1. GENERAL INFORMATION

Nan Hai Corporation Limited (the "Company") is a limited liability company incorporated and domiciled in 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, operations of web sites and related services, provision of information technology 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 15.

The financial statements on pages 34 to 98 have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations ("HK-Ints") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The financial statements also 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 2006 were approved for issue by the board of directors on 19 April 2007.

2. ADOPTION OF NEW OR AMENDED HKFRSs

From 1 January 2006, the Group has adopted all the new and amended HKFRSs which are first effective on 1 January 2006 and relevant to the Group. The adoption of these HKFRSs has resulted in changes in the Group's accounting policies on financial guarantee contracts. Other than this, the adoption of these new and amended HKFRSs did not result in significant changes in the Group's and Company's accounting policies.

Amendments to HKAS 39 Financial Instruments: Recognition and Measurement – Financial Guarantee Contracts

The amendments to HKAS 39 require an entity to account for certain financial guarantee contracts in accordance with that standard. To comply with the requirements of the amended HKAS 39, the Group has adopted a new accounting policy to recognise financial guarantee contracts. On initial recognition, these contracts are measured at fair value and they are subsequently stated at the higher of:

– the amount initially recognised less where appropriate, cumulative amortisation recognised in accordance with the Group's revenue recognition policies; and

– the amount of the obligation under the contract, as determined in accordance with HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets" ("HKAS 37").

Details of this new accounting policy are set out in note 3.22.

Prior to this new accounting policy, the Group disclosed the financial guarantees issued as contingent liabilities in accordance with HKFRS 4 "Insurance Contracts" and HKAS 37. Provisions for the Group's liabilities under the financial guarantee contracts were made when it was more likely than not that the guaranteed party would default and the Group would incur outflow of resources embodying economic benefits.

This new accounting policy has been applied retrospectively to the extent that the financial guarantee contracts were in existence at 1 January 2005 (i.e. the date when HKAS 39 was initially adopted by the Group). The adoption of the amendments to HKAS 39 has no material effect to the financial statements for the current and prior years, thus, no adjustment to prior periods has been made.

2. ADOPTION OF NEW OR AMENDED HKFRSs (Continued)

New or amended HKFRSs that have been issued but are not yet effective

The Group has not early adopted the following HKFRSs that have been issued but are not yet effective. The directors of the Company is currently assessing the impact of these HKFRSs but are not yet in a position to state whether they would have material financial impact on the Group's financial statements.

HKAS 1 (Amendment)	Capital Disclosures [1]
HKFRS 7	Financial Instruments: Disclosures [1]
HKFRS 8	Operating Segments [2]
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies [3]
HK(IFRIC)-Int 8	Scope of HKFRS 2 [4]
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives [5]
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment [6]
HK(IFRIC)-Int 11	Group and Treasury Share Transactions [7]
HK(IFRIC)-Int 12	Service Concession Arrangements [8]

[1] Effective for annual periods beginning on or after 1 January 2007
[2] Effective for annual periods beginning on or after 1 January 2009
[3] Effective for annual periods beginning on or after 1 March 2006
[4] Effective for annual periods beginning on or after 1 May 2006
[5] Effective for annual periods beginning on or after 1 June 2006
[6] Effective for annual periods beginning on or after 1 November 2006
[7] Effective for annual periods beginning on or after 1 March 2007
[8] Effective for annual periods beginning on or after 1 January 2008

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. These policies have been consistently applied to all the years presented unless otherwise stated.

The financial statements have been prepared on the historical cost basis except for financial instruments classified as available-for-sale and at fair value through profit or loss which are stated at fair value. The measurement bases are fully described in the accounting policies below.

It should be noted that accounting estimates and assumptions are used in preparation of the financial statements. Although these estimates are based on management's best knowledge and judgement of current events and actions, actual results may ultimately differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 4.

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 Group has the power to control the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are excluded from consolidation from the date that control ceases.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.3 Subsidiaries (Continued)

Business combinations (other than for combining entities under common control) are accounted for by applying 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 fair values, which are also used as the bases for subsequent measurement in accordance with the Group's accounting policies.

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated in preparing the consolidated financial statements. 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.

Minority interest represents the portion of the profit or loss and net assets of a subsidiary attributable to equity interests that are not owned by the Group and are not the Group's financial liabilities.

Minority interests are presented in the consolidated balance sheet within equity, separately from the equity attributable to the equity holders of the Company. Profit or loss attributable to the minority interests are presented separately in the consolidated income statement as an allocation of the Group's results. Where losses applicable to the minority exceeds the minority interests in the subsidiary's equity, the excess and further losses applicable to the minority are allocated against the minority interest to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses. Otherwise, the losses are charged against the Group's interests. If the subsidiary subsequently reports profits, such profits are allocated to the minority interest only after the minority's share of losses previously absorbed by the Group has been recovered.

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. In consolidated financial statements, investment in associates is initially recognised at cost and subsequently accounted for using the equity method. Under the equity method, the Group's interest in the associate is carried at cost and adjusted for the post-acquisition changes in the Group's share of the associate's net assets less any identified impairment loss, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). The consolidated income statement includes the Group's share of the post-acquisition, post-tax results of the associate for the year, including any impairment loss on goodwill relating to the investment in associate recognised for the year.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate. For this purpose, the Group's interest in the associate is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.4 Associates (Continued)

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The cost of acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed and equity instruments issued by the Group, plus any costs directly attributable to the investment.

The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. After the application of equity method, the Group determines whether it is necessary to recognise an additional impairment loss on the Group's investment in its associates. At each balance sheet date, the Group determines whether there is any objective evidence that the investment in associate is impaired. If such indications are identified, the Group calculates the amount of impairment as being the difference between the recoverable amount (see note 3.5) of the associate and its carrying amount.

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. Where the associate uses accounting policies other than those of the Group for like transactions and events in similar circumstances, adjustments are made, where necessary, to conform the associate's accounting policies to those of the Group when the associate's financial statements are used by the Group in applying the equity method.

3.5 Goodwill

Set out below are the accounting policies on goodwill arising on acquisition of a subsidiary. Accounting for goodwill arising on acquisition of investment in an associate is set out in note 3.4.

Goodwill represents the excess of the cost of a business combination or an investment over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. The cost of the business combination is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group, plus any costs directly attributable to the business combination.

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment (see note 3.8).

Any excess of the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination is recognised immediately in profit or loss.

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 recognised initially at cost. After initial recognition, it is carried 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

Property, plant and equipment (other than construction in progress) 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 costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other costs, such as repairs and maintenance, are charged to the income statement during the financial period in which they are incurred.

Depreciation is provided to write off the cost less their residual values over their estimated useful lives, using the straight-line method, at the following rates per annum:

Moulds and tools	25% – 33-$^1/_3$%
Leasehold improvements, furniture, fixtures and equipment	10% – 33-$^1/_3$%
Motor vehicles	10% – 33-$^1/_3$%

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

The gain or loss arising on retirement or disposal is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

3.8 Impairment of assets

Goodwill arising on an acquisition of subsidiary, computer software, property, plant and equipment and, interests in subsidiaries and associates are subject to impairment testing.

Goodwill is tested for impairment at least annually, irrespective of whether there is any indication that they are impaired. All other assets are tested for impairment whenever there are indications that the asset's carrying amount may not be recoverable.

An impairment loss is recognised as an expense immediately for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of time value of money and the risk specific to the asset.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8 Impairment of assets (Continued)

For the purposes of assessing impairment, where an asset does not generate cash inflows largely independent from those from other assets, the recoverable amount is determined for the smallest group of assets that generate cash inflows independently (i.e. a cash-generating unit). 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 the goodwill is monitored for internal management purpose.

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, except that the carrying value of an asset will not be reduced below its individual fair value less cost to sell, or value in use, if determinable.

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 favourable 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 Leases

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of assets leased to the Group

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

(ii) Assets acquired under finance leases

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are included in property, plant and equipment and the corresponding liabilities, net of finance charges, are recorded as obligation under finance leases.

Subsequent accounting for assets held under finance lease agreements corresponds to those applied to comparable acquired assets. The corresponding finance lease liability is reduced by lease payments less finance charges.

Finance charges implicit in the lease payments are charged to income statement over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.9 Leases (Continued)

(iii) Operating lease charges as the lessee

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to the income statement on a straight-line basis over the lease terms except where an alternative basis is more representative of the pattern of benefits to be derived from the leased assets.

3.10 Financial assets

The Group's accounting policies for financial assets other than investments in subsidiaries and associates are set out below.

