NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

1. GENERAL INFORMATION

Nan Hai Corporation Limited (formerly known as "South Sea Holding Company Limited") (the "Company") was incorporated and domiciled in Bermuda as an exempted company with limited liability under the Companies Act 1981 of Bermuda. The address of the Company's registered office is Canon's Court, 22 Victoria Street, Hamilton HM 12, Bermuda 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 Company and its subsidiaries (the "Group") are principally engaged in property development, provision of information technology application services, provision of financial information and related services, and distance learning and application services. Details of the principal activities of the Company's subsidiaries are set out in note 16.

Group reorganisation

The Company and Sino-i Technology Limited ("Sino-i"), the former ultimate holding company 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 in the aggregate principal amount of HK$200,000,000 issued by the Company, bearing interest at 1% per annum, were fully converted by the noteholder, Robina Profits Limited, a wholly owned subsidiary of Sino-i, into 11,111,111,111 ordinary shares of HK$0.01 each of the Company at a conversion price of HK$0.018 per share on 26 July 2005.

(b) On 26 July 2005, the authorised share capital of Sino-i was by virtue of a special resolution passed at an Extraordinary General Meeting of Sino-i 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 Sino-i was by virtue of a special resolution passed at an Extraordinary General Meeting of Sino-i 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 shares and share premium account (the "Sino-i's Capital Reduction") was then applied to effect a distribution of 31,377,831,111 ordinary shares of the Company held by Sino-i's wholly-owned subsidiaries to Sino-i's qualifying shareholders (the "Sino-i's Distribution") on the basis of 15,756 ordinary shares of HK$0.01 each of the Company for every 10,000 ordinary shares of HK$0.01 each of Sino-i. The remaining balance of 537,228 ordinary shares of the Company were disposed by Sino-i in the market. Upon the Sino-i's Distribution, the Company ceased to be a subsidiary of Sino-i.

(d) On 30 August 2005, a total number of 27,120,395,500 ordinary shares of HK$0.01 each in the Company 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 the Company as purchaser and (1) First Best Assets Limited, (2) Rosewood Assets Limited, (3) Pippen Limited, (4) Staverley Assets Limited, (5) 中信信息科技投資有限公司 (CITIC Information Technology Investment Company Limited), (6) Macro Resources Limited and (7) Empire Gate Industrial Limited as vendors in respect of the acquisition by the Company of 12,515,795,316 ordinary shares of HK$0.01 each of Sino-i, representing approximately 62.85% of the total issued share capital of Sino-i. The market price per share of the Company was HK$0.038 as at 30 August 2005.

1. GENERAL INFORMATION (Continued)

Group reorganisation (Continued)

Upon the completion of the Group's shareholding restructure plan, the Company became the ultimate holding company of Sino-i on 30 August 2005.

The assets, liabilities and results of Sino-i Group are consolidated into the financial statements of the Group under the purchase method upon the completion of the shareholding restructure plan.

The financial statements on pages 37 to 110 have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") as issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The financial statements include the applicable disclosure requirements of the Hong Kong Companies Ordinance and 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.

2. ADOPTION OF NEW OR REVISED HKFRS

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. This includes 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
HKFRS 2	Share-based Payment
HKFRS 3	Business Combinations

2. ADOPTION OF NEW OR REVISED HKFRS (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. 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 17

Upon the adoption of HKAS 17, the land and buildings elements are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid land lease payments under operating leases, which are carried at cost and subsequently recognised in the income statement on a straight-line basis over the lease term. This change in accounting policy has been applied retrospectively. The retrospective adoption of HKAS 17 has no material effect to the financial statements for the prior years.

2.3 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.

2. ADOPTION OF NEW OR REVISED HKFRS (Continued)

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

Goodwill (Continued)

In respect of goodwill previously eliminated against or credited to reserves, HKFRS 3 does not require entities 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.

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 are summarised in note 2.7 and 2.8 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.

2.4 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 Group did not have share options which were granted after 7 November 2002 and had not vested on 1 January 2005, the adoption of HKFRS 2 has no effect to the financial statements for the prior years.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

2. ADOPTION OF NEW OR REVISED HKFRS (Continued)

2.5 Adoption of HKAS 32 and HKAS 39

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 earnings 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. On initial recognition, the fair value of the liability component is determined using the prevailing market interest rate for similar non-convertible debts. The liability component is subsequently measured at amortised cost using the effective interest method. The comparative figures had not been restated in the preparation of the Group's interim financial statements for the six months ended 30 June 2005. The Comparative figures have now been restated due to update of the prevailing market interest rate for similar non-convertible debts available in the preparation of these financial statements.

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

2.6 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 the financial statements.

2. ADOPTION OF NEW OR REVISED HKFRS (Continued)

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

	Effect of adopting				
	HKAS 1# HK$'000	HKAS 32# and HKAS 39* HK$'000	HKFRS 2# HK$'000	HKAS 36* HKAS 38* and HKFRS 3* HK$'000	Total HK$'000
Year ended 31 December 2005					
Decrease in other operating income					
– Decrease in negative goodwill recognised as income	–	–	–	(14,089)	(14,089)
(Increase)/Decrease in administrative expenses					
– Decrease in amortisation	–	–	–	1,085	1,085
– Increase in staff cost and related expenses	–	–	(3,509)	–	(3,509)
Increase in finance costs					
– Increase in interest expenses of convertible notes	–	(3,011)	–	–	(3,011)
– Increase in interest expenses of amounts due to shareholders	–	(10,137)	–	–	(10,137)
Decrease in share of results of associates	(248)	–	–	–	(248)
Decrease in taxation	248	–	–	–	248
Total decrease in profit for the year	–	(13,148)	(3,509)	(13,004)	(29,661)
Decrease in basic earnings per share (in HK cents)	N/A	(0.0299)	(0.0080)	(0.0296)	(0.0675)
Decrease in diluted earnings per share	N/A	N/A	N/A	N/A	N/A

* adjustments which take effect prospectively from 1 January 2005

\# adjustments which take effect restrospectively

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

2. ADOPTION OF NEW OR REVISED HKFRS (Continued)

2.7 The effect of changes in the accounting policies on consolidated income statement is summarised below: (Continued)

	Effect of adopting				
	HKAS 1#	HKAS 32# and HKAS 39*	HKFRS 2#	HKAS 36* HKAS 38* and HKFRS 3*	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Year ended 31 December 2004					
Increase in finance costs					
– Increase in interest expenses of convertible notes	–	(2,170)	–	–	(2,170)
Total decrease in profit for the year	–	(2,170)	–	–	(2,170)
Decrease in basic earnings per share (in HK cents)	–	(0.0072)	–	–	(0.0072)
Decrease in diluted earnings per share	N/A	N/A	N/A	N/A	N/A

* adjustments which take effect prospectively from 1 January 2005

adjustments which take effect retrospectively

2. ADOPTION OF NEW OR REVISED HKFRS (Continued)

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

	Effect of adopting				
	HKAS I #	HKAS 32# and HKAS 39*	HKFRS 2#	HKAS 36* HKAS 38* and HKFRS 3*	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 31 December 2004					
Decrease in liabilities					
– Convertible notes	–	3,011	–	–	3,011
Increase/(Decrease) in equity					
– Convertible notes equity reserve	–	5,181	–	–	5,181
– Retained earnings	–	(2,170)	–	–	(2,170)
At 1 January 2005					
Increase in assets					
– Intangible assets	–	–	–	232,458	232,458
Decrease in liabilities					
– Convertible notes	–	3,011	–	–	3,011
Increase in equity					
– Convertible notes equity reserve	–	5,181	–	–	5,181
– Retained earnings	–	(2,170)	–	232,458	230,288
At 31 December 2005					
Increase in assets					
– Intangible assets	–	–	–	219,454	219,454
Increase in liabilities					
– Amounts due to shareholders	–	(10,137)	–	–	(10,137)
– Convertible notes	–	(3,011)	–	–	(3,011)
Increase/(Decrease) in equity					
– Convertible notes equity reserve	–	–	–	–	–
– Share option reserve	–	–	3,509	–	3,509
– Retained earnings	–	(13,148)	(3,509)	219,454	202,797
– Minority interests	949,082	–	–	–	949,082

* 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 (Continued)

2.8 The effect of changes in the accounting policies on the Company's balance sheet is summarised below:

	Effect of adopting		
	HKAS 32# and HKAS 39*	**HKFRS 2#**	**Total**
	HK$'000	HK$'000	HK$'000
At 31 December 2004			
Decrease in liabilities			
– Convertible notes	3,011	–	3,011
Increase/(Decrease) in equity			
– Convertible notes equity reserve	5,181	–	5,181
– Retained earnings	(2,170)	–	(2,170)
At 31 December 2005			
Increase in liabilities			
– Amounts due to shareholders	(10,137)	–	(10,137)
– Convertible notes	(3,011)	–	(3,011)
Increase/(Decrease) in equity			
– Share option reserve	–	3,130	3,130
– Retained earnings	(13,148)	(3,130)	(16,278)

* adjustments which take effect prospectively from 1 January 2005

\# adjustments which take effect retrospectively

2.9 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 such 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 (Amendment)	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 *Financial Reporting in Hyperinflationary Economies*[4]

2. ADOPTION OF NEW OR REVISED HKFRS (Continued)

2.9 New standards or interpretations that have been issued but are not yet effective (Continued)

[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

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 and assumptions 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 are entities (including special purpose entities) over which the Company has the power to control the financial and operating policies. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity. 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 included in intangible assets 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 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.6 Other intangible assets

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.

