NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2005

1. GENERAL INFORMATION

The Company was incorporated in Bermuda on 24 March 1997 under the Companies Act 1981 of Bermuda as an exempted company limited by shares. Its shares have been listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 26 June 1997.

The Company is an investment holding company. The principal activities of its subsidiaries are set out in note 16(b) to the financial statements. The address of its registered office is Clarendon House, 2 Church Street, Hamilton HM11, Bermuda.

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

(a) Basis of preparation

The Group incurred a consolidated loss attributable to shareholders of the Company of HK$4,558,000 for the year ended 31 December 2005 and as at 31 December 2005, the Company had net current liabilities and capital deficiency of HK$8,438,000 and HK$954,000 respectively while the Group had net current liabilities of HK$996,000.

The financial statements have been prepared on a going concern basis, the validity of which depends upon the financial support of a substantial shareholder, at a level sufficient to finance the working capital requirements of the Group. The substantial shareholder has agreed to provide adequate funds for the Group to meet its liabilities as they fall due. If the going concern basis is not used, adjustments would have to be made to the financial statements to adjust the value of the Group's assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities, respectively.

(b) Adoption of new and revised Hong Kong Financial Reporting Standards

In the current year, the Group has adopted all of the new and revised standards and interpretations of Hong Kong Financial Reporting Standards (the "HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") that are relevant to its operations and effective for accounting periods beginning on or after 1 January 2005. The adoption of these new and revised standards and interpretations of HKFRSs has resulted in change to the Group's accounting policies in the following area:

Upon the adoption of HKAS 17, the land and buildings elements 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 to prepaid land lease payments under operating leases, which are carried at cost and subsequently recognised in the income statement on a straight-line basis over the lease term. This change in accounting policy has been applied retrospectively.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2005

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS (CONTINUED)

(b) Adoption of new and revised Hong Kong Financial Reporting Standards (Continued)

In previous years, leasehold land and buildings were included in property, plant and equipment and carried at cost less accumulated depreciation and any accumulated impairment losses. Since the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments continue to be treated as finance leases and included in property, plant and equipment.

The Group has not applied the following new standards or interpretations that have been issued but are not yet effective. The application of these standards or interpretations will not have material impact on the financial statements of the Group.

HKAS 1 Amendment	Presentation of Financial Statements – Capital Disclosures[1]
HKAS 19 Amendment	Actuarial Gains and Losses, Group Plans and Disclosures[2]
HKAS 21 Amendment	The Effect of Changes in Foreign Exchange Rates – Net Investment in a Foreign Operation[2]
HKAS 39 Amendment	Financial Instruments: Recognition and Measurement – Cash Flow Hedge Accounting of Forecast Intragroup Transactions[2]
HKAS 39 Amendment	Financial Instruments: Recognition and Measurement – The Fair Value Option[2]
HKAS 39 and HKFRS 4 Amendments	Financial Instruments: Recognition and Measurement and Insurance Contracts – Financial Guarantee Contracts[2]
HKFRS 6	Exploration for and Evaluation of Mineral Resources[2]
HKFRS 7	Financial Instruments: Disclosures[1]
HKFRS-Int 4	Determining whether an Arrangement contains a Lease[2]
HKFRS-Int 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds[2]
HK(IFRIC)-Int 6	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment[3]
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies.[4]

1 Effective for annual periods beginning on or after 1 January 2007
2 Effective for annual periods beginning on or after 1 January 2006
3 Effective for annual periods beginning on or after 1 December 2005
4 Effective for annual periods beginning on or after 1 March 2006

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2005

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS (CONTINUED)

(c) Share consolidation, capital reorganisation, creditors' scheme of arrangement, open offer and whitewash waiver

In response to the summary judgement awarded against the Company and the statutory demand issued by Mr. Alfred Siu Wing Fung, an ex-chairman of the Company, the Company according to the restructuring proposal announced on 1 September 2003 and subsequently revised on 5 November 2003:

(i) implemented a consolidation of every 20 existing shares of HK$0.10 each into 1 consolidated share of HK$2.00 each (each a "Consolidated Share") on 2 December 2003 ("Share Consolidation");

(ii) implemented a capital reorganisation of the Company ("Capital Reorganisation") which involved (a) a reduction in the nominal value of each then issued Consolidated Share from HK$2.00 to HK$0.01; (b) a subdivision of each authorized and unissued Consolidated Share into 200 adjusted shares of HK$0.01 each ("Adjusted Shares") on 27 April 2004; and (c) cancellation of the entire amount standing to the credit of the share premium account of the Company on 27 April 2004;

(iii) implemented a scheme of arrangement ("Creditors' Scheme") on 27 April 2004 under section 99 of the Companies Act 1981 of Bermuda and under section 166 of the Companies Ordinance (Chapter 32 of the laws of Hong Kong) between the Company and the scheme creditors (the "Scheme Creditors") which resulted in the indebtedness and liabilities owing to Scheme Creditors as at the date for determination of entitlements of the Scheme Creditors being discharged in full and final settlement by way of a combination of the cash payment and the issuance of new Adjusted Shares (each a "Creditors Share") to the Scheme Creditors. Pursuant to the Creditors' Scheme, for every HK$1 of valid claim, the Scheme Creditors received (a) cash payment of not more than HK$0.1 and (b) not more than 1.5 Creditors Shares which were issued credited as fully paid at HK$0.10 per Creditors Share; and

(iv) raised approximately HK$23.1 million (before expenses) on 27 April 2004 by way of an open offer on the basis of an assured allotment of five new Adjusted Shares (each an "Offer Share") for the equivalent of every Adjusted Share held by shareholders other than overseas shareholders at the subscription price of HK$0.045 per Offer Share (the "Open Offer").