Classification of financial assets

Financial assets other than hedging instruments are classified into the following categories: (i) financial assets at fair value through profit or loss; (ii) loans and receivables and (iii) available-for-sale financial assets.

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

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss.

Financial assets may be designated at initial recognition as at fair value through profit or loss if the following criteria are met:

Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments or financial guarantee contracts.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial asset at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.10 Financial assets (Continued)

(i) Financial assets at fair value through profit or loss (Continued)

Financial assets may be designated at initial recognition as at fair value through profit or loss if the following criteria are met:

– the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognising gains or losses on them on a different basis;

– the assets are part of a group of financial assets which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy and information about the group of financial assets is provided internally on that basis to the key management personnel; or

– the financial asset contains an embedded derivative that would need to be separately recorded.

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.

(ii) 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 subsequently measured at amortised cost using the effective interest method, less any impairment losses. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction cost.

(iii) Available-for-sale financial assets

Available-for-sale financial assets include non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets. All financial assets within this category are subsequently measured at fair value. Gain or loss arising from a change in the fair value is recognised directly in equity, except for impairment losses (see the policy below) and foreign exchange gains and losses, until the financial asset is derecognised, at which time the cumulative gain or loss previously recognised in equity would be recognised in income statement. Upon disposal, the cumulative gain or loss previously recognised in equity is transferred to the income statement.

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)

Recognition and derecognition of financial assets

All financial assets are recognised when, and only when, the Group becomes a party to the contractual provisions of the instrument. Regular way purchases of financial assets are recognised on trade date. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

Derecognition of financial assets occurs when the rights to receive cash flows from the financial assets expire or are transferred and substantially all of the risks and rewards of ownership have been transferred. At each balance sheet date, financial assets are reviewed to assess whether there is objective evidence of impairment. If any such evidence exists, impairment loss is determined and recognised based on the classification of the financial asset.

Impairment of financial assets

At each balance sheet date, financial assets other than at fair value through profit or loss are reviewed to determine whether there is any objective evidence of impairment. If any such evidence exists, the impairment loss is measured and recognised as follows:

(i) Loans and receivables

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

If, in subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that it does not result in a carrying amount of the financial asset exceeding what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in income statement of the period in which the reversal occurs.

(ii) Available-for-sale financial assets

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, an amount is removed from equity and recognised in the income statement as impairment loss. That amount is measured as the difference between the asset's acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in the income statement.

Reversals in respect of investment in equity instruments classified as available-for-sale are not recognised in the income statement. The subsequent increase in fair value is recognised directly in equity. Impairment losses in respect of debt securities are reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognised. Reversal of impairment losses in such circumstances are recognised in the income statement.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.11 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 and depreciation commences when the construction work is completed and the asset is ready for use.

3.12 Inventories

Inventories are carried at the lower of cost and net realisable value. Cost and net realisable value are determined as follows:

(i) *Properties under development*

The cost of properties under development comprises specifically identified cost, included borrowings costs capitalised (see note 3.13), aggregate cost of development, materials and supplies, wages and other direct expenses. Net realisable value represents the estimated selling price, based on prevailing market conditions, less estimated costs of completion and costs to be incurred in selling the property.

(ii) *Completed properties held for sale*

Cost is determined by apportionment of the total land and development costs for that development project, attributable to the unsold properties. Net realisable value represents the estimated selling price, based on prevailing market conditions, less costs to be incurred in selling the property.

(iii) *Finished goods*

Cost is calculated using the weighted average cost formula and comprises all costs of purchase. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

3.13 Borrowing costs

Borrowing costs incurred for the acquisition, construction or production of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. A qualifying asset is an asset which necessarily takes a substantial period of time to get ready for its intended use or sale. Other borrowing costs are expensed as incurred.

3.14 Accounting for Income taxes

Income tax for the year comprises current tax and deferred taxes.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting period, that are unpaid at the balance sheet date. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognised as a component of tax expense in the income statement.

Deferred tax is calculated using the liability method on temporary differences at the balance sheet date between the carrying amounts of assets and liabilities in the financial statements and their respective tax bases. Deferred tax liabilities are generally recognised for all taxable temporary differences. 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 profit will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.14 Accounting for Income taxes (Continued)

Deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither taxable nor accounting profit or loss.

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 differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax is calculated, without discounting, at tax rates that are expected to apply in the period the liability is settled or the asset realised, provided they are enacted or substantively enacted at the balance sheet date.

Changes in deferred tax assets or liabilities are recognised in the income statement, or in equity if they relate to items that are charged or credited directly to equity.

3.15 Cash and cash equivalents

Cash and cash equivalents include cash at bank and in hand, demand deposits with banks or other financial institutions, and short-terms, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. For the purpose of cash flow statement presentation, cash and cash equivalents include bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

3.16 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.

3.17 Foreign currency translation

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

In the individual 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. At balance sheet date, monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the balance sheet date retranslation of monetary assets and liabilities 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.17 Foreign currency translation (Continued)

In the consolidated financial statements, all individual financial statements of foreign operations, 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 exchange rates ruling at the transaction dates, or at the average rates over the reporting period provided that the exchange rates do not fluctuate significantly. Any differences arising from this procedure have been dealt with separately in the exchange reserve in equity. Goodwill and fair value adjustments arising on the acquisition of a foreign operation on or after 1 January 2005 have been treated as assets and liabilities of the foreign operation and translated into Hong Kong dollars at the closing rates. Goodwill arising on acquisitions of foreign operations before 1 January 2005 is translated at the foreign exchange rate that applied at the date of acquisition of the foreign operation.

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.

3.18 Employee benefits

(i) *Short-term employee benefits*

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 such as sick leave and maternity leave are not recognised until the time of leave.

(ii) *Retirement benefits scheme*

The Group operates several staff retirement schemes for employees in Hong Kong and Mainland China, the 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 defined contribution retirement scheme for their employees, organised by the relevant local government authorities. They are required to make contributions to the retirement schemes at a rate of 15% to 22% (depending on the locations of the subsidiaries) of basic salaries 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.18 Employee benefits (Continued)

(ii) *Retirement benefits scheme* (Continued)

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 the monthly basic salaries whereas the Group's monthly contribution will be 5% of the relevant employee's basic salaries with a maximum monthly contribution of HK$1,000. There are no legal or constructive obligations to pay further contributions after payment of the fixed contribution.

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

(iii) *Share-based employee compensation*

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

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

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

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 options reserve will be transferred to retained profits.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.19 Financial liabilities

The Group's financial liabilities include bank loans and overdrafts, trade and other payables and other borrowings. They are included in balance sheet line items as "Bank and other borrowings", "Amount due to a director", "Amounts due to shareholders", "Amount due to a minority shareholder", "Land premium payable", "Trade payables", "Other payables and accruals" and "Finance lease liabilities".

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

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amount is recognised in the income statement.

(i) *Borrowings*

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

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

(ii) *Trade and other payables*

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

(iii) *Finance lease liabilities*

Finance lease liabilities are measured at initial value less the capital element of lease repayments (see note 3.9).

3.20 Deferred revenue

Deferred revenue consists primarily of deferred revenue from prepaid service fees received from subscribers. Revenue from prepaid service fees is recognised when the relevant services are rendered.

3.21 Provisions and contingent liabilities

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.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events are not wholly within the control of the Group are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.21 Provisions and contingent liabilities (Continued)

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.

3.22 Financial guarantee issued

A financial guarantee contract is a contract that requires the issuer (or guarantor) to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee, the fair value of the guarantee is initially recognised as deferred income within other payables. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in the income statement on initial recognition of any deferred income.

The amount of the guarantee initially recognised as deferred income is amortised in income statement over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised if and when it becomes probable that the holder of the guarantee will call upon the Group under the guarantee and the amount of that claim on the Group is expected to exceed the current carrying amount i.e. the amount initially recognised less accumulated amortisation, where appropriate.

3.23 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 financial assets at fair value through profit or loss. Segment liabilities comprise operating liabilities and land premium payables and exclude items such as provision for tax and certain corporate borrowings.

Capital expenditure comprises additions to intangible assets and property, plant and equipment.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.24 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 Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate of the Group;

(c) the party is a member of the key management personnel of the Group;

(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 Group, or of any entity that is a related party of the Group.

3.25 Revenue recognition

Revenue comprises the fair value for the sale of goods, and rendering of services and the use by others of the Group's assets yielding interest and royalties, net of rebates and discounts. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised as follows:

Sales of goods are recognised upon transfer of the significant risks and rewards of ownership to the customer. This is usually taken as the time when the goods are delivered and the customer has accepted the goods.

