

DIRECTORS' REPORT

The directors ("Directors") of the Company submit their report together with the audited financial statements for the year ended 31 December 2005.

1. PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATION

The principal activity of the Company is investment holding. The activities of the subsidiaries are set out in note 16(b) to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

An analysis of the Group's performance for the year by business and geographical segments is set out in note 5 to the financial statements.

2. FINANCIAL POSITION AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated income statement on page 27.

The state of the Group's affairs as at 31 December 2005 is set out in the consolidated balance sheet on pages 28 and 29.

The changes in equity of the Group for the year are set out in the consolidated statement of changes in equity on page 31.

The cash flows of the Group for the year are set out in the consolidated cash flow statement on pages 32 and 33.

No interim dividend was declared and paid during the year (2004:Nil). The Directors do not recommend the payment of a final dividend for the year ended 31 December 2005 (2004: Nil).

3. RESERVES

Movements in the reserves of the Group and the Company during the year are set out in note 25 to the financial statements.

As at 31 December 2005, the Company's share premium account may be distributed in the form of fully paid bonus shares.



DIRECTORS' REPORT

4. PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group during the year are set out in note 15 to the financial statements.

5. SHARE CAPITAL AND SHARE OPTIONS

Details of the movements in share capital and share options of the Company during the year are set out in note 24 to the financial statements.

There were no outstanding options as at 31 December 2005. A proposal will be made by the Board to shareholders at the forthcoming annual general meeting ("Annual General Meeting") to terminate the existing share option scheme of the Company and adopt a new share option scheme, the terms of which will comply with the provisions of Chapter 17 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") currently in force.

6. PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Bye-laws or the laws of Bermuda which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

7. LOAN FROM A FINANCE COMPANY

Particulars of loan from a finance company as at 31 December 2005 are set out in note 22 to the financial statements. There was no interest capitalized by the Group during the year.



DIRECTORS' REPORT

8. FIVE YEARS FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out below:

Results	Year ended 31 December				
	2005 HK\$'000	2004 HK\$'000	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000
Turnover	51,688	36,781	14,062	24,645	46,870
Operating loss after finance costs	(4,607)	(10,875)	(126,382)	(234,736)	(103,363)
Share of profits/(loss) of associated companies	-	-	2	(486)	(11,685)
Share of results of a joint venture	-	-	-	-	(310)
Amortisation of premium on acquisition of associated companies	-	-	(7,764)	(5,823)	-
Impairment loss on investments in associated companies	-	-	(11,862)	-	-
Impairment loss on investment held for resale	-	-	(115,739)	(30,816)	-
Gain/(loss) on disposal of subsidiaries	1,068	23,022	-	(1,905)	(84,147)
Gain on deconsolidation of a subsidiary	-	50,239	-	-	-
Gain on debt discharged under Creditors' Scheme	-	100,306	-	-	-
(Loss)/profit before taxation	(3,539)	162,692	(261,745)	(273,766)	(199,505)
Taxation	(1,019)	(841)	(596)	-	(82)
(Loss)/profit for the year	<u>(4,558)</u>	<u>161,851</u>	<u>(262,341)</u>	<u>(273,766)</u>	<u>(199,587)</u>
Attributable to:					
Shareholders of the Company	(4,558)	161,851	(262,341)	(213,004)	(199,588)
Minority interests	-	-	-	(60,762)	1
(Loss)/profit for the year	<u>(4,558)</u>	<u>161,851</u>	<u>(262,341)</u>	<u>(273,766)</u>	<u>(199,587)</u>



DIRECTORS' REPORT

8. FIVE YEARS FINANCIAL SUMMARY (CONTINUED)

Assets and Liabilities	As at 31 December				
	2005 HK\$'000	2004 HK\$'000	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000
Total assets	25,839	27,472	8,336	255,217	550,767
Total liabilities	(24,654)	(21,826)	(185,897)	(105,918)	(184,732)
Total equity attributable to shareholders of the Company	1,185	5,646	(177,561)	149,299	366,035
Minority interests	—	—	—	(74,827)	(135,589)
	<u>1,185</u>	<u>5,646</u>	<u>(177,561)</u>	<u>74,472</u>	<u>230,446</u>

9. PURCHASE, SALE OR REDEMPTION OF SHARES

The Company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year.