The implementation of the Share Consolidation, Capital Reorganisation, the Creditors' Scheme and the Open Offer was inter-conditional to each other.

The Capital Reorganisation and the Creditors' Scheme became effective and the Open Offer became unconditional and that all conditions precedent to the Share Consolidation, the Capital Reorganisation, the Creditors' Scheme and the Open Offer were fulfilled on 27 April 2004. A whitewash waiver was granted by the Executive Director of the Corporate Finance Division of the Securities and Futures Commission in respect of the Open Offer. Immediately following the completion of the Share Consolidation, Capital Reorganisation, the Creditors' Scheme and the Open Offer, Mr. Tam Jin Rong and his concert parties beneficially held 410,935,123 shares, representing approximately 51.7% of the then issued share capital of the Company.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2005

3. PRINCIPAL ACCOUNTING POLICIES

The financial statements have been prepared in accordance with the HKFRSs issued by HKICPA and generally accepted accounting principles in Hong Kong. In addition, the financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") and by the Hong Kong Companies Ordinance.

The financial statements are prepared under the historical cost convention. The principal accounting policies are summarised as follows:

(a) Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December. Subsidiaries are those entities in which the Company, directly or indirectly, has the power to govern the financial and operating policies so as to obtain benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

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

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by other members of the Group.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any goodwill or capital reserve which was not previously charged or recognised in the consolidated income statement and also any related accumulated foreign currency translation reserve.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

In the Company's balance sheet the investments in subsidiaries are stated at cost less impairment losses, if any. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2005

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(b) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency.

(ii) Transactions and balances in each entity's financial statements

Transactions in foreign currencies are translated into the functional currency using the exchange rates prevailing on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the rates ruling on the balance sheet date. Profits and losses resulting from this translation policy are included in the income statement, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

Translation differences on non-monetary items, such as equity instruments held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation difference on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

(iii) Translation on consolidation

The result and financial position of all the group entities (none of which has the currency of hyperinflationary economy) that have a functional currency different from the Company's presentation currency are translated into the Company's presentation currency as follows:

– assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

– income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

– all resulting exchange differences are recognised as a separate component of equity.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2005

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(b) Foreign currency translation (Continued)

(iii) Translation on consolidation (Continued)

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedgers of such investments, are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognised in the consolidated income statement as part of the gain or loss on sale.

(c) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. Depreciation is being calculated using the straight line method to allocate the cost to their residual values over their estimated useful lives. The principal annual rates are as follows:

Leasehold land and buildings	over unexpired lease term
Leasehold improvements	over unexpired lease term or 5 years, whichever is shorter
Furniture, fixtures and equipment	10% to 30%
Motor vehicles	20%

The gain or loss on disposal of an asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the consolidated income statement.

The useful lives and residual values of the assets are reviewed and adjusted, if necessary, at each balance sheet date.

(d) Club membership

Club membership is stated at cost less any impairment in value.

(e) Impairment of assets

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 any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2005

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(e) Impairment of assets (Continued)

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease in the revaluation reserves.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but such 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 (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase in the revaluation reserves.

(f) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on a first in, first out basis, and in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

(g) Construction contracts in progress

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred.

When the outcome of a construction contract can be estimated reliably, contract revenue and contract costs are recognised over the period of the contract as revenues and expenses respectively. The Group uses the percentage of completion method to determine the appropriate amount of revenue and costs to be recognised in a given period. The stage of completion is measured by reference to the proportion that contract costs incurred for work performed to date bear to the estimated total costs for the contract. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2005

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(g) Construction contracts in progress (Continued)

In determining costs incurred up to the year end, any costs relating to future activity on a contract are excluded and shown as contract work-in-progress. The aggregate of the costs incurred and the profit or loss recognised on each contract is compared against the progress billings up to the year end. Where costs incurred and recognised profits (less recognised losses) exceed progress billings, the balance is shown as due from customers on construction contracts. Where progress billings exceed costs incurred plus recognised profits (less recognised losses), the balance is shown as due to customers on construction contracts.

(h) Financial instruments

Financial assets and financial liabilities are recognised on the consolidated balance sheet when the Group has become a party to the contractual provisions of the instrument.

Trade and other receivables

Trade and other receivables are subsequently measured at amortised cost using the effective interest method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2005

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(h) Financial instruments (Continued)

Borrowings

Interest-bearing borrowings are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognized over the term of the borrowings in accordance with the Group's accounting policy for borrowing costs.

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

Trade and other payables

Trade and other payables are stated at their fair value and subsequently measured at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

(i) Revenue recognition

(i) Contract revenue

Revenue for construction contracts is recognised as set out in note 3(g).

(ii) Interest income

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

(j) 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.

Rentals applicable to such operating leases are charged to the consolidated income statement on a straight line basis over the lease term.

(k) Borrowings costs

All borrowing costs are charged to the consolidated income statement in the year in which they are incurred.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2005

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(l) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a present legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

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

(m) Related parties

Two parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the Group where those parties are individuals, and post-employment benefit plans for the benefit of employees of the Group or of any entity that is a related party of the Group.

(n) Event after the balance sheet date

Post balance sheet events that provide additional information about the Group's position at the balance sheet date or those that indicate the going concern assumption is not appropriate are adjusting events and are reflected in the financial statements. Post balance sheet events that are not adjusting events are disclosed in the notes when material.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2005

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(o) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to the segment. Unallocated costs mainly represent corporate expenses. Segment assets consist primarily of property, plant and equipment, inventories and receivables. Segment liabilities comprise operating liabilities. They exclude items such as taxation and corporate borrowings. Segment revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group enterprises within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

In respect of geographical segment reporting, sales are based on the countries in which customers are located. Total assets and capital expenditure are based on where the assets are located.