3.7 Property, plant and equipment

(a) *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% – 33$^1/_3$%
Moulds and tools	25% – 33$^1/_3$%
Motor vehicles and pleasure yacht	10% – 33$^1/_3$%

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

(b) *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.

3.8 Impairment of assets

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8 Impairment of assets (Continued)

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.

3.9 Operating leases

(a) 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.

(b) 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.

3.10 Financial assets

The Group's financial assets mainly 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' or 'Available-for-sale investments'

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.10 Financial assets (Continued)

(a) *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.

(b) *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.

(c) *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 losses.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.11 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials computed using the weighted average method and, where applicable, direct labour and those 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.

3.12 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.

3.13 Properties held for and under development

Properties held for and 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 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 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.

3.14 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.15 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.

3.16 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.

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.17 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.

3.18 Foreign currencies 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.19 Employee benefits

(a) *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.

(b) *Retirement benefit costs*

The Group operates several staff retirement schemes for employees in Hong Kong and Mainland China, the People's 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 central pension scheme operated by the relevant local municipal government. They are required to make contributions to the retirement schemes at a rate of 13% to 19% of basic salary of their employees and there are no other further obligations to the Group.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.19 Employee benefits (Continued)

(c) *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.

3.20 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 line items as 'Bank and other borrowings', 'Amount due to a director', 'Amounts due to shareholders', 'Amount due to a minority shareholder', 'Land premium payables', 'Convertible notes' or 'Trade payables, other payables and accruals'.

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

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 12 months after the balance sheet date.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.20 Financial liabilities (Continued)

Convertible notes

Convertible notes issued by the Group that contain both financial liability and equity components are classified separately into respective liability and equity components on initial recognition. On initial recognition, the fair value of the liability component is determined using the prevailing market interest rate for similar non-convertible debts. The difference between the proceeds of the issue of the convertible notes and the fair value assigned to the liability component, representing the call option for conversion of the notes into equity, is included in equity as convertible notes equity reserve.

The liability component is subsequently carried at amortised cost using the effective interest method. The equity component will remain in equity until conversion or redemption of the notes.

When the notes is converted, the convertible notes equity reserve and the carrying value of the liability component at the time of conversion, is transferred to share capital and share premium as consideration for the shares issued. If the note is redeemed, the convertible notes equity reserve is released directly to retained profits.

Trade payables

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

3.21 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.

Contingent liabilities are recognised in the course of the allocation of purchase price to the assets and liabilities acquired in a business combination. They are initially measured at fair value at the date of acquisition, unless the fair value cannot be measured reliably, and subsequently measured at the higher of the amount that would be recognised in a comparable provision as described above and the amount initially recognised less any accumulated amortisation, if appropriate.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.22 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, property, plant and equipment, prepaid land lease payments under operating leases, intangible assets, inventories, receivables and operating cash, and exclude interest in associates. Segment liabilities comprise land premium payables, deposit received and operating liabilities and exclude items such as certain corporate borrowings and amounts due to related parties.

Capital expenditure comprises additions to intangible assets, property, plant and equipment, properties held for and under development.

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

3.23 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.24 Income and expense recognition

Revenue comprises the fair value for 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:

– revenue from the sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed.

– for rendering of services, revenue is recognised when services are provided.

– interest income is recognised on a time proportion basis.

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

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 intends 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 judgement 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.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

4.1 Critical accounting estimates and assumptions (Continued)

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.

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 taxations. 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 taxation assets and taxation in the periods in which such estimate is changed.

5. REVENUE AND OTHER OPERATING INCOME

		2005 HK$'000	2004 HK$'000
(a)	**Revenue, which is also the Group's turnover:**		
	Distance learning and application services	**15,920**	–
	Information technology business	**129,448**	–
	Property management	**3,004**	–
	Provision of financial information and related services	**5,517**	–
	Others	**954**	1,215
		154,843	1,215
(b)	**Other operating income:**		
	Interest income	**1,355**	3,363
	Dividend income	**46**	–
	Gain on disposal of property, plant and equipment	**–**	6
	Negative goodwill recognised as income	**–**	14,089
	Write-back of provision for a doubtful debt	**4,290**	65
	Sundry income	**4,411**	–
		10,102	17,523
	Total revenue	**164,945**	18,738

6. SEGMENT INFORMATION

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

(a) Provision of financial information and related services

(b) Information technology business

(c) Property development

(d) Distance learning and application services

(e) Consumer packaged electronics

(f) The corporate and other segment comprises operations other than those as specified above

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For the year ended 31 December 2005

6. SEGMENT INFORMATION (Continued)

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.

6(a). BUSINESS SEGMENTS

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

	Provision of financial information and related services HK$'000	Information technology business HK$'000	Property development HK$'000	Distance learning and application services HK$'000	Consumer packaged electronics HK$'000	Other segments HK$'000	Elimination HK$'000	Total HK$'000
Segment revenue								
Sales to external customers	5,517	128,939	–	15,919	496	3,972	–	154,843
Segment results	(6,554)	55,849	(15,725)	10,402	3,839	(9,033)	–	38,778
Interest income								1,355
Net gain on disposal and dissolution of subsidiaries								14,086
Excess of the Group's interest in the net fair value of net assets acquired over cost arising from business combination								30,289
Unallocated corporate expenses								(16,615)
Profit from operations								67,893
Finance costs								(17,087)
Share of results of associates		209	(335)			1,176		1,050
Profit before income tax								51,856
Income tax credit								4,150
Profit for the year								56,006

6(a). BUSINESS SEGMENTS (Continued)

	Provision of financial information and related services HK$'000	Information technology business HK$'000	Property development HK$'000	Distance learning and application services HK$'000	Consumer packaged electronics HK$'000	Other segments HK$'000	Elimination HK$'000	Total HK$'000
Segment assets	328,688	441,983	5,984,429	54,579	6,595	14,191	–	6,830,465
Unallocated assets								351,304
Interest in associates		36,506	21,431			(8,558)		49,379
Total assets								7,231,148
Segment liabilities	(17,368)	(77,439)	(601,574)	(2,094)	(11,434)	(365,170)	–	(1,075,079)
Loan liabilities								(930,846)
Unallocated liabilities								(355,006)
Total liabilities								(2,360,931)
Other information								
Capital expenditure	395	39,287	585,616	167	–	607	–	626,072
Depreciation	278	5,530	68	299	66	–	–	6,241
Amortisation	–	1,127	–	–	–	–	–	1,127
Other non-cash expenses	108	1,630	–	–	52	62	–	1,852

The following tables present revenue, results and segment assets, liabilities and capital expenditure information for the Group's business segments for the year ended 31 December 2004 (Restated):

	Provision of financial information and related services HK$'000	Information technology business HK$'000	Property development HK$'000	Distance learning and application services HK$'000	Consumer packaged electronics HK$'000	Other segments HK$'000	Elimination HK$'000	Total HK$'000
Segment revenue								
Sales to external customers	–	–	–	–	1,215	–	–	1,215
Segment results	–	–	8,296	–	(4,834)	(285)	–	3,177
Interest income								3,363
Loss on disposal and dissolution of subsidiaries								(177)
Profit from operations								6,363
Finance costs								(4,539)
Share of results of associates			(417)			1,661		1,244
Profit before income tax								3,068
Income tax expense								(21)
Profit for the year								3,047

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

6(a). BUSINESS SEGMENTS (Continued)

	Provision of financial information and related services HK$'000	Information technology business HK$'000	Property development HK$'000	Distance learning and application services HK$'000	Consumer packaged electronics HK$'000	Other segments HK$'000	Total HK$'000
Segment assets	–	–	3,610,295	–	2,474	372	3,613,141
Interest in associates	–	–	208,256	–	–	20,812	229,068
Total assets							3,842,209
Segment liabilities	–	–	669,002	–	11,578	193,388	873,968
Loan liabilities	–	–	–	–	–	–	545,828
Total liabilities							1,419,796
Other information							
Capital expenditure	–	–	90,190	–	7	–	90,197
Depreciation	–	–	66	–	880	–	946
Amortisation of goodwill	–	–	1,085	–	–	–	1,085
Negative goodwill recognised as income	–	–	(14,089)	–	–	–	(14,089)
Other non-cash expenses	–	–	–	–	149	–	149

6(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$'000	Other HK$'000	Total HK$'000
Segment revenue					
Sales to external customers	–	–	153,379	1,464	154,843
Other segment information					
Segment assets	632	1,002,210	6,228,306	–	7,231,148
Capital expenditure	–	22	626,050	–	626,072

6(b). GEOGRAPHICAL SEGMENTS (Continued)

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

	Europe, other than United Kingdom HK$'000	Hong Kong HK$'000	Mainland China HK$'000	Other HK$'000	Total HK$'000
Segment revenue					
Sales to external customers	59	–	–	1,156	1,215
Other segment information					
Segment assets	1,201	1,645	3,839,363	–	3,842,209
Capital expenditure	–	7	90,190	–	90,197

