NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

1. GENERAL INFORMATION

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

The Company and its subsidiaries (the "Group") are principally engaged in property development, operations of web sites and related services, provision of information technology services, distance learning and application services and provision of financial information and related services. Details of the principal activities of the Company's subsidiaries are set out in note 17.

The ultimate parent company of the Group is Nan Hai Corporation Limited ("Nan Hai"), a company incorporated and domiciled in Bermuda and its shares are listed on the Hong Kong Stock Exchange.

The financial statements on pages 33 to 97 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 and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the requirements of the Hong Kong Companies Ordinance. The financial statements also include the applicable disclosure requirements of the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (the "Listing Rules").

The financial statements for the year ended 31 December 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 the 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 3.23.

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.

2. ADOPTION OF NEW OR AMENDED HKFRSs (Continued)

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.

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 values. 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 any 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.4 Associates (Continued)

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.

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 3.13) 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 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)

3.5 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.

3.6 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;

– 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 performed 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;

– Royalty income is recognised on an accrual basis in accordance with the substance of the relevant agreement; and

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

3.7 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8 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 3.13).

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, the attributable amount of goodwill capitalised is included in the determination of the amount of gain or loss on disposal.

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

3.9 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.

3.10 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.10 Property, plant and equipment (Continued)

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:

Leasehold improvements, furniture, fixtures and equipment	10% to 33-1/3%, or over lease terms whichever involves shorter period
Motor vehicles and pleasure yacht	10% to 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 net sales proceeds and the carrying amount of the assets and is recognised in the income statement.

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 3.7), 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.13 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.

For the purposes of assessing impairment, when an assets 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.

3.14 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.14 Leases (Continued)

(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 assets, 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.

(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.

3.15 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 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)

3.15 Financial assets (Continued)

Classification of 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 fee 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 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.

Recognition and derecognition of financial assets

All financial assets are recognised when, any 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.15 Financial assets (Continued)

Recognition and derecognition of financial assets (Continued)

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 were recognised. Reversal of impairment losses in such circumstances are recognised in the income statement.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.16 Accounting for income taxes

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

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 income 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.

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.

3.17 Cash and cash equivalents

Cash and cash equivalents included cash at bank and in hand.

3.18 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.19 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.

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.19 Employee benefits (Continued)

(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 option reserve will be transferred to retained profits.

3.20 Financial liabilities

The Group's financial liabilities include borrowings, trade and other payables and finance lease liabilities. 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", "Amount due to ultimate holding company", "Amounts due to associate(s)", "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 instruments. 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.20 Financial liabilities (Continued)

(i) *Borrowings*

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

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

(ii) *Trade and other payables*

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

(iii) *Finance lease liabilities*

Finance lease liabilities are measured at initial value less the capital element of lease repayments (see note 3.14).

3.21 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.

3.22 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 not wholly within the control of the Group are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

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 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.

3.23 Financial guarantees 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.23 Financial guarantees issued (Continued)

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 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.

3.24 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 intangible assets, property, plant and equipment, inventories, receivables, operating cash and financial assets at fair value through profit or loss. Segment liabilities comprise operating liabilities 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.

3.25 Discontinued operations

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which represents a separate major line of business or geographical area of operations.

Classification as a discontinued operation occurs upon disposal. It also occurs when the operation is abandoned.

Where an operation is classified as discontinued, a single amount is presented on the face of the income statement, which comprises the post-tax profit or loss of the discontinued operation.

3.26 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;

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.26 Related parties (Continued)

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

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

(e) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (c) or (d); or

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

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

4.1 Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Depreciation and amortisation

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

Provision for impairment of receivables

The policy for the provision for impairment of receivables of the Group is based on the evaluation of collectibility 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 sale 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.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

4.1 Critical accounting estimates and assumptions (Continued)

Impairment of goodwill

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

4.2 Critical judgements in applying the Group's accounting policies

Current tax and deferred tax

The Group is subject to income and other taxes in Mainland China. Significant judgement is required in determining the amount of the provision for taxes 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 provision for income and other taxes and deferred tax in the period in which such determination is made.

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

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial assets and liabilities include bank balances and cash, equity investments, borrowings, trade receivables and trade payables. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

5.1 Foreign currency risk

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

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

5.2 Interest rate risk

The Group is exposed to interest rate risk through the impact of interest rate changes on interest bearing bank and other borrowings (bank and other borrowings carry interests at variable rates and fixed rates). The interest rates and repayment terms of bank and other borrowings of the Group are disclosed in note 33. The Group currently does not have an interest rate hedging policy.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

5.3 Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations as at 31 December 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.

5.4 Price risk

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

5.5 Liquidity risk

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

5.6 Fair values

The carrying amounts of the following financial assets and financial liabilities approximate their fair value as all of them are in short-term nature: cash and cash equivalents, 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/ultimate holding company/associate(s). Analysis of the interest rate and carrying amounts of borrowings are presented in note 33 to the financial statements.

6. REVENUE/TURNOVER AND OTHER OPERATING INCOME

		2006 HK$'000	2005 HK$'000
(a)	**The Group's turnover represents revenue from:**		
	Continuing operations		
	Information technology business	**585,214**	421,954
	Provision of financial information and related services	**24,917**	18,699
	Royalty income	**875**	23,111
	Distance learning and application services	**8,267**	32,485
		619,273	496,249
	Discontinued operation		
	Sales of consumer packaged electronic products	**–**	478
		619,273	496,727
(b)	**Other operating income:**		
	Continuing operations		
	Interest income	**981**	2,487
	Gain on disposal of intangible assets	**–**	2,100
	Net gain on disposal of subsidiaries (note 47(a))	**–**	24,850
	Excess of the carrying value of the additional interests in a subsidiary over the consideration arising from conversion of convertible notes by the Group (note 40)	**–**	185,501
	Sundry income	**3,567**	2,201
		4,548	217,139

The Group's consumer packaged electronic business was discontinued with effect from July 2005. Accordingly, it was treated as discontinued operation in last year.

7. SEGMENT INFORMATION

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

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

Summary details of the business segments are as follows:

(a) Provision of financial information and related services

(b) Information technology business

(c) Property development

(d) Distance learning and application services

(e) Consumer packaged electronics

(f) Other segments include trading of securities 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.