(p) Employee benefits

(i) The Group has arranged for its Hong Kong employees to join the Mandatory Provident Fund Scheme (the "MPF Scheme'), a defined contribution scheme managed by an independent trustee. The Group's subsidiaries incorporated in the People's Republic of China (the "PRC") make contributions to a state-managed defined contribution scheme for the Group's PRC staff on a monthly basis pursuant to laws and regulations in the PRC through a government agency.

The Group's contributions to the defined contribution retirement schemes are recognised as expenses in the consolidated income statement as incurred.

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(p) Employee benefits (Continued)

(ii) Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long-service leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity or paternity leave are not recognised until the time of leave.

(iii) Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

(q) 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 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 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.

Deferred tax is recognised 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 from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affect neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investment in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2005

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(q) Taxation (Continued)

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 to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

4. CRITICAL ACCOUNTING JUDGEMENT AND ESTIMATES

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

Critical accounting judgement

The Company's directors prepared the financial statements on a going concern basis, the validity of which depends upon the financial support of a substantial shareholder at a level sufficient to finance the working capital requirements of the Group. Details are explained in note 2(a).

Key sources of estimation uncertainty

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

(a) Revenue and profit recognition

The Group estimated the percentage of completion of the constructions contracts by reference to the proportion that contract costs incurred for work performed to date to the estimated total costs for the contracts. When the final cost incurred by the Group is different from the amounts that were initially budgeted, such differences will impact the revenue and the profit or loss recognised in the period in which such determination is made. Budget cost of each project will be reviewed periodically and revised accordingly where significant variances are noted during the revision.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2005

4. CRITICAL ACCOUNTING JUDGEMENT AND ESTIMATES (CONTINUED)

(b) Property, plant and equipment and depreciation

The Group determines the estimated useful lives and related depreciation charges for the Group's property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. Management will revise the depreciation charge where useful lives are different to previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

(c) Split of land and buildings elements

The Group determines that the lease payments cannot be allocated reliably between the land and buildings elements. Accordingly the entire lease of land and buildings is classified as a finance lease and included under property, plant and equipment.

5. REVENUE AND SEGMENT INFORMATION

	Group	
	2005	2004
	HK$'000	HK$'000
Turnover	51,688	36,781
Other revenue		
Interest income on bank deposits	6	4
Others	301	10
	307	14
Total revenue	51,995	36,795

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2005

5. REVENUE AND SEGMENT INFORMATION (CONTINUED)

Primary reporting format – business segments

	Revenue		Segment results	
	2005 HK$'000	2004 HK$'000	2005 HK$'000	2004 HK$'000
Construction contracts in Hong Kong	–	–	–	(135)
Construction contracts in the PRC	51,688	36,781	1,031	1,462
	51,688	36,781		
Total segment results			1,031	1,327
Unallocated costs			(5,625)	(10,948)
Other revenue			307	14
			(4,287)	(9,607)
Gain arising from debts discharged under Creditors' Scheme			–	100,306
Gain on deconsolidation of a subsidiary under winding-up court order			–	50,239
Gain on disposal of subsidiaries			1,068	23,022
Finance costs			(320)	(1,268)
(Loss)/profit before taxation			(3,539)	162,692
Taxation			(1,019)	(841)
(Loss)/profit for the year attributable to shareholders of the Company			(4,558)	161,851

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2005

5. REVENUE AND SEGMENT INFORMATION (CONTINUED)

Primary reporting format – business segments (Continued)

	Construction contracts		Unallocated		Total	
	2005 HK$'000	2004 HK$'000	2005 HK$'000	2004 HK$'000	2005 HK$'000	2004 HK$'000
Segment assets	22,930	21,830			22,930	21,830
Unallocated assets	–	–			2,909	5,642
Total assets	22,930	21,830			25,839	27,472
Segment liabilities	12,775	9,190			12,775	9,190
Unallocated liabilities	–	–			11,879	12,636
Total liabilities	12,775	9,190			24,654	21,826
Capital expenditure	278	1,019	–	2,396	278	3,415
Depreciation	174	62	209	415	383	477
Write down of receivables	–	135	19	4	19	139

Secondary reporting format – geographical segments

	Revenue		Total assets		Capital expenditure	
	2005 HK$'000	2004 HK$'000	2005 HK$'000	2004 HK$'000	2005 HK$'000	2004 HK$'000
Hong Kong	–	–	2,856	5,642	–	2,396
PRC	51,688	36,781	22,983	21,830	278	1,019
	51,688	36,781	25,839	27,472	278	3,415

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2005

6. OPERATING LOSS

Operating loss has been arrived at after charging the following:

	Group	
	2005 HK$'000	2004 HK$'000
Auditors' remuneration		
Current year	600	600
Overprovision in prior year	(50)	–
Depreciation	383	477
Loss on disposal of property, plant and equipment	8	–
Operating leases		
Hire of office equipment	–	104
Land and buildings	89	501
Staff costs (including directors' emoluments, note 14)		
Salaries and allowance	4,987	6,035
Retirement benefits cost	88	74

7. GAIN ARISING FROM DEBTS DISCHARGED UNDER CREDITORS' SCHEME

On 19 February 2004, the majority of the Scheme Creditors approved the Creditors' Scheme under which all indebtedness owed by the Company to the Scheme Creditors on the date for determination of entitlement of the Scheme Creditors were released, discharged and fully settled.

