculation of diluted loss per share for loss from discontinued operations for the year ended 31 December 2004 is based on the loss attributable to equity holders of the Company for the year of HK\$4,454,000 and the weighted average of 19,917,363,766 ordinary shares outstanding during the year, adjusted for the effects of all dilutive potential shares.

The weighted average number of ordinary shares used in the calculation of diluted earnings per share for the year ended 31 December 2004 is calculated based on the weighted average of 19,634,723,456 ordinary shares in issue during the year plus the weighted average of 282,640,310 ordinary shares deemed to be issued at no consideration as if all the Company's convertible notes had been converted and share options had been exercised.

Diluted earnings/(loss) per share for the year ended 31 December 2005 is not presented because the impact of the exercise of the share option was anti-dilutive.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

14. EMPLOYEE BENEFIT EXPENSES (EXCLUDING DIRECTORS' EMOLUMENTS)

	2005 HK\$'000	2004 HK\$'000
Wages and salaries	178,545	204,868
Share options granted to employees	4,691	–
Pension costs – defined contribution plans	11,143	5,843
Staff welfare	18,335	2,937
	212,714	213,648

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

15. PROPERTY, PLANT AND EQUIPMENT

Group

	Hotel properties HK\$'000	Investment properties HK\$'000	Construction in progress HK\$'000	Leasehold improvements, furniture, fixtures and equipment HK\$'000	Motor vehicles and pleasure yacht HK\$'000	Total HK\$'000
At 1 January 2004 (Restated)						
Cost or valuation	300,000	77,000	–	138,501	7,524	523,025
Accumulated depreciation	–	–	–	(96,065)	(6,547)	(102,612)
Net carrying amount	300,000	77,000	–	42,436	977	420,413
Year ended 31 December 2004 (Restated)						
Opening net carrying amount	300,000	77,000	–	42,436	977	420,413
Additions	–	–	469	27,562	613	28,644
Acquisition of a subsidiary	–	–	–	15	–	15
Disposal and dissolution of subsidiaries	(76,000)	–	–	(10,064)	(242)	(86,306)
Deconsolidation of a subsidiary	(224,000)	–	–	–	–	(224,000)
Disposals	–	(77,000)	–	(207)	(795)	(78,002)
Depreciation and amortisation charge	–	–	–	(18,168)	(127)	(18,295)
Written off	–	–	–	(908)	–	(908)
Closing net carrying amount	–	–	469	40,666	426	41,561
At 31 December 2004 (Restated)						
Cost	–	–	469	141,464	5,639	147,572
Accumulated depreciation	–	–	–	(100,798)	(5,213)	(106,011)
Net carrying amount	–	–	469	40,666	426	41,561
Year ended 31 December 2005						
Opening net carrying amount	–	–	469	40,666	426	41,561
Additions	–	–	2,045	15,114	101	17,260
Distribution of Nan Hai	–	–	–	(241)	–	(241)
Disposal of subsidiaries	–	–	–	(333)	–	(333)
Disposals	–	–	–	(199)	–	(199)
Depreciation and amortisation charge	–	–	–	(15,095)	(91)	(15,186)
Written off	–	–	–	(119)	(18)	(137)
Net exchange difference	–	–	9	626	(29)	606
Closing net carrying amount	–	–	2,523	40,419	389	43,331
At 31 December 2005						
Cost	–	–	2,523	126,447	3,871	132,841
Accumulated depreciation	–	–	–	(86,028)	(3,482)	(89,510)
Net carrying amount	–	–	2,523	40,419	389	43,331

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For the year ended 31 December 2005

15. PROPERTY, PLANT AND EQUIPMENT (Continued)

Company

	Leasehold improvements, furniture and fixtures HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
At 1 January 2004			
Cost	2,375	674	3,049
Accumulated depreciation	(1,881)	(672)	(2,553)
Net carrying amount	494	2	496
Year ended 31 December 2004			
Opening net carrying amount	494	2	496
Depreciation	(198)	–	(198)
Closing net carrying amount	296	2	298
At 31 December 2004			
Cost	2,375	674	3,049
Accumulated depreciation	(2,079)	(672)	(2,751)
Net carrying amount	296	2	298
Year ended 31 December 2005			
Opening net carrying amount	296	2	298
Additions	2	–	2
Depreciation	(152)	–	(152)
Closing net carrying amount	146	2	148
At 31 December 2005			
Cost	2,377	674	3,051
Accumulated depreciation	(2,231)	(672)	(2,903)
Net carrying amount	146	2	148

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

16. PREPAID LAND LEASE PAYMENTS UNDER OPERATING LEASES

The Group's interests in land use rights represent prepaid land lease payments and are held outside Hong Kong with remaining lease periods of 49 years.

	Group	
	2005 HK\$'000	(Restated) 2004 HK\$'000
Opening net carrying amount	13,029	–
Additions	–	13,029
Operating lease charges	(525)	–
Net exchange difference	232	–
Closing net carrying amount	12,736	13,029

17. INTERESTS IN SUBSIDIARIES

	Company	
	2005 HK\$'000	2004 HK\$'000
Unlisted shares, at cost	416,508	616,508
Less: Provision for impairment losses	(309,167)	(531,794)
	107,341	84,714
Amounts due from subsidiaries	1,945,982	4,245,893
Less: Provision for impairment of receivables	(1,274,868)	(1,048,818)
	671,114	3,197,075
Less: Portion due within one year included under current assets	671,114	–
Non-current portion included under non-current assets	–	3,197,075
Amounts due to subsidiaries	34,939	322

During the year, the Company made advances to certain subsidiaries to finance their operating requirements.

As at 31 December 2004, the amounts due from subsidiaries of HK\$145,000,000 and HK\$373,399,000 bore interest at 5% and 7% per annum respectively. Except for these, the balances with subsidiaries are interest free.

As at 31 December 2004, the amounts due from subsidiaries were unsecured and had no fixed terms of repayment and the Company had undertaken not to demand repayment of the balances within one year from 31 December 2004. Accordingly, the amounts due from subsidiaries were classified as non-current assets.

As at 31 December 2005, the amounts due from subsidiaries are unsecured, interest-free and repayable on demand. Accordingly, the amounts due from subsidiaries are classified as current assets.

The amounts due to subsidiaries are unsecured, interest free and repayable on demand.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

17. INTERESTS IN SUBSIDIARIES (Continued)

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

Name	Country/Place of incorporation/Registration and operations	Particulars of issued and paid-up share capital/Registered capital	Percentage held by the Company		Principal activities
			directly	indirectly	
Linfield Properties Limited	British Virgin Islands	10,000 ordinary shares of US\$1 each	55	30	Investment holding
Sino-i.com (Shanghai) Limited ("Sino-i.com Shanghai") (note (d))	Hong Kong	2 ordinary shares of HK\$1 each	100	–	Investment holding
Evallon Investment Limited	Hong Kong	10,000 ordinary shares of HK\$100 each	–	100	Investment holding
Ever Genius Development Limited	Hong Kong	2 ordinary shares of HK\$1 each	–	85	Investment in property development projects
Listar Properties Limited	British Virgin Islands	20,000,000 ordinary shares of US\$1 each	1	50	Investment holding
Honest Link Development Limited ("Honest Link") (note (a))	Hong Kong	2 ordinary shares of HK\$1 each	–	51	Investment holding
廣州東鏡新城房地產有限公司 ("Dong Jin") (note (a))	PRC	US\$14,000,000	–	51	Property development
Oriental Rise Limited	Hong Kong	2 ordinary shares of HK\$1 each	–	100	Property investment
Union Key Limited	Hong Kong	2 ordinary shares of HK\$1 each	–	100	Investment holding
北京世華國際金融信息有限公司 ("北京世華") (notes (b) and (g))	PRC	RMB130,000,000	–	80	Provision of financial information on the internet
CE Dongli Technology Group Limited ("CE Dongli") (note (f))	PRC	RMB148,570,000	–	80	Information technology business
深圳國南數碼信息有限公司 ("Shenzhen Guonan") (note (c))	PRC	RMB3,000,000	–	100	Investment holding
China Education Online Limited	Hong Kong	2 ordinary shares of HK\$1 each	–	100	Education portal