Revenue from sale of properties is recognised when the risks and rewards of the properties are transferred to the purchasers, which is when the construction of relevant properties has been completed and the properties have been delivered to the purchasers pursuant to the sales agreement and collectibility of related receivables is reasonably assured.

Interest income is recognised on a time-proportion basis using the effective interest method.

Dividend is recognised when the right to receive payment is established.

Sales of services are recognised in the accounting period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided. When services are preformed by an indeterminate number of acts over a specified period of time, revenue is recognised on a straight-line basis over the specified period of time unless there is evidence that some other method better represents the stage of completion.

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 their estimated residual value, at the rate of 10% to 33-1/3% per annum and 25% per annum, respectively, commencing from the date on which the assets are available for use. The estimated useful life reflects the directors' estimate of the periods that the Group intend to derive future economic benefits from the use of the Group's property, plant and equipment and computer software.

Provision for impairment of receivables

The policy for the provision for impairment of receivables of the Group is based on the evaluation of collectability and aging analysis of accounts and on management's judgement. A considerable amount of 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.

Net realisable value of completed properties held for sales and properties under development

Management determines the net realisable value of completed properties held for sales and properties under development by using prevailing market data such as most recent sale transactions and valuation report provided by independent qualified professional valuers.

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 flow expected to arise from the cash-generating units and the suitable discount rates in order to calculate the present value.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

4.2 Critical judgements in applying the Group's accounting policies

Current tax and deferred tax

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. The Group recognises taxes based on estimates of the likely outcome with reference to current tax laws and practices. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

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

5. REVENUE/TURNOVER AND OTHER OPERATING INCOME

		2006 **HK$'000**	2005 HK$'000
(a)	**The Group's turnover represents revenue from:**		
	Distance learning and application services	**8,267**	15,920
	Information technology business	**585,214**	129,448
	Property management	**2,140**	3,004
	Provision of financial information and related services	**24,917**	5,517
	Sale of properties	**1,477,824**	–
	Others	**875**	954
		2,099,237	154,843
(b)	**Other operating income:**		
	Interest income	**2,545**	1,355
	Dividend income	**119**	46
	Write-back of provision for a doubtful debt	**–**	4,290
	Net fair value gain on financial assets at fair value through profit or loss	**411**	–
	Sundry income	**4,112**	4,411
		7,187	10,102

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 segment; and (b) on a secondary segment reporting basis, by geographical segment.

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) Other segment include trading of securities, property management and culture and media

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.

The Group's inter-segment sales during the year were related to the provision of financial information and related services and distance learning and application services. Inter-segment revenue is determined by directors and is based on pricing policies similar to those contracted with independent third parties, where applicable.

There were no inter-segment transactions between segments for the year ended 31 December 2005.

6. SEGMENT INFORMATION (Continued)

(a) Business segments

2006

	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	Other segments HK$'000	Elimination HK$'000	Total HK$'000
Segment revenue							
Sales to external customers	24,917	585,214	1,477,824	8,267	3,015	–	2,099,237
Inter-segment sales	14,644	–	–	9,372	–	(24,016)	–
	39,561	585,214	1,477,824	17,639	3,015	(24,016)	2,099,237
Segment results	(283,125)	126,777	269,778	5,149	(6,245)	–	112,334
Interest income							2,545
Unallocated corporate expenses							(47,538)
Finance costs							(41,822)
Share of results of associates							2,055
Profit before income tax							27,574
Income tax expense							(62,276)
Loss for the year							(34,702)
Segment assets	27,226	687,739	6,174,374	33,171	41,089	–	6,963,599
Unallocated assets							59,500
Interest in associates							18,967
Total assets							7,042,066
Segment liabilities	(18,666)	(113,483)	(648,326)	(2,401)	(50,729)	–	(833,605)
Loan liabilities							(474,159)
Unallocated liabilities							(849,509)
Total liabilities							(2,157,273)
Other information							
Capital expenditure	2,245	56,882	482	608	1,837	–	62,054
Depreciation	569	17,780	151	428	711	–	19,639
Amortisation	–	13,532	–	–	–	–	13,532
Impairment loss on goodwill	289,800	–	–	–	–	–	289,800
Other non-cash expenses/(income)	626	20,072	–	129	(70)	–	20,757

6. SEGMENT INFORMATION (Continued)

(a) Business segments (Continued)

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	Other segments HK$'000	Elimination HK$'000	Total HK$'000
Segment revenue							
Sales to external customers	5,517	128,939	–	15,919	4,468	–	154,843
Segment results	(6,554)	55,849	(15,725)	10,402	(5,194)	–	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)
Finance costs							(17,087)
Share of results of associates							1,050
Profit before income tax							51,856
Income tax credit							4,150
Profit for the year							56,006
Segment assets	328,688	441,983	5,984,429	54,579	20,786	–	6,830,465
Unallocated assets							353,662
Interest in associates							55,531
Total assets							7,239,658
Segment liabilities	(17,368)	(77,439)	(601,574)	(2,094)	(376,604)	–	(1,075,079)
Loan liabilities							(930,846)
Unallocated liabilities							(363,516)
Total liabilities							(2,369,441)
Other information							
Capital expenditure	395	39,287	74,178	167	607	–	114,634
Depreciation	278	5,530	68	299	66	–	6,241
Amortisation	–	1,127	–	–	–	–	1,127
Other non-cash expenses	108	1,630	–	–	114	–	1,852

6. SEGMENT INFORMATION (Continued)

(b) Geographical segments

2006

	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	**–**	**57,000**	**2,042,237**	**–**	**2,099,237**
Other segment information					
Segment assets	**816**	**76,583**	**6,964,667**	**–**	**7,042,066**
Capital expenditure	**–**	**620**	**61,434**	**–**	**62,054**

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	1,008,607	6,230,419	–	7,239,658
Capital expenditure	–	22	114,612	–	114,634

7. PROFIT BEFORE INCOME TAX

	2006 **HK$'000**	2005 HK$'000
Profit before income tax is arrived at after charging/(crediting):		
Amortisation of intangible assets other than goodwill (included in other operating expenses)	**13,532**	1,127
Auditors' remuneration	**3,957**	2,600
Cost of provision of information technology business	**77,743**	20,662
Cost of provision of financial information and related services	**6,741**	2,769
Cost of provision of proprietary software	**1,923**	–
Cost of sale of properties#	**1,178,453**	–
Cost of inventories sold – consumer electronic products	**–**	536
Cost of inventories sold – distance learning materials	**3,515**	1,467
Cost of provision of property management services	**1,164**	1,451
Cost of sales and services provided	**1,269,539**	26,885
Depreciation on property, plant and equipment	**19,369**	6,241
Gain on partial disposal of an associate	**(1,358)**	–
Loss on disposal and write-off of property, plant and equipment	**4,086**	254
Loss on partial disposal of a subsidiary	**1,017**	–
Net fair value (gain)/loss on financial assets at fair value through profit or loss	**(411)**	121
Net foreign exchange (gain)/loss	**(3,692)**	4
Operating lease charges on:		
– land and buildings	**36,575**	12,898
– prepaid land lease	**270**	525
Provision for impairment of receivables	**16,663**	747

In a prior year, a subsidiary, 深圳南海益田置業有限公司, and a third party entered into a co-operative agreement to develop the residential project on land site Lot No.K708-0050. For the year ended 31 December 2006, this third party in accordance with the agreement was entitled to 40% profit on the sale of the completed properties on the land site Lot No. K708-0050 which were sold during the year. The amount shared by this third party was HK$123,700,000 included in cost of sales for the year ended 31 December 2006.

8. FINANCE COSTS

	2006 **HK$'000**	2005 HK$'000
Interest on convertible notes	**–**	4,150
Interest on bank loans and overdrafts wholly repayable within five years	**44,968**	34,697
Interest on other loans wholly repayable within five years	**5,069**	1,487
Interest on other payables	**8,238**	31,538
Interest on finance leases	**17**	–
Interest on amounts due to shareholders	**30,411**	10,137
Total interest expenses	**88,703**	82,009
Less: Amount directly attributable to properties held for and under development capitalised*	**(46,881)**	(64,922)
	41,822	17,087

* The borrowing costs have been capitalised at a rate of 3.82% to 18.25% (2005: 5.58% to 18.25%) per annum.

9. INCOME TAX EXPENSE/(CREDIT)

For the year ended 31 December 2006, no Hong Kong profits tax has been provided in the financial statements as the companies within the Group either did not derive any assessment profit in Hong Kong or had unused tax losses brought forward to offset against the current year's assessable profits in Hong Kong.

