
THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt about any aspect of this document or as to the action to be taken, you should consult your licensed securities dealer, bank manager, solicitor, professional accountant or other professional advisers.

If you have sold or transferred all your shares in China Nan Feng Group Limited (the “Company”), you should at once hand this document with the enclosed form of acceptance and transfer to the purchaser(s) or transferee(s) or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or transferee(s).

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ALWAYS ADEPT LIMITED

*(incorporated in the British Virgin Islands
with limited liability)*



CHINA NAN FENG GROUP LIMITED

中國南峰集團有限公司*

*(incorporated in Bermuda with limited liability)
(Stock Code: 979)*

MANDATORY CONDITIONAL CASH OFFER BY ALWAYS ADEPT LIMITED TO ACQUIRE ALL THE ISSUED SHARES IN CHINA NAN FENG GROUP LIMITED (OTHER THAN THOSE ALREADY OWNED BY ALWAYS ADEPT LIMITED AND PARTIES ACTING IN CONCERT WITH IT)

Joint Financial Advisers to Always Adept Limited



REXCAPITAL (Hong Kong) Limited

ASIA VEST PARTNERS

AsiaVest Investment Advisory Limited

**Joint Independent Financial Advisers to the Independent Board Committee
of China Nan Feng Group Limited**



美建證券有限公司

Upbest Securities Company Limited



英皇融資有限公司

Emperor Capital Limited

A letter from the Board is set out on pages 7 to 11 of the Composite Offer Document.

A letter from Always Adept Limited containing, among other matters, the details of the terms of the Offer is set out on pages 12 to 20 of the Composite Offer Document.

A letter from the Independent Board Committee to the Independent Shareholders containing its recommendations in respect of the Offer is set out on page 21 of the Composite Offer Document.

A letter from Upbest Securities and Emperor Capital containing their opinion and advice to the Independent Board Committee in connection with the Offer is set out on pages 22 to 36 of the Composite Offer Document.

The procedures for acceptance and settlement of the Offer are set out on pages 37 to 41 in Appendix I to the Composite Offer Document and in the Form of Acceptance. Acceptances of the Offer should be received by Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17/F Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong by no later than 4:00 p.m. on Thursday, 23 March 2006 or such later time and/or date as Always Adept Limited may determine and announce in accordance with the Takeovers Code.

* for identification purposes only

2 March 2006

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DEFINITIONS

In the Composite Offer Document, unless the context requires otherwise, the following expressions have the following meanings:

“Acquisition”	the acquisition of the Sale Shares by the Purchasers pursuant to the terms and conditions of the Sale and Purchase Agreement
“AsiaVest”	AsiaVest Investment Advisory Limited, a licensed corporation licensed to carry on business in types 4, 6 and 9 regulated activities under the SFO and one of the joint financial advisers to the Offeror
“Announcement”	the announcement dated 26 January 2006 jointly made by the Company and the Offeror relating to, among other things, the Acquisition and the details of the Offer
“associates”	has the meaning ascribed thereto in the Listing Rules
“Board”	board of Directors
“Business Day”	a day (excluding Saturday and any day on which a tropical cyclone warning no. 8 or above is hoisted or remains hoisted between 9:00 a.m. and 12:00 noon and is not lowered at or before 12:00 noon or on which a “black” rainstorm warning is hoisted or remains in effect between 9:00 a.m. and 12:00 noon and is not discontinued at or before 12:00 noon) on which licensed banks in Hong Kong are open for business
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“Closing Date”	23 March 2006 or if the Offer is revised or extended, the closing date of the Offer as extended in accordance with the Takeovers Code
“Companies Ordinance”	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong)
“Company”	China Nan Feng Group Limited, a company incorporated in Bermuda with limited liability, the issued Shares of which are listed on the main board of the Stock Exchange
“Completion”	completion of the sale and purchase of the Sale Shares in accordance with the terms and conditions of the Sale and Purchase Agreement

