1. GENERAL

The Company is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The principal activities of the Group are manufacture and trading of fibreboards and veneers, property development and investment, hotel operation and investment holding.

The Company's shares had been suspended for trading on the Stock Exchange since 18 August, 2003.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards (HKASs) and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are effective for accounting periods beginning on or after 1 January, 2005.

The applicable new HKFRSs are set out below and the 2004 accounts have been restated 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 Balance Sheet Date
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 21	The Effect of Changes in Foreign Exchange Rates
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings Per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 40	Investment Property
HKFRS 3	Business Combinations
HK-Int 2	The Appropriate Policies for Hotel Properties

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

The application of the new HKFRSs has resulted in a change in the presentation of the income statement, balance sheet and statement of changes in equity. In particular, the presentation of goodwill, convertible notes and property, plant and equipment have 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 years are prepared and presented:

Business Combinations

In the current year, the Group has applied HKFRS 3, Business Combinations, which is effective for business combinations for which the agreement date is on or after 1 January, 2005. The principal effects of the application of HKFRS 3 to the Group are summarised below:

In previous years, goodwill arising on acquisitions was capitalised and amortised over its estimated useful life. The Group has applied the relevant transitional provisions in HKFRS 3. With respect to goodwill previously capitalised on the balance sheet, the Group has discontinued amortising such goodwill from 1 January, 2005 onwards and goodwill will be tested for impairment at least annually/in the financial year in which the acquisition takes place. Goodwill arising on acquisitions after 1 January, 2005 is measured at cost less accumulated impairment losses (if any) after initial recognition. As a result of this change in accounting policy, no amortisation of goodwill has been charged in the current period. Comparative figures for 2004 have not been restated.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

Financial Instruments

In the current year, the Group has applied HKAS 32 Financial Instruments: Disclosure and Presentation and HKAS 39 Financial Instruments: Recognition and Measurement. HKAS 32 requires retrospective application. HKAS 39, which is effective for annual periods beginning on or after 1 January, 2005, generally does not permit to recognise, derecognise or measure financial assets and liabilities on a retrospective basis. The principal effects resulting from the implementation of HKAS 32 and HKAS 39 are summarised below:

Convertible notes

HKAS 32 requires an issuer of a compound financial instrument that contains both financial liability and equity components to separate the compound financial instrument into the liability and equity components on its initial recognition and to account for these components separately. In subsequent years, the liability component is carried at amortised cost using the effective interest method. The adoption of the requirements of HKAS 32 has resulted in a net charge to income of HK$6,257,000 for the current year. At 31 December 2005, the equity reserve in relation to the equity component of the convertible loan notes amounted to HK$30,545,000, the liabilities component derecognised amounted to HK$9,313,000. (See note 2A for the financial impact)

Classification and measurement of financial assets and financial liabilities

The Group has applied the relevant transitional provisions in HKAS 39 with respect to classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

Debt or equity securities previously accounted for under the alternative treatment of SSAP 24

By 31 December 2004, the Group classified and measured its debt and equity securities in accordance with the alternative treatment of Statement of Standard Accounting Practice 24 (SSAP 24). Under SSAP 24, investments in debt or equity securities are classified as "trading securities", "non-trading securities" or "held-to-maturity investments" as appropriate. Both "trading securities" and "non-trading securities" are measured at fair value. Unrealised gains or losses of "trading securities" are reported in the profit or loss for the year in which gains or losses arise. Unrealised gains or losses of "non-trading securities" are reported in equity until the securities are sold or determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the net profit or loss for that year. From 1 January 2005 onwards, the Group classifies and measures its debt and equity securities in accordance with HKAS 39. Under HKAS 39, financial assets are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables", or "held-to-maturity financial assets". "Financial assets at fair value through profit or loss" and "available-for-sale financial assets" are carried at fair value, with changes in fair values recognised in profit or loss and equity respectively. "Loans and receivables" and "held-to-maturity financial assets" are measured at amortised cost using the effective interest method.

On 1 January, 2005, the Group classified and measured its debt and equity securities in accordance with the requirements of HKAS 39.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

Investment Properties

In the current year, the Group has, for the first time, applied HKAS 40 Investment Property. The Group has elected to use the fair value model to account for its investment properties which requires gains or losses arising from changes in the fair value of investment properties to be recognised directly in the profit or loss for the period in which they arise. In previous years, investment properties under the predecessor standard were measured at open market values, with revaluation surplus or deficits credited or charged to investment property revaluation reserve unless the balance on this reserve was insufficient to cover a revaluation decrease, in which case the excess of the revaluation decrease over the balance on the investment property revaluation reserve was charged to the income statement. Where a decrease had previously been charged to the income statement and revaluation subsequently arose, that increase was credited to the income statement to the extent of the decrease previously charged. The Group has applied the relevant transitional provisions in HKAS 40 and elected to apply HKAS 40 from 1 January 2005 onwards. This change has had no material effect on the results for the both years.

Hotel Properties

Hong Kong Interpretation 2 The Appropriate Accounting Policies for Hotel Properties clarifies the accounting policy for owner-operated hotel properties. In previous years, the Group's self-operated hotel properties were carried at revalued amounts and were not subject to depreciation. Hong Kong Interpretation 2 requires owner-operated properties to be classified as property, plant and equipment in accordance with HKAS 16, Property, Plant and Equipment, and therefore be accounted for either using the cost model or the revaluation model. The Group has resolved to account for these hotel properties using the revaluation model. In the absence of any specific transitional provisions in Hong Kong Interpretation 2, the new accounting policy has been applied retrospectively. Comparative figures have been restated (see Note 2A for the financial impact).

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

Owner-occupied Leasehold Interest in Land

In previous years, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured using the cost model. In the current year, the Group has applied HKAS 17 Leases. Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified as prepaid lease payments under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis. This change in accounting policy has been applied retrospectively (see Note 2A for the financial impact). Alternatively, where the allocation between the land and buildings elements cannot be made reliably, the leasehold interests in land continue to be accounted for as property, plant and equipment.