10. DIRECTORS

The Directors during the year and up to the date of this report were:

Executive Directors:

Mr. Yip Wai Leung Jerry (<i>Chairman</i>)	(appointed on 2 March 2006, designated as Chairman on 24 March 2006)
Mr. Tam Jin Rong (<i>Chairman</i>)	(resigned on 24 March 2006)
Mr. Ming Kar Fook Charles	(appointed on 2 March 2006)
Mr. Tao Ke Wei	(resigned on 24 March 2006)
Mr. Tam Kai On	(resigned on 24 March 2006)
Mr. Ko Chung Ting Peter	(resigned on 31 May 2005)



DIRECTORS' REPORT

10. DIRECTORS (CONTINUED)

Independent non-executive Directors:

Mr. So Yin Wai	(appointed on 2 March 2006)
Mr. Zhou Yaoming	(appointed on 2 March 2006)
Ms. Zhu You Chun	(appointed on 2 March 2006)
Mr. Tsui Wing Tak	(appointed on 1 July 2005 and resigned on 24 March 2006)
Mr. Lau Kwok Wah	(resigned on 24 March 2006)
Mr. Huang Shou Deng	(resigned on 24 March 2006)
Mr. Choy Sai Man	(resigned on 31 May 2005)

In accordance with Clause 102(B) of the Company's Bye-laws, the office of each of Messrs. Yip Wai Leung Jerry, Ming Kar Fook Charles, So Yin Wai, Zhou Yaoming and Ms. Zhu You Chun, all being appointed as addition Directors by the Board on 2 March 2006, shall end at the forthcoming Annual General Meeting. Mr. Zhou Yaoming, an independent non-executive Director, has given notice to the Company that he, due to personal reason, will not offer himself for re-election upon expiry of his office at the Annual General Meeting. All the other Directors, being eligible, will offer themselves for re-election at the Annual General Meeting.

As at the date of this Directors' Report, the Directors were not appointed for a specified term and would be subject to the retirement and rotation requirements under the Company's Bye-laws.

11. DIRECTORS' SERVICE CONTRACTS

The executive Directors during the year, namely Mr. Tam Jin Rong, Mr. Tam Kai On, Mr. Tao Ke Wei and Mr. Ko Chung Ting Peter, entered into service contracts with the Company for a period of three years commencing from 11 February 2003, 1 June 2003, 1 June 2003 and 1 June 2003, respectively (the "Service Contracts"). All the above Directors resigned on or before 24 March 2006.

No Directors who are proposed for re-election at the Annual General Meeting has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

12. DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in the section headed "Connected Transactions" of this Directors' Report, no contracts of significance in relation to the Company's business to which the Company, its subsidiaries, the controlling shareholder of the Company or any of its subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

13. BIOGRAPHICAL DETAILS OF DIRECTORS

Brief biographical details of the Directors as at the date of this Directors' Report are set out on page 4 and 5.



DIRECTORS' REPORT

14. RETIREMENT BENEFIT SCHEME

Details of the retirement benefit scheme of the Group and the employer's costs charged to the consolidated income statement for the year are set out in note 13 to the financial statements.