7. PROFIT FROM OPERATIONS

	2005 HK$'000	2004 HK$'000
Profit from operations is arrived at after charging:		
Amortisation of goodwill	**–**	1,085
Amortisation of intangible assets other than goodwill (included in other operating expenses)	**1,127**	–
Auditors' remuneration	**2,600**	1,307
Cost of provision of information technology business	**20,662**	–
Cost of provision of financial information and related services	**2,769**	–
Cost of inventories sold – consumer electronic products	**536**	1,569
Cost of inventories sold – distance learning materials	**1,467**	–
Cost of provision of property management services	**1,451**	–
Cost of sales and services provided	**26,885**	1,569
Depreciation on property, plant and equipment	**6,241**	946
Fair value loss on investments at fair value through profit or loss	**121**	–
Loss on disposal and write-off of property, plant and equipment	**254**	–
Operating lease charges on:		
– land & building	**12,898**	207
– prepaid land lease	**525**	–
Provision for impairment of receivables	**747**	17
Write-off of product development costs	**–**	149

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

8. FINANCE COSTS

	2005 HK$'000	(Restated) 2004 HK$'000
Interest on convertible notes	**4,150**	3,003
Interest on bank loans and overdrafts	**34,697**	17,920
Interest on other loans (wholly repayable within five years)	**1,487**	–
Interest on other payables	**31,538**	32,136
Interest on amount due to ultimate holding company	**–**	1,226
Interest on amounts due to shareholders	**10,137**	–
Total interest expenses	**82,009**	54,285
Less: Amount directly attributable to properties held for and under development capitalised	**(64,922)**	(49,746)
	17,087	4,539

9. INCOME TAX (CREDIT)/EXPENSES

	2005 HK$'000	2004 HK$'000
The tax (credit)/ charge comprises:		
Current tax		
– Hong Kong profits tax		
Under-provision in respect of prior years	**–**	21
– Overseas tax		
Tax charge in current year	**24**	–
Tax credit in current year	**(4,174)**	–
	(4,150)	21

No Hong Kong profits tax has been provided in the financial statements in respect of the current year and the prior year as the Group did not derive any assessable profit in Hong Kong during these years.

The tax charge for the year ended 31 December 2004 represents under-provision of Hong Kong profits tax calculated at the rate of 16% on the assessable profits in prior years.

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

9. INCOME TAX (CREDIT)/EXPENSES (Continued)

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

	2005 **HK$'000**	(Restated) 2004 HK$'000
Profit before income tax	**51,856**	3,068
Tax charge calculated at the rates applicable to the jurisdictions concerned	**9,425**	2,749
Tax effect of expenses that are not deductible in determining taxable profit	**19,610**	7,132
Tax effect of non-taxable revenue	**(28,544)**	(10,178)
Tax effect of unrecognised tax losses	**1,769**	297
Utilisation of tax loss in current year	**(1,395)**	–
Tax effect on temporary differences not previously recognised	**19**	–
(Over)/Under provision in prior years	**(5,034)**	21
Actual tax (credit)/expense	**(4,150)**	21

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

Of the Group's profit for the year attributable to the equity holders of the Company of HK$20,630,000 (2004 restated: HK$3,047,000), a loss of HK$26,226,000 (2004 restated: a loss of HK$17,010,000) has been dealt with in the financial statements of the Company.

11. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the Group's profit for the year attributable to equity holders of HK$20,630,000 (2004 restated: HK$3,047,000) and on the weighted average of 43,985,491,051 (2004: 29,931,804,183) ordinary shares in issue during the year.

Diluted earnings per share for the years ended 31 December 2004 and 31 December 2005 was not presented because impact of the exercise of the convertible notes and share options was anti-dilutive respectively.

12. EMPLOYEE BENEFIT EXPENSE (INCLUDING DIRECTORS' EMOLUMENTS)

	2005 **HK$'000**	2004 HK$'000
Directors' fee (note 36(a))	**387**	191
Wages and salaries	**42,149**	5,622
Gross pension cost– defined contributions retirement schemes	**2,525**	81
Less: Forfeited contributions	**(46)**	(10)
Net pension cost– defined contributions retirement schemes	**2,479**	71
Redundancy costs	**–**	36
Share-based compensation	**3,509**	–
Staff welfare	**9,446**	–
	57,970	5,920

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13. PROPERTY, PLANT AND EQUIPMENT

Group

	Leasehold improvements, furniture, fixtures and equipment HK$'000	Moulds and tools HK$'000	Construction in progress HK$'000	Motor vehicles and pleasure yacht HK$'000	Total HK$'000
At 1 January 2004					
Cost	24,093	4,083	–	1,906	30,082
Accumulated depreciation	(23,680)	(3,366)	–	(1,634)	(28,680)
Net book amount	413	717	–	272	1,402
Year ended 31 December 2004					
Opening net book amount	413	717	–	272	1,402
Additions	176	7	–	–	183
Dissolution of a subsidiary (note 34(b))	(82)	–	–	(242)	(324)
Depreciation	(268)	(658)	–	(20)	(946)
Closing net book amount	239	66	–	10	315
At 31 December 2004					
Cost	23,278	4,090	–	411	27,779
Accumulated depreciation	(23,039)	(4,024)	–	(401)	(27,464)
Net book amount	239	66	–	10	315
Year ended 31 December 2005					
Opening net book amount	239	66	–	10	315
Exchange differences	(9)	–	(224)	–	(233)
Additions	7,988	–	1,479	393	9,860
Acquisition of subsidiaries (note 34(a))	39,114	–	1,268	432	40,814
Disposal of subsidiaries (note 34 (b))	(333)	–	–	–	(333)
Disposals	(200)	–	–	–	(200)
Write-off	(55)	–	–	–	(55)
Depreciation	(6,132)	(66)	–	(43)	(6,241)
Closing net book amount	40,612	–	2,523	792	43,927
At 31 December 2005					
Cost	67,541	4,090	2,523	1,236	75,390
Accumulated depreciation	(26,929)	(4,090)	–	(444)	(31,463)
Net book amount	40,612	–	2,523	792	43,927

13. PROPERTY, PLANT AND EQUIPMENT (Continued)

Company

	Leasehold improvements, furniture, fixtures and equipment HK$'000
At 1 January 2004 and at 31 December 2004	
Cost	–
Accumulated depreciation	–
Net book amount	–
Year ended 31 December 2005	
Opening net book amount	–
Additions	21
Depreciation	(1)
Closing net book amount	20
At 31 December 2005	
Cost	21
Accumulated depreciation	(1)
Net book amount	20

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For the year ended 31 December 2005

14. PREPAID LAND LEASE PAYMENTS UNDER OPERATING LEASES

The Group's interests in leasehold land/land use rights represent prepaid land lease payments and their net carrying value are analysed as follows:

	Group	
	2005	2004
	HK$'000	HK$'000
Outside Hong Kong, held on land with:		
Unexpired terms of leases of between 10 to 50 years	**13,440**	–

	Group	
	2005	2004
	HK$'000	HK$'000
Opening net carrying amount	**–**	–
Acquisition of subsidiaries (note 34(a))	**13,732**	–
Annual charges of prepaid operating lease payment	**(525)**	–
Net exchange differences	**233**	–
Closing net carrying amount	**13,440**	–

At 31 December 2005, the leasehold land was pledged to secure banking facilities granted to the Group.

15. PROPERTIES HELD FOR AND UNDER DEVELOPMENT

	Group	
	2005	2004
	HK$'000	HK$'000
Carrying amount at 1 January	**3,482,809**	3,394,457
Additions	**421,040**	38,606
Acquisition of subsidiaries (note 34(a))	**1,495,685**	–
Interest capitalised	**64,922**	49,746
Exchange differences	**26,340**	–
	5,490,796	3,482,809
Transferred to properties held for and under development under current assets (note 21)	**(1,363,145)**	–
Carrying amount at 31 December	**4,127,651**	3,482,809
Interest capitalised in properties held for and under development	**347,322**	282,400

The interest was capitalised at the rates ranged from 5.58% to 18.25% per annum.

15. PROPERTIES HELD FOR AND UNDER DEVELOPMENT (Continued)

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

	Group	
	2005	2004
	HK$'000	HK$'000
Outside Hong Kong, held on land with:		
Unexpired terms of leases of over 50 years	**4,127,651**	3,482,809

Particulars of the properties held for and under development are as follows:

Location	**Approximate site area (square metres)**	**Type of development**
Liu Wan, Shekou, Shenzhen, the PRC (Lot No. K708-0050, K708-0051, K708-0052, K708-0054, and K708-2 and K708-3) (note (a))	313,074	Shopping arcade/ residential/ hotel/ recreational facilities
Guang Hua Gong Lu, Hua Du City, Guangdong Province, the PRC	615,250	Commercial and residential
Beijing Golden Era Hotel, No. 1 Dong San Huan South Road, Chao Yang District, Beijing, the PRC	1,719	Commercial

The land was a construction site under development as at 31 December 2004 and 31 December 2005.