DEFINITIONS

“Composite Offer Document”	this document jointly issued by the Offeror and the Company to the Shareholders in accordance with the Takeovers Code containing, among others, terms and conditions of the Offer, the Forms of Acceptance, the advice of Upbest Securities and Emperor Capital to the Independent Board Committee in respect of the Offer, and the advice of the Independent Board Committee to the Independent Shareholders in relation to the Offer
“Director(s)”	director(s) of the Company
“Emperor Capital”	Emperor Capital Limited, a licensed corporation to carry on business in types 1, 4 and 6 regulated activities under the SFO and one of the joint independent financial advisers to the Independent Board Committee
“Executive”	the Executive Director of the Corporate Finance Division of the SFC or any of his delegates
“First Win”	First Win Trading Limited, a company incorporated in the British Virgin Islands with limited liability and wholly owned by Always New Limited, which is a company incorporated in the British Virgin Islands and wholly owned by the Trustee
“Form(s) of Acceptance”	the accompanying form(s) of acceptance and transfer in respect of the Offer
“Group”	the Company and its subsidiaries
“HKSCC”	Hong Kong Securities Clearing Company Limited
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	an independent committee of the Board established for the purpose of advising the Independent Shareholders in relation to the Offer, which comprises the three independent non-executive Directors, namely Mr. Lau Kwok Wah, Mr. Huang Shou Deng and Mr. Tsui Wing Tak
“Independent Shareholders”	Shareholders other than the Purchasers, Mr. Yip, Mrs. Yip, Main Faith, Mr. Tam and their respective associates and parties acting in concert with any of them
“Last Trading Day”	13 January 2006, being the last trading day prior to the suspension of trading in the Shares on 9:30 a.m. on 16 January 2006, pending the issue of the Announcement

DEFINITIONS

“Latest Practicable Date”	28 February 2006, being the latest practicable date prior to the printing of the Composite Offer Document for the purpose of ascertaining certain information for inclusion in the Composite Offer Document
“Listing Rules”	Rules Governing the Listing of Securities on the Stock Exchange
“Main Faith”	Main Faith Limited, a company incorporated in the British Virgin Islands and wholly and beneficially owned by Mr. Tam, one of the Vendors. Immediately before Completion, it was the registered and beneficial owner of 308,223,869 Shares
“Mr. Tam”	Tam Jin Rong, the chairman of the Company and the executive Director and one of the Vendors. Immediately before Completion, he was the registered and beneficial owner of 3,811,254 Shares
“Mr. Yip”	Yip Wai Leung Jerry, one of the directors of the Offeror and the husband of Mrs. Yip
“Mrs. Yip”	Chui Pui Fun, one of the directors of First Win and the wife of Mr. Yip
“Offer”	a mandatory conditional cash offer for all the issued Shares not already owned by the Offeror and parties acting in concert with it at the Offer Price to be made by the Offeror in accordance with the Takeovers Code
“Offeror”	Always Adept Limited, a company incorporated in the British Virgin Islands with limited liability and wholly owned by Always New Limited, which is a company incorporated in the British Virgin Islands and wholly owned by the Trustee
“Offer Price”	the offer price at HK\$0.093 per Share for the Offer
“Overseas Shareholder(s)”	Shareholders whose addresses on the register of members of the Company are outside Hong Kong
“parties acting in concert”	has the meaning ascribed thereto in the Takeovers Code
“PRC”	the People’s Republic of China which for the purpose of the Composite Offer Document, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Purchasers”	the Offeror and First Win

DEFINITIONS

“Registrar”	Computershare Hong Kong Investor Services Limited, Shops 1712-1716, 17/F Hopewell Centre, 183 Queen’s Road East, Wan Chai, Hong Kong
“REXCAPITAL”	REXCAPITAL (Hong Kong) Limited, a licensed corporation to carry on business in type 6 regulated activity under the SFO and one of the joint financial advisers to the Offeror
“Sale and Purchase Agreement”	the conditional sale and purchase agreement dated 13 January 2006 entered into between the Vendors, the Purchasers and Mr. Tam (as warrantor) in relation to the sale by the Vendors and the purchase by the Purchasers of the Sale Shares
“Sale Shares”	312,035,123 Shares acquired by the Purchasers pursuant to the Sale and Purchase Agreement
“SFC”	The Securities and Futures Commission of Hong Kong
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	share(s) of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers
“Trustee”	New Zealand Professional Trustee Limited, a company incorporated in New Zealand and the trustee for the time being of the Yip’s Family Trust, which holds all the issued shares in the capital of Always New Limited, which in turn holds all the issued shares in the capital of each of the Purchasers
“Upbest Securities”	Upbest Securities Company Limited, a licensed corporation to carry on business in types 1, 4, 6 and 9 regulated activities under the SFO and one of the joint independent financial advisers to the Independent Board Committee
“Vendors”	Main Faith and Mr. Tam

DEFINITIONS

“Yip’s Family Trust”	a discretionary family trust constituted by a Deed of Settlement dated 5 December 2005 and entered into between the Trustee and Mr. Yip, whereby Mr. Yip established the discretionary family trust for the benefit of himself and Mrs. Yip and such beneficiary and/or beneficiaries as Mr. Yip, the protector for the time being of the discretionary family trust, may from time to time declare
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“%”	per cent.