7. SEGMENT INFORMATION (Continued)

(a) Business segments

	2006								
	Continuing operations							Discontinued operation	
	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$'000	Consumer packaged electronics HK$'000	Consolidated HK$'000
Segment revenue									
– Sales to external customers	24,917	585,214	–	8,267	875	–	619,273	–	619,273
– Inter-segment sales	14,644	–	–	9,372	–	(24,016)	–	–	–
	39,561	585,214	–	17,639	875	(24,016)	619,273	–	619,273
Segment results	(283,125)	126,777	(2,068)	5,149	(4,201)	–	(157,468)	–	(157,468)
Interest income									981
Unallocated corporate expenses									(15,066)
Finance costs									(9,194)
Share of results of associates									2,161
Loss before income tax									(178,586)
Income tax expense									(4,932)
Loss for the year									(183,518)
Segment assets	27,226	687,036	1,340,071	33,171	34,598	–	2,122,102	–	2,122,102
Unallocated assets									54,907
Total assets									2,177,009
Segment liabilities	(18,666)	(113,483)	(9,150)	(2,401)	(16,837)	–	(160,537)	–	(160,537)
Unallocated liabilities									(193,150)
Total liabilities									(353,687)
Other information									
Capital expenditure	2,245	56,882	18	608	1,275	–	61,028	–	61,028
Depreciation and amortisation	569	31,042	11	428	634	–	32,684	–	32,684
Impairment loss on goodwill	289,800	–	–	–	–	–	289,800	–	289,800
Other non-cash (income)/expenses	626	20,072	–	129	(103)	–	20,724	–	20,724

7. SEGMENT INFORMATION (Continued)

(a) Business segments (Continued)

	2005							
	Continuing operations						Discontinued operation	
	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$'000	Total HK$'000	Consumer packaged electronics HK$'000	Consolidated HK$'000
Segment revenue								
Sales to external customers	39,454	421,954	–	32,485	2,356	496,249	478	496,727
Segment results	3,663	113,076	(5,546)	12,574	(4,735)	119,032	(128)	118,904
Interest income								2,487
Net gain on disposal of subsidiaries								24,850
Excess of the carrying value of the additional interests in a subsidiary over the consideration arising from conversion of convertible notes by the Group								185,501
Unallocated corporate expenses								(46,281)
Finance costs								(8,460)
Share of results of associates								756
Profit before income tax								277,757
Income tax expense								(7,598)
Profit for the year								270,159
Segment assets	328,688	441,983	1,053,099	54,579	5,162	1,883,511	–	1,883,511
Unallocated assets								356,722
Interest in associates								36,458
Total assets								2,276,691
Segment liabilities	(17,368)	(77,439)	(28,111)	(2,094)	(16,927)	(141,939)	–	(141,939)
Unallocated liabilities								(167,888)
Total liabilities								(309,827)
Other information								
Capital expenditure	395	39,286	–	167	525	40,373	–	40,373
Depreciation and amortisation	1,134	18,462	–	766	857	21,219	47	21,266
Other non-cash expenses	108	1,630	–	–	62	1,800	52	1,852

7. SEGMENT INFORMATION (Continued)

(b) Geographical segments

	2006			
	Continuing operations		Discontinued operation	
	Hong Kong HK$'000	Mainland China HK$'000	Others HK$'000	Total HK$'000
Segment revenue				
Sales to external customers	**57,000**	**562,273**	**–**	**619,273**
Other segment information				
Segment assets	**69,087**	**2,107,922**	**–**	**2,177,009**
Capital expenditure	**408**	**60,620**	**–**	**61,028**

	2005			
	Continuing operations		Discontinued operation	
	Hong Kong HK$'000	Mainland China HK$'000	Others HK$'000	Total HK$'000
Segment revenue				
Sales to external customers	2,356	493,893	478	496,727
Other segment information				
Segment assets	11,559	2,265,132	–	2,276,691
Capital expenditure	–	40,373	–	40,373

8. FINANCE COSTS

	2006 HK$'000	2005 HK$'000
Continuing operations		
Interest charges on:		
Bank loans wholly repayable within five years	**2,234**	19,385
Other borrowings wholly repayable within five years	**5,069**	4,287
Amounts due to securities brokers and margin financiers	**1,874**	1,707
Finance charges on finance leases	**17**	–
Land premium payables	**–**	17,417
Other payables	**4,052**	666
Total borrowing costs	**13,246**	43,462
Less: Interest capitalised in properties under development	**(4,052)**	(35,002)
	9,194	8,460

The borrowing costs have been capitalised at 3.82% (2005: rates ranging from 3.51% to 18.25%) per annum.

9. (LOSS)/PROFIT BEFORE INCOME TAX

	Continuing operations 2006 HK$'000	Discontinued operation 2006 HK$'000	Continuing operations 2005 HK$'000	Discontinued operation 2005 HK$'000
(Loss)/Profit before income tax is arrived at after charging/(crediting):				
Auditors' remuneration	2,411	–	3,634	–
Net foreign exchange (gain)/loss	(3,641)	–	195	–
Depreciation of property, plant and equipment				
– Owned assets	19,053	–	15,139	47
– Leased assets	99	–	–	–
	19,152	–	15,139	47
Operating lease charges on land and buildings	33,189	–	38,771	–
Operating lease charges on prepaid land lease	270	–	525	–
Retirement benefits contributions:				
Gross retirement benefit contributions	13,687	–	11,187	–
Less: forfeited contributions	(17)	–	(8)	–
Net retirement benefit contributions	13,670	–	11,179	–
Cost of provision of information technology business	77,743	–	55,817	–
Cost of provision of financial information and related services	6,741	–	6,169	–
Cost of provision of proprietary software	1,923	–	2,313	–
Cost of inventories sold – consumer electronic products	–	–	–	508
Cost of inventories sold – distance learning materials	3,515	–	8,326	–
Cost of sales and services provided	89,922	–	72,625	508
Provision for impairment of receivables	16,663	–	1,420	51
Net loss on disposal of property, plant and equipment	3,214	–	198	–
Amortisation of intangible assets *	13,532	–	6,080	–
Write-off of property, plant and equipment	872	–	137	–
Share-based compensation	543	–	5,967	–
Net fair value (gain)/loss on financial assets at fair value through profit or loss	(25)	–	1,693	–
(Gain)/Loss on disposal of an associate	(1,358)	–	1,868	–
Loss on partial disposal of a subsidiary	1,017	–	–	–

* *included in other operating expenses*

10. INCOME TAX EXPENSE

	2006 HK$'000	2005 HK$'000
Continuing operations		
PRC Enterprise Income Tax		
Current tax – tax for the year	**6,421**	23,372
Over-provision in respect of prior years	**(1,489)**	(15,774)
	4,932	7,598

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 assessable profits in Hong Kong or had 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 Enterprise 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%.