2A. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES

Effect of changes in the accounting policies on consolidated income statement for the current and prior year are as follows:

	Effect of adopting			
	HKAS 16 & HK-Int 2 HK$'000	**HKAS 32 & HKAS 39 HK$'000**	**HKFRS 3 HK$'000**	**Total HK$'000**
For the year 2005				
Increase in depreciation	**7,500**	**—**	**—**	**7,500**
Increase in finance cost	**—**	**6,257**	**—**	**6,257**
Decrease in goodwill amortization	**—**	**—**	**(5,618)**	**(5,618)**
Increase in impairment loss of goodwill	**—**	**—**	**7,604**	**7,604**
Total decrease in profit	**7,500**	**6,257**	**1,986**	**15,743**
Decrease in basic earnings per share (cents)	**0.82**	**0.68**	**0.22**	**1.72**

	Effect of adopting			
	HKAS 16 & HK-Int 2 HK$'000	HKAS 32 & HKAS 39 HK$'000	HKFRS 3 HK$'000	Total HK$'000
For the year 2004				
Increase in depreciation	7,174	—	—	7,174
Total increase in loss	7,174	—	—	7,174
Increase in basic loss per share (cents)	0.78	—	—	0.78

2A. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES *(continued)*

Effect of changes in accounting policies on consolidated balance sheet for the current period and prior year are as follows:

	Effect of adopting				
	HKAS 16 & HK-Int 2	HKAS 17	HKAS 32 & HKAS 39	HKFRS 3	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
As at 31 December, 2005					
Increase/(decrease) in assets					
Property, plant and equipment	—	(24,409)	—	—	(24,409)
Land use right	—	24,409	—	—	24,409
Goodwill	—	—	—	(1,986)	(1,986)
Financial assets at fair value through profit or loss	—	—	83	—	83
Investment in securities	—	—	(83)	—	(83)
	—	—	—	(1,986)	(1,986)
Increase/(decrease) in liabilities/equity					
Convertible notes	—	—	(9,313)	—	(9,313)
Convertible notes reserve	—	—	30,545	—	30,545
Hotel property revaluation reserve	45,474	—	—	—	45,474
Accumulated losses	(45,474)	—	(21,232)	(1,986)	(68,692)
	—	—	—	(1,986)	(1,986)

2A. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES *(continued)*

	Effect of adopting				
	HKAS 16 & HK-Int 2	HKAS 17	HKAS 32 & HKAS 39	HKFRS 3	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
As at 31 December, 2004					
Increase/(decrease) in assets					
Property, plant and equipment	—	(24,482)	—	—	(24,482)
Land use right	—	24,482	—	—	24,482
	—	—	—	—	—
Increase/(decrease) in liabilities/equity					
Convertible notes	—	—	(30,545)	—	(30,545)
Convertible notes reserve	—	—	30,545	—	30,545
Hotel property revaluation reserve	42,226	—	—	—	42,226
Accumulated losses	(42,226)	—	—	—	(42,226)
	—	—	—	—	—

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention, as modified for the revaluation of certain properties and financial assets at fair value through profit or loss, which are measured at revalued amounts or fair values as explained in the accounting policies set out below.

The financial statements have been prepared in accordance with the new HKFRSs issued by the HKICPA. In addition, the financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange and by the Companies Ordinance.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Basis of consolidation

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

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective dates of acquisition or up to the effective dates of disposal, as appropriate.

All significant intra-group transactions, balances income and expenses have been eliminated on consolidation.

Goodwill

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

For previously capitalised goodwill arising on acquisitions after 1 January, 2001, the Group has discontinued amortisation from 1 January, 2005 onwards, and such goodwill is tested for impairment annually, and whenever there is an indication that the cash generating unit to which the goodwill relates may be impaired (see the accounting policy below).

Capitalised goodwill arising on an acquisition of a subsidiary is presented separately in the balance sheet.

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the income statement. An impairment loss for goodwill is not reversed in subsequent years.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Goodwill *(continued)*

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

Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss.

Investment properties

Investment properties are completed properties which are held for their investment protential, any rental income being negotiated at arm's length. On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured using the fair value model. Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the period in which they arise.

Property, plant and equipment

i. Hotel Property

Hotel properties are stated in the balance sheet at their open market value based on independent professional valuations at each balance sheet date. The Group has resolved to account for the hotel properties using the revaluation model.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment *(continued)*

ii. Property, plant and equipment (other than Hotel properties)

Property, plant and equipment (other than hotel properties) are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of other property, plant and equipment over their estimated useful lives and after taking into account their estimated residual value, using the straight-line method, at the following rates per annum:

Land and buildings in Hong Kong under medium-term leases	Over the lease term
Land and buildings outside Hong Kong under medium-term leases	2.5% to 4.5% or over the lease term, if shorter
Furniture, equipment and leasehold improvements	10% to 20%
Plant and machinery	10% to 30%
Motor vehicles	15% to 30%

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

Construction in progress is stated at cost. No depreciation or amortisation is provided for construction in progress until the construction is completed and the assets are ready for their intended use. Costs of completed construction works are transferred to the appropriate categories of other property, plant and equipment.

Properties held for development

Properties held for development are stated at cost less any identified impairment loss.

Depreciation of these properties, on the same basis as other property, plant and equipment, commences when the assets are put into use.

Properties held for sale

Properties held for sale are stated at the lower of cost and net realisable value.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets at fair value through profit or loss

The Group's financial asset is classified into financial assets at fair value through profit or loss. All regular purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. Financial assets at fair value through profit or loss has two subcategories, including financial assets held for trading and those designated as at fair value through profit or loss on initial recognition. At each balance sheet date subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Convertible notes

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

In subsequent years, the liability component of the convertible notes is carried at amortised cost using the effective interest method. The equity component, represented by the option to convert the liability component into ordinary shares of the Company, will remain in convertible notes equity reserve until the embedded option is exercised, in which case the balance stated in convertible notes reserve will be transferred to share premium. Where the option remains unexercised at the expiry date, the balance stated in convertible notes reserve will be released to the retained earnings. No gain or loss is recognised in profit or loss upon conversion or expiration of the option.

Transaction costs that relate to the issue of the convertible notes are allocated to the liability and equity components in proportion to the allocation of the proceeds. Transaction costs relating to the equity component are charged directly to equity. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible notes using the effective interest method.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

For financial liabilities, they are removed from the Group's balance sheet (i.e. when the obligation specified in the relevant contract is discharged, cancelled or expires). The difference between the carrying amount of the financial liability derecognised and the consideration received or receivable is recognised in profit or loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

Impairment losses (other than goodwill, (see the accounting policies in respect of goodwill above))

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another standard, in which case the impairment loss is treated as a revaluation decrease under that standard.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that other standard.

Turnover

Turnover represents the gross amounts received and receivable for revenue arising on hotel operations, goods sold by the Group to outside customers, less return and allowances and gross rental income during the year.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue recognition

(i) *Hotel operations*

Revenue arising from hotel operations is recognised when the relevant services are rendered.

(ii) *Sales of goods*

Sales of goods other than properties are recognised when goods are delivered and title has passed.

(iii) *Rental income*

Rental income arising from properties let under operating leases is recognised on a straight-line basis over the periods of the respective leases.

(iv) *Interest income*

Interest income is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes income statement items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Taxation *(continued)*

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Government grants

Government grants are recognised as income over the periods necessary to match them with the related costs. Grants related to expense items are recognised in the same period as those expenses are charged in the income statement and are reported separately as 'other income'.