(a) Pursuant to the Real Property Ownership Certificate, the land use rights of the land site Lot No. K708-0050, K708-0052, and K708-0054 with an area of approximately 231,586 square metres for a term of 70 years from 1 January 1996 to 1 January 2066 was vested in Shenzhen Nanhai Yitian Realty Co., Ltd. ("Shenzhen Nanhai Yitian"), a subsidiary of the Company.

The Land Use Rights Certificate of the land site Lot No. K708-2 and K708-3 with an aggregate area of approximately 81,488 square metres will be granted upon full settlement of the land premium payables amounting to HK$166,593,000 as at 31 December 2005 (2004: HK$163,606,000). Such land premium payables bear interest at the rate of 18.25% per annum.

In a prior year, Shenzhen Nanhai Yitian and a third party entered into a co-operative agreement to develop the residential project on land site Lot No.K708-0050. Upon completion of the project, the third party will be entitled to 40% profit on the project of land site Lot No. K708-0050. At 31 December 2005, the total deposit received from the third party for the project amounted to HK$35,389,000 (2004: HK$34,755,000) which is included under non-current liabilities in the consolidated balance sheet.

At 31 December 2005 and 31 December 2004, the land Lot No. K708-0050, K708-0051, K708-0052 and K708-0054 were pledged to secure banking facilities granted to the Group.

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16. INTERESTS IN SUBSIDIARIES

	Company	
	2005	2004
	HK$'000	HK$'000
Unlisted shares, at cost	**81,286**	80,708
Less: Impairment losses recognised	**(81,286)**	(80,708)
	–	–

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

Name	Country/ Place of incorporation/ establishment and operations	Particulars of issued and paid-up share capital/ Registered capital	Percentage of capital held by the Company Directly	Percentage of capital held by the Company Indirectly	Principal activities and place of operations
Century Unicorn Limited	British Virgin Islands	1 ordinary share of US$1 each	–	62.85%	Trading and provision of information technology products
China Education Online Limited	Hong Kong	2 ordinary shares of HK$1 each	–	62.85%	Education portal
Cosmos Decade Developments Limited	British Virgin Islands	1 ordinary share of US$1 each	–	62.85%	Trading and provision of financial information products
China Enterprise ASP Limited ("China Enterprise")	Hong Kong	9,000,000 ordinary shares of HK$1 each	–	62.85%	Investment holding
Dadi Entertainment Limited	Hong Kong	2 ordinary shares of HK$1 each	–	62.85%	Music broadcasting on the internet
Dadi Media Limited ("Dadi Media")	Hong Kong	2 ordinary shares of HK$1 each	–	62.85%	Investment holding
Ever Genius Development Limited	Hong Kong	2 ordinary shares of HK$1 each	–	53.42%	Investment in property development projects
Evallon Investment Limited	Hong Kong	10,000 ordinary shares of HK$100 each	–	62.85%	Investment holding
Goalrise Investments Limited	British Virgin Islands	1 ordinary share of US$1 each	100%	–	Trading of securities
Hancheers International Enterprise Limited ("Hancheers")	Hong Kong	10,000 ordinary shares of HK$1 each	–	62.85%	Investment holding

16. INTERESTS IN SUBSIDIARIES (Continued)

Name	Country/ Place of incorporation/ establishment and operations	Particulars of issued and paid-up share capital/ Registered capital	Percentage of capital held by the Company Directly	Indirectly	Principal activities and place of operations
Honest Link Development Limited ("Honest Link") (note (a))	Hong Kong	2 ordinary shares of HK$1 each	–	81.05%	Investment holding
Ko Tact Limited	British Virgin Islands	1 ordinary share of US$1 each	–	62.85%	Investment holding
Linfield Properties Limited	British Virgin Islands	10,000 ordinary shares of US$1 each	–	53.42%	Investment holding
Liu Wan Development (BVI) Company Limited ("Liu Wan (BVI)")	British Virgin Islands	215,000,000 ordinary shares of US$1 each	–	100%	Investment holding
Liu Wan Investment Company Limited	Hong Kong	2 ordinary shares of US$1 each	–	100%	Investment holding
Listar Properties Limited	British Virgin Islands	20,000,000 ordinary shares of US$1 each	–	81.05%	Investment holding
Oriental Rise Limited	Hong Kong	2 ordinary shares of HK$1 each	–	62.85%	Property investment
Powerful Resources Limited	British Virgin Islands	1 ordinary share of US$1 each	–	62.85%	Investment holding
Rich King Inc.	British Virgin Islands	50,000 ordinary shares of US$1 each	–	62.85%	Trading of online distance learning education products
Rise Manor Development Limited	Hong Kong	2 ordinary shares of HK$1 each	100%	–	Provision of management services
Robina Profits Limited	British Virgin Islands	1 ordinary share of US$1 each	–	62.85%	Trading of Securities
Sheen Asset Limited	Hong Kong	2 ordinary shares of HK$1 each	–	100%	Investment holding
Sino-i Technology Limited	Hong Kong	19,914,504,877 ordinary shares of HK$0.01 each	–	62.85%	Investment holding
Sino-i.com (Shanghai) Limited ("Sino-i.com Shanghai") (note (b))	Hong Kong	2 ordinary shares of HK$1 each	–	62.85%	Investment holding

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For the year ended 31 December 2005

16. INTERESTS IN SUBSIDIARIES (Continued)

Name	Country/ Place of incorporation/ establishment and operations	Particulars of issued and paid-up share capital/ Registered capital	Percentage of capital held by the Company Directly	Indirectly	Principal activities and place of operations
South Sea Development (HK) Limited	Hong Kong	2 ordinary shares of HK$1 each	100%	–	Investment holding
深圳南海益田置業有限公司 (Shenzhen Nanhai Yitian Realty Co., Ltd.) ("Shenzhen Nanhai Yitian") (note (c) and (d))	PRC	RMB110,000,000	–	100%	Investment holding and property development
深圳市金益田實業發展有限公司 (Shenzhen Jin Yi Tian Industry Development Company Limited) ("Shenzhen Jin Yi Tian") (note (d))	PRC	RMB18,000,000	–	100%	Property development
Shihua (Hong Kong) Financial Information Company Limited	Hong Kong	5,000,000 ordinary shares of HK$1 each	–	62.85%	Provision of financial information
Top Gallant Development Limited	Hong Kong	2 ordinary shares of HK$1 each	–	100%	Investment holding
Team Industrial Company Limited	Hong Kong	57,143,000 ordinary shares of HK$1 each	65%	–	Investment holding and provision of management services
Team Concepts Technologies Limited	Hong Kong	2 ordinary shares of HK$10 each	–	65%	Design and marketing of consumer electronic products
Union Key Limited	Hong Kong	2 ordinary shares of HK$1 each	–	62.85%	Investment holding
Victorious Limited	British Virgin Islands	1 ordinary share of US$1 each	–	62.85%	Trading of securities

16. INTERESTS IN SUBSIDIARIES (Continued)

Name	Country/ Place of incorporation/ establishment and operations	Particulars of issued and paid-up share capital/ Registered capital	Percentage of capital held by the Company Directly	Indirectly	Principal activities and place of operations
View Power Investments Limited	British Virgin Islands	1 ordinary share of US$1 each	100%	–	Investment holding
Wise Advance Investments Limited	British Virgin Islands	1 ordinary share of US$1 each	100%	–	Investment holding
Yorkwell International Limited	Hong Kong	2 ordinary shares of HK$1 each	–	100%	Investment holding
廣州東鏡新城房地產有限公司 ("Dong Jin") (note (a))	PRC	US$14,000,000	–	81.05%	Property development
北京世華國際金融信息有限公司 (「北京世華」) (note (e))	PRC	RMB130,000,000	–	50.28%	Provision of financial information on the internet
CE Dongli Technology Group Company Limited ("CE Dongli") (note (l))	PRC	RMB148,570,000	–	50.28%	Information technology business
深圳國南數碼信息有限公司 ("Shenzhen Guonan") (note (f))	PRC	RMB3,000,000	–	62.85%	Investment holding
北京新網科技發展有限公司 (note (i))	PRC	RMB14,485,000,000	–	50.28%	Information technology business
北京新網數碼信息技術有限公司 (note (k))	PRC	RMB10,000,000	–	50.28%	Information technology business
北京華夏大地遠程教育網絡服務有限公司(note (g))	PRC	RMB50,000,000	–	61.59%	Operation of an educational portal and provision of online distance learning education services
深圳市半島城邦物業管理有限公司 (note (j))	PRC	RMB3,000,000	–	100%	Property management

16. INTERESTS IN SUBSIDIARIES (Continued)

Name	Country/ Place of incorporation/ establishment and operations	Particulars of issued and paid-up share capital/ Registered capital	Percentage of capital held by the Company Directly	Indirectly	Principal activities and place of operations
深圳市融杰投資有限公司 (note (j))	PRC	RMB40,000,000	–	100%	Investment holding
南京天悦置業投資顧問有限公司 (note (h))	PRC	US$500,000	–	100%	Property management
北京金世紀大酒店有限公司 (note (m))	PRC	US$12,000,000	–	62.85%	Property investment and investment holding
上海朗寧數碼投資有限公司 (「上海朗寧」) (note (b) and (e))	PRC	US$30,000,000	–	62.85%	Investment holding

The above table lists out the subsidiaries of the Company as at 31 December 2005 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:

(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) 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.