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

17. INTERESTS IN SUBSIDIARIES (Continued)

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

Name	Country/Place of incorporation/Registration and operations	Particulars of issued and paid-up share capital/Registered capital	Percentage held by the Company		Principal activities
			directly	indirectly	
Dadi Entertainment Limited	Hong Kong	2 ordinary shares of HK\$1 each	–	100	Music broadcasting on the internet
Dadi Media Limited ("Dadi Media")	Hong Kong	2 ordinary shares of HK\$1 each	100	–	Investment holding
Powerful Resources Limited	British Virgin Islands	1 ordinary share of US\$1 each	–	100	Investment holding
China Enterprise ASP Limited ("China Enterprise")	Hong Kong	9,000,000 ordinary shares of HK\$1 each	–	100	Investment holding
北京新網科技發展有限公司 (note (h))	PRC	RMB14,485,000	–	80	Information technology business
北京新網數碼信息技術有限公司 (note (i))	PRC	RMB10,000,000	–	80	Information technology business
Shihua (Hong Kong) Financial Information Company Limited	Hong Kong	5,000,000 ordinary shares of HK\$1 each	100	–	Provision of financial information
上海朗寧數碼投資有限公司 (「上海朗寧」) (notes (b) and (d))	PRC	US\$30,000,000	–	100	Investment holding
Hancheers International Enterprise Limited ("Hancheers") (notes (g))	Hong Kong	10,000 ordinary shares of HK\$1 each	–	100	Investment holding
Rich King Inc.	British Virgin Islands	50,000 ordinary shares of US\$1 each	100	–	Trading of online distance learning education products
北京華夏大地遠程教育網絡服務有限公司 (note (e))	PRC	RMB50,000,000	–	98	Operation of an educational portal and provision of online distance learning education services
Victorious Limited	British Virgin Islands	1 ordinary share of US\$1 each	100	–	Trading of securities

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For the year ended 31 December 2005

17. INTERESTS IN SUBSIDIARIES (Continued)

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

Name	Country/Place of incorporation/Registration and operations	Particulars of issued and paid-up share capital/Registered capital	Percentage held by the Company		Principal activities
			directly	indirectly	
Robina Profits Limited	British Virgin Islands	1 ordinary share of US\$1 each	100	–	Trading of securities
Ko Tact Limited	British Virgin Islands	1 ordinary share of US\$1 each	100	–	Investment holding
Cosmos Decade Developments Limited	British Virgin Islands	1 ordinary share of US\$1 each	–	100	Trading and provision of financial information products
Century Unicorn Limited	British Virgin Islands	1 ordinary share of US\$1 each	–	100	Trading and provision of information technology products
北京金世紀大酒店有限公司 (note (g))	PRC	US\$12,000,000	–	100	Property development

The above table lists the particulars of the subsidiaries of the Company which, in the opinion of the directors, principally affected the Group's results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

NOTES TO THE FINANCIAL STATEMENTS

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17. INTERESTS IN SUBSIDIARIES (Continued)

Notes:

- (a) Dong Jin was a co-operative joint venture established under a joint venture agreement between Honest Link and a PRC party. Dong Jin is engaged in the undertaking of a property project which involves the development of a land site measuring approximately 1,000 acres by area. Pursuant to the joint venture agreement, in respect of the profits derived from the first 150 acres of land comprised in the first phase of the property development project, the co-joint venture partner would be entitled to a fixed profit of RMB13,090,000 and thereafter all residual profit in excess of RMB13,090,000 would be attributable to Honest Link. For the profits arising on the remaining phases of the project, Honest Link and the co-joint venture partner were entitled to share the profits at a ratio of 70% and 30% respectively.

Pursuant to a supplementary agreement entered into between Honest Link and the co-joint venture partner on 24 November 1993 which superseded the above arrangement, the co-joint venture partner has waived all of its 30% interest including profit-sharing and controlling interests in Dong Jin from the date of incorporation of Dong Jin in return for a pre-emptive return of RMB87,271,030. Pursuant to a supplementary agreement dated 28 December 2000, the co-joint venture partner agreed to waive the pre-emptive return of RMB87,271,030. Since then Honest Link has attained 100% share in profits and controlling interests in Dong Jin.

- (b) 北京世華 is an equity joint venture established on 12 October 1999 for a period of 20 years, of which 98.8% and 1.2% equity interests were owned by a PRC party and Hampstead International Group Limited (a former subsidiary of the Company) respectively. Pursuant to an agreement dated 21 June 2001, 上海朗寧 acquired 78.8% equity interest in 北京世華 from the PRC party. As part of the corporate structural arrangement, CE Dongli holds the 80% equity interest in 北京世華 on trust for 上海朗寧, and as a result, 上海朗寧 effectively owns 80% interest in 北京世華.
- (c) Shenzhen Guonan is an equity joint venture established for a period of 50 years commencing 28 April 1999 and in which the Group is entitled to 80% of its results. Pursuant to two agreements entered into between the Group and the PRC co-venturer on 15 June 1999 and 31 March 2000, the PRC co-venturer has agreed to waive its entitlement to 20% of the results in Shenzhen Guonan in return for a fixed annual fee of RMB10,000 and an undertaking from the Group to pay up RMB495,000 of the required capital contribution to Shenzhen Guonan to be fulfilled by the PRC co-venturer. In addition, the Group also has effective control over the composition of the board of directors of Shenzhen Guonan. Accordingly, Shenzhen Guonan was accounted for as a wholly-owned subsidiary of the Company.
- (d) 上海朗寧 is an equity joint venture established on 4 April 2000 and has been approved by the government authority in Shanghai to operate for a period of 42 years up to 3 April 2042. Under a joint venture agreement entered into between a PRC party and Sino-i.com Shanghai which hold 40% and 60% equity interests in 上海朗寧 respectively, and under a deed of trust dated 1 April 2001 executed by the PRC party in favour of Sino-i.com Shanghai, Sino-i.com Shanghai is the beneficial owner of the 40% equity interest held by the PRC party, and as a result, Sino-i.com Shanghai effectively owns 100% equity interest in 上海朗寧.
- (e) 北京華夏大地遠程教育網絡服務有限公司 is an equity joint venture established in the PRC for a term of 20 years starting from 23 December 1999.
- (f) CE Dongli is a shareholding corporation registered in the PRC on 16 September 1999 for a period of 50 years. The Company, through its wholly-owned subsidiaries, has an interest of 59% and has further interest of 21% in CE Dongli by means of trust arrangement with some of the PRC shareholder entities. Accordingly, the Company has an aggregate interest of 80% in CE Dongli.
- (g) 北京金世紀大酒店有限公司 is a co-operative joint venture under a joint venture agreement between 北京世華 and Hancheers, in the ratio of 70% and 30% respectively. 北京世華 is a trustee in favor of Hancheers in respect of 70% equity interest in 北京金世紀大酒店有限公司, and as a result, Hancheers is the beneficial owner of 100% equity interest in 北京金世紀大酒店有限公司.
- (h) The subsidiary is an equity joint venture registered under PRC law.
- (i) The subsidiary is a Sino-foreign equity joint venture registered under PRC law.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

18. INTERESTS IN ASSOCIATES

	Group	
	2005 HK\$'000	2004 HK\$'000
Balance at 1 January	55,492	16,477
Share of associate results		
– Profit before income tax	1,010	1,745
– Income tax expense	(254)	–
	756	1,745
	56,248	18,222
Acquisition of an associate	–	37,270
Partial disposal of an associate arising from the distribution of a subsidiary	(17,932)	–
Disposal of an associate	(1,868)	–
Net exchange difference	10	–
	36,458	55,492
Amounts due to associates	(8,511)	(7,180)
Balance at 31 December	27,947	48,312

	Company	
	2005 HK\$'000	2004 HK\$'000
Amount due from an associate	20,190	20,188
Less: Provision for impairment of receivables	(4,535)	(4,535)
Balance at 31 December	15,655	15,653
Less: Portion due within one year included under current assets	(15,655)	–
Portion due over one year included under non-current assets	–	15,653

As at 31 December 2004, the amounts due from associates were unsecured, interest free and had no fixed terms of repayment. Accordingly, the amounts due from associates were classified as non-current assets.