Retirement benefits scheme

Payments to defined contribution retirement scheme are charged as an expenses as they fall due.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in the income statement on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

The Group as lessee

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Foreign currencies

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in Hong Kong dollars, which is the functional currency of the Company, and the presentation currency for the consolidated financial statements.

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. 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. 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)*

Foreign currencies *(continued)*

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in income statement in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Group's net investment in a foreign operation, in which case, such exchange differences are recognised in equity in the consolidated financial statements. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Company (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation on or after 1 January, 2005 are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the balance sheet date. Exchange differences arising are recognised in the translation reserve.

As mentioned in Note 2, goodwill and fair value adjustments arising on acquisitions of foreign operations prior to 1 January, 2005 are treated as non-monetary foreign currency items of the acquirer and reported using the historical exchange rate prevailing at the date of the acquisition.

4. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

For management purposes, the Group is currently organised into three operating divisions – fibreboards and veneers, hotel operations and property investment. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

Fibreboards and veneers	—	manufacturing and trading of fibreboards and veneers
Hotel operations	—	hotel ownership and management
Property investment	—	holding investment properties, properties held for development and properties held for sale

Segment information about these businesses is presented below.

2005

	Fiberboards and veneers HK$'000	Hotel operations HK$'000	Property investment HK$'000	Consolidated HK$'000
TURNOVER	316,487	22,359	1,019	339,865
RESULTS				
Segment result	39,969	(2,750)	6,672	43,891
Interest income				420
Net unrealized holding loss on financial assets at fair value through profit or loss				(82)
Unallocated corporate expenses				(20,377)
Operating profit				23,852
Finance costs				(8,248)
Profit before taxation				15,604
Income tax expense				(4,735)
Profit for the year				10,869

4. BUSINESS AND GEOGRAPHICAL SEGMENTS *(continued)*

BALANCE SHEET

	Fiberboards and veneers HK$'000	Hotel operations HK$'000	Property investment HK$'000	Consolidated HK$'000
ASSETS				
Segment assets	161,574	171,058	172,040	504,672
Goodwill	89,880			89,880
Financial assets at fair value through profit or loss				1
Bank balances and cash				81,505
Unallocated corporate assets				2,053
Consolidated total assets				678,111
LIABILITIES				
Segment liabilities	110,289	5,180	10,788	126,257
Unallocated corporate liabilities				206,622
Consolidated total liabilities				332,879

OTHER INFORMATION

	Fiberboards and veneers HK$'000	Hotel operations HK$'000	Property investment HK$'000	Unallocated HK$'000	Consolidated HK$'000
Capital additions	1,443	1,004	—	1,150	3,597
Depreciation and amortisation	10,707	7,752	—	716	19,175
Revaluation surplus on investment properties	—	—	6,000	—	6,000

4. BUSINESS AND GEOGRAPHICAL SEGMENTS *(continued)*

2004

	Fiberboards and veneers HK$'000 (restated)	Hotel operations HK$'000 (restated)	Property investment HK$'000 (restated)	Consolidated HK$'000 (restated)
TURNOVER	353,593	19,804	2,205	375,602
RESULTS				
Segment result	(6,829)	(295)	(23,368)	(30,492)
Interest income				101
Net unrealized holding gain on other investments				23
Unallocated corporate expenses				(16,303)
Operating loss				(46,671)
Finance costs				(2,196)
Loss for the year				(48,867)

BALANCE SHEET

	Fiberboards and veneers HK$'000 (restated)	Hotel operations HK$'000 (restated)	Property investment HK$'000 (restated)	Consolidated HK$'000 (restated)
ASSETS				
Segment assets	168,695	171,014	165,773	505,482
Goodwill	97,484			97,484
Investments in securities				83
Bank balances and cash				35,958
Unallocated corporate assets				1,890
Consolidated total assets				640,897
LIABILITIES				
Segment liabilities	112,198	4,782	745	117,725
Unallocated corporate liabilities				183,099
Consolidated total liabilities				300,824

4. BUSINESS AND GEOGRAPHICAL SEGMENTS*(continued)*

OTHER INFORMATION

	Fiberboards and veneers HK$'000 (Restated)	Hotel operations HK$'000 (Restated)	Property investment HK$'000 (Restated)	Unallocated HK$'000 (Restated)	Consolidated HK$'000 (Restated)
Capital additions	5,026	338	—	607	5,971
Depreciation and amortisation	15,813	7,850	—	973	24,636
Revaluation surplus on investment properties	—	—	1,800	—	1,800
Revaluation deficit on properties held for development	—	—	32,000	—	32,000

Geographical segments

The Group's fibreboards and veneers and hotel operations are located in the People's Republic of China, other than Hong Kong (the "PRC").

Property investment and development are located in both PRC and Hong Kong.

The following table provides an analysis of the Group's sales by geographical market, irrespective of the origin of the goods/services:

	Sales revenue by geographical market		Contribution to profit (loss) for the year	
	2005 HK$'000	2004 HK$'000 (restated)	**2005 HK$'000**	2004 HK$'000 (restated)
The PRC	**338,903**	374,791	**37,269**	(30,437)
Hong Kong	**962**	811	**6,622**	(55)
	339,865	375,602	**43,891**	(30,492)
Interest income			**420**	101
Net unrealised holding (loss) gain on financial assets at fair value through profit or loss/other investment			**(82)**	23
Unallocated corporate expenses			**(20,377)**	(16,303)
Operating profit (loss)			**23,852**	(46,671)
Finance costs			**(8,248)**	(2,196)
Profit (loss) before taxation			**15,604**	(48,867)
Income tax expense			**(4,735)**	—
Profit (loss) for the year			**10,869**	(48,867)

4. BUSINESS AND GEOGRAPHICAL SEGMENTS*(continued)*

The following is an analysis of the carrying amount of segment assets and additions to property, plant and equipment analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets		Additions to property, plant and equipment and goodwill	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
The PRC	**638,376**	611,838	**3,597**	5,971
Hong Kong	**39,735**	29,059	**—**	—
	678,111	640,897	**3,597**	5,971

5. OTHER OPERATING INCOME

Other operating income included the following items:

	THE GROUP	
	2005	2004
	HK$'000	HK$'000
Valued added tax refunded	**22,480**	—
Interest income	**420**	101
Net unrealised holding gains on other investments	**—**	23

6. FINANCE COSTS

	THE GROUP	
	2005	2004
	HK$'000	HK$'000
Interest on convertible notes	**8,245**	1,988
Interest on bank borrowings wholly repayable within five years	**—**	208
Others	**3**	—
	8,248	2,196

7. TAXATION

	2005 HK$'000	2004 HK$'000
Current tax – Provision for PRC enterprises income tax	**4,735**	—

No provision for Hong Kong Profits Tax has been made in the financial statements as the Company and its subsidiaries have no assessable profits for both years.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

One of the Group's PRC subsidiary was in tax holiday and exempted from PRC enterprise income tax for the first two years starting from its first profit-making year followed by a 50% reduction for the next three years.

