

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30 June 2005

1. BASIS OF PREPARATION

The condensed financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

2. PRINCIPAL ACCOUNTING POLICES

The accounting policies used in the condensed financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2004 except as described below.

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

3. CHANGES IN ACCOUNTING POLICIES

In 2005, the Group adopted the new/revised standards of HKFRS below, which are relevant to its operations. The 2004 comparatives have been amended as required, in accordance with the relevant requirements.

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 11	Constructions Contracts
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 38	Intangible Assets

The adoption of new/revised HKASs 1, 2, 7, 8, 10, 11, 16, 17, 21, 24, 27, 28, 33, 36 and 38 did not result in substantial changes to the Group's accounting policies. In summary:

- HKAS 1 has affected the presentation of minority interest and other disclosures.
- HKASs 2, 7, 8, 10, 11, 16, 17, 24, 27, 28, 33, 36 and 38 had no material effect on the Group's policies.
- HKAS 21 had no material effect on the Group's policy. The functional currency of each of the consolidated entities has been re-evaluated based on the guidance to the revised standard. All the Group entities have the same functional currency as the presentation currency for respective entity's financial statements.

The effect of adopting these new and revised accounting standards described above on the financial position of the Group at 30 June 2005 is insignificant. Disclose and certain comparative figures have been modified accordingly.

4. SEGMENTAL INFORMATION

The Group has determined that business segments be presented as the primary reporting format and geographical segments as the secondary reporting format.

Primary reporting format – business segments

	For the six months ended 30 June			
	Turnover		Operating profit/(loss)	
	2005	2004	2005	2004
	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Construction contracts in Hong Kong	–	–	–	(103)
Construction contracts in the People's Republic of China (the "PRC")	21,412	12,965	3,676	1,418
Money lending	–	–	–	(9)
	<u>21,412</u>	<u>12,965</u>	<u>3,676</u>	<u>1,306</u>
Gain arising from debts discharged under Creditors' Scheme			–	100,306
Gain on deconsolidation of a subsidiary under winding-up Court order			–	50,235
Gain on disposal of subsidiaries			1,067	516
Unallocated expenses			(2,772)	(5,284)
Operating profit from operating activities			1,971	147,079
Finance costs			(186)	(811)
Profit before taxation			1,785	146,268
Taxation			(428)	(329)
Profit for the period			<u>1,357</u>	<u>145,939</u>

Secondary reporting format – geographical segments

	For the six months ended 30 June			
	Turnover		Operating profit/(loss)	
	2005	2004	2005	2004
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	–	–	–	(112)
The PRC	21,412	12,965	3,676	1,418
	<u>21,412</u>	<u>12,965</u>	<u>3,676</u>	<u>1,306</u>

5. GAIN ON DISPOSAL OF A SUBSIDIARY

During the year, the Group disposed of a subsidiary namely, Prosperity Construction (Hong Kong) Limited. A wholly owned subsidiary of the Company.

	Total HK\$'000
Net liabilities disposed of:	
Trade payables	(545)
Other payables and accrued liabilities	(522)
Net amounts due to group companies	<u>(7,182)</u>
	(8,249)
Contributed surplus	–
Waiver of amounts due to group companies	<u>7,182</u>
	1,067
Gain on disposal of a subsidiary	<u>(1,067)</u>
	–
Total consideration, satisfied by cash	<u>–</u>
Analysis of the net cash outflow of cash and cash equivalents in respect of the disposal of a subsidiary:	
Bank balances and cash disposed of	<u>–</u>

The subsidiary disposed of during the year have no contribution to the Group's turnover but resulted in a profit of HK\$1,067,000 to the Group which was included in the determination of consolidated income statement.