As at 31 December 2005, the amounts due from associates are unsecured, interest free and repayable on demand. Accordingly, the amounts due from associates are classified as current assets.

The amounts due to associates are unsecured, interest free and repayable on demand.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

18. INTERESTS IN ASSOCIATES (Continued)

Particulars of the associates as at 31 December 2005 are as follows:

Name	Particulars of issued shares/registered capital	Country/Place of incorporation and operations	Percentage of interest held by the Group	Nature of business
Genius Reward Company Limited	2 ordinary shares of HK\$100 each	Hong Kong	50% (2004: 50%)	Inactive
Easy-Trade Technology Services Limited	RMB50,000,000	PRC	20% (2004: 40%)	Leasing of POS machines and provision of information technology services

Extracts of the unaudited financial statement of the associates for the year ended 31 December 2005, over which the Group has exercise significant influence are as follows:

	Genius Reward Company Limited		Easy-Trade Technology Services Limited	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Assets	25,702	25,702	70,848	70,637
Liabilities	(31,024)	(30,236)	(14,381)	(19,731)
Revenue	-	-	25,345	24,797
(Loss)/Profit	(788)	(790)	4,583	5,536

19. OTHER INVESTMENTS

	Group		Company	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Consideration for acquisition of investments (note (a))	-	20,583	-	-
Advances to prospective investee companies (note (a))	-	13,255	-	-
Deposit for acquisition of investment (note (b))	-	330,000	-	-
Club debenture, at fair value	324	324	324	324
	324	364,162	324	324

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

19. OTHER INVESTMENTS (Continued)

Notes:

- (a) Consideration for acquisition of investments and advances to prospective investee companies

The consideration for acquisition of investments represents consideration paid for the acquisition of interests in certain PRC companies.

The Group had also advances of HK\$13,255,000 as at 31 December 2004 to these prospective investee companies. As at 31 December 2004, the acquisitions had not yet been completed.

In addition, the consideration and advances to a prospective investee company totalling HK\$15,000,000 as at 31 December 2004 was originally held by Sitech Asia Limited, a former wholly-owned subsidiary of the Group. The amount was disposed of following the disposal of the Group's entire interest in Sitech Asia Limited in December 2005 while the remaining balance was fully refunded through a director, Mr. Yu Pun Hoi ("Mr. Yu"), to the Group during the year.

- (b) Deposit for acquisition of investment

Deposit for acquisition of investment as at 31 December 2004 represented the deposit paid by a former subsidiary of the Company for the acquisition of a 49% equity interest in 深圳市益田假日世界房地產開發有限公司 (「益田假日世界」) which was an investment holding company incorporated in Mainland China. 益田假日世界 holds the land use rights on the land site Lot No.T308-0062 in Shenzhen with an area of approximately 22,837 square metres. According to the sale and purchase agreement dated 21 April 2004, the completion date of the acquisition was 31 December 2004 upon the payment by the former subsidiary of the remaining consideration of RMB21,200,000. On 31 December 2004, the former subsidiary has signed a supplementary agreement with the vendor to defer the final payment date and the completion date of the acquisition to 30 June 2005.

However, the acquisition deal was off and the deposit for the acquisition of investment had been refunded to the Group during the year.

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For the year ended 31 December 2005

20. PROPERTIES HELD FOR AND UNDER DEVELOPMENT

	Group	
	2005	(Restated)
	HK\$'000	2004
		HK\$'000
Carrying amount at 1 January, as previously reported as land held for development	3,893,715	3,837,003
Carrying amount at 1 January, as previously reported as properties under development	279,000	254,000
Carrying amount at 1 January, as restated	4,172,715	4,091,003
Additions	36,993	103,581
Disposal	–	(76,179)
Distribution of Nan Hai (Note 45(b))	(3,553,902)	–
Interest capitalised	35,002	50,318
Write back of impairment losses	–	3,992
Net exchange differences	43,338	–
Carrying amount at 31 December	734,146	4,172,715
Less: current portion expected to be realised within one year	282,243	–
Non-current portion expected to be realised more than one year	451,903	4,172,715
Interest capitalised in properties held for and under development	–	282,400

The Group's properties held for and under development include leasehold land and land use rights which represent prepaid operating lease payments and their net carrying value are analysed as follows:

	2005	(Restated)
	HK\$'000	2004
		HK\$'000
Outside Hong Kong held on land with:		
Unexpired lease terms of between 10 to 50 years	27,499	–
Unexpired leases terms of over 50 years	451,853	3,920,671
	479,352	3,920,671

As at 31 December 2005, none of the land was pledged to secure banking facilities. As at 31 December 2004, leasehold land of approximately HK\$3,482,809,000 was pledged to secure banking facilities granted to the Group.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

21. GOODWILL

The main changes in the carrying amounts of goodwill for the year resulting from the Distribution is disclosed in note 1. The net carrying amount of goodwill can be analysed as follows:

	Negative goodwill HK\$'000	Group Goodwill HK\$'000	Total HK\$'000
At 1 January 2004			
Gross carrying amount	(363,311)	887,361	524,050
Accumulated amortisation and impairment	42,342	(106,210)	(63,868)
Net carrying amount	(320,969)	781,151	460,182
Year ended 31 December 2004			
Opening net carrying amount	(320,969)	781,151	460,182
Acquisition of subsidiaries	–	2,275	2,275
Disposal of subsidiaries	160	(19,362)	(19,202)
Deconsolidation of a subsidiary	–	(115,619)	(115,619)
Amortisation	–	(42,872)	(42,872)
Amount recognised as income	18,158	–	18,158
Closing net carrying amount	(302,651)	605,573	302,922
At 31 December 2004			
Gross carrying amount	(363,151)	730,868	367,717
Accumulated amortisation and impairment	60,500	(125,295)	(64,795)
Net carrying amount	(302,651)	605,573	302,922
Year ended 31 December 2005			
Opening net carrying amount, as previously reported	(302,651)	605,573	302,922
Effect of initial adoption of HKFRS 3	302,651	–	302,651
Opening net carrying amount, as restated	–	605,573	605,573
Derecognised on Distribution of Nan Hai	–	(268,732)	(268,732)
Derecognised on disposal of subsidiaries	–	(12,511)	(12,511)
Closing net carrying amount	–	324,330	324,330
At 31 December 2005			
Gross carrying amount	–	324,330	324,330
Accumulated impairment	–	–	–
Net carrying amount	–	324,330	324,330

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

21. GOODWILL (Continued)

Apart from the Distribution and disposal of subsidiaries which resulted in the derecognition of goodwill, the change in the gross carrying amount of goodwill between 31 December 2004 and 31 December 2005 was caused by the transitional provision of HKFRS 3. In accordance with HKFRS 3, the Group derecognised the carrying amounts of negative goodwill on 1 January 2005 against retained profits and all accumulated amortisation as at 31 December 2004 was eliminated against the gross amount of goodwill and amortisation of goodwill was discontinued from 1 January 2005.

For the annual impairment test for 2005, the carrying amount of goodwill is allocated to the following cash generating units:

	HK\$'000
Financial information and related services	289,800
Information technology business	34,530
Net carrying amount at 31 December 2005	324,330

The recoverable amounts for the cash generating units ("CGU") given above were determined based on value-in-use calculations, covering a detailed five-year budget plan, followed by an extrapolation of expected cash flows at the growth rates stated below. The growth rates reflect the long-term average growth rates for the product lines of the cash generating units.

The key assumptions used for value-in-use calculations

	Financial information and related service	Information technology business
Growth rates	27%	15%
Discount rates	5.58%	5.58%

The growth rate adopted for financial information and related service segment is approximately 27%.

The Group plans to launch a new product Caixun.com ("Caixun"), to the market and the target customers would be the general public. Caixun will engage in provision of internet advertising services, personal financial information services and on-line stock transaction services which in return for advertising income, subscription fee income and transaction services fee income.

The management considers the future growth rate will be more than enough to support the current estimated growth rate adopted in the cash flow forecast.