EXPECTED TIMETABLE

2006

Offer commences	Thursday, 2 March
Latest time for acceptance of the Offer (<i>Note 1</i>)	Thursday, 23 March
Closing Date (<i>Note 1</i>)	Thursday, 23 March
Announcement of the results of the Offer to be posted on the website of the Stock Exchange (<i>Note 1</i>)	7:00 p.m. on Thursday, 23 March
Announcement of the results of the Offer to be published in the newspapers in Hong Kong (<i>Note 1</i>)	Friday, 24 March
Latest time for despatch of remittances for the amounts due in respect of valid acceptance received under the Offer (<i>Note 2</i>)	Friday, 31 March

Notes:

1. Under the Takeovers Code, where an offer document and the offeree board circular are combined into a composite offer document, the offer must remain open for acceptance for at least 21 days following the date on which the composite offer document is posted. Accordingly, the Offer, which is conditional, will remain open for acceptance until 4:00 p.m. on Thursday, 23 March 2006 unless the Offeror revises or extends the Offer in accordance with the Takeovers Code. If, in the course of an Offer, the Offeror revises its terms, all Shareholders, whether or not they have already accepted the Offer, will be entitled to the revised terms and a revised offer must be kept open for at least 14 days following the date on which a revised offer document is posted. The Offeror will issue a teletext announcement through the Stock Exchange by 7:00 p.m. on the Closing Date if the Offer expires, or is extended or revised, which announcement will state either the next closing date or that the Offer will remain open until further notice. Such announcement will be published in the newspaper in Hong Kong on the next Business Day thereafter. If the Offeror decides to extend the Offer such that the Offer will remain open until further notice, at least 14 days' notice in writing will be given, before the Offer is closed, to the Shareholders who have not accepted the Offer. The Closing Date is currently estimated based on the assumption that the Offer would become unconditional on or before 9 March 2006. Under the Takeovers Code, if the Offer becomes or is declared unconditional, it will remain open for acceptance for not less than 14 days thereafter. An announcement will be made as and when the Offer becomes unconditional.
2. Remittances in respect of the consideration payable for the Shares tendered under the Offer will be posted to the relevant Shareholders by ordinary post at their own risk as soon as possible but in any event within 10 days of the date of receipt by the Registrar of all the relevant documents to render the relevant acceptances under the Offer complete and valid, or of the date on which the Offer becomes or is declared unconditional, whichever is later.
3. Under Rule 15.5 of the Takeovers Code, except with the consent of the Executive, an offer (whether revised or not) may not become or be declared unconditional as to acceptance after 7:00 p.m. on the 60th day after the day the initial offer document was posted. Accordingly, unless the Offer has previously become or been declared unconditional as to acceptances, the Offer will lapse at 7:00 p.m. on Monday, 1 May 2006 unless the Offer is extended by the Offeror with the consent of the Executive.

All times and dates refer to Hong Kong local times and dates.

LETTER FROM THE BOARD



CHINA NAN FENG GROUP LIMITED

中國南峰集團有限公司*

(incorporated in Bermuda with limited liability)

(Stock Code: 979)

Executive Directors:

Mr. Tam Jin Rong

Mr. Tao Ke Wei

Mr. Tam Kai On

Registered office:

Clarendon House

2 Church Street

Hamilton HM11

Bermuda

Independent non-executive Directors:

Mr. Lau Kwok Wah

Mr. Huang Shou Deng

Mr. Tsui Wing Tak

Principal place of business in Hong Kong:

Room B, 11/F

Cheung Lee Industrial Building

No. 9 Cheung Lee Street

Chai Wan

Hong Kong

2 March 2006

To the Shareholders

Dear Sir or Madam,

**MANDATORY CONDITIONAL CASH OFFER BY
ALWAYS ADEPT LIMITED
TO ACQUIRE ALL THE ISSUED SHARES IN CHINA NAN FENG GROUP LIMITED
(OTHER THAN THOSE ALREADY OWNED BY
ALWAYS ADEPT LIMITED AND PARTIES ACTING IN CONCERT WITH IT)**

INTRODUCTION

On 26 January 2006, the Company and the Offeror jointly announced that the Purchasers entered into the Sale and Purchase Agreement with the Vendors on 13 January 2006, pursuant to which the Purchasers agreed to purchase and the Vendors agreed to sell in aggregate 312,035,123 Shares at an aggregate consideration of approximately HK\$29,019,266 (equivalent to HK\$0.093 per Sale Share). The Sale Shares represent approximately 36.50% of the entire issued share capital of the Company as at the Latest Practicable Date. Completion took place on 14 February 2006.