The Creditors' Scheme was sanctioned by the High Court of Hong Kong and the Supreme Court of Bermuda on 16 and 19 March 2004, respectively. The total indebtedness admitted by the Scheme Administrator under the Creditors' Scheme was discharged in full and final settlement by way of a combination of the cash payment of an aggregate amount of HK$12 million from the proceeds of the Open Offer and issuance of 180,000,000 Creditors Shares at HK$0.10 per Creditors Share to the Scheme Creditors, resulted in a gain amounted to approximately HK$100.3 million.

8. GAIN ON DECONSOLIDATION OF A SUBSIDIARY UNDER WINDING-UP COURT ORDER

In previous year, the gain on deconsolidation of a subsidiary under winding-up court order represented the gain arising on deconsolidation of Prosperity Construction and Decoration Limited ("PCDL"), a subsidiary of the Company, upon the receipt of a winding-up order on PCDL from the High Court of Hong Kong on 9 June 2004. Before its winding-up, PCDL had a substantial capital deficiency and had an insignificant scale of operation, this resulted in a gain of approximately HK$50 million.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2005

9. FINANCE COSTS

	Group	
	2005 HK$'000	2004 HK$'000
Interest on loan notes and redeemable debentures wholly repayable within five years	–	604
Other loan wholly repayable within 5 years	270	661
Other loan not wholly repayable within 5 years	50	3
	320	1,268

10. TAXATION

(a) The amount of taxation in the consolidated income statement represents:

	Group	
	2005 HK$'000	2004 HK$'000
PRC income taxes	1,019	841

No provision for Hong Kong profits tax is required since the Group has no assessable profit sourced in Hong Kong for the year. PRC income taxes are calculated at tax rates applicable in the PRC where subsidiaries of the Group are assessable for tax.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2005

10. TAXATION (CONTINUED)

(b) Reconciliation between taxation and tax at the Hong Kong Profits Tax applicable rate of 17.5%:

	2005 HK$'000	2004 HK$'000
(Loss)/profit before taxation	(3,539)	162,692
Tax at the applicable tax rate	(619)	28,694
Tax effect of income that is not taxable in determining taxable profit	(191)	(21,911)
Tax effect of expenses that are not deductible in determining taxable profit	9,855	8,329
Tax effect of utilisation of tax losses not previously recognised	–	(8,804)
Effect of different tax rates of subsidiaries operating in other jurisdiction	(8,011)	(5,467)
Underprovision	(15)	–
Taxation charge	1,019	841

(c) Deferred tax assets are not recognised for temporary differences and tax losses carried forward due to uncertainty of realisation of the related tax benefit through the future taxable profits. The tax effect on temporary differences and unrecognised tax losses was approximately HK$4,368,000 as at 31 December 2005 (2004: HK$4,419,000).

11. (LOSS)/PROFIT FOR THE YEAR ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

The profit for the year attributable to shareholders of the Company is dealt with in the income statement of the Company to the extent of HK$27,452,000 (2004: HK$57,596,000).

12. (LOSS)/EARNINGS PER SHARE

The calculation of basic (loss)/earnings per share is based on the Group's loss for the year attributable to shareholders of the Company of HK$4,558,000 (2004: profit of HK$161,851,000) and 854,770,446 (2004: weighted average number of 574,681,847) ordinary shares in issue during the year.

There was no potential dilutive share for the years ended 31 December 2005 and 2004.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2005

13. RETIREMENT BENEFIT COSTS

The Group operates a defined contribution MPF Scheme under the Hong Kong Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. The MPF Scheme became effective on 1 December 2000. Contributions are made by the Group based on 5% of the employees' basic salaries subject to a monthly maximum contribution of HK$1,000 per employee and are charged to the consolidated income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with employees when contributed into the MPF Scheme.

The Group's subsidiaries incorporated in the PRC make monthly contributions to a state-managed defined contribution scheme for the Group's PRC staff to a government agency based on 18% of the standard salary set by the provincial government, of which 10% is borne by the Group and the remainder is borne by the staff. The government agency is responsible for the pension liabilities relating to such staff upon their retirement. The Group accounts for these contributions on accrual basis.

The total cost charged to the consolidated income statement of approximately HK$88,000 (2004: HK$74,000) represents contributions payable to the MPF Scheme and a state-managed defined contribution scheme by the Group.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2005

14. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

The remuneration paid or payable to each of the eight (2004: seven) directors of the Company for the year ended 31 December 2005, disclosed pursuant to Section 161 of the Hong Kong Companies Ordinance and the Listing Rules is set out below:

Name of Director	Fees	Basic salaries, allowances and benefits in kind	Employer's contribution to pension scheme	Total
	HK$'000	HK$'000	HK$'000	HK$'000
Executive Directors				
Mr. Tam Jin Rong	–	1,300	–	1,300
Mr. Ko Chung Ting Peter	–	300	16	316
Mr. Tao Ke Wei	–	577	–	577
Mr. Tam Kai On	–	520	28	548
	–	2,697	44	2,741
Independent non-executive Directors				
Mr. Choy Sai Man	–	–	–	–
Mr. Lau Kwok Wah	60	–	–	60
Mr. Huang Shou Deng	60	–	–	60
Mr. Tsui Wing Tak	48	–	–	48
	168	–	–	168
	168	2,697	44	2,909

Out of the total emoluments of HK$2,741,000 (2004: HK$5,114,000) to executive Directors as stated above, HK$1,883,000 (2004: HK$2,048,000) are unpaid and included under accruals and other payables in the balance sheet of the Group and the Company.