16. INTERESTS IN SUBSIDIARIES (Continued)

Notes: (Continued)

(c) Shenzhen Nanhai Yitian was a cooperative joint venture established for a period of 50 years up to April 2049 under a joint venture agreement dated 28 March 2000 among Shenzhen Golden Era Industry Development Co., Ltd. ("Shenzhen Golden Era"), Liu Wan Investment Company Limited (a subsidiary of Liu Wan (BVI)), Liu Wan (BVI), and a PRC party. Pursuant to the agreement, Shenzhen Golden Era injected a land site in Shenzhen into Shenzhen Nanhai Yitian in return for a 10% entitlement of profit sharing in Shenzhen Nanhai Yitian. According to an agreement dated 30 April 2000, the PRC party transferred all of its 5% interest including the profit-sharing and control in Shenzhen Nanhai Yitian to Liu Wan (BVI) for a consideration of RMB321,000,000. According to an agreement dated 10 August 2000, Shenzhen Golden Era transferred all its 10% profit-sharing interest in Shenzhen Nanhai Yitian to Liu Wan (BVI) for a consideration of HK$500,000,000. As a result, Liu Wan (BVI) directly and indirectly owns 100% equity interest in Shenzhen Nanhai Yitian.

(d) Shenzhen Jin Yi Tian is a PRC enterprise established on 28 January 1997 for a period of 10 years up to 28 January 2007. Pursuant to an agreement dated 2 September 1999, Shenzhen Nanhai Yitian and a PRC party acquired 90% and 10% respectively of the equity interest in Shenzhen Jin Yi Tian. Pursuant to an agreement dated 21 March 2001, the PRC party agreed to waive unconditionally its 10% equity interest in Shenzhen Jin Yi Tian and as a result, Shenzhen Nanhai Yitian effectively owns 100% equity interest in Shenzhen Jin Yi Tian.

(e) 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.

(f) 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.

(g) 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.

(h) The subsidiary is registered as a wholly-foreign owned enterprise under PRC law.

(i) The subsidiary is an equity joint venture registered under PRC law.

(j) The subsidiary is incorporated as a limited liability company under local jurisdictions.

(k) The subsidiary is a Sino-foreign equity joint venture registered under PRC Law.

(l) CE Dongli is a shareholding corporation registered in the PRC on 16 September 1999 for a period of 50 years. The Company's listed subsidiary, Sino-i has aggregrate interest of 80% in CE Dongli.

(m) 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.

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17. INTEREST IN ASSOCIATES

	Group 2005 HK$'000	Group 2004 HK$'000
Balance at 1 January	**225,955**	224,711
Interest in the associate at the date it became a subsidiary (Note 34(a))	**(171,468)**	–
Share of associates results		
– Profit before taxation	**1,298**	1,244
– Taxation	**(248)**	–
	1,050	1,244
Exchange differences	**(6)**	–
Balance at 31 December	**55,531**	225,955
Amount due from an associate	**2,358**	3,113
Amounts due to associates	**(8,510)**	–
Balance at 31 December	**49,379**	229,068

The amounts due from/(to) associates are unsecured, interest-free and have no fixed repayment terms.

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

Name	Country of incorporation/ establishment and operations	Particulars of issued capital	Percentage of interest held by the Group 2005	Percentage of interest held by the Group 2004	Nature of business
Easy-Trade Technology Services Limited	PRC	RMB50,000,000	**40%**	30%	Leasing of POS machines and provision of information technology services
Genius Reward Company Limited	Hong Kong	2 ordinary shares of HK$100 each	**31%**	–	Inactive

17. INTEREST IN ASSOCIATES (Continued)

The summarised financial information in respect of the Group's associates is set out below:

	2005 **HK$'000**	2004 HK$'000
Assets	**96,550**	525,587
Liabilities	**(45,405)**	(318,853)
Revenue	**25,345**	24,797
Profit for the year	**4,603**	5,536

18. DEPOSIT FOR ACQUISITION OF INVESTMENT

The amount of RMB349,800,000 (equivalent to HK$330,000,000) as at 31 December 2004 represented the deposit paid by a 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 is an investment holding company incorporated in the PRC. 益田假日世界 held the land use rights on the land sites Lot No. T308-0062 in Shenzhen with an area of approximately 22,837 square metres.

According to an agreement signed on 12 December 2005, the subsidiary and vendor mutually agreed to cancel the prospective sale and purchase transaction in relation to the 49% equity interest in 益田假日世界. The deposit paid by the subsidiary was refunded before year end.

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19. INTANGIBLE ASSETS

Group

	Product development costs HK$'000	Computer software HK$'000	Negative goodwill HK$'000	Goodwill HK$'000	Total HK$'000
At 1 January 2004					
Gross carrying amount/Cost	149	–	(281,767)	21,699	(259,919)
(Accumulated amortisation)/ Accumulated amount recognised as income	–	–	35,220	(181)	35,039
Net carrying amount	149	–	(246,547)	21,518	(224,880)
Year ended 31 December 2004					
Opening net carrying amount	149	–	(246,547)	21,518	(224,880)
Write-off	(149)	–	–	–	(149)
Amount recognised as income for the year	–	–	14,089	–	14,089
Amortisation charge for the year	–	–	–	(1,085)	(1,085)
Closing net carrying amount	–	–	(232,458)	20,433	(212,025)
At 31 December 2004					
Gross carrying amount	–	–	(281,767)	21,699	(260,068)
(Accumulated amortisation)/ Accumulated amount recognised as income	–	–	49,309	(1,266)	48,043
Net carrying amount	–	–	(232,458)	20,433	(212,025)
Year ended 31 December 2005					
Opening net carrying amount, as previously reported	–	–	(232,458)	20,433	(212,025)
Effect of initial adoption of HKFRS 3	–	–	232,458	–	232,458
Opening net carrying amount, as restated	–	–	–	20,433	20,433
Acquisition of subsidiaries (note 34(a))	–	14,356	–	450,344	464,700
Disposal of subsidiaries (note 34(b))	–	–	–	(12,511)	(12,511)
Additions	–	23,113	–	–	23,113
Amortisation charge for the year	–	(1,127)	–	–	(1,127)
Exchange differences	–	256	–	–	256
Closing net carrying amount at 31 December 2005	**–**	**36,598**	**–**	**458,266**	**494,864**
At 31 December 2005					
Gross carrying amount/Cost	–	37,719	–	458,266	495,985
Accumulated amortisation	–	(1,121)	–	–	(1,121)
Net carrying amount	–	**36,598**	**–**	**458,266**	**494,864**

19. INTANGIBLE ASSETS (Continued)

The main changes in the net carrying amounts of goodwill result from the acquisition of Sino-i. The change in the gross carrying amounts of goodwill and negative goodwill between 31 December 2004 and 31 December 2005 was caused by the transitional provisions 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
Property development	113,502
Provision of financial information and related services	289,800
Information technology business	54,964
Net carrying amount at 31 December 2005	458,266

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:

	Property development	**Provision of financial information and related services**	**Information technology business**
Growth rates	N/A	27%	15%
Discount rates	5.58%	5.58%	5.58%

No standard growth rate is adopted in the property development CGU. The value-in-use calculations for this CGU is based on the latest financial budget prepared by the management determined with consideration of the Group's property development plan and the trend of the property market in the PRC.

The growth rate adopted for financial information 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.

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19. INTANGIBLE ASSETS (Continued)

The growth rate used 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.

20. INVENTORIES

	Group	
	2005	2004
	HK$'000	HK$'000
Raw materials	**13**	6
Finished goods	**3,855**	5,109
	3,868	5,115
Less: Provision for impairment	**–**	(5,109)
	3,868	6

21. PROPERTIES HELD FOR AND UNDER DEVELOPMENT

The net book value of properties held for and under development under current assets are analysed as follows:

	Group	
	2005	2004
	HK$'000	HK$'000
Outside Hong Kong, held on land with:		
Unexpired terms of leases of over 50 years	**1,082,615**	–
Unexpired terms of leases of between 10 to 50 years	**280,530**	–
	1,363,145	–

The carrying value of the Group's interests in leasehold land/land use rights represent prepaid land lease payments of HK$624,778,000 (2004: HK$NIl).

At 31 December 2005, the properties held for and under development of HK$1,082,615,000 (2004: HK$Nil) were pledged to secure banking facilities granted to the Group.

22. INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group	
	2005	2004
	HK$'000	HK$'000
Listed equity securities in Hong Kong, at fair value	**6,491**	–
Market value of listed securities	**6,491**	–

The carrying amounts of the above investments at fair value through profit or loss are classified as held for trading.

The investments at fair value through profit or loss are presented within the section on operating activities as part of changes in working capital in the consolidated cash flow statement.

Changes in fair values of other financial assets at fair value through profit or loss are recorded in other income/other operating expenses in the consolidated income statement.