The tax credit for the year can be reconciled to the loss before taxation per the consolidated income statement as follows:

	2005 HK$'000	2004 HK$'000 (restated)
Profit (loss) before taxation	**15,604**	(48,867)
Tax at the rates applicable to profits in the countries concerned	**8,518**	(8,552)
Tax effect of non deductible expenses	**4,922**	9,016
Tax effect of non taxable revenue	**(1,282)**	(1,294)
Tax effect of tax deductible not recognised	**(644)**	—
Effect of tax exemptions granted to PRC subsidiaries	**(8,275)**	(17)
Tax effect of tax loss for the year	**1,496**	847
Tax effect for the year	**4,735**	—

At the balance sheet date, the Group has unused estimated tax losses of HK$14,412,000 (2004: HK$14,412,000) available for offset against future profits. No deferred tax asset has been recognised in respect of the estimated tax losses due to the unpredictability of future profit streams.

7. TAXATION *(continued)*

The revaluation surplus for both years arising on the revaluation of properties of the Group does not constitute a timing difference. Therefore, deferred tax has not been recognised in respect of the valuation surplus relating to properties.

8. PROFIT (LOSS) FOR THE YEAR

	THE GROUP	
	2005	2004
	HK$'000	HK$'000 (restated)
Profit (Loss) for the year has been arrived at after charging (crediting):		
Auditors' remuneration	**900**	800
Amortisation of goodwill	**—**	5,619
Depreciation of property, plant and equipment	**18,631**	11,844
Staff costs (including directors' remuneration and retirement benefit scheme contribution)	**30,187**	30,731
Unrealised holding loss (gains) on financial assets at fair value through profit or loss/other investments	**82**	(23)
Loss (Gain) on disposal of property, plant and equipment	**243**	(2,978)
Net foreign exchange losses (gains)	**448**	(20)
Gross rental income from investment properties	**(1,019)**	(1,205)
Less:		
Direct operating expenses from investment properties that generated rental income during the year	**210**	368
Direct operating expenses from investment properties that did not generated rental income during the year	**297**	296
	(512)	(541)

9. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

a. Directors' emoluments

The emoluments paid or payable to each of the 6 (2004: 8) directors were as follows:

2005	Fees	Salaries and other benefits	Performance-based or discretionary bonus	Retirement benefits scheme contributions	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Mr. Leung Siu Fai	—	1,244	120	41	1,405
Mr. Kam Hung Chung	—	1,080	168	36	1,284
Mr. Wang Jin Yuan	48	131	—	—	179
Mr. Chan Kwok Wai	60	—	—	—	60
Mr. Chen Da Cheng	48	—	—	—	48
Mr. You Guang Wu	48	—	—	—	48

2004	Fees	Salaries and other benefits	Performance-based or discretionary bonus	Retirement benefits scheme contributions	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Mr. Leung Siu Fai	—	1,244	—	41	1,285
Mr. Kam Hung Chung	—	1,080	—	36	1,116
Mr. Wang Jin Yuan	13	113	42	—	168
Mr. Chan Kwok Wai	17	—	—	—	17
Mr. Chen Da Cheng	13	—	—	—	13
Mr. You Guang Wu	13	—	—	—	13
Mr. Lee Yip Wah	100	—	—	—	100
Mr. Mui Ho Chow	100	—	—	—	100

No Directors had waived any emoluments for both years.

9. DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(continued)*

b. Employees' emoluments

During the year, the five highest paid individuals included two Directors (2004: two Directors), details of whose emoluments are set out above. The emoluments of the other three individuals (2004: three individuals) were as follows:

	THE GROUP	
	2005	2004
	HK$'000	HK$'000
Salaries and other benefits	**1,077**	835
Retirement benefits scheme contributions	**39**	27
	1,116	862

The aggregate emoluments of each of these three (2004: three) highest paid individuals are less than HK$1,000,000.

10. RETIREMENT BENEFIT SCHEME

The Group contributes to a defined contribution retirement scheme which is available to Hong Kong permanent employees. This retirement scheme is administered by independent trustees with their assets held separately from those of the Group. Contributions under the staff retirement scheme for each year are based on a percentage of the eligible employees' salaries and are charged to the income statement as incurred. The total contribution to the scheme amounted to HK$163,000 (2004: HK$118,000) for the year and has been charged to the income statement. Forfeited employer contributions in respect of former employees from the staff retirement scheme before vesting period may be used by the Group to reduce its ongoing employer contributions. There is no forfeited contributions utilised during the year.

At the balance sheet date, there is no balance of forfeited contributions available to reduce the contribution payable in the future years.

Since the introduction of the Mandatory Provident Fund ("MPF") Scheme in Hong Kong, the Group has also participated in an approved MPF Scheme with Bank Consortium Trust Company Limited effective 1 December, 2001 to provide an MPF Scheme to all employees.

10. RETIREMENT BENEFIT SCHEME *(continued)*

The contributions borne by the Group are calculated at 5% of the salaries and wages (monthly contribution is limited at 5% of HK$20,000 for each eligible employee) as calculated under the MPF legislation. During the year under review, the total amount contributed by the Group to the MPF Scheme and charged to the income statement amounted to HK$47,000 (2004: HK$37,000).

11. EARNINGS (LOSS) PER SHARE

The calculation of basic earnings (loss) per share is based on the profit for the year of HK$10,869,000 (2004: a loss of HK$48,867,000) and on 914,995,817 ordinary shares (2004: 914,995,817 ordinary shares) in issue during the year.

No diluted loss per share for the year ended 31 December, 2004 was presented because the conversions of the outstanding convertible notes of the Company would result in a decrease of loss per share for the year.

The calculation of the basic and diluted earnings per share attributable to the ordinary equity holders of the Company is based on the following data:

	2005	2004
	HK$'000	HK$'000
		(restated)
Earnings (Loss)		
Earnings (loss) for the purpose of basic earnings per share (profit for the year attributable to equity holders of the Company)	**10,869**	(48,867)
Effect of diluted potential ordinary shares:		
Interest on convertible notes	**8,245**	1,988
Earnings (loss) for the purpose of diluted earnings (loss) per share	**19,114**	(46,879)

	2005	2004
Number of shares		
Number of ordinary shares for the purposes of basic earnings per share	**914,996**	914,996
Effect of dilutive potential ordinary shares – Convertible notes	**736,296**	736,296
Number of ordinary shares for the purposes of diluted earnings (loss) per share	**1,651,292**	1,651,292