During the year, Mr. Choy Sai Man, an independent non-executive Director, resigned and waived his director's fee for the year ended 31 December 2004 due by the Company amounted to HK$83,000 which was included in the consolidated balance sheet under the accruals and other payables as at 31 December 2004 and credited to the consolidated income statement under other revenue for the year ended 31 December 2005.

No share option has been granted to the Directors during both years.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2005

14. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (CONTINUED)

(a) Directors' emoluments (Continued)

The remuneration of each of the Directors for the year ended 31 December 2004 is set out below:

Name of Director	Fees	Basic salaries, allowances and benefits in kind	Employer's contribution to pension scheme	Total
	HK$'000	HK$'000	HK$'000	HK$'000
Executive Directors				
Mr. Tam Jin Rong	–	1,733	–	1,733
Mr. Ko Chung Ting, Peter	–	1,230	27	1,257
Mr. Tao Ke Wei	–	1,026	–	1,026
Mr. Tam Kai On	–	1,098	–	1,098
	–	5,087	27	5,114
Independent non-executive Directors				
Mr. Choy Sai Man	138	–	–	138
Mr. Lau Kwok Wah	85	–	–	85
Mr. Huang Shou Deng	15	–	–	15
	238	–	–	238
	238	5,087	27	5,352

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2005

14. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (CONTINUED)

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year included four (2004: four) executive Directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining one (2004: one) highest paid individual during the year are as follows:

	Group	
	2005	2004
	HK$'000	HK$'000
Basic salaries, allowances and other benefits	192	360
Retirement benefits cost	10	27
	202	387

The number of individuals whose emoluments fell within the following band is as follows:

	Group	
	2005	2004
HK$Nil - HK$1,000,000	1	1

During the year, no emoluments were paid by the Group to the directors of the Company or any of the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2005

15. PROPERTY, PLANT AND EQUIPMENT

Group	Leasehold land and buildings HK$'000	Leasehold improvements HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
Cost					
At 1 January 2004	–	241	885	–	1,126
Additions	2,174	313	891	37	3,415
Disposals	–	(241)	–	–	(241)
At 31 December 2004	2,174	313	1,776	37	4,300
At 1 January 2005	2,174	313	1,776	37	4,300
Additions	–	7	205	66	278
Disposals	–	–	(23)	–	(23)
At 31 December 2005	2,174	320	1,958	103	4,555
Accumulated depreciation					
At 1 January 2004	–	23	564	–	587
Charge for the year	4	237	233	3	477
Disposals	–	(241)	–	–	(241)
At 31 December 2004	4	19	797	3	823
At 1 January 2005	4	19	797	3	823
Charge for the year	62	63	242	16	383
Disposals	–	–	(7)	–	(7)
At 31 December 2005	66	82	1,032	19	1,199
Net book value					
At 31 December 2005	2,108	238	926	84	3,356
At 31 December 2004	2,170	294	979	34	3,477

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2005

15. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

The leasehold land and buildings comprise land held under operating lease and buildings held under finance lease. The Group determines that the lease payments cannot be allocated reliably between the land and buildings elements. Accordingly the entire lease of land and buildings is classified as a finance lease and included under property, plant and equipment.

The leasehold land and buildings are situated in Hong Kong and are held under medium-term leases.

At 31 December 2005, property, plant and equipment with net book value of HK$2,108,000 (2004: HK$2,170,000) was pledged as a security for the Group's loan from a finance company.

16. INVESTMENTS

(a) Group - Investment held for resale

	2005 HK$'000	2004 HK$'000
Unlisted shares, at cost	–	28,672
Amount due from investment held for resale	–	2,144
Less: Impairment loss	–	(30,816)
	–	–

In previous year, investment held for resale was related to an investment in a group of subsidiaries owning the film copyright and licences. On 30 June 2005, the group of subsidiaries was disposed of and accordingly the investment held for resale was excluded from the Group.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2005

16. INVESTMENTS (CONTINUED)

(b) Company - Investments in subsidiaries

	2005 HK$'000	2004 HK$'000
Unlisted shares, at cost	2	3
Less: Impairment loss	(2)	(3)
	–	–
Amounts due from subsidiaries *(note (i))*	161,903	185,716
Less: Write down	(152,290)	(173,139)
	9,613	12,577
Amounts due to subsidiaries *(notes (i) and (ii))*	(2,129)	(32,502)
	7,484	(19,925)

Note:

(i) Amounts due from/(to) subsidiaries are unsecured, interest-free and have no fixed repayment terms.

(ii) At 31 December 2004, included in amounts due to subsidiaries was an amount due to a subsidiary of HK$32,154,000. During the year, the Group disposed of the aforesaid subsidiary and that subsidiary waived the amount due by the Company amounted to HK$32,154,000 in accordance with a deed of waiver dated 30 June 2005. It resulted in a gain on waiver of amount due to a subsidiary and which was credited to the income statement of the Company.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2005

16. INVESTMENTS (CONTINUED)

(b) Company - Investments in subsidiaries (Continued)

The following is a list of the principal subsidiaries at 31 December 2005:

Company name	Place of incorporation and principal operation	Issued / registered and paid up capital	Equity interest attributable to the Group	Principal activities
Keyway China Limited*	British Virgin Islands/PRC	US$100	100%	Construction contractor
United Bright Holdings Limited	Hong Kong	HK$2	100%	Provision of management services
東莞市中盛園林有限公司#	PRC	RMB500,000	100%	Construction contractor
東莞中盛企業管理顧問有限公司△	PRC	HK$1,000,000	100%	Investment holding