The growth rate adopted for information technology business's CGU of 15% in budget plan reflects the average growth rates for this CGU and is consistent with the expected industrial growth rates.

The discount rates used are pre-tax and reflect specific risks relating to the relevant segments.

Apart from the considerations described in determining the value-in-use of the cash generating units above, the Group's management is not currently aware of any other probable changes that would necessitate changes in its key estimates.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

22. OTHER INTANGIBLE ASSETS

	Group		
	Computer software HK\$'000	Product development costs HK\$'000	Total HK\$'000
At 1 January 2004			
Cost	–	178	178
Accumulated amortisation	–	(30)	(30)
Net carrying amount	–	148	148
Year ended 31 December 2004			
Opening net carrying amount	–	148	148
Additions	42,279	–	42,279
Write off	–	(148)	(148)
Amortisation charge for the year	(4,075)	–	(4,075)
Closing net carrying amount	38,204	–	38,204
At 31 December 2004			
Cost	42,279	–	42,279
Accumulated amortisation	(4,075)	–	(4,075)
Net carrying amount	38,204	–	38,204
Year ended 31 December 2005			
Opening net carrying amount	38,204	–	38,204
Additions	23,113	–	23,113
Disposal	(19,312)	–	(19,312)
Amortisation charge for the year	(6,080)	–	(6,080)
Net exchange difference	673	–	673
Closing net carrying amount	36,598	–	36,598
At 31 December 2005			
Cost	44,314	–	44,314
Accumulated amortisation	(7,716)	–	(7,716)
Net carrying amount	36,598	–	36,598

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

23. INVENTORIES

	Group	
	2005 HK\$'000	2004 HK\$'000
Raw materials	–	6
Finished goods	3,855	11,455
	3,855	11,461
Less: Provision for impairment of inventories	–	(6,850)
	3,855	4,611

24. INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS/SHORT TERM INVESTMENTS

	Notes	Group	
		2005 HK\$'000	2004 HK\$'000
Interest in a deconsolidated subsidiary	(a)	–	203,053
Less: provision for impairment		–	(3,053)
		–	200,000
Listed equity securities in Hong Kong, at fair value	(b)	4,977	8,558
		4,977	208,558
Market value of listed investments		4,977	8,558

- (a) The interest in a deconsolidated subsidiary as at 31 December 2004 represents the Group's share of net asset value together with unamortised goodwill of a deconsolidated subsidiary at the date of cessation of control over this subsidiary.

Particulars of the deconsolidated subsidiary at 31 December 2004 are as follows:

Name	Country of incorporation	Issued and paid-up share capital	Percentage held by the Company		Principal activity
			directly	indirectly	
Acesite (Philippines) Hotel Corporation ("Acesite Phils.")	Philippines	99,852,308 common stock of PHP1 each	–	77.67	Hotel operations

NOTES TO THE FINANCIAL STATEMENTS

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24. INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS/SHORT TERM INVESTMENTS (Continued)

Acesite Phils. is listed on the Philippines Stock Exchange. Acesite Limited, a company incorporated in the British Virgin Islands, was the former immediate holding company of Acesite Phils. before losing of its control by the Company.

Acesite Phils.' 74,889,892 issued common shares (representing 75% of its total issued common shares) held by Acesite Limited were pledged in favour of Equitable PCI Bank, Inc. ("EPCIB") as security for loans granted by EPCIB to Genius Reward Company Limited, an associate of the Group. On 18 February 2003, EPCIB foreclosed the 74,889,892 common shares and sold them as a block sale in the Philippines Stock Exchange. Acesite Limited has contested the sale, stating that an earlier restructuring agreement was entered into with EPCIB on 15 January 2003 rendering both the foreclosure action and subsequent sale null and void on the ground that EPCIB, in its purported disposal of the mortgaged shares is, among other things, in breach of an earlier restructuring agreement and the mortgage, and hence such purported disposal were considered unlawful.

Due to Acesite Limited was not able to raise the additional bond of 50 million Philippine peso within the time limit, on 3 June 2004, an order was issued by the Regional Trial Court of Makati City to direct the transfer agent of Acesite Phils. to record the transfer of all the mortgaged shares in the statutory book of Acesite Phils.. As a result, the Company ceased to have control over Acesite Phils., and Acesite Phils. was no longer classified as a subsidiary since then.

On 18 April 2005 the Company (as the vendor), Long Success Group Limited, an independent third party (as the purchaser) and Mr. Yu, (as the guarantor) entered into an agreement (the "Agreement") for sale and purchase of the entire issued share capital of South Port Development Limited and First Foundation Limited, wholly-owned subsidiaries of the Company prior to the purported disposal, which held 75% and 2.67% of the total issued share capital of Acesite Phils. at the total consideration of RMB212,000,000.

Pursuant to the Agreement, Mr. Yu has personally guaranteed to the purchaser that, in the event that the purported disposal of the mortgaged shares by the bank is not declared null and void under the proceedings as disclosed in note 44 to the financial statements; or no damages is ultimately awarded by a court in respect of such purported disposal; or the damages awarded are less than the total consideration of RMB212,000,000, he will be solely responsible for paying to the purchaser the sum of RMB212,000,000 or the shortfall between that sum and the damages awarded (as the case may be) and the Company will not be liable for any claim or compensation in respect of this.

- (b) The listed equity securities of HK\$4,977,000 (2004: HK\$8,558,000) are held for trading.

Changes in fair value of listed equity securities are recorded in other operating expenses in the income statement.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

25. TRADE RECEIVABLES, OTHER RECEIVABLES AND DEPOSITS

	Group	
	2005 HK\$'000	2004 HK\$'000
Trade receivables analysed according to aging:		
0-90 days	23,815	73,429
91-180 days	81,035	18,708
181-270 days	29,416	1,905
271-360 days	2,318	1,480
Over 360 days	42,918	69,862
Less: Provision for impairment of receivables	(6,810)	(30,834)
	172,692	134,550
Other receivables and deposits comprise:		
Deposits for construction works	540,763	125,316
Outstanding consideration receivable arising from the disposal of other investments	150,000	–
Advances to former subsidiaries	47,800	–
Others	103,223	58,743
	841,786	184,059
	1,014,478	318,609

The normal credit period granted ranges from 30 to 60 days.

During the years ended 31 December 2005 and 31 December 2004, the Group encountered difficulties in collection of certain trade receivables and appropriate provision for impairment has been made against certain trade receivables.

26. CASH AT BANKS AND IN HAND

Included in the Group's cash at banks and in hand is an aggregate amount of approximately HK\$64,205,000 (2004: HK\$39,767,000), representing Renminbi deposits placed with banks in Mainland China by the Group.

Renminbi is not freely convertible into foreign currencies. Under the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sales and Payment of Foreign Exchange Regulations, the Group is permitted to exchange Renminbi for foreign currencies through banks which are authorised to conduct foreign exchange business.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

27. TRADE PAYABLES, OTHER PAYABLES AND ACCRUALS

	Group	
	2005 HK\$'000	2004 HK\$'000
Trade payables analysed according to aging:		
0-90 days	3,890	2,836
91-180 days	324	1,735
181-270 days	354	940
271-360 days	39	184
Over 360 days	113	2,758
	4,720	8,453
Other payables and accruals	181,122	359,479
	185,842	367,932

Included in other payables and accruals at 31 December 2005 are amounts of HK\$16,871,000 due to certain securities brokers and margin financiers which are secured by shares in Nan Hai being held by certain shareholders who agreed to pledge their interests in Nan Hai. The amounts due bear interest at the rate of 8% to 20% per annum.

At 31 December 2004, amount due to certain securities brokers and margin financiers included in other payables and accruals amounted to HK\$18,516,000 was secured by shares in Nan Hai held by the Company. The amounts due bear interest at the rate of 8% to 17% per annum.

28. AMOUNT DUE TO A DIRECTOR

The amount due to a director is unsecured, interest-free and repayable on demand.

29. AMOUNTS DUE TO SHAREHOLDERS

The amounts due to shareholders are unsecured, interest-free and repayable on demand.