For the year ended 31 December 2005, the Group did not derive any assessable profit subject to Hong Kong profits tax.

PRC Enterprise Income Tax ("EIT") has been provided on the estimated assessable profits of subsidiaries operating in Mainland China at 33% (2005: 33%), unless preferential rates are applicable in the cities where the subsidiaries are located.

Certain subsidiaries of the Group are wholly-owned foreign enterprises in accordance with the Income Tax Law of the PRC for Enterprises with Foreign Investment and Foreign Enterprises and are entitled to full exemption from EIT for two years and a 50% reduction in the following three years thereafter starting from the first profit making year after offsetting prior years' tax losses.

In addition, certain subsidiaries that are located in the Beijing Economic-Technological Development Area are entitled to preferential PRC EIT rate of 15%.

	2006 **HK$'000**	2005 HK$'000
The tax charge/(credit) comprises:		
Current tax		
– Hong Kong profits tax		
Underprovision in respect of prior years	**18**	–
– Overseas tax		
Overprovision in respect of prior years	**(1,490)**	–
Tax charge for the year	**63,748**	24
Tax credit for the year	**–**	(4,174)
	62,276	(4,150)

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

	2006 **HK$'000**	2005 HK$'000
Profit before income tax	**27,574**	51,856
Tax on profit before taxation, calculated at the rates applicable to profits in the tax jurisdiction concerned	**(17,061)**	9,425
Tax effect of non-deductible expenses	**88,822**	19,610
Tax effect of non-taxable revenue	**(3,142)**	(28,544)
Tax effect of unused tax losses not recognised	**5,376**	1,769
Utilisation of tax loss in current year	**(10,366)**	(1,395)
Tax effect on temporary differences not previously recognised	**119**	19
Overprovision in prior years	**(1,472)**	(5,034)
Income tax expense/(credit)	**62,276**	(4,150)

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

Of the consolidated profit attributable to the equity holders of the Company of HK$21,881,000 (2005: HK$20,630,000), a loss of HK$54,317,000 (2005: a loss of HK$26,226,000) 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 profit attributable to the equity holders of the Company of HK$21,881,000 (2005: HK$20,630,000) and on the weighted average of 68,185,615,383 (2005: 43,985,491,051) ordinary shares in issue during the year.

The calculation of diluted earnings per share is based on the profit attributable to equity holders of the Company for the year of HK$21,881,000 and the weighted average of 68,299,752,751 ordinary shares outstanding during the year, adjusted for the effects of all dilutive potential shares.

The weighted average number of ordinary shares used in the calculation of diluted earnings per share is calculated based on the weighted average of 68,185,615,383 ordinary shares in issue during the year plus the weighted average of 114,137,368 ordinary shares deemed to be issued at no consideration as if all the Company's share options have been exercised.

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

12. EMPLOYEE BENEFIT EXPENSE (INCLUDING DIRECTORS' EMOLUMENTS)

	2006 **HK$'000**	2005 HK$'000
Directors' fee (note 35(a))	**579**	387
Wages and salaries	**267,864**	42,149
Gross pension cost - defined contributions retirement schemes	**13,916**	2,525
Less: Forfeited contributions	**(38)**	(46)
Net pension cost - defined contributions retirement schemes	**13,878**	2,479
Equity-settled share-based compensation expenses	**3,968**	3,509
Staff welfare	**23,405**	9,446
	309,694	57,970

13. PROPERTY, PLANT AND EQUIPMENT

Group

	Leasehold improvements, furniture, fixtures and equipment HK$'000	Moulds and tools HK$'000	Con-struction in progress HK$'000	Motor vehicles HK$'000	Total HK$'000
At 1 January 2005					
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 33(a))	39,114	–	1,268	432	40,814
Disposal of subsidiaries (note 33(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
Year ended 31 December 2006					
Opening net book amount	**40,612**	**–**	**2,523**	**792**	**43,927**
Exchange differences	**1,233**	**–**	**101**	**36**	**1,370**
Additions	**29,573**	**–**	**3,299**	**747**	**33,619**
Acquisition of subsidiaries (note 33(a))	**1,178**	**–**	**–**	**–**	**1,178**
Disposals	**(3,373)**	**–**	**–**	**(122)**	**(3,495)**
Write-off	**(872)**	**–**	**–**	**–**	**(872)**
Depreciation	**(19,186)**	**–**	**–**	**(183)**	**(19,369)**
Closing net book amount	**49,165**	**–**	**5,923**	**1,270**	**56,358**
At 31 December 2006					
Cost	**178,183**	**4,090**	**5,923**	**1,466**	**189,662**
Accumulated depreciation	**(129,018)**	**(4,090)**	**–**	**(196)**	**(133,304)**
Net book amount	**49,165**	**–**	**5,923**	**1,270**	**56,358**

The carrying amount of the Group's property, plant and equipment includes an amount of HK$296,000 (2005: Nil) in respect of assets held under finance lease.

13. PROPERTY, PLANT AND EQUIPMENT (Continued)

Company

	Leasehold improvements, furniture, fixtures and equipment HK$'000
At 1 January 2005	
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
Year ended 31 December 2006	
Opening net book amount	**20**
Additions	**213**
Depreciation	**(45)**
Closing net book amount	**188**
At 31 December 2006	
Cost	**234**
Accumulated depreciation	**(46)**
Net book amount	**188**

14. PREPAID LAND LEASE PAYMENTS UNDER OPERATING LEASES

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

	Group	
	2006	2005
	HK$'000	HK$'000
Outside Hong Kong, held on land with:		
Unexpired terms of leases of between 10 to 50 years	**13,675**	13,440

	Group	
	2006	2005
	HK$'000	HK$'000
Opening net carrying amount	**13,440**	–
Acquisition of subsidiaries (note 33(a))	**–**	13,732
Annual charges of prepaid operating lease payment	**(270)**	(525)
Net exchange differences	**505**	233
Closing net carrying amount	**13,675**	13,440

At 31 December 2006 and 31 December 2005, the leasehold land was pledged to secure banking facilities granted to the Group.

15. INTERESTS IN SUBSIDIARIES

	Group	
	2006	2005
	HK$'000	HK$'000
Unlisted shares, at cost	**31,177**	81,286
Less: Provision for impairment	**(31,177)**	(81,286)
	–	–

Particulars of the principal subsidiaries at 31 December 2006 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	Indirectly	**Principal activities**
CE Dongli Technology Group Company Limited (note a)	PRC	RMB148,570,000	–	50.28	Information technology business
Century Unicorn Limited	British Virgin Islands ("BVI")	1 ordinary share of US$1 each	–	62.85	Trading and provision of information technology products
China Enterprise ASP Limited ("China Enterprise")	Hong Kong	9,000,000 ordinary shares of HK$1 each	–	62.85	Investment holding
Cosmos Decade Developments Limited	BVI	1 ordinary share of US$1 each	–	62.85	Trading and provision of financial information products
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

15. 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	Percentage of capital held by the Company Indirectly	Principal activities
Evallon Investment Limited ("Evallon")	Hong Kong	10,000 ordinary shares of HK$100 each	–	62.85	Investment holding
Goalrise Investments Limited	BVI	1 ordinary share of US$1 each	100	–	Trading of securities
Listar Properties Limited	BVI	20,000,000 ordinary shares of US$1 each	–	81.05	Investment holding
Liu Wan Development (BVI) Company Limited ("Liu Wan (BVI)")	BVI	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
Rich King Inc.	BVI	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	BVI	1 ordinary share of US$1 each	–	62.85	Trading of securities
Shihua (Hong Kong) Financial Information Company Limited	Hong Kong	5,000,000 ordinary shares of HK$1 each	–	62.85	Provision of financial information

15. 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	Percentage of capital held by the Company Indirectly	Principal activities
Sino-i Technology Limited ("Sino-i")	Hong Kong	19,914,504,877 ordinary shares of HK$0.01 each	–	62.85	Investment holding
Sino-i.com (Shanghai) Limited	Hong Kong	2 ordinary shares of HK$1 each	–	62.85	Investment holding
South Sea Development (HK) Limited	Hong Kong	2 ordinary shares of HK$1 each	100	–	Investment holding
Victorious Limited	BVI	1 ordinary share of US$1 each	–	62.85	Trading of securities
View Power Investments Limited	BVI	1 ordinary share of US$1 each	100	–	Investment holding
Wise Advance Investments Limited	BVI	1 ordinary share of US$1 each	100	–	Investment holding
北京中企開源信息技術有限公司 (note b)	PRC	RMB10,000,000	–	50.28	Information technology business
北京世華國際金融信息有限公司 (note b)	PRC	RMB130,000,000	–	50.28	Provision of financial information on the Internet
北京金世紀大酒店有限公司 (note c)	PRC	US$12,000,000	–	62.85	Property development