* Shares held directly by the Company
# Domestic enterprise
△ Foreign-owned enterprise

The above table sets out the subsidiaries which, in the opinion of the directors, materially affected the amounts of the results for the year or the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2005

17. INVENTORIES

	Group	
	2005	2004
	HK$'000	HK$'000
Raw materials	211	331
Construction supplies	196	417
	407	748

18. CLUB MEMBERSHIP

	Group	
	2005	2004
	HK$'000	HK$'000
Cost		
At 1 January	245	370
Deconsolidation of subsidiary under winding-up court order	–	(125)
At 31 December	245	245
Impairment		
At 1 January	–	125
Deconsolidation of subsidiary under winding-up court order	–	(125)
At 31 December	–	–
Net book value		
At 31 December 2004 and 2005	245	245

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2005

19. CONSTRUCTION CONTRACTS IN PROGRESS

	Group	
	2005	2004
	HK$'000	HK$'000
Costs incurred plus attributable profit less foreseeable losses	79,429	34,416
Less: Progress billings	(62,071)	(17,423)
	17,358	16,993
Amounts due from customers on construction contracts	17,373	16,993
Amounts due to customers on construction contracts	(15)	–
	17,358	16,993

At 31 December 2005, retention held by customers for contract work included in prepayments, deposits and other receivables of the Group amounted to HK$1,052,000 (2004: HK$721,000).

At 31 December 2005, retention held by the Group for contract work included in accruals and other payables of the Group amounted to HK$589,000 (2004: HK$1,105,000).

20. ACCOUNTS RECEIVABLE

The Group has a policy of allowing its trade customers with credit period of normally between 30 to 60 days or terms in accordance with construction contracts. The ageing analysis is as follows:

	Group	
	2005	2004
	HK$'000	HK$'000
Less than 3 months	38	–
3 months to 6 months	652	–
Over 1 year	–	576
Less: Write down for doubtful debts	–	(576)
	690	–

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2005

21. ACCOUNTS PAYABLE

The ageing analysis is as follows:

	Group	
	2005 HK$'000	2004 HK$'000
Less than 3 months	6,350	3,123
3 months to 6 months	600	246
6 months to 1 year	20	–
Over 1 year	121	544
	7,091	3,913

22. LONG TERM BORROWINGS

	Group	
	2005 HK$'000	2004 HK$'000
Interest bearing borrowings		
Loan from a finance company, secured	1,229	1,294
Current portion of long term borrowings	(54)	(71)
Amount due for settlement after twelve months	1,175	1,223
The loan from a finance company is repayable as follows:		
Within one year	54	71
In the second year	61	73
In the third to fifth years	182	232
After five years	932	918
	1,229	1,294

The carrying amount of the interest bearing borrowings is denominated in Hong Kong dollars.

The carrying amount of the borrowings approximates its fair value. The fair value is estimated as the present value of future cash flows, discounted at current market interest rates for similar financial instruments.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2005

22. LONG TERM BORROWINGS (CONTINUED)

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

23. SHAREHOLDER'S LOAN

The shareholder's loan is unsecured and interest-bearing at a prime rate plus 2% per annum and will be immediately repayable by the Group in accordance with the shareholder's loan agreement dated 30 April 2004 (the "Shareholder's Loan Agreement") should the shareholding of the shareholder becomes less than 30% of the issued share capital of the Company.

On 13 January 2006, a sale and purchase agreement ("Sale and Purchase Agreement") was entered into between the shareholder and Main Faith Limited on one part, and Always Adept Limited and First Win Trading Limited on the other part, pursuant to which the shareholder waived his rights under the Shareholder's Loan Agreement to immediate repayment of the shareholder's loan due 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.

24. SHARE CAPITAL

(a) Share capital

	Number of shares '000	Par value HK$'000
Authorised:		
Ordinary shares of HK$2 each at 1 January 2004	200,000	400,000
Share Subdivision (note (i))	39,800,000	–
Ordinary shares of HK$0.01 each at 31 December 2004 and 2005	40,000,000	400,000
Issued and fully paid:		
Ordinary shares of HK$2 each at 1 January 2004	102,462	204,923
Capital reduction *(note (ii))*	–	(203,898)
Issue of Offer Shares *(note (iii))*	512,308	5,123
Issue of Creditors Shares upon settlement of debts *(note (iv))*	180,000	1,800
Top-Up subscription *(note (v))*	60,000	600
Ordinary shares of HK$0.01 each at 31 December 2004 and 31 December 2005	854,770	8,548

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2005

24. SHARE CAPITAL (CONTINUED)

(a) Share capital (Continued)

Note:

(i) Pursuant to the Capital Reorganisation, on 27 April 2004, all of the authorised but unissued shares of HK$2.00 each in the capital of the Company be sub-divided into two hundred shares of HK$0.01 each.

(ii) Pursuant to the Capital Reorganisation on 27 April 2004, the issued share capital of the Company was reduced by cancelling paid up capital to the extent of HK$1.99 on each issued share such that the nominal value of all the issued shares was reduced from HK$2.00 to HK$0.01 each.

(iii) Pursuant to the Open Offer on 27 April 2004, 512,308,705 Offer Shares of HK$0.01 each, ranking pari passu in all respects with the then existing ordinary shares of the Company were issued at a subscription price of HK$0.045 per Offer Share.

(iv) Pursuant to the Creditors' Scheme on 27 April 2004, 180,000,000 Creditors Shares of HK$0.01 each, ranking pari passu in all respects with the existing ordinary shares of the Company were issued at HK$0.10 per Creditors Share to the Scheme Creditors for the settlement of the total indebtedness owed by the Company to the Scheme Creditors.