11. EARNINGS (LOSS) PER SHARE *(continued)*

Impact of changes in accounting policies

	Impact on basic earnings (loss) per share		Impact on diluted earnings (loss) per share	
	2005	2004	**2005**	2004
	cents	cents	**cents**	cents
Reported figures before adjustments	**2.91**	(4.56)	**1.73**	(2.41)
Adjustments arising from changes in accounting policy (see notes 2A)	**(1.72)**	(0.78)	**(0.57)**	(0.43)
As reported/restated	**1.19**	(5.34)	**1.16**	(2.84)

12. INVESTMENT PROPERTIES

	In the PRC held under medium-term leases	In Hong Kong held under medium-term leases	Total
	HK$'000	HK$'000	HK$'000
FAIR VALUE OF INVESTMENT PROPERTY			
As at 1 January, 2004	900	10,200	11,100
Increase in fair value recognised in the income statement	—	1,800	1,800
As at 31 December, 2004 and 1 January, 2005	900	12,000	12,900
Increase in fair value recognised in the income statement	—	6,000	6,000
As at 31 December, 2005	**900**	**18,000**	**18,900**

12. INVESTMENT PROPERTIES *(continued)*

All of the Group's property interests held under operating leases to earn rentals or for capital appreciation purposes are measured using the fair value model and are classified and accounted for as investment properties.

Investment properties were revalued at their open market value at 31 December, 2005 by Associated Surveyors & Auctioneers Ltd., an independent firm of professional valuers, on an open market value basis. This valuation gave rise to a revaluation surplus of HK$6,000,000 (2004: HK$1,800,000), which has been credited to the consolidation income statement.

Associated Surveyors & Auctioneers Ltd is a member of the Institute of Valuers, and have appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations. The valuation, which conforms to International Valuation Standards, was arrived at by reference to market evidence of transaction prices for similar properties.

13. PROPERTY, PLANT AND EQUIPMENT

2005

	Hotel properties in the PRC held under medium-term leases HK$'000	Land and buildings HK$'000	Furniture, equipment and leasehold improvements HK$'000	Plant and machinery HK$'000	Motor vehicles HK$'000	Total HK$'000
THE GROUP						
At 1 January, 2005	165,000	43,117	17,366	111,631	2,741	339,855
- Adjustment on adoption of HKAS 17	—	(25,892)	—	—	—	(25,892)
As restated	165,000	17,225	17,366	111,631	2,741	313,963
Exchange adjustments	—	331	328	2,147	11	2,817
Additions	—	—	2,155	1,041	401	3,597
Disposals and write off	—	—	(3,641)	(7)	—	(3,648)
At 31 December, 2005	165,000	17,556	16,208	114,812	3,153	316,729
Comprising:						
At cost	—	17,556	16,208	114,812	3,153	151,729
At valuation – 2005	165,000	—	—	—	—	165,000
	165,000	17,556	16,208	114,812	3,153	316,729
DEPRECIATION						
At 1 January, 2005	—	3,401	16,660	30,173	2,412	52,646
- Adjustment on adoption of HKAS 17	—	(1,410)	—	—	—	(1,410)
	—	1,991	16,660	30,173	2,412	51,236
Exchange adjustments	—	38	329	581	9	957
Provided for the year	7,500	811	690	9,438	192	18,631
Eliminated on disposals and write off	—	—	(3,396)	(2)	—	(3,398)
Eliminated on revaluation	(7,500)	—	—	—	—	(7,500)
At 31 December, 2005	—	2,840	14,283	40,190	2,613	59,926
NET BOOK VALUES						
At 31 December, 2005	165,000	14,716	1,925	74,622	540	256,803

13. PROPERTY, PLANT AND EQUIPMENT *(continued)*

2004

	Hotel properties in the PRC held under medium-term leases HK$'000	Land and buildings HK$'000	Furniture, equipment and leasehold improvements HK$'000	Plant and machinery HK$'000	Motor vehicles HK$'000	Total HK$'000
COST						
At 1 January 2004	165,000	45,190	17,814	107,563	2,241	337,808
- Adjustment on adoption of HKAS 17	—	(25,892)	—	—	—	(25,892)
Restated	165,000	19,298	17,814	107,563	2,241	311,916
Additions	—	605	446	4,420	500	5,971
Disposals and write off	—	(2,678)	(894)	(352)	—	(3,924)
At 31 December 2004	165,000	17,225	17,366	111,631	2,741	313,963
Comprising						
At cost	—	17,225	17,366	111,631	2,741	148,963
At valuation – 2004	165,000	—	—	—	—	165,000
	165,000	17,225	17,366	111,631	2,741	313,963
DEPRECIATION						
At 1 January 2004	—	4,133	16,497	21,557	2,015	44,202
- Adjustment on adoption of HKAS 17	—	(877)	—	—	—	(877)
Restated	—	3,256	16,497	21,557	2,015	43,325
Charge for the year	7,174	902	1,043	8,968	397	18,484
Eliminated on disposals	—	(2,167)	(880)	(352)	—	(3,399)
Eliminated on revaluation	(7,174)	—	—	—	—	(7,174)
At 31 December 2004	—	1,991	16,660	30,173	2,412	51,236
NET BOOK VALUES						
At 31 December 2004	165,000	15,234	706	81,458	329	262,727

13. PROPERTY, PLANT AND EQUIPMENT *(continued)*

Hotel properties situated in the PRC were revalued on the basis of their open market value on 31 December, 2005 by Associated Surveyors & Auctioneers Ltd., an independent firm of professional valuers. This valuation gave rise to revaluation surplus of HK$7,500,000 (2004: 7,174,000), which has been directly credited to the hotel property revaluation reserve.

Hotel properties situated in the PRC were revalued on the basis of their open market value on 31 December, 2005 by Associated Surveyors & Auctioneers Ltd., an independent firm of professional valuers. There was no revaluations surplus or deficit arising from the revaluation as at 31 December, 2005.

If hotel properties had not been revalued, they would have been included in these financial statements at historical cost less accumulated depreciation of HK$71,458,000 (2004: HK$ HK$74,706,000).

The net book value of land and buildings shown above comprises:

	THE GROUP	
	2005	2004
	HK$'000	HK$'000
		(restated)
In Hong Kong held under medium-term leases	**—**	—
In the PRC held under medium-term leases	**14,716**	15,234
	14,716	15,234

14. LAND USE RIGHTS

The Group's interest in land use rights represent prepaid operating lease payments and their net book value are as follows:

	THE GROUP	
	2005	2004
	HK$'000	HK$'000
		(restated)
In the PRC held under medium-term leases	**24,409**	24,482

15. PROPERTIES HELD FOR DEVELOPMENT

	THE GROUP In the PRC held under long leases 2005 & 2004 HK$'000
COST	199,267
IMPAIRMENT LOSS	
At 1 January, 2005	151,267
Provided for the year	—
At 31 December 2005	**151,267**
NET BOOK VALUE	
At 31 December, 2005	**48,000**
At 31 December, 2004	48,000

16. GOODWILL

	THE GROUP HK$'000
COST	
At 1 January, 2004 and 1 January, 2005	112,583
Elimination of accumulated amortisation upon the application of HKFRS 3 *(see Note 2)*	(15,099)
At 31 December 2005	97,484
AMORTISATION	
At 1 January, 2004	9,480
Charge for the year	5,619
At 1 January, 2005	15,099
Elimination of accumulation amortization upon the application of HKFRS3 *(see Note 2)*	(15,099)
At 31 December, 2005	—
IMPAIRMENT LOSS	
At 1 January, 2004 and 1 January, 2005	—
Impairment loss recognized for the year	7,604
At 31 December, 2005	**7,604**
CARRYING VALUES	
At 31 December, 2005	**89,880**
At 31 December, 2004	97,484

The goodwill is arising on acquisition of subsidiaries during 2002. The amortisation period adopted for the goodwill is 20 years.