15. 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	Percentage of capital held by the Company Indirectly	Principal activities
北京紅旗中文貳仟軟件技術有限公司 ("Redflag Chinese 2000") (note d)	PRC	RMB10,000,000	–	40.85	Information technology business
北京華夏大地遠程教育網絡服務有限公司 (note b)	PRC	RMB50,000,000	–	59.71	Operation of an educational portal and provision of online distance learning education services
北京新網科技發展有限公司 (note b)	PRC	RMB14,485,000	–	50.28	Information technology business
北京新網數碼信息技術有限公司 (note d)	PRC	RMB10,000,000	–	50.28	Information technology business
南京天悦置業投資顧問有限公司 (note b)	PRC	US$500,000	–	100	Property management
深圳市半島城邦物業管理有限公司 (note b)	PRC	RMB3,000,000	–	100	Property management

15. 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		Principal activities
			Directly	Indirectly	
深圳市金益田實業發展有限公司 (note b)	PRC	RMB18,000,000	–	100	Property development
深圳南海益田置業有限公司 (notes b)	PRC	RMB110,000,000	–	100	Investment holding and property development
廣州東鏡新城房地產有限公司 (note d)	PRC	US$14,000,000	–	81.05	Property development

The above table lists out the subsidiaries of the Company as at 31 December 2006 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) This subsidiary is registered as joint stock limited company under the law of PRC.

(b) These subsidiaries are registered as limited liability company under the law of PRC.

(c) This subsidiary is registered as co-operative joint venture established under the law of PRC.

(d) These subsidiaries are registered as Sino-foreign equity joint venture under the law of PRC.

16. INTEREST IN ASSOCIATES

	Group 2006 HK$'000	Group 2005 HK$'000
Balance at 1 January	**55,531**	225,955
Interest in the associate at the date it became a subsidiary (note 33(a))	**–**	(171,468)
Partial disposal of an associate	**(38,610)**	–
Share of associates results		
– Profit before taxation	**2,055**	1,298
– Taxation	**–**	(248)
	2,055	1,050
Exchange differences	**(9)**	(6)
Balance at 31 December	**18,967**	55,531

Particulars of the associates at 31 December 2006 are as follows:

Name	Country of incorporation/ establishment and operations	Particulars of issued capital	Percentage of interest held by the Group 2006	Percentage of interest held by the Group 2005	Nature of business
Easy-Trade Technology Services Limited*	PRC	RMB50,000,000	**30**	40	Leasing of POS machines and provision of information technology services
Genius Reward Company Limited* ("Genius Reward")	Hong Kong	2 ordinary shares of HK$100 each	**31**	31	Inactive

* *unlisted limited liability companies*

16. INTEREST IN ASSOCIATES (Continued)

The summarised financial information of the Group's associates extracted from their management accounts are as follows:

	2006 HK$'000	2005 HK$'000
Assets	**93,712**	96,550
Liabilities	**(41,447)**	(45,405)
Revenue	**21,561**	25,345
(Loss)/Profit for the year	**(1,142)**	4,603

17. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	Group	
	2006 HK$'000	2005 HK$'000
Deposits and prepayments	**741,759**	548,593
Outstanding consideration receivable arising from the disposal of an associate/other investments	**39,986**	150,000
Advances to former subsidiaries	**17,310**	47,800
Others	**297,791**	113,703
	1,096,846	860,096
Less: Provision for impairment of receivables	**(12,464)**	(7,831)
	1,084,382	852,265
Less non-current portion:		
Deposits for construction in progress	**232,294**	223,325
Deposits for purchase of intangible assets	**33,831**	2,730
Deposits for purchase of property, plant and equipment	**8,492**	–
	274,617	226,055
	809,765	626,210

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For the year ended 31 December 2006

18. INTANGIBLE ASSETS

Group

	Computer software HK$'000	**Negative goodwill** HK$'000	**Goodwill** HK$'000	**Total** HK$'000
At 1 January 2005				
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 33(a))	14,356	–	450,344	464,700
Disposal of subsidiaries (note 33(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
Year ended 31 December 2006				
Opening net carrying amount	**36,598**	**–**	**458,266**	**494,864**
Acquisition of subsidiaries (note 33(a))	**129**	**–**	**20,705**	**20,834**
Impairment loss	**–**	**–**	**(289,800)**	**(289,800)**
Additions	**28,435**	**–**	**–**	**28,435**
Amortisation charge for the year	**(13,532)**	**–**	**–**	**(13,532)**
Exchange differences	**1,825**	**–**	**811**	**2,636**
Closing net carrying amount at 31 December 2006	**53,455**	**–**	**189,982**	**243,437**
At 31 December 2006				
Gross carrying amount/Cost	**68,736**	**–**	**189,982**	**258,718**
Accumulated amortisation	**(15,281)**	**–**	**–**	**(15,281)**
Net carrying amount	**53,455**	**–**	**189,982**	**243,437**

18. INTANGIBLE ASSETS (Continued)

Subsequent to the annual impairment test for 2006, the carrying amount of goodwill is allocated to the following cash-generating units ("CGU"):

	2006 HK$'000	2005 HK$'000
Property development	**113,502**	113,502
Provision of financial information and related services	**–**	289,800
Information technology business	**76,480**	54,964
Net carrying amount at 31 December	**189,982**	458,266

The recoverable amounts for the CGU given above were determined based on value-in-use calculations, covering a detailed five-year budget plan, using the growth rates stated below. The growth rates reflect the long-term average growth rates for the product lines of the CGU.

The key assumptions used for value-in-use calculations for the year are as follows:

	Property development	**Provision of financial information service**	**Information technology business**
Growth rates	10%	10%	10%
Discount rates	6.37%	6.31%	6.31%

The growth rate used for each of the above CGU in budget plan is determined by reference to the average growth rate for the corresponding industry to which the CGU belongs.

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

Due to the changes in the Group's future development strategic plan, the estimated future cash flow generated by the CGU under the segment of provision of financial information may be of amount below the value of the existing goodwill. After assessing all the facts and the development strategy, the management decided to write off the corresponding goodwill.

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

19. INVENTORIES

	Group	
	2006	2005
	HK$'000	HK$'000
Property development		
Properties under development	**4,950,545**	5,490,796
Completed properties held for sale	**403,296**	–
	5,353,841	5,490,796
Other operations		
Finished goods	**–**	3,869
	5,353,841	5,494,665

All the above inventories are stated at cost.

The amount of properties under development expected to be recovered after more than one year is HK$4,950,545,000 (2005: HK$5,490,796,000). All of the other inventories are expected to be recovered within one year.

20. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2006	2005
	HK$'000	HK$'000
Listed equity securities in Hong Kong, at fair value	**7,256**	6,491
Market value of listed securities	**7,256**	6,491

The above financial assets at fair value through profit or loss are classified as held for trading.

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 income statement.

21. TRADE RECEIVABLES

	Group	
	2006	2005
	HK$'000	HK$'000
Trade receivables analysed according to aging:		
0-90 days	**52,060**	23,814
91-180 days	**3,631**	81,514
181-270 days	**58,646**	29,416
271-360 days	**1,468**	2,319
Over 360 days	**69,061**	58,625
Trade receivables, gross	**184,866**	195,688
Less: Provision for impairment of receivables	**(29,654)**	(18,007)
Trade receivables, net	**155,212**	177,681

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.

22. PLEDGED BANK DEPOSITS/CASH AND CASH EQUIVALENTS

Pledged bank deposits represents deposits pledged to banks to secure banking facilities granted to the Group. Deposits amounting to HK$22,282,000 (2005: HK$Nil) have been pledged to secure short-term bank loans and are therefore classified as current assets. The pledged bank deposits will be released upon the settlement of relevant bank borrowings.

Included in bank and cash balance of the Group is an aggregate amount of approximately HK$81,270,000 (2005: HK$94,225,000), which represented Renminbi ("RMB") deposits placed with banks in the PRC.