(v) On 29 November 2004, Main Faith Limited ("Main Faith"), a company which is wholly and beneficially owned by an executive director, entered into a placing agreement ("Placing Agreement") and, a top-up subscription agreement ("Top-Up Subscription Agreement") with a placing agent and the Company respectively.

Pursuant to the Placing Agreement, Main Faith placed, an aggregate of 60,000,000 existing shares at a price of HK$0.08 per share, on a fully underwritten basis, to not fewer than six placees who were independent individual, corporate and/or institutional investors on 13 December 2004.

Pursuant to the Top-Up Subscription Agreement, Main Faith subscribed for an aggregate of 60,000,000 shares ("Top-up Subscription Shares") at a price of HK$0.08 per share. The Top-Up Subscription Shares ranked pari passu in all respects with the existing ordinary shares of the Company.

Details of the Placing Agreement and Top-Up Subscription Agreement were disclosed in the Company's announcement dated 29 November 2004.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2005

24. SHARE CAPITAL (CONTINUED)

(b) Share option scheme

On 11 June 1997, the Company in general meeting adopted a share option scheme (the "Scheme") under which the Directors may, at their discretion and at any time during the ten years from the date of adoption, invite any full-time employee or executive Director of the Group to take up options to subscribe for shares of the Company. The subscription price may not be less than the greater of 80% of the average closing price of the Company's shares as quoted on the Stock Exchange for the five trading days immediately preceding the date of offer of the option or the nominal value of the Company's shares. The maximum number of shares in respect of which options may be granted may not exceed 10% of the issued share capital of the Company excluding any shares issued on the exercise of option from time to time. The Scheme became effective upon the listing of the Company's shares on the Stock Exchange on 26 June 1997. In compliance with chapter 17 of the Listing Rules, the Directors consider that it is the interests of the Company to terminate the Scheme of the Company and to adopt a new share option scheme. An ordinary resolution will be proposed at the Company's general meeting for the approval of the new share option scheme and the termination of the Scheme.

As at 31 December 2005, there was no outstanding share options granted.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2005

25. RESERVES

(a) Group

	Share premium HK$'000	Contributed surplus HK$'000	Translation reserves HK$'000	General reserves HK$'000	Accumulated losses HK$'000	Total HK$'000
Balance at 1 January 2004	459,012	22,130	–	–	(863,626)	(382,484)
Share premium cancellation *(notes (i) and (ii))*	(459,012)	459,012	–	–	–	–
Capital reduction *(note 24(a)(ii))*	–	203,898	–	–	–	203,898
Issue of Offer Shares *(note 24(a)(iii))*	17,931	–	–	–	–	17,931
Offer Shares issue expenses	(2,150)	–	–	–	–	(2,150)
Issue of Creditors Shares *(note 24(a)(iv))*	16,200	–	–	–	–	16,200
Top-Up subscription of new shares *(note 24(a)(v)*	4,200	–	–	–	–	4,200
New shares issue expenses	(218)	–	–	–	–	(218)
Credit transfer *(note (ii))*	–	(606,013)	–	–	606,013	–
Realisation of contributed surplus on disposal of a subsidiary *(note 26(b))*	–	(22,130)	–	–	–	(22,130)
Profit for the year	–	–	–	–	161,851	161,851
Transferred from accumulated losses *(note (iii))*	–	–	–	62	(62)	–
Balance at 31 December 2004	35,963	56,897	–	62	(95,824)	(2,902)
Exchange differences arising on translation of foreign operations	–	–	97	–	–	97
Loss for the year	–	–	–	–	(4,558)	(4,558)
Transferred from accumulated losses *(note (iii))*	–	–	–	9	(9)	–
Balance at 31 December 2005	35,963	56,897	97	71	(100,391)	(7,363)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2005

25. RESERVES (CONTINUED)

(a) Group (Continued)

The contributed surplus of the Group represents the remaining balance of the aggregate amount of credit arising from the Capital Reduction and the share premium cancellation net of transfer to accumulated losses pursuant to the implementation of restructuring proposal on 27 April 2004.

(b) Company

	Share premium HK$'000	Contributed surplus HK$'000	Accumulated losses HK$'000	Total HK$'000
Balance at 1 January 2004	459,012	–	(793,423)	(334,411)
Share premium cancellation *(note (i) and (ii))*	(459,012)	459,012	–	–
Capital reduction *(note 24(a)(ii))*	–	203,898	–	203,898
Issue of Offer Shares *(note 24(a)(iii))*	17,931	–	–	17,931
Offer Shares issue expenses	(2,150)	–	–	(2,150)
Issue of Creditors Shares *(note 24(a)(iv))*	16,200	–	–	16,200
Top-Up subscription of new shares *(note 24(a)(v))*	4,200	–	–	4,200
New shares issue expenses	(218)	–	–	(218)
Credit transfer *(note (ii))*	–	(606,013)	606,013	–
Profit for the year	–	–	57,596	57,596
Balance at 31 December 2004	35,963	56,897	(129,814)	(36,954)
Profit for the year	–	–	27,452	27,452
Balance at 31 December 2005	35,963	56,897	(102,362)	(9,502)

The contributed surplus of the Company represents the remaining balance of the aggregate amount of credit arising from the Capital Reduction and the share premium cancellation net of transfer to accumulated losses pursuant to the implementation of restructuring proposal on 27 April 2004 and to a resolution passed at a special general meeting on 1 December 2003.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2005

25. RESERVES (CONTINUED)

Note:

(i) Pursuant to the Capital Reorganisation and pursuant to a resolution passed at a special general meeting on 1 December 2003, the share premium of the Company was cancelled on 27 April 2004.