The Group's Goodwill was revalued at 30 June, 2005. Valuation was made by Associated Surveyors & Auctioneers Ltd., an independent firm of professional valuers. Impairment loss has been recognised in the current period.

This valuation gave a rise to impairment loss of HK$7,604,000, which has been charged to the consolidated income statement.

17. INVESTMENTS IN SUBSIDIARIES

	THE COMPANY	
	2005	2004
	HK$'000	HK$'000
Unlisted investments, at cost	**1,096,607**	1,096,607
Less: Impairment loss	**(1,073,000)**	(1,073,000)
	23,607	23,607

Particulars of the Company's principal subsidiaries as at 31 December, 2005 are set out in note 29.

18. PROPERTIES HELD FOR SALE

THE GROUP

Properties held for sale are stated at net realisable value.

19. INVENTORIES

	THE GROUP	
	2005	2004
	HK$'000	HK$'000
Fibreboards and veneers		
Raw materials	**36,250**	20,776
Work in progress	**1,767**	5,325
Finished goods	**424**	11,465
	38,441	37,566
Food, beverages and hotel supplies	**1,495**	1,401
	39,936	38,967

20. TRADE AND OTHER RECEIVABLES

THE GROUP

The Group allows an average credit period of 90 days to its trade customers.

The following is an aged analysis of the Group's trade receivables at the balance sheet date:

	THE GROUP	
	2005	2004
	HK$'000	HK$'000
0-60 days	**3,070**	6,316
61-90 days	**750**	1,385
91-120 days	**299**	481
over 120 days	**1,552**	1,417
Trade receivables	**5,671**	9,599
Other receivables	**8,406**	6,097
	14,077	15,696

The directors consider that the carrying amount of trade and other receivables approximates their fair value.

21. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS/(2004: INVESTMENTS IN SECURITIES)

	Total	
	2005	2004
	HK$'000	HK$'000
THE GROUP		
Listed shares in Hong Kong	**1**	83
Market value of listed shares	**1**	83
Carrying amount analysed for reporting purposes as:		
Current	**1**	83
Non-current	**—**	—
	1	83

22. TRADE AND OTHER PAYABLES

THE GROUP

The following is an aged analysis of the Group's trade payables at the balance sheet date:

	THE GROUP	
	2005	2004
	HK$'000	HK$'000
0-60 days	**8,656**	6,091
61-90 days	**1,562**	3,155
91-120 days	**199**	1,335
over 120 days	**4,516**	4,015
Trade payables	**14,933**	14,596
Other payables	**73,555**	77,427
	88,488	92,023

The directors consider that the carrying amount of trade and other payable approximates their fair value.

23. SHARE CAPITAL

	Number of shares		Nominal value	
	2005	2004	**2005**	2004
			HK$'000	HK$'000
Ordinary shares of HK$0.10 each				
Authorised:				
At beginning and end of the year	**3,000,000,000**	3,000,000,000	**300,000**	300,000
Issued and fully paid:				
At beginning and end of the year	**914,995,817**	914,995,817	**91,500**	91,500

24. SHARE OPTION SCHEME

The share option scheme was adopted by the Company on 20 May, 2003 (the "Scheme"). During the year, no options was granted, exercised, lapsed or cancelled under the Scheme. At 31 December, 2004 and 2005, there were no options outstanding under the Scheme.

The primary purpose of the Scheme is to provide the Company with a flexible means of giving incentive to, rewarding, remunerating, compensating and/or providing benefits to the participants. Under the Scheme, the Board of Directors of the Company may grant options to eligible employees, including Directors, and business associates of the Company and its subsidiaries, to subscribe for ordinary shares in the Company, in accordance with the terms of the Scheme.

The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at the date of approval of the Scheme without prior approval from the Company's shareholders.

The maximum entitlement for any one participant is that the total number of ordinary shares of the Company issued and to be issued upon exercise of the options granted to such participant under the Scheme and any other option schemes of the Company (including both exercised and outstanding options) in any 12-month period shall not exceed 1% of the total number of ordinary shares of the Company in issue.

The Scheme is for a term of 10 years from the date of adoption and will expire on 20 May, 2013. No option has been granted since the adoption of the Scheme.

24. SHARE OPTION SCHEME *(continued)*

Details of the movements in the Company's share options during the year ended 31 December, 2004 are as follows:

Directors	Date of option granted	Exercise period	Exercise price	Outstanding at 1 January 2004	Lapsed during the year	Outstanding at 31 December 2004
			HK			
Mr. Leung Siu Fai	12 August 2002	15 September 2002- 27 June 2004	0.347	5,000,000	5,000,000	—
Mr. Kam Hung Chung	12 August 2002	15 September 2002- 27 June 2004	0.347	5,000,000	5,000,000	—
Former Directors						
Mr. Sun Pak Fun	12 August 2002	15 September 2002- 27 June 2004	0.347	5,000,000	5,000,000	—
Total for directors				15,000,000	15,000,000	—
Employees	12 August 2002	15 September 2002- 27 June 2004	0.347	8,500,000	8,500,000	—
Total				23,500,000	23,500,000	—

No charge is recognised in the income statement in respect of the value of options granted in the year (2004: Nil).

25. CONVERTIBLE NOTES

On 9 May, 2002, the Group issued HK$230,000,000 convertible notes (the "Notes") which are due on 9 May, 2007 (the "Maturity Date"), bear interest at 1% per annum and in units of HK$1,000,000 each. The Notes are convertible at the discretion of the holders of the Notes, at any time upon the expiry of 6 months from the date of issue of the Notes up to an including its Maturity Date in whole or in part into shares of HK$0.10 each in the Company at an initial conversion price of HK$0.27 per share, subject to adjustment.

During the year, HK$ Nil (2004: HK$ Nil) Notes were converted into shares of the Company.

The Company shall repay such principal moneys outstanding under the Notes to the holders of the Notes on the Maturity Date together with all interest accrued thereon up to and including the maturity date.