Reconciliation between income tax expense and accounting (loss)/profit at applicable tax rates is as follows:

	2006 HK$'000	2005 HK$'000
(Loss)/Profit before income tax		
– from continuing operations	**(178,586)**	277,885
– from discontinued operation	**–**	(128)
	(178,586)	277,757
Tax calculated at the rates applicable to the jurisdictions concerned	**(46,368)**	51,646
Tax effect of expenses that are not deductible in determining taxable profit	**58,804**	17,655
Tax effect of non-taxable revenue	**(3,106)**	(50,166)
Tax effect of current year's tax losses not recognised	**5,446**	4,433
Tax effect of utilisation of tax losses previously not recognised	**(8,363)**	(208)
Tax effect of taxable temporary difference not recognised	**8**	12
Over-provision in respect of prior years	**(1,489)**	(15,774)
Income tax expense	**4,932**	7,598

11. DISCONTINUED OPERATION

Following the shareholding restructure plan and distribution of a subsidiary as detailed in the Company's circular dated 23 March 2004 and the 2005 annual report, respectively, the Group had ceased its operation of consumer packaged electronics operations.

The result from the consumer packaged electronics included in the consolidated income statement for the year ended 31 December 2005 was as follows:

	Notes	2005 HK$'000
Revenue	6	478
Cost of sales		(508)
Gross loss		(30)
Other operating expenses		(98)
Loss before income tax	9	(128)
Income tax expense		–
Loss for the year from discontinued operation		(128)

The consumer packaged electronics products business contributed approximately HK$128,000 operating cash outflows during the year ended 31 December 2005. There was no cash flow attributable to the investing and financing activities of the consumer packaged electronics products business during the year ended 31 December 2005.

12. (LOSS)/PROFIT FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

Of the consolidated loss for the year attributable to the equity holders of the Company of HK$200,263,000 (2005: consolidated profit of HK$264,016,000), a profit of HK$34,244,000 (2005: a loss of HK$32,213,000) has been dealt with in the financial statements of the Company.

13. (LOSS)/EARNINGS PER SHARE

(a) From continuing and discontinued operations

The calculation of basic (loss)/earnings per share from continuing and discontinued operations is based on the (loss)/profit for the year attributable to the equity holders of the Company of HK$200,263,000 (2005: HK$264,016,000) and on 19,914,504,877 (2005: 19,914,504,877) ordinary shares in issue during the year.

(b) From continuing operations

The basic (loss)/earnings per share from continuing operations attributable to the equity holders of the Company is calculated based on the following data:

(Loss)/Earnings figures are calculated as follows:

	2006 HK$'000	2005 HK$'000
(Loss)/Profit for the year attributable to the equity holders of the Company	**(200,263)**	264,016
Less: Loss for the year from discontinued operation	**–**	128
(Loss)/Earnings for the purpose of basic (loss)/earnings per share from continuing operations	**(200,263)**	264,144

The denominators used are the same as those detailed above for basic (loss)/earnings per share.

(c) From discontinued operation

Basic loss per share from discontinued operation for the year ended 31 December 2005 was HK0.01cents which was calculated based on the loss for the year ended 31 December 2005 from discontinued operation of HK$128,000. The denominators used are the same as those details above for basic (loss)/earnings per share from continuing and discontinued operations.

Diluted (loss)/earnings per share for the years ended 31 December 2006 and 31 December 2005 were not presented because the impact of the exercise of share option was anti-dilutive.

14. EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS)

	2006 HK$'000	2005 HK$'000
Wages and salaries	**242,493**	180,110
Share options granted to directors and employees	**543**	5,967
Pension costs – defined contribution plans	**13,670**	11,179
Staff welfare	**23,012**	18,335
	279,718	215,591

15. PROPERTY, PLANT AND EQUIPMENT

Group

	Construction in progress HK$'000	Leasehold improvements, furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
At 1 January 2005				
Cost	469	141,464	5,639	147,572
Accumulated depreciation	–	(100,798)	(5,213)	(106,011)
Net book amount	469	40,666	426	41,561
Year ended 31 December 2005				
Opening net book amount	469	40,666	426	41,561
Additions	2,045	15,114	101	17,260
Distribution of a subsidiary	–	(241)	–	(241)
Disposal of subsidiaries	–	(333)	–	(333)
Disposals	–	(199)	–	(199)
Depreciation charge	–	(15,095)	(91)	(15,186)
Written off	–	(119)	(18)	(137)
Net exchange difference	9	626	(29)	606
Closing net book amount	2,523	40,419	389	43,331
At 31 December 2005				
Cost	2,523	126,447	3,871	132,841
Accumulated depreciation	–	(86,028)	(3,482)	(89,510)
Net book amount	2,523	40,419	389	43,331
Year ended 31 December 2006				
Opening net book amount	**2,523**	**40,419**	**389**	**43,331**
Acquisition of a subsidiary (note 47(c))	**–**	**1,178**	**–**	**1,178**
Additions	**3,299**	**28,780**	**514**	**32,593**
Disposals	**–**	**(3,373)**	**(122)**	**(3,495)**
Depreciation charge	**–**	**(19,020)**	**(132)**	**(19,152)**
Written off	**–**	**(872)**	**–**	**(872)**
Net exchange difference	**101**	**1,211**	**19**	**1,331**
Closing net book amount	**5,923**	**48,323**	**668**	**54,914**
At 31 December 2006				
Cost	**5,923**	**148,371**	**3,850**	**158,144**
Accumulated depreciation	**–**	**(100,048)**	**(3,182)**	**(103,230)**
Net book amount	**5,923**	**48,323**	**668**	**54,914**

15. PROPERTY, PLANT AND EQUIPMENT (Continued)

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 a finance lease.

Company

	Leasehold improvements, furniture and fixtures HK$'000	**Motor vehicles** HK$'000	**Total** HK$'000
At 1 January 2005			
Cost	2,375	674	3,049
Accumulated depreciation	(2,079)	(672)	(2,751)
Net book amount	296	2	298
Year ended 31 December 2005			
Opening net book amount	296	2	298
Additions	2	–	2
Depreciation	(152)	–	(152)
Closing net book amount	146	2	148
At 31 December 2005			
Cost	2,377	674	3,051
Accumulated depreciation	(2,231)	(672)	(2,903)
Net book amount	146	2	148
Year ended 31 December 2006			
Opening net book amount	**146**	**2**	**148**
Depreciation	**(114)**	**–**	**(114)**
Closing net carrying amount	**32**	**2**	**34**
At 31 December 2006			
Cost	**2,377**	**674**	**3,051**
Accumulated depreciation	**(2,345)**	**(672)**	**(3,017)**
Net book amount	**32**	**2**	**34**

16. PREPAID LAND LEASE PAYMENTS UNDER OPERATING LEASES

The Group's prepaid land lease payments represent interests in land use rights and are held in Mainland China on leases of between 10 to 50 years.