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

23. TRADE PAYABLES

	Group	
	2006	2005
	HK$'000	HK$'000
Trade payables analysed according to aging:		
0-90 days	**11,585**	3,890
91-180 days	**1,862**	324
181-270 days	**383**	354
271-360 days	**333**	38
Over 360 days	**4,831**	2,728
	18,994	7,334

24. OTHER PAYABLES AND ACCRUALS

Included in other payables and accruals as at 31 December 2006 are amounts of HK$35,457,000 (2005: HK$33,545,000) due to certain securities brokers and margin financiers which are secured by 2,454,992,316 (2005: 1,726,993,316) shares in Sino-i and by the Company's shares held by certain shareholders who agreed to pledge their interests in the Company to support the Group's credit facilities. The amounts due bear interest at the rate of 8% to 12% per annum (2005: 8% to 20% per annum) and a floating rate of Hong Kong dollar prime rate plus 3% to 3.5% per annum (2005: Hong Kong dollar prime rate plus 3% to 4.5% per annum).

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

(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 amount due to a minority shareholder represents dividends payable to a minority shareholder of a subsidiary. The amount due is unsecured, interest-free and repayable on demand.

(c) Amounts due to shareholders – current liabilities

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

(d) Amounts due from/(to) associates

The amounts due from/(to) associates are unsecured, interest-free and repayable on demand.

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

The amounts due to shareholders are unsecured, interest-free and fall due on 60 months from 30 August 2005. The amounts due to shareholders are initially recongised at fair value of HK$336,110,000 (2005: HK$336,110,000). As at 31 December 2006, the amounts are stated at amortised cost calculating using an effective interest rate of 9.05% (2005: 9.05%).

(f) Amounts due from subsidiaries

	Company	
	2006	2005
	HK$'000	HK$'000
Amounts due from subsidiaries	**4,737,672**	4,579,427
Less: Allowances for amounts due from subsidiaries	**(426,742)**	(442,828)
	4,310,930	4,136,599

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

(g) Amounts due to subsidiaries

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

26. BANK AND OTHER BORROWINGS

		Group	
	Notes	**2006 HK$'000**	2005 HK$'000
Bank overdrafts (unsecured)		**270**	316
Short-term bank loans	(a)	**433,353**	612,886
Long-term bank loans	(b)	**14,788**	288,184
Other borrowings	(c)	**25,468**	29,460
		473,879	930,846
Secured		**473,609**	921,212
Unsecured		**270**	9,634
		473,879	930,846

At 31 December 2006, the bank and other borrowings of the Group were repayable as follows:

	Group	
	2006 HK$'000	2005 HK$'000
Within one year	**459,091**	642,662
In the second years	**199**	288,184
In the third to fifth years	**14,589**	–
Wholly repayable within 5 years	**473,879**	930,846
Less: Portion due within one year under current liabilities	**(459,091)**	(642,662)
Portion due over one year under non-current liabilities	**14,788**	288,184

(a) Short-term bank loans

Loans amounted to HK$433,353,000 (2005: HK$608,261,000) bear interest at fixed rates ranging from 5.85% to 6.42% (2005: from 5.58% to 7.56%) per annum. At 31 December 2005, the remaining amount of HK$4,625,000 bears interest at Hong Kong dollar prime rate plus 1%. The carrying amounts of short-term borrowings approximate their fair values.

(b) Long-term bank loans

Loan amounted to HK$14,788,000 (2005: HK$288,184,000) bears interest at fixed rate of 6.93% (2005: fixed rates ranging from 6.14% to 7.56%) per annum. The carrying amounts of long-term borrowings approximate their fair values.

(c) Other borrowings

At 31 December 2006, the loan of HK$25,468,000 (2005: HK$29,460,000) due by a subsidiary to CITIC Capital Credit Limited, an associate of a substantial shareholder. The loan bears interest at prime rate plus 8% margin rate (2005: 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$2,268,000 (2005: HK$5,055,000) was accrued and included in other payables and accruals under current liabilities. The carrying amounts of other borrowings approximately their fair values.

(d) As at 31 December 2006, the Group technically breached the covenants of other borrowings of HK$25,468,000 (2005: certain bank and other borrowings totalling HK$43,403,000). These borrowings had already been due for repayment before the balance sheet date. Up to the date of this report, this loan balance was fully settled.

26. BANK AND OTHER BORROWINGS (Continued)

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

	Group	
	2006	2005
	HK$'000	HK$'000
Hong Kong dollar	**25,468**	34,085
RMB	**448,141**	896,491
Euro	**270**	270
	473,879	930,846

27. FINANCE LEASE LIABILITIES

		Group	
		2006	2005
		HK$'000	HK$'000
(a)	Total minimum lease payments is as follows:		
	Due within one year	**114**	–
	Due in the second to fifth years	**208**	–
		322	–
	Future finance charges on finance leases	**(42)**	–
	Present value of finance lease liabilities	**280**	–
(b)	The present value of finance lease liabilities is as follows:		
	Due within one year under current liabilities	**99**	–
	Due in the second to fifth years under non-current liabilities	**181**	–
		280	–

The Group has entered into a finance lease for a motor vehicle with lease term of two years. Interest rate under the lease is fixed at 3.75% per annum. The lease does not have options to renew or any contingent rental provisions. Under the lease terms, the Group has the option to purchase the lease asset at a price that is expected to be sufficiently lower than the fair value of the leased asset at the end of the lease.

Finance lease liabilities are secured by the leased motor vehicle where the lessor has the rights to revert in event of default. The carrying amount of the finance lease liabilities are denominated in Hong Kong dollars and approximate its fair value.

28. SHARE CAPITAL

	Number of ordinary shares of HK$0.01 each	HK$'000
Authorised:		
At 1 January 2005, 31 December 2005 and **31 December 2006**	**500,000,000,000**	**5,000,000**
Issued and fully paid:		
At 1 January 2005	29,931,804,183	299,318
Conversion of convertible notes	11,111,111,111	111,111
Issue of shares	27,120,395,500	271,204
At 31 December 2005 and 1 January 2006	68,163,310,794	681,633
Issue of shares	45,725,000	457
At 31 December 2006	**68,209,035,794**	**682,090**

During the year, the issued share capital of the Company was increased from HK$681,633,000 to HK$682,090,000 due to the exercise of share options by the directors and senior management.

29. 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.

29. SHARE OPTION SCHEME (Continued)

The share options vest upon the commencement of the exercise period, which is determined by the directors at the date of grant.

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

				Number of Company's shares						
Grantee	Date of grant	Exercise period	Exercise price per share	Held at 1 January 2006	Number of Company's share under options granted during the year	Exercised during the year	Lapsed during the year	Held at 31 December 2006	Weighted average exercise price per Company's share	Weighted average share price per share at exercise date of share options
Directors										
Zhang Hong Ren	15-12-2005	1-1-2006 to 31-12-2007	HK$0.04	8,750,000	–	(8,750,000)	–	–	HK$0.04	HK$0.066
(Resigned on 1 April 2006)	15-12-2005	1-1-2007 to 31-12-2007	HK$0.04	8,750,000	–	–	(8,750,000)	–	HK$0.04	N/A
Lam Bing Kwan	15-12-2005	1-1-2006 to 31-12-2007	HK$0.04	12,500,000	–	–	–	12,500,000	HK$0.04	N/A
	15-12-2005	1-1-2007 to 31-12-2007	HK$0.04	12,500,000	–	–	–	12,500,000	HK$0.04	N/A
Chen Dan	15-12-2005	1-1-2006 to 31-12-2007	HK$0.04	12,500,000	–	–	–	12,500,000	HK$0.04	N/A
(Appointed on 14 February 2006)	15-12-2005	1-1-2007 to 31-12-2007	HK$0.04	12,500,000	–	–	–	12,500,000	HK$0.04	N/A
Employees										
In aggregate	15-12-2005	1-1-2006 to 31-12-2007	HK$0.04	200,900,000	–	(36,975,000)	(10,500,000)	153,425,000	HK$0.04	HK$0.058
	15-12-2005	1-1-2007 to 31-12-2007	HK$0.04	200,225,000	–	–	(10,500,000)	189,725,000	HK$0.04	N/A
Total				468,625,000	–	(45,725,000)	(29,750,000)	393,150,000		

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$3,968,000 of employee compensation expense has been included in the consolidated income statement for 2006 (2005: HK$3,509,000) which gave rise to additional equity. No liabilities were recognised due to share-based payment transactions.

29. SHARE OPTION SCHEME (Continued)

At 31 December 2006, the Company had 393,150,000 (2005: 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 393,150,000 additional ordinary shares of the Company and additional share capital of approximately HK$3,931,000 and share premium of HK$11,795,000 (before issue expenses).