30. AMOUNT DUE TO A MINORITY SHAREHOLDER

The amount due to a minority shareholder represents dividends payable to a minority shareholder of a subsidiary.

31. AMOUNT DUE FROM/(TO) ULTIMATE HOLDING COMPANY

The amount due from/(to) ultimate holding company is unsecured, interest-free and repayable on demand.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

32. BANK AND OTHER BORROWINGS

	Group		Company	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Bank overdrafts				
– unsecured	–	271	–	–
Short-term bank loans (note (a))				
– secured	12,968	12,736	–	–
– unsecured	9,318	9,151	–	–
Long-term bank loans				
– secured	22,286	21,887	–	–
Due within one year (note (a))	4,625	354,390	–	–
Other borrowings (note (b))	29,460	29,464	29,460	29,464
	56,371	406,012	29,460	29,464

- (a) Loan amounted to HK\$22,286,000 (2004: HK\$210,480,000) carries interest at fixed rates ranged from 6.138% to 7.56% (2004: fixed rates ranged from 5.841% to 6.65%). The remaining amount of HK\$4,625,000 (2004: HK\$165,797,000) carries interest at Hong Kong Dollar Prime rate plus 1% to 8% (2004: Hong Kong Dollar Prime rate plus 1% to 8%). The carrying amounts of short-term borrowings approximate their fair value.
- (b) At 31 December 2005, the loan of HK\$29,460,000 granted to the Company by CITIC Capital Credit Limited, an associate of a former substantial shareholder, is secured by certain shares in Nan Hai held by certain shareholders who agreed to pledge their interests in Nan Hai in favour of the Company. The loan bears interest at prime rate plus 8% per annum. According to the loan agreement dated 9 May 2003, the loan was originally due on 9 November 2003. Penalty interest of approximately HK\$5 million (2004: HK\$4 million) was accrued and included in other accruals under current liabilities. At 31 December 2004, the loan of HK\$29,460,000 granted by CITIC Capital Credit Limited was secured by the Company's interests in Nan Hai and bore interest at prime rate plus 3% per annum. The carrying amounts of other borrowings as at 31 December 2005 approximate their fair value.

The carrying amounts of the borrowings are denominated in the following currencies:

	Group		Company	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Hong Kong dollar	34,085	195,532	29,460	29,464
RMB	22,286	210,480	–	–
	56,371	406,012	29,460	29,464

As at 31 December 2005, the Group technically breached the covenants of certain bank and other loans totalling HK\$43,403,000 (2004: HK\$76,263,000). These bank and other loans had already been due for repayment before the balance sheet date.

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33. DEFERRED TAX

Deferred taxation are calculated in full on temporary differences under the liability method using a principal taxation rate of 17.5% (2004: 17.5%).

The movement of the deferred tax liabilities, which are attributable to accelerate depreciation allowance, during the year is as follows:

	Group		Company	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
At 1 January	790	790	-	-
Distribution of Nan Hai	(790)	-	-	-
At 31 December	-	790	-	-

As at 31 December 2005, the amount of unrecognised deferred tax assets are as follows:

	Group		Company	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Tax effect of temporary differences attributable to:				
– accelerated depreciation allowances	73	61	73	61
– unused tax losses	29,891	106,250	16,088	11,743
	29,964	106,311	16,161	11,804

Deferred tax asset in respect of unused tax losses has not been recognised in the financial statements due to the unpredictability of future profit streams against which the tax losses can be utilised. The tax losses will not expire under current tax legislation.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

34. SHARE CAPITAL

	Number of ordinary shares of HK\$0.10 each	Number of ordinary shares of HK\$0.01 each	HK\$'000
Authorised:			
At 1 January 2004 and 31 December 2004	30,000,000,000	–	3,000,000
Reduction of nominal value (note (c))	(30,000,000,000)	30,000,000,000	(2,700,000)
At 31 December 2005	–	30,000,000,000	300,000
Issued and fully paid:			
At 1 January 2004	15,914,504,877	–	1,591,450
Conversion of convertible notes (note (a) and (b))	4,000,000,000	–	400,000
At 31 December 2004 and 1 January 2005	19,914,504,877	–	1,991,450
Reduction of nominal value (note (c))	(19,914,504,877)	19,914,504,877	(1,792,305)
At 31 December 2005	–	19,914,504,877	199,145

Note:

- (a) On 31 December 2002, the Company issued HK\$180,000,000 and HK\$20,000,000 convertible notes to Procure Group Limited, an independent third party, and CITIC Active Partner Fund Limited, an associate of a former substantial shareholder, respectively. These convertible notes bore interest at 1% per annum and were due on 31 December 2004. Each of the convertible notes carried the right at any time commencing on the date of issue but before the due date to convert the whole or part of the outstanding principal amounts of the notes into ordinary shares of the Company at a conversion price of HK\$0.10 per share. The conversion price is subject to adjustment under certain circumstances. On 13 January 2004 and on 30 December 2004, the convertible notes held by Procure Group Limited and CITIC Active Partner Fund Limited were fully converted into 1,800,000,000 and 200,000,000 ordinary shares of HK\$0.10 each of the Company at a conversion price of HK\$0.10 per share.
- (b) On 31 December 2003, the Company issued HK\$200,000,000 convertible notes to First Best Assets Limited, a company wholly owned by Mr. Yu. These convertible notes bore interest at 1% per annum and were due on 31 December 2005. Each of the convertible notes carried the right at any time commencing on the date of issue but before the due date to convert the whole or part of the outstanding principal amounts of the notes into ordinary shares of the Company at a conversion price of HK\$0.10 per share. The conversion price was subject to adjustment under certain circumstances. On 5 January 2004, these convertible notes were fully converted into 2,000,000,000 ordinary shares of HK\$0.10 each of the Company at a conversion price of HK\$0.10 per share.
- (c) Pursuant to a special resolution passed on 16 April 2004, the authorised share capital of the Company was reduced from HK\$3,000,000,000 divided into 30,000,000,000 ordinary shares of HK\$0.10 each to HK\$300,000,000 divided into 30,000,000,000 ordinary shares of HK\$0.01 each with effect from 26 July 2005 with the sanction of an order of the High Court dated 21 June 2005. The reduction is effected by cancelling the paid up capital to the extent of HK\$0.09 on each of the 19,914,504,877 ordinary shares in issue; and by reducing the nominal value of all issued and unissued shares in the capital of the Company from HK\$0.10 to HK\$0.01 each.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

35. SHARE OPTION SCHEME

On 29 August 2002, the Company adopted a share option scheme (the "Scheme"). Under the Scheme, share options may be granted to directors, employees of the Group and those who have contributed or will contribute to the Group at any time within ten years after its adoption at the discretion of the Board.

On 12 November 2004, share options to subscribe for a total of 233,360,000 Sino-i Shares, representing approximately 1.68% of the issued share capital of the Company as at the date of the adoption of the Scheme, were granted to the directors and employees of the Company and subsidiaries and the persons who have provided research, development or other technological support or services to the Group (the "Consultants") at an exercise price of HK\$0.16 per Sino-i Share. The closing price of Sino-i Share immediately before the date of grant was HK\$0.158. All share option expense will be settled in equity. The Group has no legal or constructive obligation to repurchase or settle the options. The movement of the share options during the year are as follows:

	2005		2004	
	Number	Weighted average exercise price	Number	Weighted average exercise price
At 1 January	231,570,000	0.16	–	–
Granted	–	–	233,360,000	0.16
Forfeited	(141,110,000)	0.16	(1,790,000)	0.16
At 31 December	90,460,000	0.16	231,570,000	0.16

All share options as at 31 December 2004 and 2005 have been accounted for under HKFRS 2. The exercisable periods of the share options of the Company and Group are as follows:

	2005		2004	
	Number	Weighted average exercise price	Number	Weighted average exercise price
Exercisable period:				
1-7-2005 to 30-6-2008	43,730,000	0.16	109,885,000	0.16
1-7-2006 to 30-6-2008	43,730,000	0.16	109,885,000	0.16
1-1-2006 to 31-12-2008	1,500,000	0.16	5,900,000	0.16
1-1-2007 to 31-12-2008	1,500,000	0.16	5,900,000	0.16
At 31 December	90,460,000	0.16	231,570,000	0.16

At the balance sheet date, the Company had 90,460,000 share options outstanding under the Scheme. The exercise in full at the remaining share options would under the present capital structure of the Company, result in the issue of 90,460,000 additional ordinary shares of the Company and additional share capital of HK\$904,600 and share premium of HK\$13,569,000 (before issue expenses.)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

35. SHARE OPTION SCHEME (Continued)

No additional options were granted during 2005. The fair values of options granted during 2004 of HK\$10,571,000 were determined by an independent third party valuer using the Binomial Model, with modification to reflect the impact of vesting period, exit rate and exercise pattern on the option value.