23. TRADE RECEIVABLES, OTHER RECEIVABLES AND DEPOSITS

	Group	
	2005	2004
	HK$'000	HK$'000
Trade receivables analysed according to aging:		
0 – 90 days	**23,814**	52
91 – 180 days	**81,514**	–
181 – 270 days	**29,416**	–
271 – 360 days	**2,319**	–
Over 360 days	**58,625**	15,625
Less: Provision for impairment of receivables	**(18,007)**	(15,625)
	177,681	52
Other receivables and deposits		
Deposits for construction works	**540,763**	–
Advances to former subsidiaries	**47,800**	–
Outstanding consideration receivable arising from disposal of other investments	**150,000**	–
Others	**113,703**	10,945
	1,029,947	10,997

The Group's sales are entered into on credit terms ranging from 30 to 60 days. The Group encountered difficulties in collection of certain trade debts and appropriate provision for impairment of receivables has been made.

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24. CASH AT BANKS AND IN HAND

Included in bank and cash balance of the Group is an aggregate amount of approximately HK$94,225,000 (2004: HK$310,000) which represented Renminbi deposits placed with banks in the PRC.

At 31 December 2005, there was a guarantee deposit of HK$1,441,000 (2004:HK$Nil) included in the Group's cash at banks and in hand.

25. TRADE PAYABLES, OTHER PAYABLES AND ACCRUALS

	Group	
	2005	2004
	HK$'000	HK$'000
Trade payables analysed according to aging:		
0 – 90 days	**3,890**	–
91 – 180 days	**324**	–
181 – 270 days	**354**	–
271 – 360 days	**38**	–
Over 360 days	**2,728**	2,153
	7,334	2,153
Other payables and accruals	**552,722**	222,316
	560,056	224,469

Included in other payables and accruals as at 31 December 2005 are amounts of HK$33,545,000 (2004: HK$Nil) due to certain securities brokers and margin financiers which are secured by 1,726,993,316 shares in Sino-i and the Company's shares held by certain shareholders who agreed to pledge their interest in the Company to support the Group's credit facilities. The amounts due bear interest at the fixed rate of 8% to 20% per annum and a floating rate of Hong Kong dollar prime rate plus 3% to 4.5% per annum.

26. AMOUNTS DUE FROM/(TO) A DIRECTOR/A MINORITY SHAREHOLDER/SHAREHOLDERS/SUBSIDIARIES

(a) Amount due to a director

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

(b) Amount due to a minority shareholder

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

(c) Amounts due to shareholders – current liabilities

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

(d) Amounts due to shareholders – non-current liabilities

The amounts due to shareholders are unsecured, interest-free and fall due on 60 months from the date of completion of the shareholding restructure plan (i.e. 60 months from 30 August 2005). The amounts due to shareholders are initially recognised at fair value of HK$336,110,000. As at 31 December 2005, the amounts are stated at amortised cost calculating using an effective interest rate of 9.05%.

26. AMOUNTS DUE FROM/(TO) A DIRECTOR/A MINORITY SHAREHOLDER/SHAREHOLDERS/SUBSIDIARIES (Continued)

(e) Amounts due from subsidiaries

	Company	
	2005	2004
	HK$'000	HK$'000
Amounts due from subsidiaries	**4,579,427**	3,211,753
Less: Allowances for amounts due from subsidiaries	**(442,828)**	(445,584)
	4,136,599	2,766,169
Less: Portion due within one year included under current assets	**(4,136,599)**	–
Non-current portion included under non-current assets	**–**	2,766,169

For the year ended 31 December 2005, the amounts due from subsidiaries are unsecured, interest free and repayable on demand. Accordingly, the net amounts are classified as current assets.

For the year ended 31 December 2004, the amounts due from subsidiaries were unsecured, interest free and had no fixed terms of repayment. In the opinion of directors, no repayment would be demanded within 12 months from the balance sheet date. Accordingly, the net amounts were classified as non-current assets.

(f) Amounts due to subsidiaries

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

27. BANK AND OTHER BORROWINGS

	Group	
	2005	2004
	HK$'000	HK$'000
Bank overdrafts (unsecured)	**316**	272
Short-term bank loans (secured) (note a)	**612,886**	348,567
Other borrowings, wholly repayable within 5 years (secured) (note c)	**29,460**	–
	642,662	348,839
Long-term bank loans (secured)		
Due more than one year but not exceeding two years (note b)	**288,184**	–
	930,846	348,839
Less: Current portion due within one year included under current liabilities	**(642,662)**	(348,839)
Non-current portion included under non-current liabilities	**288,184**	–

27. BANK AND OTHER BORROWINGS (Continued)

(a) Short term bank loans (secured)

Loan amounted to HK$608,262,000 (2004: HK$Nil) bears fixed interest rates ranging from 5.58% to 7.56% (2004: Nil). The remaining amount of HK$4,625,000 (2004: HK$348,567,000) bears interest at Hong Kong dollar prime rate plus 1% (2004: HIBOR plus 3%). The carrying amounts of short-term borrowings approximate their fair value.

(b) Long term bank loans (secured)

Loans amounted to HK$288,184,000 (2004: HK$Nil) bears fixed interest rates ranging from 6.138% to 7.56% (2004: Nil). The carrying amounts of long-term borrowings approximate their fair value.

(c) Other borrowings (secured)

At 31 December 2005, the loan of HK$29,460,000 due by to a subsidiary to CITIC Capital Credit Limited, an associate of a substantial shareholder. The loan bears interest at prime rate plus 3% margin rate 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 was accrued and included in other payables and accruals under current liabilities. The carrying amounts of other borrowings approximate their fair value.

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

	Group	
	2005	2004
	HK$'000	HK$'000
Hong Kong dollar	**34,085**	–
RMB	**896,491**	348,569
Euro	**270**	270
	930,846	348,839

28. CONVERTIBLE NOTES

The unsecured convertible notes were issued on 30 July 2004. The convertible notes carried the right at any time commencing on the date of issue but before 30 July 2005 to convert the whole or part of the outstanding principal amounts of the notes into a maximum of 11,111,111,111 ordinary shares of the Company at an initial conversion price of HK$0.018 per share. The conversion price is subject to adjustment under certain circumstances.

The notes bear interest on the outstanding principal thereof from the date of issue at a rate of 1% per annum, and the interest is payable quarterly in arrears.

On 26 July 2005, these convertible notes were fully converted into 11,111,111,111 ordinary shares of the Company at a conversion price of HK$0.018 per share.

The fair value of the liability component, included in the convertible notes, was calculated using a market interest rate for an equivalent non-convertible notes. The residual amount, representing the value of the equity conversion component, is included in shareholders' equity in convertible notes equity reserves.

The convertible notes recognised in the balance sheet are calculated as follows:

	Group and Company	
		(restated)
	2005	2004
	HK$	HK$
Nominal value of convertible notes at 30 July 2004	**200,000**	200,000
Equity component	**(5,181)**	(5,181)
Liability component on initial recognition at 30 July 2004	**194,819**	194,819
Interest expense accrued	**7,181**	3,003
Interest paid	**(2,000)**	(833)
Converted on 26 July 2005	**(200,000)**	–
Liability component at 31 December	**–**	196,989

Interest expense on the notes is calculated using the effective interest method by applying the effective interest rate of 3.7% to the liability component.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

29. SHARE CAPITAL

	Number of ordinary shares of HK$0.01 each	HK$'000
Authorised:		
At 1 January 2004, 31 December 2004 and		
31 December 2005	**500,000,000,000**	**5,000,000**
Issued and fully paid:		
At 1 January 2004, 31 December 2004 and		
1 January 2005	29,931,804,183	299,318
Conversion of convertible notes (note 28)	11,111,111,111	111,111
Issue of shares	27,120,395,500	271,204
At 31 December 2005	**68,163,310,794**	**681,633**

Pursuant to the group reorganisation disclosed in note 1, 27,120,395,500 ordinary shares of HK$0.01 each were allotted and issued on 30 August 2005 to the shareholders of Sino-i as partial satisfaction of the consideration payable for the acquisition of 62.85% of the total issued share capital of Sino-i. The ordinary shares issued have the same rights as the other shares in issue. The market price per share of the Company was HK$0.038 at 30 August 2005.

30. SHARE OPTION SCHEME

The Company operates a 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 of directors of the Company.

On 15 December 2005, share options to subscribe for a total of 468,625,000 of the Company's shares, representing approximately 1.57% 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 its subsidiaries at an exercise price of HK$0.04 per share. The closing price of the Company's share immediately before the date of grant was HK$0.04.

30. SHARE OPTION SCHEME (Continued)

The movements of share options during the year are as follows:

					Number of Nan Hai Shares					
Grantee	Date of grant	Exercise from	Exercise until	Exercise price per Nan Hai share	Held at 1 January 2005	Number of Nan Hai Share under options granted during the year	Exercised during the year	Lapsed during the year	Held at 31 December 2005	Weighted average exercise price per Nan Hai share
Directors										
Zhang Hong Ren	15-12-2005	1-1-2006	31-12-2007	HK$0.04	–	8,750,000	–	–	8,750,000	HK$0.04
	15-12-2005	1-1-2007	31-12-2007	HK$0.04	–	8,750,000	–	–	8,750,000	HK$0.04
Lam Bing Kwan	15-12-2005	1-1-2006	31-12-2007	HK$0.04	–	12,500,000	–	–	12,500,000	HK$0.04
	15-12-2005	1-1-2007	31-12-2007	HK$0.04	–	12,500,000	–	–	12,500,000	HK$0.04
Employees										
In aggregate	15-12-2005	1-1-2006	31-12-2007	HK$0.04	–	213,400,000	–	–	213,400,000	HK$0.04
	15-12-2005	1-1-2007	31-12-2007	HK$0.04	–	212,725,000	–	–	212,725,000	HK$0.04
Total					–	468,625,000	–	–	468,625,000	

All share options as at 31 December 2005 have been accounted for under HKFRS 2.