	Group	
	2006	2005
	HK$'000	HK$'000
Opening net carrying amount	**12,736**	13,029
Annual charges of prepaid operating lease payments	**(270)**	(525)
Net exchange difference	**506**	232
Closing net carrying amount	**12,972**	12,736

All the Group's interest in land use rights have been pledged to secure the banking facilities granted to the Group (note 45).

17. INTERESTS IN SUBSIDIARIES

	Company	
	2006	2005
	HK$'000	HK$'000
Unlisted shares, at cost	**416,508**	416,508
Less: Provision for impairment losses	**(309,167)**	(309,167)
	107,341	107,341
Amounts due from subsidiaries	**2,216,566**	1,945,982
Less: Provision for impairment of receivables	**(1,274,868)**	(1,274,868)
	941,698	671,114
Amounts due to subsidiaries	**67,755**	34,939

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

17. INTERESTS IN SUBSIDIARIES (Continued)

Particulars of the principal subsidiaries at 31 December 2006 are as follows:

Name	Country/Place of incorporation/ registration and operations	Particulars of issued and paid-up share capital/ registered capital	Percentage held by the Company		Principal activities
			Directly	Indirectly	
CE Dongli Technology Group Company Limited (note a)	PRC	RMB148,570,000	–	80	Information technology business
Century Unicorn Limited	British Virgin Islands ("BVI")	1 ordinary share of US$1 each	–	100	Trading and provision of information technology products
China Enterprise ASP Limited ("China Enterprise")	Hong Kong	9,000,000 ordinary shares of HK$1 each	–	100	Investment holding
Cosmos Decade Developments Limited	BVI	1 ordinary share of US$1 each	–	100	Trading and provision of financial information products
Dadi Entertainment Limited	Hong Kong	2 ordinary shares of HK$1 each	–	100	Music broadcasting on the internet
Dadi Media Limited ("Dadi Media")	Hong Kong	2 ordinary shares of HK$1 each	100	–	Investment holding
Evallon Investment Limited ("Evallon")	Hong Kong	10,000 ordinary shares of HK$100 each	–	100	Investment holding
Listar Properties Limited	BVI	20,000,000 ordinary shares of US$1 each	1	50	Investment holding
Rich King Inc.	BVI	50,000 ordinary shares of US$1 each	100	–	Trading of online distance learning education products
Robina Profits Limited	BVI	1 ordinary share of US$1 each	100	–	Trading of securities
Shihua (Hong Kong) Financial Information Company Limited	Hong Kong	5,000,000 ordinary shares of HK$1 each	100	–	Provision of financial information
Sino-i.com (Shanghai) Limited	Hong Kong	2 ordinary shares of HK$1 each	100	–	Investment holding

17. INTERESTS IN SUBSIDIARIES (Continued)

Particulars of the principal subsidiaries at 31 December 2006 are as follows: (Continued)

Name	Country/Place of incorporation/ registration and operations	Particulars of issued and paid-up share capital/ registered capital	Percentage held by the Company Directly	Percentage held by the Company Indirectly	Principal activities
Victorious Limited	BVI	1 ordinary share of US$1 each	100	–	Trading of securities
北京中企開源信息技術有限公司 (note b)	PRC	RMB10,000,000	–	80	Information technology business
北京世華國際金融信息有限公司 (note b)	PRC	RMB130,000,000	–	80	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	–	100	Property development
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	–	65	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	–	95 (2005: 98)	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	–	80	Information technology business
北京新網數碼信息技術有限公司 (note d)	PRC	RMB10,000,000	–	80	Information technology business
廣州東鏡新城房地產有限公司 (note d)	PRC	US$14,000,000	–	51	Property development

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 and the law of PRC.

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

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

18. INTERESTS IN ASSOCIATE(S)

	Group	
	2006	2005
	HK$'000	HK$'000
Balance at 1 January	**36,458**	55,492
Share of results of associates		
– profit before income tax	**2,161**	1,010
– income tax expense	**–**	(254)
	2,161	756
Partial disposal of an associate arising from the distribution of a subsidiary	**–**	(17,932)
Disposal of an associate	**(38,628)**	(1,868)
Net exchange difference	**9**	10
Balance at 31 December	**–**	36,458

The carrying amount of interest in associate can be analysed as follows:

	2006	2005
Share of net assets	**–**	8,947
Goodwill, at cost	**–**	27,511
Balance at 31 December	**–**	36,458

The Company has no direct equity interest in the associate(s) as at 31 December 2006 and 31 December 2005. Particulars of the associate as at 31 December 2006 are as follows:

Name	**Particulars of issued shares**	**Place of incorporation and operations**	**Percentage of interest held by the Group**	**Nature of business**
Genius Reward Company Limited ("Genius Reward")**	2 ordinary shares of HK$100 each	Hong Kong	50%	Inactive

** Genius Reward is an unlisted limited liability company

18. INTERESTS IN ASSOCIATE(S) (Continued)

Summary of financial information of the Group's associate(s) extracted from unaudited financial statements of the associate(s) is as follows:

	2006	2005
	HK$'000	HK$'000
Assets	**25,702**	96,550
Liabilities	**(31,813)**	(45,405)
Revenue	**–**	25,345
(Loss)/Profit	**(788)**	3,795

The Group has discontinued recognition of its share of loss of an associate. The amount of unrecognised share of loss of the associate for the year and accumulated unrecognised share of loss of the associate amounted to HK$788,000 (2005: HK$788,000) and HK$2,949,000 (2005: HK$2,161,000) respectively.

19. GOODWILL

The main changes in the carrying amounts of goodwill for the year result from the impairment of previously recognised goodwill. The net carrying amount of goodwill can be analysed as follows:

		Group	
		2006	2005
	Notes	**HK$'000**	HK$'000
At 1 January			
Gross carrying amount		**324,330**	605,573
Accumulated impairment		**–**	–
Net carrying amount		**324,330**	605,573
Year ended 31 December			
Opening net carrying amount		**324,330**	605,573
Derecognised on disposal of subsidiaries	47(a)	**–**	(12,511)
Derecognised on the distribution of a subsidiary	47(b)	**–**	(268,732)
Acquisition of a subsidiary	47(c)	**20,705**	–
Impairment losses		**(289,800)**	–
Net exchange differences		**812**	–
Closing net carrying amount		**56,047**	324,330
At 31 December			
Gross carrying amount		**345,847**	324,330
Accumulated impairment		**(289,800)**	–
Net carrying amount		**56,047**	324,330

19. GOODWILL (Continued)

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

	2006	2005
	HK$'000	HK$'000
Financial information and related services	**–**	289,800
Information technology business	**56,047**	34,530
Net carrying amount at 31 December	**56,047**	324,330

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:

	Financial information service		**Information technology business**	
	2006	2005	**2006**	2005
Growth rates	**10%**	27%	**10%**	15%
Discount rates	**6.31%**	5.58%	**6.31%**	5.58%

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 existing goodwill. After assessing all the facts and the development strategy, the management decided to write off the corresponding goodwill.