Key assumptions used in the valuation of the options granted on 12 November 2004 include: (i) an expected dividend yield of 0% per annum, (ii) volatility of share price of 53% per annum (estimation of volatility for underlying stock price has considered the history price moment of the Company and other comparable companies with similar business nature, and it is projected on a constant annualised standard deviation on the price moment of 53% to be applied throughout the option's life), (iii) a risk free rate of interest on options exercisable before 30 June 2008 and 31 December 2008 of 2.04% and 2.23% per annum respectively, (iv) that the directors, employees and consultants will exercise their share options if the share price is above the exercise price by 2.5 times, 1.5 times and 1.5 times respectively and (v) an exit rate for directors, employees and consultants of 0%, 15.6% and 0% per annum respectively.

In total, HK\$5,967,000 of share-based compensation expense has been included in the income statement for the year ended 31 December 2005 (2004: Nil) which gave rise to share option reserve. No liabilities were recognised due to share-based payment transactions.

36. SHARE PREMIUM

	2005 HK\$'000	2004 HK\$'000
At 1 January	472,736	472,736
Reduction of capital	(433,542)	–
At 31 December	39,194	472,736

Pursuant to a special resolution passed on 16 April 2004 and with the sanction of an order of the High Court dated 21 June 2005, part of the share premium amount was reduced by HK\$433,541,063 on 26 July 2005.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

37. RESERVES

Group	Capital redemption reserve HK\$'000	Capital distribution reserve HK\$'000	Share option reserve HK\$'000	General reserve HK\$'000	Exchange reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1 January 2004	2,258	–	–	(33,408)	6,379	946,668	921,897
Exchange differences	–	–	–	–	304	–	304
Released on deconsolidation of a subsidiary	–	–	–	–	2,854	–	2,854
Profit for the year attributable to equity holders of the Company	–	–	–	–	–	82,579	82,579
Transfer to capital reserve	–	–	–	7,528	–	(7,528)	–
At 31 December 2004 and 1 January 2005, as previously reported	2,258	–	–	(25,880)	9,537	1,021,719	1,007,634
Negative goodwill derecognised directly to equity	–	–	–	–	–	227,590	227,590
Balance at 1 January 2005, as restated	2,258	–	–	(25,880)	9,537	1,249,309	1,235,224
Exchange differences	–	–	–	–	33,162	–	33,162
Capital reduction	–	2,225,847	–	–	–	–	2,225,847
Distribution of the net assets of Nan Hai	–	(2,173,225)	–	–	–	–	(2,173,225)
Exchange reserve released on distribution of Nan Hai	–	–	–	–	(25,547)	–	(25,547)
Realised on disposal of subsidiaries	–	–	–	–	27	–	27
Share-based compensation	–	–	5,967	–	–	–	5,967
Released on forfeiture of share options	–	–	(2,558)	–	–	2,558	–
Profit for the year attributable to equity holders of the Company	–	–	–	–	–	264,016	264,016
Transfer to capital reserve	–	–	–	19,330	–	(19,330)	–
At 31 December 2005	2,258	52,622	3,409	(6,550)	17,179	1,496,553	1,565,471

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

37. RESERVES (Continued)

Company

	Capital redemption reserve HK\$'000	Capital distribution reserve HK\$'000	Share option reserve HK\$'000	General reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1 January 2004	2,258	–	–	79,579	707,041	788,878
Profit for the year	–	–	–	–	5,004	5,004
At 31 December 2004 and 1 January 2005	2,258	–	–	79,579	712,045	793,882
Capital reduction	–	2,225,847	–	–	–	2,225,847
Distribution of shares in Nan Hai	–	(2,225,847)	–	–	–	(2,225,847)
Loss for the year	–	–	–	–	(32,213)	(32,213)
Share-based compensation	–	–	5,967	–	–	5,967
Released on forfeiture of share options	–	–	(2,558)	–	2,558	–
At 31 December 2005	2,258	–	3,409	79,579	682,390	767,636

The Group's general reserve includes capital reserve arising from acquisition of subsidiaries in prior years and PRC statutory reserves.

Subsidiaries of the Company established in the PRC are required to transfer 10% of their profit after tax calculated in accordance with the PRC accounting regulations to the statutory reserve until the reserve reaches 50% of their respective capital, upon which any further appropriation will be at the directors' recommendation. Such reserve may be used to reduce any losses incurred by the subsidiaries or be capitalised as paid-up capital of the subsidiaries.

Included in the Company's retained profits is an amount of approximately HK\$90,674,000 (2004: approximately HK\$101,695,000) which represents the balance of the special reserve arising from the Company's capital reduction effected in a prior year. According to the court order dated 21 June 2001 confirming the Company's capital reduction, the Company was required to credit a sum arising from the capital reduction to a special reserve which cannot be treated as realised profit as long as (a) the outstanding liabilities of the Company as at the effective date of the capital reduction (i.e. the "Relevant Debts") are not fully discharged; and (b) the persons to whom the Relevant Debts are due have not agreed otherwise.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

38. MINORITY INTERESTS

	2005 HK\$'000	2004 HK\$'000
At 1 January, as previously reported	969,668	1,011,248
Effect of initial adoption of HKFRS 3	75,061	–
At 1 January, as restated	1,044,729	1,011,248
Profit for the year	6,143	8,783
Arising from acquisition of a subsidiary	–	1,318
Released on disposal and deconsolidation of subsidiaries	(1,148)	(51,681)
Decrease arising from acquisition of the additional interests in Nan Hai over the consideration arising from conversion of convertible notes by the Group (note 6(b))	(185,501)	–
Released on distribution of Nan Hai	(702,090)	–
Net exchange difference	921	–
As at 31 December	163,054	969,668

39. OPERATING LEASE ARRANGEMENTS

- (a) At 31 December 2005, the Group and Company's total future minimum lease payments under non-cancellable operating leases are payable as follows:

	Group		Company	
	Land and buildings		Land and buildings	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Within one year	34,174	31,678	2,319	4,272
In the second to fifth years	37,138	35,629	288	174
After five years	–	1,626	–	–
	71,312	68,933	2,607	4,446

The Group leases a number of properties under operating leases. The leases run for an initial period of one to five years, with options to renew the lease terms at the expiry dates or at dates as mutually agreed between the Group and the respective landlords. None of the leases includes any contingent rentals.

The Company leases a number of properties under operating leases. The leases run for an initial period of one to two years. None of the leases includes any contingent rentals.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

39. OPERATING LEASE ARRANGEMENTS (Continued)

- (b) At 31 December 2005, the Group's total future minimum lease receivables under non-cancellable operating leases are as follows:

	Land and buildings	
	2005 HK\$'000	2004 HK\$'000
Within one year	1,205	588
In the second to fifth years	1,537	545
After five years	3,971	424
	6,713	1,557

At 31 December 2005 and 31 December 2004, the Company had no outstanding operating lease arrangements as a lessor.

40. COMMITMENTS

(a) Capital commitments

At 31 December 2005, the Group had outstanding capital commitments as follows:

	2005 HK\$'000	2004 HK\$'000
Contracted but not provided for		
– purchase of property, plant and equipment and land held for development	178,391	396,973
– acquisition of investment	–	20,000
	178,391	416,973

At 31 December 2005 and 31 December 2004, the Company had no outstanding capital commitments.

(b) Other commitments

At 31 December 2005 and 31 December 2004, the Group had no other commitments.