Immediately prior to Completion, the Offeror did not have any shareholding interest in the Company. Immediately following Completion, the Offeror and parties acting in concert with it in aggregate own 312,035,123 Shares, representing approximately 36.50% of the entire issued share capital of the Company as at the Latest Practicable Date.

* for identification purposes only

LETTER FROM THE BOARD

Accordingly, the Offeror and parties acting in concert with it are required to make a mandatory conditional cash offer pursuant to the Rule 26.1 of the Takeovers Code.

The Offeror will make the Offer for all the issued Shares not already owned by the Offeror and parties acting in concert with it. The principal terms of the Offer are set out below under the section headed “The Offer”.

The Independent Board Committee comprising the three independent non-executive Directors, namely Mr. Lau Kwok Wah, Mr. Huang Shou Deng and Mr. Tsui Wing Tak, has been formed to consider the terms of the Offer and to advise the Independent Shareholders in relation to the Offer.

As Mr. Tam being one of the Vendors and also being the sole shareholder and director of Main Faith (the other Vendor) and an executive Director, and Mr. Tao Ke Wei and Mr. Tam Kai On are executive Directors, Mr. Tam, Mr. Tao Ke Wei and Mr. Tam Kai On are deemed to be interested in the Offer and the Board considers that they are not independent in making any recommendation in relation to the Offer and are not eligible to be members of the Independent Board Committee. Accordingly, Mr. Lau Kwok Wah, Mr. Huang Shou Deng and Mr. Tsui Wing Tak, who are independent of the parties to the Offer, have been appointed as members of the Independent Board Committee to consider the terms of the Offer and advise the Independent Shareholders in relation to the Offer. The joint independent financial advisers, Upbest Securities and Emperor Capital, have been appointed and approved by the Independent Board Committee to advise the Independent Board Committee regarding the terms of the Offer.

The letter from the Independent Board Committee containing its recommendation and advice to the Independent Shareholders in relation to the Offer is set out on page 21 of the Composite Offer Document. The letter from Upbest Securities and Emperor Capital containing their advice to the Independent Board Committee in relation to the Offer is set out on pages 22 to 36 of the Composite Offer Document.

The purpose of the Composite Offer Document is to provide you with, among other things, the information relating to the Company, the Offeror, the Offer, the letter from the Independent Board Committee containing its recommendation and advice to the Independent Shareholders on the Offer, and the letter from Upbest Securities and Emperor Capital containing their advice to the Independent Board Committee in respect of the Offer.

THE OFFER

Principal terms of the Offer

The Offeror is making a mandatory conditional cash offer to the Shareholders to acquire all the Shares, other than those held by the Offeror and parties acting in concert with it, on terms set out in the Composite Offer Document and in the Form of Acceptance on the following basis:

For each ShareHK\$0.093 in cash

There are no outstanding options, warrants or securities convertible or exchangeable into Shares as at the Latest Practicable Date.

LETTER FROM THE BOARD

Comparison of value

The Offer Price of HK\$0.093 per Share is the same as the price paid by the Purchasers to the Vendors for each Sale Share under the Sale and Purchase Agreement, and represents:

- (a) a premium of 24.00% over the closing price of HK\$0.075 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (b) a premium of approximately 25.68% over the average closing price of approximately HK\$0.074 per Share as quoted on the Stock Exchange over the last 10 consecutive trading days up to and including 13 January 2006;
- (c) a premium of approximately 1,228.57% over the audited net asset value per Share of approximately HK\$0.007 as at 31 December 2004, based on the Company's annual report for the year ended 31 December 2004;
- (d) a premium of approximately 1,062.50% over the unaudited net asset value per Share of approximately HK\$0.008 as at 30 June 2005, based on the Company's latest interim report for the six-month period ended 30 June 2005; and
- (e) a discount of approximately 5.10% to the closing price of HK\$0.098 per Share as quoted on the Stock Exchange as at the Latest Practicable Date.

The conditions precedent to the Offer, effect of accepting the Offer, payment, stamp duty and completion of the Offer are set out in the letter from the Offeror in the Composite Offer Document. Further terms of the Offer, including the procedures for acceptance, are set out in Appendix I to the Composite Offer Document and in the Form of Acceptance. An expected timetable of the Offer is set out under the section headed "Expected timetable" of the Composite Offer Document.

INFORMATION ON THE GROUP

The principal activities of the Group are construction contractor and provision of management services.