The growth rate used for information technology business's CGU of 10% in budget plan is determined by reference to the average growth rate for the industry to which belongs.

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

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

20. OTHER INTANGIBLE ASSETS – COMPUTER SOFTWARE

	Group	
	2006	2005
	HK$'000	HK$'000
At 1 January		
Gross carrying amount	**44,314**	42,279
Accumulated amortisation	**(7,716)**	(4,075)
Net carrying amount	**36,598**	38,204
Year ended 31 December		
Opening net carrying amount	**36,598**	38,204
Acquisition of a subsidiary (note 47(c))	**129**	–
Additions	**28,435**	23,113
Disposal	**–**	(19,312)
Amortisation charge for the year	**(13,532)**	(6,080)
Net exchange difference	**1,825**	673
Closing net carrying amount	**53,455**	36,598
At 31 December		
Gross carrying amount	**75,331**	44,314
Accumulated amortisation	**(21,876)**	(7,716)
Net carrying amount	**53,455**	36,598

21. INVENTORIES

	Group	
	2006	2005
	HK$'000	HK$'000
Property development		
Properties under development	**589,403**	734,146
Completed properties held for sale	**297,749**	–
	887,152	734,146
Other operations		
Finished goods	**–**	3,855
	887,152	738,001

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$589,403,000 (2005: HK$734,146,000). All of the other inventories are expected to be recovered within one year.

22. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group	
	2006	2005
	HK$'000	HK$'000
Equity securities listed in Hong Kong, at market value	**5,089**	4,977

The above financial assets are classified as held for trading.

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

23. TRADE RECEIVABLES

The normal credit period granted to its customers was ranging from 30 to 60 days (2005: 30 to 60 days). The aging analysis of the trade receivables was as follows:

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
0 – 90 days	**43,069**	23,815	**–**	–
91 – 180 days	**3,631**	81,035	**–**	–
181 – 270 days	**58,646**	29,416	**57,000**	–
271 – 360 days	**1,468**	2,318	**–**	–
Over 360 days	**58,551**	42,918	**–**	–
Trade receivables, gross	**165,365**	179,502	**57,000**	–
Less: Provision for impairment of receivables	**(19,373)**	(6,810)	**–**	–
Trade receivables, net	**145,992**	172,692	**57,000**	–

During the years end 31 December 2006 and 31 December 2005, the Group encountered difficulties in collection of certain trade receivables and appropriate provision for impairment has been made against certain trade receivables.

24. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Deposits and prepayments	**739,876**	550,076	**–**	–
Outstanding consideration receivable arising from the disposal of an associate/other investments	**39,986**	150,000	**–**	150,000
Advances to former subsidiaries	**17,310**	47,800	**–**	–
Others	**133,289**	101,741	**5,059**	6,271
	930,461	849,617	**5,059**	156,271
Less: Provision for impairment of receivables	**(12,464)**	(7,831)	**(3,040)**	(3,040)
	917,997	841,786	**2,019**	153,231
Less non-current portion:				
Deposits for construction in progress	**232,294**	223,324	**–**	–
Deposits for purchase of intangible assets	**33,831**	2,730	**–**	–
Deposits for purchase of property, plant and equipment	**8,492**	–	**–**	–
	274,617	226,054	**–**	–
	643,380	615,732	**2,019**	153,231

25. CASH AND CASH EQUIVALENTS

Deposits with banks earn interest at floating rates based on daily bank deposit rates.

At 31 December 2006, the Group had cash and cash equivalents denominated in Renminbi ("RMB") amounting to approximately HK$41,262,000 (2005: HK$64,205,000), representing deposits placed with banks in Mainland China.

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

The Company did not have any deposits denominated in RMB deposited with banks in Mainland China as at 31 December 2006 (2005: Nil).

26. TRADE PAYABLES

The aging analysis of the trade payables was as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
0 – 90 days	**11,585**	3,890
91 – 180 days	**1,862**	324
181 – 270 days	**383**	354
271 – 360 days	**332**	39
Over 360 days	**2,669**	113
	16,831	4,720

27. OTHER PAYABLES AND ACCRUALS

Included in other payables and accruals at 31 December 2006 are amounts of HK$16,411,000 (2005: HK$16,871,000) due to certain securities brokers and margin financiers which are secured by shares in Nan Hai being held by certain shareholders of the Group who agreed to pledge their interests in Nan Hai. The amounts due bear interest at the rate of 8% to 12% (2005: 8% to 20%) per annum.

28. AMOUNT DUE TO A DIRECTOR

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

29. AMOUNTS DUE TO SHAREHOLDERS

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

30. AMOUNT DUE TO A MINORITY SHAREHOLDER

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

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

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

32. AMOUNTS DUE FROM/(TO) ASSOCIATE(S)

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Amount due from an associate	**–**	–	**20,194**	20,190
Less: Provision for impairment of receivables	**–**	–	**(4,535)**	(4,535)
	–	–	**15,659**	15,655
Amounts due to associate(s)	**6,394**	8,511	**–**	–

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

33. BANK AND OTHER BORROWINGS

		Group		Company	
		2006	2005	**2006**	2005
	Notes	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Bank loans	(a), (c)	**34,972**	26,911	**–**	–
Other borrowings	(b), (c)	**25,468**	29,460	**25,468**	29,460
		60,440	56,371	**25,468**	29,460
Secured		**60,440**	47,053	**25,468**	29,460
Unsecured		**–**	9,318	**–**	–
		60,440	56,371	**25,468**	29,460

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

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within one year	**45,652**	56,371	**25,468**	29,460
In the second years	**200**	–	**–**	–
In the third to fifth years	**14,588**	–	**–**	–
Wholly repayable within 5 years	**60,440**	56,371	**25,468**	29,460
Less: Portion due within one year under current liabilities	**45,652**	56,371	**25,468**	29,460
Portion due over one year under non-current liabilities	**14,788**	–	**–**	–

33. BANK AND OTHER BORROWINGS (Continued)

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

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Hong Kong dollars	**25,468**	34,085	**25,468**	29,460
RMB	**34,972**	22,286	**–**	–
	60,440	56,371	**25,468**	29,460

Notes:

(a) Bank loans amounted to HK$34,972,000 (2005: HK$22,286,000) carries interest at fixed rates ranged from 3.75% to 6.93% (2005: 6.138% to 7.56%). Another amount of HK$4,625,000 as at 31 December 2005 carried interest at Hong Kong Dollar Prime rate plus 1% to 8%. The carrying amounts of the borrowings approximate their fair value.