15. CONNECTED TRANSACTIONS

- (a) Pursuant to an agreement entered into between the Company and Mr. Tam Jin Rong ("Mr. Tam"), an executive Director during the year and a then controlling shareholder of the Company, Mr. Tam committed to provide a loan with maximum amount of HK\$10 million to the Company for daily operation with interest rate at prime rate plus 2% per annum (note 23 to the financial statements). The loan was unsecured and its repayment date was extended to 29 April 2006. During the year, the Group paid interest of HK\$270,000 in relation to the above shareholder's loan.
- (b) During the year, the Group recognised construction revenue of approximately HK\$351,000 (2004: HK\$366,000) from Dongguan Blue Water & Blue Sky Property Co., Ltd. ("BWBS"), a company in which Mr. Tam was a beneficial shareholder.
- (c) During the year, the Group paid rental of HK\$45,000 (2004: HK\$39,000) in relation to office premises and staff quarters in the PRC, to BWBS, a company in which Mr. Tam was a beneficial shareholder.
- (d) During the year, the Group purchased materials of approximately HK\$172,000 (2004: Nil) from Dongguan Nan Feng Decorating and Engineering Co., Ltd. ("DNFDE"), a company in which Mr. Tam was a beneficial shareholder.
- (e) During the year, the Group paid cleaning expenses of HK\$19,000 (2004: Nil) in relation to office premises and staff quarters in the PRC, to Dongguan Nan Feng Property Management Co. Ltd. ("DNFPM"), a company in which Mr. Tam was a beneficial shareholder.
- (f) As at 31 December 2005, included in the following accounts are balances with companies in which Mr. Tam was a beneficial shareholder:

	2005 HK\$'000	2004 HK\$'000
BWBS:		
Prepayments, deposits and other receivable	84	84
Amounts due from customers on construction contract	–	121
Accounts receivable	38	–
Accruals and other payables	(585)	–
Amounts due to customers on construction contract	(15)	–
DNFDE:		
Accounts payable	(172)	–
DNFPM:		
Accruals and other payables	(19)	–



DIRECTORS' REPORT

16. DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY

As at 31 December 2005, save as mentioned below, none of the Directors or the chief executives of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which are required (a) to be notified to the Company or the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which he is taken or deemed to have under such provisions of the SFO); (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") contained in Appendix 10 to Listing Rules to be notified to the Company and the Stock Exchange:

Name of Director	The Company/ name of associated corporation	Capacity	Number of shares		Approximate percentage of shareholding
			Long position	Short position	
Mr. Tam	The Company	Beneficial owner	3,811,254 ordinary shares of HK\$0.01 each ("Shares")	-	0.44%
		Interest of a controlled corporation	308,223,869 Shares (Note)	-	36.06%
Mr. Tao Ke Wei	The Company	Beneficial owner	1,917,095 Shares	-	0.22%
Mr. Tam Kai On	The Company	Beneficial owner	1,875,191 Shares	-	0.22%

Note: These 308,223,869 Shares were held through Main Faith Limited ("Main Faith"), a company incorporated in the British Virgin Islands which was wholly and beneficially owned by Mr. Tam. Mr. Tam is deemed to be interested in all the Shares held by Main Faith pursuant to the SFO.



DIRECTORS' REPORT

17. DIRECTORS' AND CHIEF EXECUTIVES' RIGHTS TO ACQUIRE SHARES OR DEBT SECURITIES

- (i) Particulars of the Company's share option scheme adopted on 11 June 1997 are set out in note 24(b) to the financial statements.
- (ii) At no time during the year was the Company, its holding company or its subsidiaries a party to any arrangements to enable the Directors or members of the Group's management to acquire benefits by means of the acquisition of shares in or debt securities (including debentures) of, the Company or any other body corporate.

18. SUBSTANTIAL SHAREHOLDER

As at 31 December 2005, according to the register kept by the Company pursuant to section 336 of SFO, and so far as is known to any Directors of chief executive of the Company, the following table gives details of the person (other than a Director of chief executive of the Company) who had, or was deemed or taken to have, an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name of shareholder	Capacity	Number of Shares		Approximate percentage of shareholding in the Company
		Long position	Short position	
Main Faith	Beneficial owner	308,223,869 Shares	–	36.06%

19. MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.



DIRECTORS' REPORT

20. MAJOR CUSTOMERS AND SUPPLIERS

The percentage of sales and purchases for the year attributable to the Group's major customers and suppliers are as follows:

Sales

- the largest customer 76.2%
- five largest customers combined 99.9%

Purchase

- the largest supplier 15.9%
- five largest suppliers combined 38.3%

During the year, the Group has generated approximately HK\$351,000 (2004: HK\$366,000) construction revenue in relation to four construction contracts (2004: two construction contracts), having an aggregate contract sum of approximately HK\$750,000 (2004: HK\$530,000). The construction contracts were carried out in the ordinary course of business and were entered into on normal commercial terms with one of the five largest customers of the Group, namely BWBSP, a company in which Mr. Tam was a beneficial shareholder.