LETTER FROM THE BOARD

The following table sets out the shareholding structure of the Company (based on information received by or notified to the Company pursuant to Part XV of the SFO as at the Latest Practicable Date:

	Immediately before Completion		Immediately after Completion and as at the Latest Practicable Date	
	<i>No. of Shares</i>	<i>Approximate percentage (%)</i>	<i>No. of Shares</i>	<i>Approximate percentage (%)</i>
Offeror and parties acting in concert with it	–	–	312,035,123	36.50
Mr. Tam and parties acting in concert with him (<i>Note</i>)	312,035,123	36.50	–	–
Mr. Tao Ke Wei, an executive Director	1,917,095	0.22	1,917,095	0.22
Mr. Tam Kai On, an executive Director	1,875,191	0.22	1,875,191	0.22
Public	538,943,037	63.06	538,943,037	63.06
Total	<u>854,770,446</u>	<u>100.00</u>	<u>854,770,446</u>	<u>100.00</u>

Note: Of these Shares, 3,811,254 Shares were beneficially owned and registered in the name of Mr. Tam and 308,223,869 Shares were beneficially owned and registered in the name of Main Faith, the entire issued share capital of which is owned by Mr. Tam.

Based on the Group's 2004 annual report, it recorded profit before and after taxation of approximately HK\$162,692,000 and HK\$161,851,000 respectively for the year ended 31 December 2004, while reported loss before and after taxation of approximately HK\$261,745,000 and HK\$262,341,000 for the year ended 31 December 2003. The Group's consolidated net asset value was approximately HK\$5,646,000 and HK\$7,003,000 respectively as at 31 December 2004 and 30 June 2005 respectively.

MAINTAINING THE LISTING STATUS OF THE COMPANY

The Stock Exchange has stated that if, at the close of the Offer, less than the minimum prescribed percentage applicable to the Company, being 25% of the issued Shares, are held by the public, or if the Stock Exchange believes that:

- a false market exists or may exist in the trading of the Shares; or
- that there are insufficient Shares in public hands to maintain an orderly market,

it will consider exercising its discretion to suspend dealings in the Shares until the prescribed level of public float is attained.

LETTER FROM THE BOARD

The Offeror intends to maintain the listing of the Shares on the Stock Exchange. Each of the Offeror, the Company, the existing Directors and the proposed new Directors will undertake to the Stock Exchange to take appropriate steps following the close of the Offer to ensure that sufficient public float exists in the Shares. The Company would also like to draw the attention of the Shareholders that upon close of the Offer, there may be insufficient public float and accordingly trading of the Shares may be suspended until the prescribed level of public float is attained.

GENERAL

Your attention is drawn to the statutory and general information of the Group set out in Appendix III to the Composite Offer Document.

RECOMMENDATIONS

Your attention is drawn to the letter from the Independent Board Committee set out on page 21 of the Composite Offer Document and the letter from Upbest Securities and Emperor Capital which contains, among other things, their advice to the Independent Board Committee in respect of the terms of the Offer and the principal factors and reasons considered by them in arriving at such advice. The text of the letter from Upbest Securities and Emperor Capital is set out on pages 22 to 36 of the Composite Offer Document.

FURTHER INFORMATION

In considering what action to take in connection with the Offer, Independent Shareholders should consider their own tax positions and if they are in doubt, they should consult their professional adviser.

Your attention is also drawn to the letter from the Offeror on pages 12 to 20 of the Composite Offer Document, and the terms of the Offer set out in Appendix I to the Composite Offer Document and the Form of Acceptance setting out the terms, conditions and procedures for acceptance of the Offer, and other appendices to the Composite Offer Document, containing financial information on the Group, and the information required to be given to the Shareholders in relation to the Offer under the Takeovers Code.

Yours faithfully
For and on behalf of
China Nan Feng Group Limited
Tam Jin Rong
Director

LETTER FROM THE OFFEROR

ALWAYS ADEPT LIMITED

P.O. Box 957, Offshore Incorporations Centre
Road Town, Tortola, British Virgin Islands

2 March 2006

To the Independent Shareholders

Dear Sir or Madam

**MANDATORY CONDITIONAL CASH OFFER BY
ALWAYS ADEPT LIMITED
TO ACQUIRE ALL THE ISSUED SHARES IN CHINA NAN FENG GROUP LIMITED
(OTHER THAN THOSE ALREADY OWNED BY
ALWAYS ADEPT LIMITED AND PARTIES ACTING IN CONCERT WITH IT)**

On 26 January 2006, the Company and the Offeror jointly announced that the Purchasers entered into the Sale and Purchase Agreement with the Vendors on 13 January 2006, pursuant to which the Purchasers agreed to purchase and the Vendors agreed to sell in aggregate 312,035,123 Shares at an aggregate consideration of approximately HK\$29,019,266 (equivalent to HK\$0.093 per Sale Share). The Sale Shares represent approximately 36.50% of the entire issued share capital of the Company as at the Latest Practicable Date. Completion took place on 14 February 2006.