The fair values of options granted during 2005 of HK$6,970,000 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 15 December 2005 include: (i) an expected dividend yield of 0% per annum, (ii) volatility of share price of 85% per annum, (iii) a risk free rate of interest of 3.974% per annum, (iv) that the directors and employees will exercise their share options if the share price is above the exercise price by 1.5 times and 2 times respectively and (v) an exit rate of 0% per annum.

In total, HK$3,509,000 of employee compensation expense has been included in the consolidated income statement for 2005 (2004: HK$Nil) which gave rise to additional equity. No liabilities were recognised due to share-based payment transactions.

At 31 December 2005, the Company had 468,625,000 share options outstanding under the Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 468,625,000 additional ordinary shares of the Company and additional share capital of approximately HK$4,686,000 and share premium of HK$14,059,000 (before issue expenses).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

31. RESERVES

Group

	Share premium HK$'000	Capital reserve HK$'000	Convertible notes equity reserve HK$'000	Share option reserve HK$'000	Exchange reserve HK$'000	Retained profits/ (Accumulated losses) HK$'000	Total HK$'000
At 1 January 2004	96,069	1,921,878	–	–	7,634	89,286	2,114,867
Profit for the year (Restated)	–	–	–	–	–	3,047	3,047
Issue of convertible notes	–	–	5,181	–	–	–	5,181
At 31 December 2004 (Restated)	96,069	1,921,878	5,181	–	7,634	92,333	2,123,095
At 31 December 2004, as previously reported	96,069	1,921,878	–	–	7,634	94,503	2,120,084
Effect of initial adoption of HKAS 32	–	–	5,181	–	–	(2,170)	3,011
At 31 December 2004, as restated	96,069	1,921,878	5,181	–	7,634	92,333	2,123,095
Effect of initial adoption of HKFRS 3	–	–	–	–	–	232,458	232,458
At 1 January 2005, as restated	96,069	1,921,878	5,181	–	7,634	324,791	2,355,553
Conversion of convertible notes	94,070	–	(5,181)	–	–	–	88,889
Premium on issue of ordinary shares on acquisition of subsidiaries	759,371	–	–	–	–	–	759,371
Share-based compensation	–	–	–	3,509	–	–	3,509
Arising from acquisition of subsidiaries	–	–	–	–	99	–	99
Released on disposal of subsidiaries	–	–	–	–	(611)	–	(611)
Exchange differences on translation of the financial statements of foreign subsidiaries	–	–	–	–	12,062	–	12,062
Profit for the year	–	–	–	–	–	20,630	20,630
At 31 December 2005	**949,510**	**1,921,878**	**–**	**3,509**	**19,184**	**345,421**	**3,239,502**
The reserves are retained as follows:							
Company and subsidiaries	949,510	1,921,878	–	3,509	19,184	346,554	3,240,635
Associates	–	–	–	–	–	(1,133)	(1,133)
At 31 December 2005	**949,510**	**1,921,878**	**–**	**3,509**	**19,184**	**345,421**	**3,239,502**
Company and subsidiaries	96,069	1,921,878	5,181	–	7,634	92,416	2,123,178
Associates	–	–	–	–	–	(83)	(83)
At 31 December 2004, as restated	96,069	1,921,878	5,181	–	7,634	92,333	2,123,095

Note: Capital reserve of the Group mainly represented the reserve arising from capital reduction pursuant to a special resolution passed on 30 April 2002.

31. RESERVES (Continued)

Company

	Share premium HK$'000	Contributed surplus HK$'000	Convertible notes equity reserve HK$'000	Share option reserve HK$000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2004	96,069	1,971,857	–	–	(5,590)	2,062,336
Loss for the year (restated)	–	–	–	–	(17,010)	(17,010)
Issue of convertible notes	–	–	5,181	–	–	5,181
At 31 December 2004, (restated) and 1 January 2005	96,069	1,971,857	5,181	–	(22,600)	2,050,507
At 31 December 2004 and 1 January 2005 – as previously reported	96,069	1,971,857	–	–	(20,430)	2,047,496
Effect of initial adoption of HKAS 32	–	–	5,181	–	(2,170)	3,011
At 31 December 2004 and 1 January 2005 – as restated	96,069	1,971,857	5,181	–	(22,600)	2,050,507
Exercise of convertible notes	94,070	–	(5,181)	–	–	88,889
Premium on issue of ordinary shares on acquisition of subsidiaries	759,371	–	–	–	–	759,371
Share-based compensation	–	–	–	3,130	–	3,130
Loss for the year	–	–	–	–	(26,226)	(26,226)
At 31 December 2005	**949,510**	**1,971,857**	**–**	**3,130**	**(48,826)**	**2,875,671**

Note: Contributed surplus of the Company includes the difference between the aggregate net asset value of the subsidiaries acquired and the nominal amount of the Company's shares issued for the acquisition and the reserve arising from capital reduction pursuant to a special resolution passed on 30 April 2002. Under the Bermuda Companies Act, the contributed surplus is distributable to the shareholders under certain circumstances.

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For the year ended 31 December 2005

32. DEFERRED TAXATION

At 31 December 2005, the amount of deferred tax liabilities on temporary differences provided for is as follows:

	Group	
	2005	2004
	HK$'000	HK$'000
Tax effect of temporary differences attributable to accelerated depreciation allowances	**790**	790
Arising from acquisition of subsidiaries (note 34(a))	**252,000**	–
At 31 December	**252,790**	790

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

	Group	
	2005	2004
	HK$'000	HK$'000
Tax effect of temporary differences attributable to:		
– accelerated depreciation allowance	**73**	–
– unused tax losses	**109,452**	80,792
	109,525	80,792

Deferred tax assets 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.

33. MINORITY INTERESTS

	2005	2004
	HK$'000	HK$'000
At 1 January	**–**	–
Profit for the year	**35,376**	–
Arising from acquisition of subsidiaries	**915,381**	–
Released on disposal of subsidiaries	**(1,148)**	–
Net exchange difference	**(527)**	–
At 31 December	**949,082**	–

34. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Business combination – acquisition of subsidiaries

On 30 August 2005, the Group acquired 62.85% of the share capital of Sino-i Technology Limited, an investment holding company. The acquired business contributed revenues of HK$151,343,000 and profit before allocations of HK$73,195,000 to the Group for the period from 30 August 2005 to 31 December 2005. If the acquisition had occurred on 1 January 2005, the Group's revenue would have been HK$499,749,000 and profit before allocations would have been HK$79,688,000.

Details of the net assets acquired and excess of the Group's interest in the fair value of net assets acquired over cost arising from business combination are as follows:

	HK$'000
Purchase consideration	
– Amounts due to shareholders, at fair value	336,110
– Fair value of shares issued	1,030,575
Total purchase consideration	1,366,685
Fair value of net assets acquired	(1,396,974)
Excess of the Group's interest in the fair value of net assets acquired over cost arising from business combination	(30,289)

The Company acquired 62.85% of Sino-i on 30 August 2005 and the corresponding sales and purchase agreement was signed on 29 December 2003 ("agreement date"). The purchase consideration was determined on the agreement date of HK$976 million. The basis of determination of the consideration was the average net assets of Sino-i (excluded the Company).

According to the sales and purchase agreement, half of the consideration was to be satisfied by shareholders' loans and the remaining half was to be satisfied by 27,120,395,500 Company's shares ("consideration shares") issued at a price of HK$0.018. The basis of determination of the consideration shares' value is the average closing price of the Company near to the agreement date plus 20% premium. The sales and purchase transaction was completed on 30 August 2005 and the closing price of the consideration shares raised to HK$0.038 per share. Also, according to HKFRS 3, the shareholders' loans have to be stated at fair value. Accordingly, the overall consideration increased to HK$1,366,685,000 and the fair value of net assets value of Sino-i acquired amounted to HK$1,396,974,000 which result in excess of the Group's interest in the fair value of net assets acquired over cost arising from business combination of HK$30,289,000. The shareholders' loans are included under "Amounts due to shareholders" under non-current liabilities as at 31 December 2005.