(b) The loan of HK$25,468,000 (2005: HK$29,460,000) granted to the Company by CITIC Capital Credit Limited, an associate of a former substantial shareholder, is secured by certain shares in Nan Hai held by certain shareholders who agreed to pledge their interests in Nan Hai in favour of the Company. The loan bears interest at prime rate plus 8% per annum. According to the loan agreement dated 9 May 2003, the loan was originally due on 9 November 2003. Penalty interest of approximately HK$2,268,000 (2005: HK$5,055,000) was accrued and included in other payables and accruals under current liabilities. The carrying amounts of this loan approximate its fair value.

(c) 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.

34. 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	–

34. FINANCE LEASE LIABILITIES (Continued)

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.

35. DEFERRED TAX

The movement of the deferred tax liabilities, during the year is as follows:

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
At 1 January	**–**	790	**–**	–
Distribution of a subsidiary	**–**	(790)	**–**	–
At 31 December	**–**	–	**–**	–

As at 31 December 2006, the amount of unrecognised deferred tax assets are as follows:

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Tax effect of temporary differences attributable to:				
– excess of accumulated depreciation over tax depreciation allowance	**81**	73	**81**	73
– unused tax losses	**26,974**	29,891	**7,811**	16,088
	27,055	29,964	**7,892**	16,161

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 of the subsidiaries operating in Mainland China can be carried forward for 5 years and tax losses of the companies within the Group operating in Hong Kong will not be expired under the current tax legislation.

36. SHARE CAPITAL

	Number of ordinary shares of HK$0.10 each	Number of ordinary shares of HK$0.01 each	HK$'000
Authorised:			
At 1 January 2005	30,000,000,000	–	3,000,000
Reduction of nominal value (note)	(30,000,000,000)	30,000,000,000	(2,700,000)
At 31 December 2005 and **31 December 2006**	**–**	**30,000,000,000**	**300,000**
Issued and fully paid:			
At 1 January 2005	19,914,504,877	–	1,991,450
Reduction of nominal value (note)	(19,914,504,877)	19,914,504,877	(1,792,305)
At 31 December 2005 and **31 December 2006**	**–**	**19,914,504,877**	**199,145**

Note:

Pursuant to a special resolution passed on 16 April 2004, the authorised share capital of the Company was reduced from HK$3,000,000,000 divided into 30,000,000,000 ordinary shares of HK$0.10 each to HK$300,000,000 divided into 30,000,000,000 ordinary shares of HK$0.01 each with effect from 26 July 2005 with the sanction of an order of the High Court dated 21 June 2005. The reduction is effected by cancelling the paid up capital to the extent of HK$0.09 on each of the 19,914,504,877 ordinary shares in issue; and by reducing the nominal value of all issued and unissued shares in the capital of the Company from HK$0.10 to HK$0.01 each.

37. SHARE OPTION SCHEME

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

On 12 November 2004, share options to subscribe for a total of 233,360,000 Sino-i Shares, representing approximately 1.68% of the issued share capital of the Company as at the date of the adoption of the Scheme, were granted to the directors and employees of the Company and subsidiaries and the persons who have provided research, development or other technological support or services to the Group (the "Consultants") at an exercise price of HK$0.16 per Sino-i Share. The closing price of Sino-i Share immediately before the date of grant was HK$0.158.

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

All share option expense are recognised in equity. The Group has no legal or constructive obligation to repurchase or settle the options other than by issuing the Company's ordinary shares. The movement of the share options during the year are as follows:

	2006		2005	
	Number	**Weighted average exercise price (HK$)**	Number	Weighted average exercise price (HK$)
At 1 January	**90,460,000**	**0.16**	231,570,000	0.16
Forfeited	**(19,600,000)**	**0.16**	(141,110,000)	0.16
At 31 December	**70,860,000**	**0.16**	90,460,000	0.16

37. SHARE OPTION SCHEME (Continued)

All share options as at 31 December 2005 and 2006 have been accounted for under HKFRS 2 "Share-based Payment". The exercisable periods of the share options of the Company and the Group are as follows:

	2006		2005	
	Number	**Weighted average exercise price (HK$)**	Number	Weighted average exercise price (HK$)
Exercisable period:				
1-7-2005 to 30-6-2008	**33,930,000**	**0.16**	43,730,000	0.16
1-7-2006 to 30-6-2008	**33,930,000**	**0.16**	43,730,000	0.16
1-1-2006 to 31-12-2008	**1,500,000**	**0.16**	1,500,000	0.16
1-1-2007 to 31-12-2008	**1,500,000**	**0.16**	1,500,000	0.16
	70,860,000	**0.16**	90,460,000	0.16

At the balance sheet date, the Company had 70,860,000 share options (2005: 90,460,000 share options) outstanding under the Scheme. The exercise in full of the remaining share options would under the present capital structure of the Company, result in the issue of 70,860,000 (2005: 90,460,000) additional ordinary shares of the Company and additional share capital of HK$708,600 (2005: HK$904,600) and share premium of HK$10,629,000 (2005: HK$13,569,000) (before issue expenses).

No additional options were granted during the years ended 31 December 2006 and 2005. The fair values of options granted during 2004 of HK$10,571,000 were determined by an independent third party valuer using the Binomial Model, with modification to reflect the impact of vesting period, exit rate and exercise pattern on the option value.

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

In total, HK$543,000 (2005: HK$5,967,000) of share-based compensation expense has been included in the income statement for the year ended 31 December 2006 which gave rise to share option reserve. No liabilities were recognised due to share-based payment transactions.