Immediately prior to Completion, the Offeror did not have any shareholding interest in the Company. Immediately following Completion, the Offeror and parties acting in concert with it own an aggregate 312,035,123 Shares, representing approximately 36.50% of the entire issued share capital of the Company as at the Latest Practicable Date. Accordingly, the Offeror and parties acting in concert with it are required to make a mandatory conditional cash offer pursuant to the Rule 26.1 of the Takeovers Code. The Offeror will make the Offer for all the issued Shares not already owned by the Offeror and parties acting in concert with it. The principal terms of the Offer are set out under the section headed "The Offer" below.

This letter from the Offeror, together with Appendix I to the Composite Offer Document and the Form of Acceptance, set out, among other things, the terms of the Offer, procedures for acceptance of the Offer, information on the Offeror and the intention of the Offeror regarding the future of the Group.

LETTER FROM THE OFFEROR

THE OFFER

Principal terms of the Offer

The Offeror is making a mandatory conditional cash offer to the Shareholders to acquire all the Shares, other than those held by the Offeror and parties acting in concert with it, on terms set out in the Composite Offer Document and in the Form of Acceptance on the following basis:

For each ShareHK\$0.093 in cash

There are no outstanding options, warrants or securities convertible or exchangeable into Shares as at the Latest Practicable Date.

Conditions precedent to the Offer

The Offer is subject to and conditional upon the Offeror having received valid acceptances in respect of Shares which, together with Shares owned or agreed to be acquired by the Offeror and parties acting in concert with it before or during the Offer, will result in their holding of more than 50% of the voting rights of the Company.

Comparison of value

The Offer Price of HK\$0.093 per Share is the same as the price paid by the Purchasers to the Vendors for each Sale Share under the Sale and Purchase Agreement, and represents:

- (a) a premium of 24.00% over the closing price of HK\$0.075 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (b) a premium of approximately 25.68% over the average closing price of approximately HK\$0.074 per Share as quoted on the Stock Exchange over the last 10 consecutive trading days up to and including 13 January 2006;
- (c) a premium of approximately 1,228.57% over the audited net asset value per Share of approximately HK\$0.007 as at 31 December 2004, based on the Company's annual report for the year ended 31 December 2004;
- (d) a premium of approximately 1,062.50% over the unaudited net asset value per Share of approximately HK\$0.008 as at 30 June 2005, based on the Company's latest interim report for the six-month period ended 30 June 2005; and
- (e) a discount of approximately 5.10% to the closing price of HK\$0.098 per Share as quoted on the Stock Exchange as at the Latest Practicable Date.

LETTER FROM THE OFFEROR

Total consideration

As at the Latest Practicable Date, there are 854,770,446 Shares in issue and there are no outstanding options, warrants or securities convertible or exchangeable into Shares.

On the basis of the Offer Price at HK\$0.093 per Share, the entire issued share capital of the Company is valued at approximately HK\$79,493,651. The 542,735,323 Shares subject to the Offer are valued at approximately HK\$50,474,385 based on the Offer Price. REXCAPITAL and AsiaVest, being independent of and not connected with the Company and its connected persons (as defined under the Listing Rules), are satisfied that there are sufficient financial resources available to the Offeror to meet its obligation in case of a full acceptance of the Offer. The Offer will be financed by the Offeror's internal resources.

Effect of accepting the Offer

Acceptance of the Offer by any person or persons holding Shares will be deemed to constitute a warranty by such person or persons to the Offeror that the Share(s) acquired under the Offer is/are sold by any such person or persons free from all liens, charges, encumbrances, equities and third party rights and together with all rights attaching thereto, including the right to receive all dividends and distributions declared, made or paid on or after the posting of the Composite Offer Document.

Payment

Payment in cash in respect of acceptances of the Offer will be made as soon as possible but in any event within 10 days of the date on which the duly completed acceptances of the Offer and the relevant documents of title to the Shares in respect of such acceptance are received by the Registrar for or on behalf of the Offeror.

Settlement of the consideration to which any accepting Shareholders are entitled under the Offer will be implemented in full in accordance with the terms of the Offer, without regard to any lien, right of set-off, counterclaim or other similar right to which the Offeror may otherwise be, or claim to be, entitled against such accepting Shareholders.