30. RESERVES

Group

	Share premium HK$'000	Capital reserve (note a) HK$'000	General reserve (note b) 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 2005	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
Equity-settled share-based compensation expenses	–	–	–	–	3,509	–	–	3,509
Arising from on 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 attributable to the Company's equity holders	–	–	–	–	–	–	20,630	20,630
At 31 December 2005 and 1 January 2006	**949,510**	**1,921,878**	**–**	**–**	**3,509**	**19,184**	**345,421**	**3,239,502**
Premium on issue of ordinary shares	**1,372**	**–**	**–**	**–**	**–**	**–**	**–**	**1,372**
Exercise of share options	**–**	**596**	**–**	**–**	**(596)**	**–**	**–**	**–**
Equity-settled share-based compensation expenses	**–**	**–**	**–**	**–**	**3,968**	**–**	**–**	**3,968**
Transfer to general reserve	**–**	**–**	**9,178**	**–**	**–**	**–**	**(9,178)**	**–**
Released on forfeiture of share options	**–**	**–**	**–**	**–**	**(385)**	**–**	**385**	**–**
Exchange differences on translation of the financial statements of foreign subsidiaries	**–**	**–**	**–**	**–**	**–**	**28,655**	**–**	**28,655**
Profit for the year attributable to the Company's equity holders	**–**	**–**	**–**	**–**	**–**	**–**	**21,881**	**21,881**
At 31 December 2006	**950,882**	**1,922,474**	**9,178**	**–**	**6,496**	**47,839**	**358,509**	**3,295,378**

Notes:

(a) Capital reserve of the Group mainly represented the reserves arising from capital reduction pursuant to a special resolution passed on 30 April 2002 and the amount previously recognised in share option reserve arising from the exercise of share options.

30. RESERVES (Continued)

Notes: (Continued)

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

Company

	Share premium HK$'000	Contributed surplus HK$'000	Capital reserve HK$'000	Convertible notes equity reserve HK$'000	Share option reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2005	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
Equity-settled share-based compensation expenses	–	–	–	–	3,130	–	3,130
Loss for the year	–	–	–	–	–	(26,226)	(26,226)
At 31 December 2005 and 1 January 2006	**949,510**	**1,971,857**	**–**	**–**	**3,130**	**(48,826)**	**2,875,671**
Premium on issue of ordinary shares	**1,372**	**–**	**–**	**–**	**–**	**–**	**1,372**
Exercise of share options	**–**	**–**	**596**	**–**	**(596)**	**–**	**–**
Equity-settled share-based compensation expenses	**–**	**–**	**–**	**–**	**3,425**	**–**	**3,425**
Released on forfeiture of share options	**–**	**–**	**–**	**–**	**(135)**	**135**	**–**
Loss for the year	**–**	**–**	**–**	**–**	**–**	**(54,317)**	**(54,317)**
At 31 December 2006	**950,882**	**1,971,857**	**596**	**–**	**5,824**	**(103,008)**	**2,826,151**

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 reserves 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.

31. DEFERRED TAXATION

At 31 December 2006, the amount of deferred tax liabilities on temporary differences provided for is as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
Tax effect of temporary differences attributable to accelerated depreciation allowances	**790**	790
Arising from acquisition of subsidiaries (note 33(a))	**252,000**	252,000
At 31 December	**252,790**	252,790

At 31 December 2006, the amount of unrecognised deferred tax are as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
Tax effect of temporary differences attributable to:		
– excess of accumulated depreciation over tax depreciation allowance	**1,775**	73
– unused tax losses	**104,455**	109,452
	106,230	109,525

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

32. MINORITY INTERESTS

	2006	2005
	HK$'000	HK$'000
At 1 January	**949,082**	–
(Loss)/Profit for the year	**(56,583)**	35,376
Arising from acquisition of subsidiaries	**999**	915,381
Released on disposal of subsidiaries	**–**	(1,148)
Partial disposal of a subsidiary	**1,017**	–
Net exchange difference	**12,810**	(527)
At 31 December	**907,325**	949,082

33. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Business combination – acquisition of subsidiaries

On 8 September 2006, the Group, through a subsidiary, entered into sales and purchase agreement with the equity holder of Redflag Chinese 2000 to acquire 65% of its equity interest for a consideration of HK$9,442,000.

Redflag Chinese 2000 operates mainly in information technology business. The acquired business contributed revenues of HK$6,229,000 and net profit of HK$2,572,000 to the Group for the period from the date of acquisition up to 31 December 2006. Due to a lack of HKFRS-specific data prior to the acquisition of these subsidiaries, pro-forma profit or loss of the combined entity for the year cannot be determined reliably.

Details of the assets and liabilities acquired and the corresponding goodwill are as follows:

	2006 HK$'000
Cash consideration	**9,442**
Fair value of net liabilities acquired	**11,263**
Goodwill (note 18)	**20,705**

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

	2006 HK$'000
Property, plant and equipment	**1,178**
Intangible assets	**129**
Trade receivables	**3,672**
Deposits, prepayment and other receivables	**844**
Cash and cash equivalents	**426**
Trade payables	**(169)**
Accruals and other payables	**(17,343)**
Net liabilities acquired	**(11,263)**

The acquirees' carrying values of net liabilities acquired at the date of acquisition approximate their fair values as disclosed above. The goodwill is attributable to the future profitability of the above subsidiary acquired and the significant synergies expected to arise after the Group's acquisition.

The net cash outflow arising from the acquisition are as follows:

	2006 HK$'000
Purchase consideration	
– Cash consideration	**9,442**
– Consideration payables	**(4,942)**
Settled in cash	**4,500**
Cash and cash equivalents in subsidiary acquired	**(426)**
Cash outflow on acquisition	**4,074**

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

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

On 30 August 2005, the Group acquired 62.85% of the share capital of Sino-i, 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:

	2005 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.

33. 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:

	2005	
	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	

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

(b) Disposal and dissolution of subsidiaries

	2005 HK$'000
Net assets disposed of:	
Property, plant and equipment	333
Intangible assets	12,511
Deposits for investments	15,000
Inventories	23
Trade receivables, other receivables and deposits	22,333
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
Amounts due to fellow subsidiaries	(60,971)
Trade payables, other payables and accruals	(34,437)
Provision for tax	(43)
Minority interests	(1,148)
	8,685
Exchange reserves released upon disposal of subsidiaries	(611)
Gain on disposal and dissolution of subsidiaries	14,086
	22,160
Satisfied by:	
Consideration receivable included in other receivables	22,160

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
Cash at banks and in hand disposed of	(627)

(c) Major non-cash transactions

During the year ended 31 December 2006, the Group has acquired a motor vehicle of HK$395,000 by entering into finance lease arrangements.

During the year ended 31 December 2005, the Group had the following 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; and

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

34. 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$13,878,000 (2005: HK$2,479,000) 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$38,000 (2005: HK$46,000) were utilised during the year and there was no balance available as at 31 December 2006 (2005: HK$Nil) to reduce future contributions.

Contributions payable of HK$30,000 as at 31 December 2006 (2005: HK$29,000) to the MPF Scheme are included in other payables.

35. DIRECTORS' REMUNERATION 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
2006					
Executive directors					
CHEN Dan**	–	512	253	–	765
QIN Tian Xiang*	–	1,143	–	11	1,154
YU Pun Hoi	–	480	–	12	492
ZHANG Hong Ren#	–	120	–	3	123
Non-executive directors					
LAM Bing Kwan	–	300	390	12	702
YU Lin Hoi	–	–	–	–	–
Independent non-executive directors					
HUANG Yaowen^	209	–	–	–	209
Prof. JIANG Ping^	175	–	–	–	175
LAU Yip Leung^^	71	–	–	–	71
QIN Tian Xiang*	28	–	–	–	28
WEI Jingyun***	48	–	–	–	48
WU Chen***	48	–	–	–	48
	579	2,555	643	38	3,815

* Resigned as independent non-executive director and redesignated as executive director with effect from 14 February 2006.

** Appointed as executive director with effect from 14 February 2006.

*** Resigned as independent non-executive director with effect from 30 May 2006.

^ Appointed as independent non-executive director with effect from 14 February 2006.

^^ Appointed as independent non-executive director with effect from 29 May 2006.

Resigned as executive director with effect from 1 April 2006.

35. DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT'S EMOLUMENTS (Continued)

(a) Directors' emoluments (Continued)

Group

	Fees	Basic salaries, housing, other allowances and benefits in kind	Share-based payments	Pension scheme contributions	Total
	HK$'000	HK$'000	HK$'000	HK$'000	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

There was no arrangement under which a director waived or agreed to waive any remuneration in respect of the years ended 31 December 2006 and 2005.