38. SHARE PREMIUM

	2006 HK$'000	2005 HK$'000
At 1 January	**39,194**	472,736
Reduction of capital	**–**	(433,542)*
At 31 December	**39,194**	39,194

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

39. RESERVES

Group

	Capital redemption reserve HK$'000	Capital distribution reserve (note a) HK$'000	Share option reserve HK$'000	General reserve (note b) HK$'000	Exchange reserve HK$'000	Retained profits HK$'000	Total HK$'000
Balance at 1 January 2005	2,258	–	–	(25,880)	9,537	1,249,309	1,235,224
Exchange differences	–	–	–	–	33,162	–	33,162
Capital reduction	–	2,225,847	–	–	–	–	2,225,847
Distribution of the net assets of a subsidiary	–	(2,173,225)	–	–	–	–	(2,173,225)
Exchange reserve released on distribution of a subsidiary	–	–	–	–	(25,547)	–	(25,547)
Realised on disposal of subsidiaries	–	–	–	–	27	–	27
Share-based compensation	–	–	5,967	–	–	–	5,967
Released on forfeiture of share options	–	–	(2,558)	–	–	2,558	–
Profit for the year attributable to equity holders of the Company	–	–	–	–	–	264,016	264,016
Transfer to capital reserve	–	–	–	19,330	–	(19,330)	–
At 31 December 2005 and 1 January 2006	2,258	52,622	3,409	(6,550)	17,179	1,496,553	1,565,471
Exchange differences	–	–	–	–	28,200	–	28,200
Share-based compensation	–	–	543	–	–	–	543
Released on forfeiture of share options	–	–	(250)	–	–	250	–
Loss for the year attributable to equity holders of the Company	–	–	–	–	–	(200,263)	(200,263)
Transfer to capital reserve	–	–	–	9,178	–	(9,178)	–
At 31 December 2006	**2,258**	**52,622**	**3,702**	**2,628**	**45,379**	**1,287,362**	**1,393,951**

39. RESERVES (Continued)

Company

	Capital redemption reserve	Capital distribution reserve	Share option reserve	General reserve (note b)	Retained profits (note c)	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2005	2,258	–	–	79,579	712,045	793,882
Capital reduction	–	2,225,847	–	–	–	2,225,847
Distribution of shares in a subsidiary	–	(2,225,847)	–	–	–	(2,225,847)
Loss for the year	–	–	–	–	(32,213)	(32,213)
Share-based compensation	–	–	5,967	–	–	5,967
Released on forfeiture of share options	–	–	(2,558)	–	2,558	–
At 31 December 2005 and 1 January 2006	2,258	–	3,409	79,579	682,390	767,636
Profit for the year	–	–	–	–	34,244	34,244
Share-based compensation	–	–	543	–	–	543
Released on forfeiture of share options	–	–	(250)	–	250	–
At 31 December 2006	**2,258**	**–**	**3,702**	**79,579**	**716,884**	**802,423**

Notes:

(a) The capital distribution reserve represents the excess of the credit arising from the reduction of nominal value of ordinary shares and share premium account, over the net assets of a subsidiary distributed during the year ended 31 December 2005.

(b) The Group's general reserve includes capital reserve arising from acquisitions of subsidiaries in prior years and statutory reserves.

Subsidiaries of the Company 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.

(c) Included in the Company's retained profits is an amount of approximately HK$80,033,000 (2005: approximately HK$90,674,000) which represents the balance of the special reserve arising from the Company's capital reduction effected in a prior year. According to the court order dated 21 June 2001 confirming the Company's capital reduction, the Company was required to credit a sum arising from the capital reduction to a special reserve which cannot be treated as realised profit as long as (a) the outstanding liabilities of the Company as at the effective date of the capital reduction (i.e. the "Relevant Debts") are not fully discharged; and (b) the persons to whom the Relevant Debts are due have not agreed otherwise.

40. MINORITY INTERESTS

	Notes	**2006 HK$'000**	2005 HK$'000
At 1 January		**163,054**	1,044,729
Profit for the year		**16,745**	6,143
Decrease arising from acquisition of the additional interests in a subsidiary over the consideration arising from conversion of convertible notes by the Group	6(b)	**–**	(185,501)
Released on disposal of subsidiaries	47(a)	**–**	(1,148)
Released on distribution of a subsidiary	47(b)	**–**	(702,090)
Capital contribution to a subsidiary		**999**	–
Partial disposal of a subsidiary		**1,017**	–
Net exchange difference		**9,217**	921
As at 31 December		**191,032**	163,054

41. OPERATING LEASE ARRANGEMENTS

(a) At 31 December 2006, the Group and the Company's total future minimum lease payments in respect of land and buildings under non-cancellable operating leases are payable as follows:

	Group		**Company**	
	2006 HK$'000	2005 HK$'000	**2006 HK$'000**	2005 HK$'000
Within one year	**26,084**	34,174	**1,844**	2,319
In the second to fifth years	**21,619**	37,138	**–**	288
	47,703	71,312	**1,844**	2,607

The Group leases a number of properties under operating leases. The leases run for an initial period of one to four years (2005: one to five years), with options to renew the lease terms at the expiry dates or at dates as mutually agreed between the Group and the respective landlords. None of the leases includes any contingent rentals.

The Company leases a number of properties under operating leases. The leases run for an initial period within one year (2005: one to two years). None of the leases includes any contingent rentals.

(b) At 31 December 2006, the Group's total future minimum lease receivables under non-cancellable operating leases in respect of land and buildings are as follows:

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

At 31 December 2006 and 31 December 2005, the Company had no outstanding operating lease arrangements as a lessor.

42. CAPITAL COMMITMENTS

At 31 December 2006, the Group had outstanding capital 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	34,159	–
– intangible assets	4,037	–
	120,487	75,125

At 31 December 2006 and 31 December 2005, the Company had no outstanding capital commitments.

43. DIRECTORS' AND SENIOR MANAGEMENT'S REMUNERATION

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

	Fees HK$'000	Basic salaries, housing, other allowances and benefits in kind HK$'000	Pension scheme contributions HK$'000	Share-based compensations HK$'000	Total HK$'000
Year ended 31 December 2006					
Executive directors					
YU Pun Hoi	–	–	–	–	–
CHEN Dan *	–	512	–	49	561
QIN Tian Xiang ^	–	–	–	–	–
ZHANG Hong Ren #	–	–	–	–	–
Non-executive directors					
LUO Ning	–	–	–	–	–
LAM Bing Kwan	–	–	–	174	174
Independent non-executive directors					
QIN Tian Xiang ^	14	–	–	–	14
HUANG Yaowen **	103	–	–	–	103
Prof. JIANG Ping ***	70	–	–	–	70
CHAN Lap Stanley	147	–	–	–	147
FUNG Wing Lap	112	–	–	–	112
	446	512	–	223	1,181

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

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

	Fees HK$'000	Basic salaries, housing, other allowances and benefits in kind HK$'000	Pension scheme contributions HK$'000	Share-based compensations HK$'000	Total HK$'000
Year ended 31 December 2005					
Executive directors					
YU Pun Hoi	–	480	12	–	492
ZHANG Hong Ren	–	360	12	313	685
Non-executive directors					
LUO Ning	–	–	–	–	–
LAM Bing Kwan	–	300	12	963	1,275
Independent non-executive directors					
QIN Tian Xiang	182	–	–	–	182
CHAN Lap Stanley	143	–	–	–	143
FUNG Wing Lap	100	–	–	–	100
	425	**1,140**	**36**	**1,276**	**2,877**