6. FINANCE COSTS

	For the six months ended 30 June	
	2005 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000
Interest on bank loans and overdraft	19	–
Interest on loan notes and redeemable debentures repayable within five years	–	604
Others	167	207
	<u>186</u>	<u>811</u>

7. PROFIT BEFORE TAXATION

	For the six months ended 30 June	
	2005 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000
Profit before taxation has been arrived at after charging (Crediting) the following items:		
Depreciation	205	276
Staff cost	1,727	2,346
Gain on disposal of a subsidiary	(1,067)	516
Gain arising from debts discharged under Creditors Scheme	–	100,306
Gain on deconsolidation of a subsidiary under winding-up Court order	–	50,235
Interest income	<u>1</u>	<u>2</u>

8. TAXATION

The amount of taxation in the condensed consolidated income statement represents:

	For the six months ended 30 June	
	2005 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000
PRC income taxes	428	329
	<u>428</u>	<u>329</u>

No provision for Hong Kong profits tax is required since the Group has no assessable profit in Hong Kong for the Period. PRC income taxes are calculated at tax rate applicable in the PRC in which the subsidiaries of the Group are assessable for tax.

9. DIVIDEND

The directors do not recommend the payment of an interim dividend for the six months ended 30 June 2005. (2004: Nil).

10. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the Group's profit attributable to shareholders of HK\$1,357,000 (2004: profit of HK\$145,939,000) and on the weighted average number of 854,770,446 (2004: 345,910,956) ordinary shares in issue during the Period.

There is no potential dilutive shares during the Period.

The diluted loss per share for period ended 30 June 2003 was not shown as the ordinary shares issuable under outstanding share options and convertible loan notes were anti-dilutive.

11. INVENTORIES

	At 30 June 2005 (Unaudited) HK\$'000	At 31 December 2004 (Audited) HK\$'000
	Raw materials	350
Construction supplies	<u>200</u>	<u>417</u>
	<u>550</u>	<u>748</u>

12. CONSTRUCTION CONTRACTS IN PROGRESS

	At 30 June 2005 (Unaudited) HK\$'000	At 31 December 2004 (Audited) HK\$'000
Costs incurred plus attributable less foreseeable losses	21,412	34,416
Less: Progress billings	<u>(6,381)</u>	<u>(17,423)</u>
	<u>15,031</u>	<u>16,993</u>
Gross amounts due from customers on construction contracts	15,031	16,993
Gross amounts due to customers on construction contracts	<u>—</u>	<u>—</u>
	<u>15,031</u>	<u>16,993</u>

At 30 June 2005, retention held by customers for contract work included in prepayment, deposits and other receivables of the Group amounted to HK\$721,000 (31 December 2004: HK\$721,000).

At 30 June 2005, retention held by the Group for contract work included in accruals and other payables amounted to HK\$583,000 (31 December 2004: HK\$1,105,000).

13. ACCOUNTS PAYABLE

	At 30 June 2005 (Unaudited) HK\$'000	At 31 December 2004 (Audited) HK\$'000
Less than 3 months	4,789	3,123
3 months to 6 months	235	246
6 months to 1 year	25	—
Over 1 year	<u>—</u>	<u>544</u>
	<u>5,049</u>	<u>3,913</u>

14. LONG TERM BORROWING

	At 30 June 2005 (Unaudited) HK\$'000	At 31 December 2004 (Audited) HK\$'000
Interest bearing borrowing		
Bank loan, secured	1,259	1,294
Current portion of long term borrowing	(63)	(71)
	<u>1,196</u>	<u>1,223</u>
The bank loan's is repayable as follows:		
Within one year	63	71
In the second year	65	73
In the third to fifth years	195	232
After five year	936	918
	<u>1,259</u>	<u>1,294</u>

The Group's bank loan is secured by the pledge of Group's leasehold land and buildings, and guarantees executed by an executive director and the Company, and interest-bearing at prime rate minus 2.25% per annum.

15. SHAREHOLDER'S LOAN

The shareholder's loan is unsecured and interest-bearing at prime rate plus 2% per annum repayable on demand.

16. SHARE CAPITAL

	Unaudited	
	Number of shares '000	Par value HK\$'000
Authorised:		
Ordinary shares of HK\$0.01 each at 30 June 2005	<u>40,000,000</u>	<u>400,000</u>
Issued and fully paid:		
Ordinary shares of HK\$0.01 each at 30 June 2005	<u>854,770</u>	<u>8,548</u>

17. CONTINGENT LIABILITIES

As at 30 June 2005, the Group did not have any material contingent liabilities.