(ii) Pursuant to the Capital Reorganisation and pursuant to a resolution passed at a special general meeting on 1 December 2003, the credit arising from the Capital Reduction and the share premium cancellation be transferred to the contributed surplus account of the Company on 27 April 2004 and thereafter be applied against the accumulated losses of the Company as at 30 June 2003.

(iii) In accordance with the PRC regulations, the general reserves retained by a subsidiary in the PRC are non-distributable.

26. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Gain on deconsolidation of a subsidiary under winding-up court order

	2005 HK$'000	2004 HK$'000
Net liabilities of a subsidiary under winding-up court order:		
Bank and cash balances	–	43
Accruals and other payables	–	(37,577)
Accounts payable	–	(12,695)
Retention payables	–	(10)
	–	(50,239)
Net cash outflow arising from deconsolidation of a subsidiary under winding-up court order:		
Bank and cash balances	–	(43)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2005

26. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

(b) Gain on disposal of subsidiaries

During the year, the Group disposed of certain subsidiaries for a nominal consideration of HK$9. In previous year, the Group disposed certain other subsidiaries for a nominal consideration of HK$6.

	2005 HK$'000	2004 HK$'000
Net assets/(liabilities) disposed of:		
Prepayments, deposits and other receivables	–	22
Bank and cash balances	–	2
Accounts payable	(545)	(176)
Accruals and other payables	(523)	(721)
Provision for taxation	–	(19)
Net amounts due from/(to) group companies	3,977	(282,996)
	2,909	(283,888)
Contributed surplus	–	(22,130)
Waiver of amounts due from/to group companies	(3,977)	282,996
	(1,068)	(23,022)
Gain on disposal of subsidiaries	1,068	23,022
Total consideration, satisfied by cash	–	–

Analysis of the net cash outflow of cash and cash equivalents in respect of the disposal of subsidiaries:

Bank balances and cash disposed of	–	(2)

The subsidiaries disposed of during the year have no contribution to the Group's turnover but incurred a loss of HK$5,000 (2004: HK$201,000) attributable to the Group which was included in the determination of consolidated income statement.

27. CONTINGENT LIABILITIES

At 31 December 2005, the Company executed corporate guarantee amounting to HK$1,229,000 (2004: HK$1,294,000) in favour of a finance company to secure a loan granted to its subsidiary.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2005

28. FACILITIES FROM A FINANCE COMPANY

At 31 December 2005, the Group has facilities from a finance company totalling HK$1,229,000 (2004: HK$1,294,000). These facilities were secured by the pledge of the Group's leasehold land and buildings and a personal guarantee executed by an executive director of the Company and corporate guarantee by the Company.

29. RELATED PARTY TRANSACTIONS

(a) Pursuant to the Shareholder's Loan Agreement, the shareholder 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). The loan is unsecured and repayable on demand. During the year, the Group paid interest of HK$270,000 (2004: HK$495,000) in relation to the shareholder's loan.

(b) During the year, the Group recognised construction revenue of HK$351,000 (2004: HK$366,000) from a company in which an executive director of the Company is 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 a company in which an executive director is a beneficial shareholder.

(d) During the year, the Group purchased material of HK$172,000 (2004: Nil) from a company in which an executive director is 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 a company in which an executive director is a beneficial shareholder.

(f) As at 31 December 2005, included in the following accounts are balances with companies in which an executive director is a beneficial shareholder:

	Group	
	2005 HK$'000	2004 HK$'000
Prepayments, deposits and other receivables	84	84
Amounts due from customers on construction contracts	–	121
Amounts due to customers on construction contracts	(15)	–
Accounts receivable	38	–
Accruals and other payables	(604)	–
Accounts payables	(172)	–

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2005

30. FINANCIAL RISK MANAGEMENT

Financial risk factors

The Group's activities expose it to a variety of financial risks: foreign exchange risk, credit risk, liquidity risk and interest rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) Foreign exchange risk

The Group mainly operates in the PRC and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Renminbi. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

(b) Credit risk

The carrying amount of the accounts receivable included in the consolidated balance sheet represents the Group's maximum exposure to credit risk in relation to the Group's financial assets.

The Group performs ongoing credit evaluation of its customers' financial conditions and requires no collateral from its customers. There are no significant concentrations of credit risk for financial assets within the Group.

(c) Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of long term borrowings, other payable and shareholder's loan. As at 31 December 2005 approximately HK$1,175,000 of the Group's long term borrowings will mature in more than one year. The Group aims at maintaining flexibility in funding by shareholder's loan.

(d) Interest rate risk

As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group exposure to interest-rate risk arises from its long-term borrowings. These borrowings bear interests at variable rates varied with the then prevailing market condition.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2005

31. FINANCIAL INSTRUMENTS

Fair values

The carrying amounts of the Group's financial assets and financial liabilities as reflected in the consolidated balance sheet approximate their respective fair values.

32. POST BALANCE SHEET EVENTS

(a) On 13 January 2006, Sale and Purchase Agreement was entered into between Mr. Tam Jin Rong 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 ordinary shares of the Company 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 Jin Rong waived his right under the Shareholder's Loan Agreement 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, the existing executive Director of the Company, 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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2005

32. POST BALANCE SHEET EVENTS (CONTINUED)

(b) On 24 March 2006, Mr. Tam Jin Rong resigned as 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 Jin Rong, Mr. Tam Kai On and Mr. Tao Ke Wei waived their salaries as Directors due from the Company amounted 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.

33. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the Board of Directors on 21 April 2006.