Except for the above, none of the Directors, their associates or any shareholders (which to the knowledge of the Directors owns more than 5% of the Company's share capital) had an interest in the major customers or suppliers noted above.

21. CORPORATE GOVERNANCE

Principal corporate governance practices adopted by the Company are set out in the Corporate Governance Report as set out on pages 19 to 24 of the annual report of the Company for the year.

22. INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of its independent non-executive Directors confirmation of his/her independence and the Company considers that each of them to be independent based on the guidelines set out in Rule 13.13 of the Listing Rules.



DIRECTORS' REPORT

23. AUDIT COMMITTEE

The written terms of reference which describe the authority and duties of the audit committee of the Company ("Audit Committee") were adopted in 1999 and subsequently amended in 2005.

The Audit Committee provides an important link between the Board and the Company's auditors in matters coming within the scopes of the Group audit. It also reviews the effectiveness of the external audit and of internal controls and risk evaluation. As at the date of this report, the Audit Committee comprises three independent non-executive Directors, namely Mr. So Yin Wai as chairman, Mr. Zhou Yaoming and Ms. Zhu You Chun as members.

The Audit Committee had reviewed the audited results of the Group for the year.

24. PUBLIC FLOAT

On the basis of information that is publicly available to the Company within the knowledge of the Directors as at the date of this report, the Company has complied with the public float requirements of the Listing Rules.

25. POST BALANCE SHEET EVENTS

- (a) On 13 January 2006, a sale and purchase agreement ("Sale and Purchase Agreement") was entered into between Mr. Tam and Main Faith (the "Vendors") and Always Adept Limited (the "Offeror") and First Win Trading Limited ("First Win"), pursuant to which the Offeror and First Win agreed to purchase and the Vendors agreed to sell an aggregate of 312,035,123 Shares for a consideration of HK\$29,019,266 (equivalent to HK\$0.093 per Share) which represented approximately 36.5% of the entire issued share capital of the Company.

Pursuant to the Sale and Purchase Agreement, Mr. Tam waived his right to immediate repayment of the shareholder's loan owed by the Group upon the completion of the Sale and Purchase Agreement and agreed to extend the repayment date of the shareholder's loan to 29 April 2006.

The Sale and Purchase Agreement was completed on 14 February 2006. A possible mandatory conditional cash offer was made by the Offeror and parties acting in concert with it (the "Cash Offer"). Upon completion of the Cash Offer on 24 March 2006, the Offeror and First Win totally held approximately 52.44% of the issued share capital of the Company. The Shares held by the Offeror and First Win are the investment assets of the Yip's Family Trust, which was established by Mr. Yip Wai Leung Jerry, an existing executive Director, for the benefit of himself and his wife and such beneficiary and/or beneficiaries as the protector of the Yip's Family Trust may from time to time declare.



DIRECTORS' REPORT

25. POST BALANCE SHEET EVENTS (CONTINUED)

- (b) On 24 March 2006, Mr. Tam resigned as the chairman and executive Director of the Company, Mr. Tam Kai On and Mr. Tao Ke Wei resigned as executive Directors of the Company. Mr. Huang Shou Deng, Mr. Lau Kwok Wah and Mr. Tsui Wing Tak resigned as independent non-executive Directors of the Company. All the resigning Directors confirmed that they had no disagreement with the Board. On the same day, Mr. Tam, Mr. Tam Kai On and Mr. Tao Ke Wei waived their salaries as Directors due from the Company, amounting to HK\$1,800,000, HK\$792,000 and HK\$792,000 respectively which were included in the balance sheet of the Group and the Company under accruals and other payables.

26. AUDITORS

A resolution to re-appoint the retiring auditors, RSM Nelson Wheeler, will be proposed at the forthcoming Annual General Meeting.

On behalf of the Board
Yip Wai Leung Jerry
Chairman

Hong Kong, 21 April 2006