The fair value of the liability component and the equity conversion component were determined at issuance of the bonds.

25. CONVERTIBLE NOTES *(continued)*

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

The fair value of the liability component of the convertible notes is calculated using cash flows discounted at a rate based on the borrowing rate of 4.5%.

Interest expenses on the notes are calculated using the effective interest method by applying the effective interest rate of 4.5% to the liabilities component.

The movement of the liability component of the convertible loan notes for the year is set out below:

	2005	2004
	HK$'000	HK$'000
		(restated)
Liability component beginning of the year	**183,230**	168,255
Interest charge (*Note 6*)	**8,245**	—
Interest paid	**(1,988)**	—
Liability at the end of the year	**189,487**	168,255

26. CONTINGENT LIABILITIES

a. On 16 January, 2004, Heng Da and Jia Shun both received summons issued by the Intermediate People's Court of Foshan City, Guangdong Province, the People's Republic of China (the "Court") regarding a bank loan contract dated 23 May, 2003 entered into between Nanhai Heng Yi Timber Company Limtied("Heng Yi"), an independent third party, as borrower and the Shenzhen Development Bank Foshan Branch (the "Claimant") as lender in relation to a loan facility in a sum of RMB40 million (equivalent to approximately HK$38 million) and that the Claimant has advanced such loan to Heng Yi. The summons also included a guarantee dated 23 May, 2003 entered into by, among others, Jia Shun, Heng Da and Nanhai Hua Guang Decorative Board Company Limited ("Hua Guang") in favour of the Claimant in relation to such loan (the "Claims"). As the operations of Hua Guang were suspended and Hua Guang was one of the guarantors in relation to the bank loan, Jia Shun and Heng Da, among others, should make full repayment of the loan and interest thereon before maturity under the bank loan contract.

26. CONTINGENT LIABILITIES *(continued)*

Jia Shun and Heng Da had reported to the Public Securities Bureau in Nanhai, PRC on 23 March, 2004 that, among other things:

(i) without the knowledge of board of directors of the Company and the respective board of directors of Jia Shun and Heng Da, the company chops of Heng Da and Jia Shun, and the name chop of Mr. Sun Pak Fun, the then legal person representative and chairman of board of directors of Jia Shun and Heng Da, were affixed to the aforesaid guarantees;

(ii) neither Jia Shun nor Heng Da had any record recording any details of the aforesaid guarantees; and

(iii) the claims were suspected to involve criminal offence.

Based on the above, the Group will deny liability and contest the Claims vigorously. The Directors consider that the Claimant does not have any valid claim against Heng Da and Jia Shun in relation to the Claims, and they strongly believe that the Group can successfully defend against the Claims.

b. Based on the above, the Group had a maximum contingent consideration of HK$48,000,000 in respect of the acquisition of the entire issued share capital of Can Manage. However, as the vendor being uncontactable, the Directors have been unable to ascertain whether this amount has been properly dealt with, which will become payable, among others, when the consolidated net profit of Can Manage and its subsidiary, namely Jia Shun, achieved an amount of HK$80,000,000. However, the operation of Jia Shun was suspended during the period from 17 August, 2003 to 10 October, 2003 due to a failure in the supply of electricity and steam from the power plant operated under the power supply agreement and a court order dated 19 August, 2003 to freeze Jia Shun's assets in relation to an alleged claim from the Shenzhen Development Bank Foshan Branch. In addition, the production facilities were substantially different from those prior to the suspension. In view of all the above incidences, couple with the fact that the vendor was not contactable up to the date of this report, the directors could not reasonably ascertain the amount of contingent consideration, if any, which has to be paid to the vendor.

26. CONTINGENT LIABILITIES *(continued)*

c. The Court issued to each of Jia Shun and Heng Da a summons both dated 17 October, 2005 to request Jia Shun and Heng Da to attend the interlocutory hearings which were held by the Court on 23 November, 2005, in relation to two alleged claims initiated by the Claimant against Jia Shun and Heng Da as follows:

(i) the Claimant alleged that a bank loan contract dated 11 October, 2002 was entered into between Jia Shun as borrower and the Claimant as lender in relation to a loan amount in sum of RMB30,000,000 (equivalent to approximately HK$28,846,000) ("First Alleged Claim"); and

(ii) the Claimant alleged that a bank loan contract dated 11 October, 2002 was entered into between Heng Da as borrower and the Claimant as lender in relation to a loan amount in sum of RMB20,000,000 (equivalent to approximately HK$19,231,000) ("Second Alleged Claim").

Based on the facts finding and investigation conducted by Jia Shun and Heng Da with the assistance of its PRC lawyers, it appeared that:

(i) without the knowledge of the Board and the respective boards of directors of Jia Shun and Heng Da, the company chops of Jia Shun and Heng Da and a forged name chop of Mr. Sun Pak Fun (a former executive director of the Company and joint chairman of the Board who resigned on 26 November, 2003, and the former legal representative and chairman of Jia Shun and Heng Da who also resigned on 26 November, 2003) were allegedly affixed to the aforesaid bank loan contracts;

(ii) neither Jia Shun nor Heng Da had received any sum of money representing the RMB30,000,000 loan and RMB20,000,000 loan respectively, and the Claimant had not provided sufficient cogent evidence to show that such bank loans were in fact received by Jia Shun and Heng Da; and

(iii) the aforesaid bank loan contracts and other related documents under the First Alleged Claim and the Second Alleged Claim were suspected to have involved forgery of documents.

On 9 November, 2005, Jia Shun and Heng Da reported to the Public Security Bureau in Nanhai, the PRC, among other things, that the respective subject loans of the First Alleged Claim and the Second Alleged Claim involved illegal appropriation by unknown third party of Jia Shun and Heng Da's names and Mr. Sun Pak Fun's name chop & signature.

26. CONTINGENT LIABILITIES *(continued)*

The Company has engaged the PRC Lawyers who on behalf of Jia Shun and Heng Da, had:- i) obtained a statement from Mr. Sun Pak Fun dated 1 November, 2005, which he confirmed, among other things, according to his knowledge, the aforesaid bank loan contracts did not exist and Jia Shun or Heng Da has never received the sum representing the alleged loans. Mr. Sun Pak Fun also confirmed that the signature and name chop that were allegedly affixed to the aforesaid bank loan contracts and appeared therein as his own were in fact forged; ii) filed a defence to court in denying liability on 2 November, 2005; iii) applied to court for extension in period for obtaining further evidence and such application was granted to obtain further evidence as soon as possible with no specified due date; and iv) attend the interlocutory hearings held by the Court on 23 November, 2005. The PRC lawyers are of the opinion that at present the Claimant had not produced any sufficient cogent evidence in respect of the First Alleged Claim and the Second Alleged Claim and thus does not have any valid claim against Jia Shun and Heng Da. At present, the PRC lawyers also have reasons to believe that neither Jia Shun nor Heng Da had borrowed any sum of money representing the respective subject loans of the First Alleged Claim and the Second Alleged Claim, and the bank loan contracts in respect of such loans were in fact forged. The Company is in the progress of further fact finding and if appropriate, shall submit further evidence to the court for next hearing (if any). Based on the legal opinion of the PRC lawyers, the Directors consider that the Claimant does not have any valid claim against Jia Shun and Heng Da in relation to the First Alleged Claim and the Second Alleged Claim, and they strongly believe that the Group can successfully defend against both claims. Thus, the Group has denied and will continue to deny liability and contest against the First Alleged Claim and the Second Alleged Claim vigorously. At present, the Board anticipates that there will not be any material adverse effect on the business operations and financial position of the Group.