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

(a) Business combination – acquisition of subsidiaries (Continued)

The assets and liabilities arising from the acquisition are as follows:

	Fair value HK$'000	Acquiree's carrying value HK$'000
Property, plant and equipment	40,814	40,814
Prepaid land lease payments under operating leases	13,732	13,029
Properties held for and under development	1,495,685	733,283
Amount due to an associate	(8,294)	(8,294)
Deposits for investments	15,000	15,000
Advance to prospective investee companies	24,084	24,084
Available-for-sale investments	324	324
Intangible assets	464,700	464,700
Inventories	3,915	3,915
Investments at fair value through profit or loss	4,866	4,866
Trade receivables, other receivables and deposits	510,038	510,038
Cash at banks and in hand	25,427	25,427
Amounts due from related companies	459,642	459,642
Trade payables, other payables and accruals	(173,114)	(173,114)
Amount due to a director	(36,950)	(36,950)
Amount due to a minority shareholder	(12,000)	(12,000)
Amounts due to shareholders	(5,006)	(5,006)
Provision for tax	(30,591)	(30,591)
Bank and other borrowings	(56,350)	(56,350)
Deferred taxation	(252,000)	–
Minority interests	(77,543)	(77,543)
Net assets	2,406,379	1,895,274
Minority interests	(837,838)	
Interest in the associate at the date it became a subsidiary	(171,468)	
Exchange reserve relating to the associate at the date it became a subsidiary	(99)	
Net assets acquired	1,396,974	
Cash inflow arising from acquisition – cash and cash equivalents in subsidiary acquired	25,427	

The subsidiaries acquired contributed HK$498,250,000 to the group's operating cash outflows, utilised HK$40,366,000 for investing activities and paid HK$21,000 for finance activities.

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

(b) Disposal and dissolution of subsidiaries/ Dissolution of a subsidiary

	2005 HK$'000	2004 HK$'000
Net assets disposed of:		
Property, plant and equipment	**333**	324
Intangible assets	**12,511**	–
Deposits for investments	**15,000**	–
Inventories	**23**	–
Trade receivables, other receivables and deposits	**22,333**	20
Amounts due from fellow subsidiaries	**51,681**	–
Amounts due from prospective investee companies	**3,728**	–
Advance to a prospective investee company	**(952)**	–
Cash at banks and in hand	**627**	28
Amounts due to fellow subsidiaries	**(60,971)**	(1,349)
Trade payables, other payables and accruals	**(34,437)**	(195)
Provision for tax	**(43)**	–
Minority interests	**(1,148)**	–
	8,685	(1,172)
Exchange reserves released upon disposal of subsidiaries	**(611)**	–
Gain/(Loss) on disposal and dissolution of subsidiaries	**14,086**	(177)
Waiver of amounts due to fellow subsidiaries	**–**	1,349
	22,160	–
Satisfied by:		
Consideration receivable included in other receivables	**22,160**	–
	22,160	–

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

(b) Disposal and dissolution of subsidiaries/Dissolution of a subsidiary (Continued)

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	**(627)**	(28)

The subsidiaries disposed of and dissolved contributed HK$978,000 to the group's operating cash flows, and had no impact on the cash flows in relation to investing activities and financing activities.

(c) Major non-cash transactions

(i) The refund of deposit for acquisition of investment of HK$18,679,000 was received by a director, on behalf of the Group.

(ii) The consideration for the acquisition of other investments and advance to the prospective investee companies totalling of HK$38,807,000 was received by a director on behalf of the Group.

35. 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 schemes 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$2,479,000 (2004: HK$71,000) represents contributions payable to the schemes by the Group at the rates specified in the rules of the schemes. Forfeited contributions in respect of the ORSO scheme totalling to HK$46,000 (2004: HK$10,000) were utilised during the year and there was no balance available as at 31 December 2005 (2004: HK$Nil) to reduce future contributions.

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

36. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

Directors' emoluments and fees disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance are as follows:

Group

	Fees HK$'000	Basic salaries, housing, other allowances and benefits in kind HK$'000	Share-based payments HK$'000	Pension scheme contributions HK$'000	Total HK$'000
2005					
Executive directors					
YU Pun Hoi	–	160	–	4	164
ZHANG Hong Ren	–	120	140	4	264
ZHAO Liang	–	278	–	–	278
Non-executive directors					
LAM Bing Kwan	–	100	327	4	431
YU Lin Hoi	–	–	–	–	–
Independent non-executive directors					
QIN Tian Xiang	155	–	–	–	155
WEI Jingyun	116	–	–	–	116
WU Chen	116	–	–	–	116
	387	658	467	12	1,524
2004					
Executive directors					
YU Pun Hoi	–	–	–	–	–
ZHANG Hong Ren	–	–	–	–	–
ZHAO Liang	–	–	–	–	–
Non-executive directors					
YU Lin Hoi	–	–	–	–	–
LAM Bing Kwan	–	–	–	–	–
Independent non-executive directors					
QIN Tian Xiang	28	–	–	–	28
WEI Jingyun	28	–	–	–	28
WU Chen	28	–	–	–	28
CHAN Lap Stanley	107	–	–	–	107
Francisco Paredes ACOSTA	–	–	–	–	–
	191	–	–	–	191

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

36. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (Continued)

(b) Five highest paid individuals

Among the five highest paid individuals of the Group, none (2004: none) is a director of the Company. The emoluments payable to the five (2004: five) highest paid individuals during the year are as follows:

	2005 HK$'000	2004 HK$'000
Basic salaries, other allowances and benefits in kind	**1,901**	2,614
Share-based compensation	**914**	–
Pension contributions	**36**	60
	2,851	2,674

The emoluments of the five highest paid individuals fell within the following bands:

Emolument band	**Number of highest paid individuals**	
	2005	2004
HK$Nil – HK$1,000,000	**5**	5

During the year no emolument was 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.

37. COMMITMENTS

(a) Capital commitments

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

	2005 HK$'000	2004 HK$'000
Contracted but not provided for		
– purchase of property, plant and equipment and properties held for and under development	**569,244**	271,958
– acquisition of investment	**–**	20,000
	569,244	291,958

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

37. COMMITMENTS (Continued)

(b) Operating lease arrangement

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

	Land and buildings	
	2005	2004
	HK$'000	HK$'000
Within one year	**35,715**	231
In the second to fifth years	**37,364**	–
	73,079	231

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 days as mutually agreed between the Group and the respective landlords. None of these leases includes any contingent rentals.

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

	Land and buildings	
	2005	2004
	HK$'000	HK$'000
Within one year	**1,205**	–
In the second to fifth years	**1,537**	–
Over five years	**3,971**	–
	6,713	–

At 31 December 2005 and 31 December 2004, the Company had no operating lease commitments as lessor or lessee.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

38. CONTINGENT LIABILITIES

Guarantee given in connection with credit facilities granted to:

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Subsidiaries	**–**	–	**374,370**	–
Associates	**16,064**	–	**–**	–
Third parties (note a)	**132,074**	33,761	**–**	–
	148,138	33,761	**374,370**	–

(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.

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.

38. CONTINGENT LIABILITIES (Continued)

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.

39. CREDIT FACILITIES

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

(a) charge over prepaid lease payment for leasehold land (note 14) with a net carrying value of HK$13,440,000 (2004: HK$Nil);

(b) charge over certain properties held for and under development for sale with carrying value of HK$3,994,247,000 (2004: HK$3,482,809,000);

(c) charge over shares in certain subsidiaries within the Group;

(d) unlimited personal guarantee given by Mr. Yu;

(e) guarantee given by a third party of RMB610,000,000; and

(f) pledge of 1,726,993,316 shares of Sino-i as securities to certain securities brokers, the total of which represents about 13.80% of total interest in Sino-i. The market value of such listed shares at 31 December 2005 was approximately HK$205,512,000.

40. RELATED PARTY TRANSACTIONS

Key management's compensation

	2005 HK$'000	2004 HK$'000
Wages and salaries	**280**	–
Share options granted to employees	**140**	–
Pension costs – defined contribution plans	**8**	–
	428	–

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

41. PENDING LITIGATION

(a) In a prior year, Team Concepts Marketing Limited ("TCM"), a subsidiary of the Company, issued a proceedings against an European distributor, Stadlbauer Marketing & Vertrieb GmbH ("SMV"), for outstanding accounts receivable of approximately US$0.8 million (HK$6.2 million). SMV filed a counterclaim for a sum amounting to Austrian Schilling 2.5 million (HK$1.6 million) for alleged breach of exclusive distributorship contracts. As agreed by both parties that SMV has paid USD550,000.00 on 8th February 2006. Upon received this payment, all mutual claims and debts between TCM and SMV were totally and finally settled.

(b) Evallon Investment Limited ("Evallon") is a wholly-owned subsidiary of Sino-i, 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 Sino-i, and Sino-i 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.

41. PENDING LITIGATION (Continued)

(c) On 12 May 2004, Dadi Media, a wholly-owned subsidiary of Sino-i, 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.

42. 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.

42.1 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. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

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

42.2 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 Group currently does not have an interest rate hedging policy.

42. FINANCIAL RISK MANGEMENT OBJECTIVES AND POLICIES (Continued)

42.3 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.

42.4 Price risk

The Group's financial assets 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.

42.5 Liquidity risk

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

42.6 Fair value

The carrying amounts of the following financial assets and financial liabilities approximate their fair value as all of them are short-term in nature: cash, investments at fair value through profit or loss, trade receivables and payables, other receivables and payables, bank and other borrowings, amounts due to a director/shareholders/minority shareholder. The long-term borrowings are at market rates, the difference between the fair value and carrying amounts is likely to be immaterial. Details of the interest rate and carrying amounts of long-term borrowings are presented in note 27 to the financial statements.