(b) Five highest paid individuals

The five highest paid individual of the Group for the year included one director, details of whose emoluments are set out above (2005: did not include any director). The emoluments of the remaining four (2005: five) employees are as follows:

	2006	2005
	HK$'000	HK$'000
Basic salaries, other allowances and benefits in kind	**3,319**	1,901
Equity-settled share-based compensation expenses	**1,421**	914
Pension contributions	**36**	36
	4,776	2,851

35. DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT'S EMOLUMENTS (Continued)

(b) Five highest paid individuals (Continued)

The emoluments of these employees fell within the following bands:

Emolument band	Number of highest paid individuals	
	2006	2005
HK$Nil – HK$1,000,000	**–**	5
HK$1,000,001 – HK$1,500,000	**4**	–
	4	5

During the years ended 31 December 2006 and 31 December 2005, no emoluments were paid to any of the Company's directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

36. COMMITMENTS

(a) Capital commitments

At 31 December 2006, the Group had outstanding commitments as follows:

	2006 **HK$'000**	2005 HK$'000
Contracted but not provided for in respect of:		
– construction in progress	**82,291**	75,125
– property, plant and equipment	**34,293**	134
– intangible assets	**4,037**	–
	120,621	75,259

At 31 December 2006 and 31 December 2005, the Company does not have any significant capital commitments.

(b) Operating lease arrangement

At 31 December 2006, the Group's total future minimum lease payments under non-cancellable operating leases are payable as follows:

	Land and buildings	
	2006 **HK$'000**	2005 HK$'000
Within one year	**30,574**	35,715
In the second to fifth years	**25,156**	37,364
	55,730	73,079

The Group leases a number of properties under operating leases. The leases run for an initial period of one to ten 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.

36. COMMITMENTS (Continued)

(b) Operating lease arrangement (Continued)

At 31 December 2006, the Group's total future minimum lease receivables under non-cancellable operating leases are as follows:

	Land and buildings	
	2006	2005
	HK$'000	HK$'000
Within one year	**400**	1,205
In the second to fifth years	**1,599**	1,537
Over five years	**3,730**	3,971
	5,729	6,713

At 31 December 2006 and 31 December 2005, the Company had no operating lease commitments as lessor or lessee.

37. CONTINGENT LIABILITIES

Guarantee given in connection with credit facilities granted to:

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Subsidiaries	**–**	–	**213,329**	374,370
Associates (note)	**12,090**	16,064	**–**	–
Third parties (note)	**92,732**	132,074	**–**	–
	104,822	148,138	**213,329**	374,370

Note : Sino-i, a listed subsidiary of 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 to Genius Reward. Evallon and Acesite Limited ("Acesite"), a company incorporated in the British Virgin Islands, which was a wholly-owned subsidiary of Evallon, but it has not been a member company of the Group subsequent to the disposal of its entire shares to a third party by Evallon in February 2000, respectively executed share mortgage in favour of EPCIB for Genius Reward Loan. Under the share mortgage executed by Acesite, 74,889,892 shares ("Philippines Shares") of Acesite (Philippines) Hotel Corporation Inc. ("Acesite Phils.") were pledged to EPCIB.

As at 15 January 2003, the outstanding indebtedness of Genius Reward to EPCIB was US$1,088,084.77 ("Outstanding Indebtedness"). In February 2003, EPCIB purportedly foreclosed the Philippines Shares to Waterfront Philippines Inc. ("Waterfront"), a Philippines corporation, Acesite contested the foregoing foreclosure of the Philippines Shares, and successfully obtained a preliminary injunction to restrain the transfer of the Philippines Shares to Waterfront. However, the injunction lapsed subsequently as Acesite was not being able to raise a bond for the sum of 50 million Philippines peso within a time limit for security for substantiating the injunction. In early of 2006, Evallon joined Acesite and its current owner as plaintiffs instituted the legal proceedings against both EPCIB and Waterfront in Hong Kong in respect of the foregoing foreclosure of the Philippines Shares. Due to the pending litigation, the Group cannot ascertain the fair value of the Outstanding Indebtedness.

37. CONTINGENT LIABILITIES (Continued)

Note: (Continued)

In addition to the EPCIB Guarantee, Sino-i 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. Resulting from the purported foreclosure of the Philippines Shares, Acesite Phils. is now being controlled by Waterfront. The Group does not have updated information of the outstanding balance of the indebtedness under the ICBC Loan ("ICBC Indebtedness"), therefore, the fair value of the guarantee for ICBC Indebtedness cannot be ascertained.

38. CREDIT FACILITIES

As at 31 December 2006, the Group's credit facilities were supported by the following:

(a) pledge of bank deposits of HK$22,282,000 (2005: HK$Nil);

(b) charge over prepaid lease payment for leasehold land (note 14) with a net carrying value of HK$13,675,000 (2005: HK$13,440,000);

(c) charge over certain properties held for and under development for sale with carrying value of HK$3,701,235,000 (2005: HK$3,994,247,000);

(d) personal guarantee given by Mr. Yu Pun Hoi;

(e) guarantee given by a third party of RMB263,500,000 (2005: RMB610,000,000);

(f) pledge of certain interests in the Company by some shareholders; and

(g) pledge of 2,454,992,316 shares (2005: 1,726,993,316 shares) in Sino-i as securities to certain securities brokers, the total of which represents about 19.60% (2005: 13.8%) of total interest in Sino-i. The market value of such listed shares as at 31 December 2006 was about HK$233,224,000 (2005: HK$205,512,000).

39. RELATED PARTY TRANSACTIONS

Remuneration for key management personnel represents amounts paid to the Company's directors as disclosed in note 35.

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

40. PENDING LITIGATIONS

(a) Evallon disposed of the entire issued share capital of Acesite to South Port Development Limited ("South Port"), an independent third party, in February 2000. In December 2002, the owner of South Port, an independent third party, disposed of the entire issued share capital of South Port with an underlying interest in Acesite to Sino-i which then disposed of such entire shares of South Port which is one of the plaintiffs in a lawsuit as briefly described below to another independent third party in April 2005.

Acesite's sole investment was 74,889,892 shares ("Philippines Shares") in Acesite Phils, a company listed on the Philippines Stock Exchange, which runs a hotel in Manila.

The Philippines Shares were pledged to EPCIB, a bank incorporated in the Philippines, as security for loans granted to an associated company of Sino-i. In February 2003, EPCIB purportedly foreclosed the Philippines Shares to Waterfront, a Philippines corporation, Acesite contested the foregoing foreclosure of the Philippines Shares, and successfully obtained a preliminary injunction to restrain the transfer of the Philippines Shares to Waterfront. However, the injunction lapsed subsequently as Acesite was not being able to raise a bond for the sum of 50 million Philippines peso within a time limit for security for substantiating the injunction.

Sino-i decided to dispose of the entire share capital of South Port together with the underlying legal proceedings in respect of the foregoing foreclosure of the Philippines Shares in April 2005 so that it may continue to focus its resources on achieving the primary business objectives of IT and its related businesses.

In early of 2006, Acesite and South Port instituted the legal proceedings against both EPCIB and Waterfront in Hong Kong ("Legal Proceedings"). As a matter of legal technicality, Evallon joined Acesite and South Port as a plaintiff in the Legal Proceedings, but Evallon and South Port have reached an agreement that all damages to be rewarded in the Legal Proceedings should belong to South Port. The Group believes that the Legal Proceedings will not have any material effects on Evallon.

In March 2007, Acesite Phils. commenced proceedings against Acesite, Sino-i and the others. As at the date hereof, the legal proceedings are still in progress and no date has been fixed for trial, therefore, the Group cannot give any further comments at this stage.

(b) On 12 May 2004, Dadi Media, a wholly owned subsidiary of Sino-i, issued a claim against two minority shareholders of a subsidiary of Sino-i (collectively, "Defendants"), for the following reliefs: (a) the sum approximately HK$27,750,000, (b) interest on the said sum and (c) costs arising out of the Defendant's 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. The counterclaim was subsequently amended and re-amended.

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

41. 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.

41.1 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.

41.2 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.

41.3 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 2006 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.

41.4 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.

41.5 Liquidity risk

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

41.6 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, financial assets at fair value through profit or loss, trade receivables and payables, other receivables and payables, bank and other borrowings, amount due to a director/ shareholders/minority shareholder. 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 rates and carrying amounts of long-term borrowings are presented in note 26 to the financial statements.

42. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with current year's presentation.