\# Resigned as chief executive officer, executive director with effect from 1 April 2006
^ Re-designated from independent non-executive directors on 14 February 2006
* Appointed as executive director with effect from 14 February 2006
** Appointed as independent non-executive director with effect from 14 February 2006
*** Appointed as independent non-executive director with effect from 1 June 2006

(b) Five highest paid individuals

The five highest paid individuals of the Group for the year included one director, details of whose emoluments are set out above (2005: Nil). The emoluments of the remaining four (2005: five) employees are as follows:

	2006 HK$'000	2005 HK$'000
Basic salaries and housing allowances	**2,670**	4,066
Pension scheme contributions	**36**	36
Share-based compensations	**31**	1,651
	2,737	5,753

The emoluments of these employees were within the following bands:

Emolument bands	Number of individuals 2006	2005
Nil – HK$1,000,000	**3**	1
HK$1,000,001 – HK$1,500,000	**1**	4
	4	5

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

(c) 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. None of the directors have waived or agreed to waive any emoluments in respect of the years ended 31 December 2006 and 31 December 2005.

44. CONTINGENT LIABILITIES

Guarantees given in connection with credit facilities granted to:

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
A subsidiary	**–**	–	**–**	4,625
A fellow subsidiary	**49,960**	115,274	**49,960**	115,274
Associates (note (a))	**10,839**	16,064	**10,839**	10,053
Third parties (note (a))	**93,984**	97,697	**92,732**	97,697
	154,783	229,035	**153,531**	227,649

Note:

(a) The Company executed a guarantee in February 1993 ("EPCIB Guarantee") in favour of Equitable PCI Bank Inc. ("EPCIB") in respect of a loan of US$5 million ("Genius Reward Loan") made available to Genius Reward, an associate of the Company. Evallon, a wholly-owned subsidiary of the Company, 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 owners 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 Company cannot ascertain the fair value of the Outstanding Indebtedness.

In addition to the EPCIB Guarantee, the Company 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 Company does not have updated information of the outstanding balance of the indebtedness under the ICBC Loan ("ICBC Indebtedness"), therefore, the fair value of the ICBC Indebtedness cannot be ascertained.

45. CREDIT FACILITIES

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

(a) charge over land use right with a net carrying value of approximately HK$12,972,000 (2005: HK$12,736,000);

(b) pledged of bank deposits of a fellow subsidiary of HK$22,282,000 or RMB22,300,000 equivalents (2005: Nil).

In addition, certain shareholders of the Company agreed to pledge their interests in Nan Hai for the Company's credit facilities.

46. PENDING LITIGATIONS

(a) Evallon which 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 the Company 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 the Company. 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.

The Company 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 Company believes that the Legal Proceedings will not have any material effects on Evallon.

In March 2007, Acesite Phils. commenced proceedings against Acesite, the Company 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 Company cannot give any further comments at this stage.

46. PENDING LITIGATIONS (Continued)

(b) On 12 May 2004, Dadi Media, a wholly owned subsidiary of the Company, issued a claim against two minority shareholders of a subsidiary (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.

47. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Disposal of subsidiaries

	2005 HK$'000
Net assets disposed of:	
Property, plant and equipment	333
Consideration for acquisition of investment	15,000
Advance to prospective investee companies	(952)
Amounts due from prospective investee companies	3,728
Inventories	23
Trade receivables, other receivables and deposits	2,353
Cash and cash equivalents	52
Minority interests (note 40)	(1,148)
Trade payables, other payables and accruals	(13,467)
Provision for tax	(43)
Amounts due to subsidiaries	(60,971)
Amounts due from subsidiaries	51,681
Amount due to ultimate holding company	(11,239)
	(14,650)
Exchange reserve realised on disposal	27
Goodwill released on disposal (note 19)	12,511
Net gain on disposal of subsidiaries (note 6(b))	24,850
	22,738
Satisfied by:	
Consideration receivable included in:	
Trade receivables, other receivables and deposits	22,160
Amount due to ultimate holding company	578
	22,738

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

	2005 HK$'000
Cash and cash equivalents	(52)

The subsidiaries disposed of utilised HK$1,355,000 of the Group's operating cash flows and have no impact on the Group's cash flows in relation to investing and financing activities during the year ended 31 December 2005. There is no disposal of subsidiaries during the year.

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

(b) Distribution of net assets of a subsidiary

	2005 HK$'000
Net assets distributed:	
Property, plant and equipment	241
Interest in an associate	20,289
Inventories	6
Trade receivables, other receivables and deposits	367,944
Properties held for and under development	3,553,902
Cash and cash equivalents	588
Deferred tax liabilities	(790)
Minority interests (note 40)	(702,090)
Trade payables, other payables and accruals	(288,075)
Amount due to ultimate holding company	(461,393)
Land premium payables	(167,558)
Provision for tax	(74)
Bank and other borrowings	(356,988)
Bank overdrafts	(271)
Deposits received	(35,691)
	1,930,040
Exchange reserve released on distribution	(25,547)
Goodwill released on distribution (note 19)	268,732
	2,173,225

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

	2005 HK$'000
Cash and cash equivalents	(588)
Bank overdrafts	271
	(317)

This subsidiary had contributed HK$23,685,000 to the Group's operating cash flows, and utilised HK$1,189,000 for investing activities and paid HK$35,002,000 for finance activities during the year ended 31 December 2005.

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

(c) Business combination

There was no acquisition during the year ended 31 December 2005. On 8 September 2006, the Group, through a wholly-owned subsidiary, entered into sales and purchase agreement with the equity holders 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 can not be determined reliably.

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

	HK$'000
Cash consideration	9,442
Fair value of net liabilities acquired	11,263
Goodwill (note 19)	20,705

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

	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:

	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

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

(d) 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 land premium payable of HK$89,169,000 was paid by certain debtors on behalf of the Group;

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

(iii) The repayment from other debtors of HK$14,601,000 was received by a director on behalf of the Group.

48. RETIREMENT BENEFIT PLANS

Defined contribution retirement plans

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

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

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

The total cost charged to the consolidated income statement of HK$13,670,000 (2005: HK$11,179,000) represents contributions payable to the schemes by the Group at the rates specified in the rules of the schemes.

Contribution payable of HK$29,000 as at 31 December 2005 to the MPF Scheme is included in other payables. There is no outstanding contribution payable to the MPF Scheme as at 31 December 2006.

49. RELATED PARTY TRANSACTIONS

Remuneration for key management personnel represents amounts paid to the Company's directors as disclosed in note 43.

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

50. COMPARATIVE FIGURES

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