At 31 December 2005, the Company had no other commitments. As at 31 December 2004, the Company had commitments of HK\$11,700,000 in respect of capital contributions to subsidiaries in Mainland China.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

41. DIRECTORS' AND SENIOR MANAGEMENT'S REMUNERATION

- (a) Remuneration of the Company's directors disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance is as follows:

	Fees HK\$'000	Basic salaries, housing, other allowances and benefits in kind HK\$'000	Pension scheme contributions HK\$'000	Share-based compensations HK\$'000	Total HK\$'000
2005					
Executive directors					
YU Pun Hoi	-	480	12	-	492
ZHANG Hong Ren	-	360	12	313	685
Non-executive directors					
LAM Bing Kwan	-	300	12	963	1,275
LUO Ning	-	-	-	-	-
LI Shilin	-	-	-	-	-
Independent non-executive directors					
QIN Tian Xiang	182	-	-	-	182
CHAN Lap Stanley	143	-	-	-	143
FUNG Wing Lap	100	-	-	-	100
	425	1,140	36	1,276	2,877

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

41. DIRECTORS' AND SENIOR MANAGEMENT'S REMUNERATION (Continued)

- (a) Remuneration of the Company's directors disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance is as follows: (Continued)

	Fees HK\$'000	Basic salaries, housing, other allowances and benefits in kind HK\$'000	Pension scheme contributions HK\$'000	Share-based compensations HK\$'000	Total HK\$'000
2004					
Executive directors					
YU Pun Hoi	146	480	12	–	638
ZHANG Hong Ren	–	360	12	–	372
Non-executive directors					
LAM Bing Kwan	–	1,020	12	–	1,032
LUO Ning	–	–	–	–	–
LI Shilin	–	–	–	–	–
SUN Yalei	–	–	–	–	–
WONG King King	9	–	–	–	9
Independent non-executive directors					
Francisco Paredes ACOSTA	–	–	–	–	–
QIN Tian Xiang	–	–	–	–	–
CHAN Lap Stanley	–	–	–	–	–
FUNG Wing Lap	–	–	–	–	–
	155	1,860	36	–	2,051

No directors waived or agreed to waive any emoluments in respect of the years ended 31 December 2004 and 31 December 2005.

(b) Five highest paid individuals

The five highest paid individuals of the Group for the year did not include any director (2004: one director, details of whose emoluments are set out above). The emoluments of the remaining five (2004: four) employees are as follows:

	2005 HK\$'000	2004 HK\$'000
Basic salaries and housing allowances	4,066	3,878
Pension scheme contributions	36	24
Share-based compensations	1,651	–
	5,753	3,902

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

41. DIRECTORS' AND SENIOR MANAGEMENT'S REMUNERATION (Continued)

(b) Five highest paid individuals (Continued)

The emoluments of these employees were within the following bands:

Emolument bands	Number of individuals	
	2005	2004
HK\$Nil – HK\$1,000,000	1	2
HK\$1,000,001 – HK\$1,500,000	4	2
	5	4

- (c) During the years ended 31 December 2004 and 31 December 2005, no emoluments were paid to the directors and the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

42. CONTINGENT LIABILITIES

Guarantees given in connection with credit facilities granted to:

	Group		Company	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Subsidiaries	–	–	4,625	5,825
A fellow subsidiary	115,274	–	115,274	–
Associates (note (a))	16,064	20,832	10,053	9,268
Third party (note (a))	97,697	144,367	97,697	110,606
	229,035	165,199	227,649	125,699

- (a) The Company executed a guarantee in February 1993 ("EPCIB Guarantee") in favour of Equitable PCI Bank, Inc. ("EPCIB") in respect of a loan of US\$5 million ("Genius Reward Loan") made available by EPCIB to Genius Reward Company Limited ("Genius Reward"), an associate of the Company. Evallon Investment Limited ("Evallon"), a wholly-owned subsidiary of the Company, and Acesite Limited ("Acesite"), a wholly-owned subsidiary of Evallon, respectively executed share mortgage in favour of EPCIB over the entire share capital in Acesite and 74,889,892 shares ("Philippines Shares") of Acesite (Philippines) Hotel Corporation ("Acesite Phils.") (the shares charged to EPCIB are collectively referred to as "Mortgaged Shares").

As at 15 January 2003, the outstanding indebtedness of Genius Reward towards EPCIB was US\$1,088,084.77. On 18 February 2003, EPCIB purportedly sold the Mortgaged Shares to Waterfront Philippines Inc. ("Waterfront"), a Philippines corporation. Acesite contested the said sale and commenced legal proceedings in the Philippines by filing an urgent complaint in the Makati City Branch of the Manila Regional Trial Court seeking, inter alia, a preliminary injunction to restrain the transfer of the Philippines Shares. In August 2003, the Makati Court granted the order sought by Acesite. EPCIB and Waterfront asked for reconsideration by the Makati Court of the granted order, and subsequently the Makati Court require the submission of an additional bond for the sum of 50 million Philippines peso. Acesite was not able to raise the bond within the required time limit and the preliminary injunction lapsed. Acesite appealed to the Court of Appeals and the Supreme Court against the discharge of the preliminary injunction and the appeal was dismissed. Acesite's action was dismissed without any adjudication on its merits.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

42. CONTINGENT LIABILITIES (Continued)

Acesite and Evallon together with other concerned parties commenced proceedings against EPCIB and Waterfront in Hong Kong in respect of the said purported sale of the Mortgaged Shares in March 2006. The Company cannot ascertain the fair value of the outstanding indebtedness under the Genius Reward Loan because of the pending litigation.

In addition to the EPCIB Guarantee, the Company has executed another guarantee in favour of Singapore Branch of Industrial and Commercial Bank of China ("ICBC") in respect of a loan facility of US\$15,000,000 ("ICBC Loan") made available to Acesite Phils. in March 1995.

As explained above, Acesite Phils. is now being controlled by Waterfront because of the purported sale of 74,889,892 shares of Acesite Phils. (representing approximately 75.4% of its total issued share capital) in February 2003. Therefore, the Company does not have updated information of the outstanding balance of the indebtedness of the ICBC Loan. Thus, the Company cannot ascertain the fair value of the outstanding indebtedness under the ICBC Loan.

In addition to the amounts as stated above, on 24 January 2004, the Group entered into an agreement to transfer its shareholding in a subsidiary which held the title of the Group's hotel property namely 北京金世紀大酒店 at a nominal consideration of RMB1. Upon completion of the agreement, the purchasers shall own the 北京金世紀大酒店 and take over certain debts and liabilities of the subsidiary including bank loans amounting to approximately HK\$92 million, taxes payable by the subsidiary in a total sum of RMB3,000,000 and estimated land premium payables of RMB12,000,000. The Group also guaranteed to the purchasers that the above debts and liabilities of the subsidiary would not exceed RMB112,500,000, and the taxes payable together with the land premium payables would not exceed RMB15,000,000. Any exceeding amounts will be borne by the Group. The agreement for the transfer of the shareholding of the subsidiary was completed on 10 March 2004.

43. CREDIT FACILITIES

As at 31 December 2005, the Group's credit facilities were supported by the following:

- (a) charge over land use right with a net carrying value of approximately HK\$12,736,000 (2004: HK\$13,029,000);
- (b) charge over shares in certain subsidiaries within the Group; and
- (c) unlimited personal guarantee given by Mr. Yu.

In addition, as at 31 December 2004, the Group's credit facilities were supported by the pledge of 4,392,521,867; 240,000,000; 363,638,000 and 15,265,220,133 shares in Nan Hai as securities to certain securities brokers and margin financiers, bankers, a minority shareholder of a subsidiary and other borrowers respectively. The market value of such listed shares as at 31 December 2004 was approximately HK\$830,716,580.

Upon completion of the group reorganisation between the Company and Nan Hai in August 2005 as disclosed in note 1, all of the Company's interest in Nan Hai were distributed to the shareholders of the Company, and the Company ceased to be the holding company of Nan Hai. Certain shareholders of the Company agreed to pledge their interests in Nan Hai for the Company's credit facilities.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

44. PENDING LITIGATIONS

- (a) Evallon Investment Limited ("Evallon") is a wholly-owned subsidiary of the Company, a company incorporated in Hong Kong, which was the owner of 100% issued share capital of Acesite Limited ("Acesite"), a company incorporated in the British Virgin Islands.