Stamp duty

Seller's ad valorem stamp duty arising in connection with acceptance of the Offer amounting to 0.1% of the amount payable in respect of the relevant acceptances or if higher, the market value of the Shares, will be deducted from the amount payable to Shareholders who accept the Offer.

The Offeror will bear its own portion of buyer's ad valorem stamp duty at the rate of 0.1% of the amount payable in respect of the relevant acceptances or if higher, the market value of the Shares, and will be responsible to account to the Stamp Office of Hong Kong for stamp duty payable for the sale and purchase of the relevant Shares pursuant to the acceptance of the Offer.

LETTER FROM THE OFFEROR

Further terms of the Offer, including the procedures for acceptance, are set out in Appendix I to the Composite Offer Document and in the Form of Acceptance. An expected timetable of the Offer is set out in the section headed “Expected timetable” of the Composite Offer Document.

Compulsory acquisition

The Offeror and parties acting in concert with it do not intend to exercise any right which may be available to it to acquire compulsorily any outstanding issued Shares not acquired under the Offer after it is closed.

Completion of the Offer

As disclosed in the Announcement, the Sale Shares are investment assets of the Yip’s Family Trust, which was established by Mr. Yip for the benefit of himself and Mrs. Yip and such beneficiary and/or beneficiaries as the protector (currently being Mr. Yip) of the Yip’s Family Trust may from time to time declare. It is a domestic agreement between Mr. Yip and Mrs. Yip that the Sale Shares are to be held by the Offeror (of which Mr. Yip is one of the directors) and First Win (of which Mrs. Yip is one of the directors) in the ratio of 30%:70% (the “Relevant Ratio”). However, if the Offer had been made by the Offeror and First Win, each of the Shareholders who accept the Offer would be required to split and transfer their Shares to the offerors in the Relevant Ratio, which may complicate the acceptance procedure of the Offer. In order to simplify and to facilitate the acceptance procedure of the Offer, it is proposed that the Offer to be solely made by the Offeror, which will transfer those Shares acquired under the Offer to First Win immediately after completion of the Offer, to ensure the Shares will be held by the Offeror and First Win in the Relevant Ratio immediately after completion of the Offer.

Assuming that the Offer has become unconditional, the Offeror intends to transfer to First Win, immediately following completion of the Offer, such number (as nearly as may be without involving fractions) of Shares acquired by it under the Offer from the Shareholders who have accepted the Offer as may be necessary so that upon completion of such transfer:

- (a) the number of Shares held by the Offeror will be 30% of the aggregate number of Shares held by the Purchasers; and
- (b) the number of Shares held by First Win will be 70% of the aggregate number of Shares held by the Purchasers.

INFORMATION ON THE OFFEROR, ITS INTENTION REGARDING THE COMPANY AND PROPOSED CHANGE OF BOARD COMPOSITION OF THE COMPANY

The Offeror is an investment holding company incorporated in the British Virgin Islands with limited liability. Both the Offeror and First Win are wholly owned by Always New Limited, which is a company incorporated in the British Virgin Islands and wholly owned by the Trustee. The Sale Shares are the investment assets of the Yip’s Family Trust, which was established by Mr. Yip for the benefit of himself and Mrs. Yip and such beneficiary and/or beneficiaries as the protector (currently being Mr. Yip) for the time being of the Yip’s Family Trust may from time to time declare. Save for the transactions contemplated by the Sale and Purchase Agreement, the Offeror has not conducted any business since its

LETTER FROM THE OFFEROR

incorporation and it does not have any material assets as at the Latest Practicable Date. Immediately prior to Completion, neither the Offeror nor Mr. Yip nor parties acting in concert with either of them owned any Shares or any options, warrants or securities convertible into Shares.

Following the close of the Offer, the Offeror intends to continue the existing business of the Group and will regularly review its business activities and assets. Being confident of the future development and business opportunities in the property and construction market in the PRC and the future performance of the Company operated by the new management to be established by the Offeror, the Offeror considers it to be commercially justifiable in the long run to make investment in the Company. The Offeror has no intention to discontinue the employment of the employees (save for a change in the composition of the Board and the company secretary of the Company and change in directorships in certain subsidiaries of the Company) or to dispose of or re-deploy the assets of the Group other than those in its ordinary course of business. The Offeror has no plan on any injection of any assets or businesses into the Company as at the Latest Practicable Date.