27. OPERATING LEASE ARRANGEMENTS

	The Group as lessee	
	2005	2004
	HK$'000	HK$'000
Minimum lease payments paid under operating leases during the year:		
Plant and machinery	**12,821**	21,510
Premises	**5,516**	1,401
	18,337	22,911

At the balance sheet date, the Group had outstanding commitments under non-cancellable operating leases in respect of rented premises and plant and machinery, which fall due as follows:

	2005	2004
	HK$'000	HK$'000
Within one year	**17,364**	22,619
In the second to fifth year inclusive	**973**	21,510
	18,337	44,129

Operating lease payments represent rentals payable by the Group for its office premises and plant and machinery. Leases are negotiated for an average terms of 3 years to 4 years, respectively.

27. OPERATING LEASE ARRANGEMENTS *(continued)*

The Group as lessor

The Group's property rental income earned during the year was approximately HK$1,019,000 (2004: HK$1,205,000). All of the properties held have committed tenants for the next 2 years.

At the balance date, the Group had contracted with tenants for the following future minimum lease payments:

	2005	2004
	HK$'000	HK$'000
Within one year	**292**	658
In the second to fifth year inclusive	**—**	191
	292	849

28. EVENTS AFTER THE BALANCE SHEET DATE

On 6 February, 2005, the Group entered into a land use right transfer agreement ("Principal Agreement') with an independent third party for the disposal of the property under development, a piece of land (the "Sales Land") situated in District No.18 Jiangbei, Huizhou, Guangdong Province, PRC, held by Wise Lite Limited, Skyway Limited and Fairwind International Limited at a consideration of RMB51,000,000.

Owing to the fact that certain squatters are unlawfully occupying the Sales Land, the Group is obliged to evacuate the squatters in order to complete the sale. As it takes time to do so, the Group had entered into a supplemental agreement with the Purchasers to amend the payment terms of the Principal Agreement and set the deadline for evacuation the squatters.

On 31 July, 2005, the Group entered into a Further Supplemental Agreement with the Purchaser that the Purchaser agreed to further extend the deadline for evacuation of the squatters from the Sales Land until the date on which the Group had evacuated the squatters from the Sales Land, upon which the Purchaser shall pay to the Group part of the consideration for the transfer of the Sales Land in the sum of RMB20,000,000 (approximately HK$19,230,000).

When the land use right is delivered and title has passed to the purchaser, the purchaser shall pay the remaining balance within one month. As at the balance sheet day, the squatters are not yet evacuated from the Sales Land.

29. PRINCIPAL SUBSIDIARIES

Particulars of the Company's principal subsidiaries at 31 December, 2005 are as follows:

Name of subsidiary	Place of incorporation or registration/ operation	Nominal value of issued and fully paid ordinary share capital/ registered capital	Percentage held	Principal activity
			%	
Direct subsidiary				
China Investments Limited	Hong Kong	HK$1,000	100	Investment holding
Indirect subsidiaries				
Airlane Development Limited	Hong Kong	HK$2	100	Property trading
Barmax Development Limited	Hong Kong	HK$2	100	Property trading
Botex Development Limited	Hong Kong	HK$2	100	Property trading
Centon Development Limited	Hong Kong	HK$2	100	Property trading
Charland Investment Limited	Hong Kong	HK$2	100	Property trading
China Alliance Industries Limited	Hong Kong	HK$2	100	Property trading
Cyro Holdings Limited	British Virgin Islands/ Hong Kong	US$1	100	Investment holding
Expert Target Development Limited	Hong Kong	HK$2	100	Property trading
Fairwind International Limited	Hong Kong	HK$2	100	Property development
Greenswood Property Limited	Hong Kong	HK$2	100	Property investment
Guilin Li-Feng Real Estate Company Ltd. *(Note 1)*	PRC	RMB8,459,827	100	Property development
Guilin Plaza Hotel (formerly named as Guilin Sight-Seeing Hotel Company Limited) *(Note 2)*	PRC	RMB14,500,000	100	Hotel operations

29. PRINCIPAL SUBSIDIARIES *(continued)*

Name of subsidiary	Place of incorporation or registration/ operation	Nominal value of issued and fully paid ordinary share capital/ registered capital	Percentage held %	Principal activity
Indirect subsidiaries				
Nanhai Heng Da Timber Company Limited 南海亨達木業有限公司 *(Note 2)*	PRC	RMB40,789,076	100	Manufacturing and trading of veneers
Jofra Company Limited	Hong Kong	HK$1,000	100	Investment holding
Nanhai Jia Shun Timber Company Limited 南海佳順木業有限公司 *(Note 2)*	PRC	RMB39,800,000	100	Manufacturing and trading of mediumdensity fibreboards
Kawan (HK) Trading Company Limited	Hong Kong	HK$4,000,000	100	Trading of steels and other materials
Langmax Investment Limited	Hong Kong	HK$2	100	Property trading
Lina Development Limited	Hong Kong	HK$2	100	Property trading
Metropolitan Development Limited	Hong Kong	HK$2	100	Property trading
Rich Asset Development Limited	Hong Kong	HK$2	100	Property trading
Rich Horn Development Limited	Hong Kong	HK$2	100	Property trading
Senicon Investment Limited	Hong Kong	HK$2	100	Property trading
Sino Sense Development Limited	Hong Kong	HK$2	100	Property trading
Skyway Limited	Hong Kong	HK$2	100	Property development
Trener Investment Limited	Hong Kong	HK$2	100	Property trading
Universal Talent Development Limited	Hong Kong	HK$2	100	Property trading
Wise Lite Limited	Hong Kong	HK$2	100	Property development

29. PRINCIPAL SUBSIDIARIES *(continued)*

Notes:

1. This is a sino-foreign co-operative joint venture.

2. This is a wholly foreign owned enterprise.

None of the subsidiaries had any debt securities outstanding at the end of the year or at any time during the year.

The above table lists the subsidiaries of the Company which, in the opinion of the Directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the Directors, result in particulars of excessive length.