In February 2000, Evallon disposed of the entire issued share capital of Acesite to South Port Development Limited ("South Port") which was also a wholly-owned subsidiary of the Company, and the Company disposed of the entire issued share capital of South Port to a third party in May 2005.

Acesite's sole investment was 74,889,892 issued shares ("Shares") of Acesite (Philippines) Hotel Corporation ("Acesite Phils."), constituting approximately 75.4% of the total issued shares of Acesite Phils., a company listed on the Philippines Stock Exchange.

The Shares were pledged to Equitable PCI Bank Inc. ("EPCIB"), a bank incorporated in the Philippines, having its branch office in Hong Kong, as security for loans granted to Genius Reward Company Limited, an associate of the Group. On 18 February 2003, EPCIB purportedly sold the Shares to Waterfront Philippines Inc. ("Waterfront"), a Philippines corporation. Acesite contested the said sale and commenced legal proceedings in Philippines, and filed an urgent complaint in the Makati City Branch of the Manila Regional Trial Court for a preliminary injunction to restrain the transfer of the Philippines Shares. In August 2003, the Makati Court granted the order sought by Acesite. EPCIB and Waterfront asked for reconsideration by the Makati Court of its order granted, and subsequently the Makati Court posted an additional bond of 50 million Philippines peso as condition for the order. Acesite was not able to raise the bond within the required time limit and as a consequence the preliminary injunction lapsed. Acesite appealed to the Court of Appeals and the Supreme Court against the discharge of the preliminary injunction were dismissed, but without having any substantive adjudication on the merits.

Evallon, being one of the plaintiffs, commenced proceedings against both EPCIB and Waterfront in respect of the purported sale of the Shares in High Court in Hong Kong in March 2006. As at the date of approval of the financial statements, the legal proceedings are still in progress and no trial date has been fixed.

- (b) On 12 May 2004, Dadi Media, a wholly-owned subsidiary of the Company, issued a claim against two former minority shareholders of a subsidiary, (collectively, "Defendants"), for the following reliefs: (a) the sum of approximately HK\$27,750,000, (b) interest on the said sum and (c) costs arising out of the Defendants' breach of agreement. The Defendants then filed a defence and counterclaim on 24 June 2004 and an amended defence and counterclaim on 1 September 2004. On 27 September 2004, Dadi Media jointly with China Enterprise and other parties filed a reply to the amended defence and defence to the amended counterclaim.

The Defendants issued a claim against China Enterprise in the Labour Tribunal. The claim was transferred to the Court of First Instance and the notice of transfer was received on 22 December 2004. In the claim, the Defendants claimed for: (a) the sum of approximately HK\$806,000, (b) an award of compensation pursuant to section 32P of the Employment Ordinance, (c) interest, (d) the sum of HK\$13,000 together with interest and costs. The defence was filed on 1 March 2005.

As at the date of approval of the financial statements, these two court cases are still in progress and no trial date has been fixed.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

45. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Disposal and dissolution of subsidiaries

	2005 HK\$'000	2004 HK\$'000
Net assets disposed of:		
Property, plant and equipment	333	86,306
Consideration for acquisition of investment	15,000	–
Advance to prospective investee companies	(952)	–
Amounts due from prospective investee companies	3,728	–
Inventories	23	–
Trade receivables, other receivables and deposits	2,353	537
Cash at banks and in hand	52	72
Minority interests	(1,148)	1,448
Trade payables, other payables and accruals	(13,467)	(7,214)
Provision for tax	(43)	(5)
Bank loans	–	(91,850)
Land premium payables	–	(10,800)
Amounts due to fellow subsidiaries	(60,971)	–
Amounts due from fellow subsidiaries	51,681	–
Amount due to ultimate holding company	(11,239)	–
	(14,650)	(21,506)
Exchange reserve realised on disposal	27	–
Attributable negative goodwill released on disposal	–	(160)
Attributable goodwill released on disposal	12,511	19,362
Net gain on disposal and dissolution of subsidiaries	24,850	2,304
	22,738	–
Satisfied by:		
Consideration receivable included in:		
Trade receivables, other receivables and deposits	22,160	–
Amount due to ultimate holding company	578	–
	22,738	–

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

45. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

(a) Disposal and dissolution of subsidiaries (Continued)

The analysis of the net outflow of cash and cash equivalents in respect of the disposal and dissolution of subsidiaries is as follows:

	2005 HK\$'000	2004 HK\$'000
Cash at banks and in hand disposed of	(52)	(72)

The subsidiaries disposed of utilised HK\$1,355,000 (2004: HK\$2,976,000) to the Group's operating cash flows and have no impact on the Group's cash flows in relation to investing and financing activities.

(b) Distribution of Nan Hai

	2005 HK\$'000	2004 HK\$'000
Net assets distributed:		
Property, plant and equipment	241	–
Interest in an associate	20,289	–
Inventories	6	–
Trade receivables, other receivables and deposits	367,944	–
Properties held for and under development	3,553,902	–
Cash at banks and in hand	588	–
Deferred tax liabilities	(790)	–
Minority interests	(702,090)	–
Trade payables, other payables and accruals	(288,075)	–
Amount due to ultimate holding company	(461,393)	–
Land premium payables	(167,558)	–
Provision for tax	(74)	–
Bank and other borrowings	(356,988)	–
Bank overdrafts	(271)	–
Deposits received	(35,691)	–
	1,930,040	–
Exchange reserve released on distribution	(25,547)	–
Goodwill released on distribution	268,732	–
	2,173,225	–

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

45. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

(b) Distribution of Nan Hai (Continued)

The analysis of the net outflow of cash and cash equivalents in respect of the distribution of Nan Hai is as follows:

	2005 HK\$'000	2004 HK\$'000
Cash at banks and in hand distributed	(588)	–
Bank overdrafts distributed	271	–
	(317)	–

Nan Hai contributed HK\$23,685,000 (2004: HK\$92,108,000) to the Group's operating cash flows, utilised HK\$1,189,000 (2004: HK\$4,267,000) for investing activities and paid HK\$35,002,000 (2004: HK\$55,821,000) for financing activities.

(c) Major non-cash transaction

- (i) The land premium payable of HK\$89,169,000 was paid by certain debtors on behalf of the Group;
- (ii) The consideration for the acquisition of other investments and advances to the prospective investee companies totalling of HK\$38,807,000 was received by a director on behalf of the Group; and
- (iii) The repayment from other debtors of HK\$14,601,000 was received by a director on behalf of the Group.

46. RETIREMENT BENEFIT PLANS

Defined contribution retirement plans

The Group operates a MPF scheme and an ORSO scheme for all qualifying employees in Hong Kong. The assets of the scheme are held separately from those of the Group in funds under the control of the trustees.

Subsidiaries operating in Mainland China are required to participate in a defined contribution retirement benefit plan organised by the relevant government authorities. These subsidiaries are required to contribute a specified percentage of payroll costs to the retirement benefit plan to fund the benefits.

The only obligation of the Group with respect to the retirement benefit plan is to make the specified contributions.

The total cost charged to the consolidated income statement of HK\$11,179,000 (2004: HK\$5,879,000) represents contributions payable to the schemes by the Group at the rates specified in the rules of the schemes.

Contribution payable of HK\$29,000 as at 31 December 2005 (2004: HK\$8,000) to the MPF Scheme are included in other payables.

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47. RELATED PARTY TRANSACTIONS

Key management personnel compensation is as follows:

	2005 HK\$'000	2004 HK\$'000
Directors fees	–	146
Wages and salaries	840	840
Share based compensation	313	–
Pension costs – defined contribution plans	24	24
	1,177	1,010

Except as disclosed elsewhere in these financial statements, there was no material related party transactions carried out during the year.

48. COMPARATIVE FIGURES

Certain comparative figures have been adjusted to conform with changes in presentation in the current year where necessary.