All existing Directors, namely Mr. Tam, Mr. Tao Ke Wei and Mr. Tam Kai On and three independent non-executive Directors, namely Mr. Lau Kwok Wah, Mr. Huang Shou Deng and Mr. Tsui Wing Tak, will resign from their respective directorship of the Company and such resignation will take effect on the first closing date of the Offer or the date when the Offer becomes or is declared unconditional, whichever is the later, in compliance with Rule 7 of the Takeovers Code.

Mr. Tam Pei Qiang has resigned from office as the secretary and qualified accountant of the Company with effect from 14 February 2006 and Mr. Cheng Sing Wai has been appointed to replace Mr. Tam Pei Qiang to act as the secretary and qualified accountant of the Company with effect from 14 February 2006. Mr. Cheng Sing Wai is a Certified Public Accountant (Practising) in Hong Kong and a licensed Certified Public Accountant in the United States of America. He has over 12 years of experience in accounting, taxation and finance in Hong Kong and the United States of America.

Immediately following the despatch of the Composite Offer Document, two executive Directors and three independent non-executive Directors will be appointed to the Board in addition to the existing Directors. No service contract or appointment letter has been entered into between the Company and any of these proposed Directors as at the Latest Practicable Date and therefore their respective terms of employment or appointment and emoluments, if any, have not been fixed as at the Latest Practicable Date. Further announcement will be made upon any appointment of new Directors, including the terms of their appointment and emoluments, if any.

Brief details of the proposed Directors are set out below:

Proposed Executive Directors

Mr. YIP Wai Leung Jerry

Mr. Yip, a proposed executive Director and one of the proposed authorised representatives of the Company, aged 48, is a solicitor and a partner in the firm of J. Chan, Yip, So & Partners, of which he is one of the founding partners. Mr. Yip graduated from University of London with a Bachelor Degree in Laws. He has 18 years of legal professional experience and his principal areas of practice include

LETTER FROM THE OFFEROR

commercial work, property, finance and litigation. Mr. Yip had been an independent non-executive director and a member of the audit committee of Styland Holdings Limited until his resignation in March 2003. Mr. Yip had also been a non-executive director of Global Green Tech Group Limited and he resigned in September 2005. Both Global Green Tech Group Limited and Styland Holdings Limited are companies listed on the Main Board of the Stock Exchange. Mr. Yip is currently one of the independent directors and the chairman of the Audit, Nominating and Remuneration Committees of Bio-Treat Technology Limited, a company listed on the main board of Singapore Exchange Securities Trading Limited. Save as aforesaid, Mr. Yip did not hold any directorship of any listed companies in the last three years.

Save as disclosed in the Composite Offer Document, Mr. Yip does not have any other relationship with any Directors, senior management, substantial shareholders or controlling shareholders of the Company.

As at the Latest Practicable Date, Mr. Yip, being the founder and protector of the Yip's Family Trust, is deemed to be interested in 312,035,123 Shares, representing approximately 36.50% of the entire issued share capital of the Company. Save as aforesaid, Mr. Yip does not have any interests in Shares within the meaning of Part XV of the SFO.

Mr. MING Kar Fook Charles

Mr. Ming, a proposed executive Director, aged 71, is a chartered architect and a director of Charles Ming & Associates Limited that provides architectural advice and consultancy services. Mr. Ming graduated from University of New South Wales (School of Architecture) with a Bachelor Degree in Architecture. He has business and professional experience in the construction industry. Mr. Ming had been a director of Magnum d'Or Resources Inc., a company quoted on the OTC Bulletin Board in the United States of America, until his resignation in October 2005. Save as disclosed above, Mr. Ming did not hold any directorship of any listed companies in the last three years.

Save as disclosed in the Composite Offer Document, Mr. Ming does not have any other relationship with any Directors, senior management, substantial shareholders or controlling shareholders of the Company.

As at the Latest Practicable Date, Mr. Ming does not have any interests in Shares within the meaning of Part XV of the SFO.

Mr. SO Yin Wai

Mr. So, a proposed independent non-executive Director, aged 43, graduated from Hong Kong Polytechnic University in 1986 and has been in the accounting profession for nearly 20 years. He is a member of the Association of Chartered Certified Accountants in the United Kingdom and the Hong Kong Institute of Certified Public Accountants. He previously worked for Peat, Marwick, Mitchell & Co. and Messrs. Kwan Wong Tan & Fong and was involved in the audit of a number of international and local engagements and listed companies. He is currently the sole practitioner of his own firm known as Alex So & Co (Certified Public Accountants). Apart from his auditing experience, Mr. So also specializes in company secretarial work, tax planning and management consultancy matters. Mr. So is currently the Vice-Chairman of China Business Association. He is the Honorary Auditor of a number of voluntary organizations, including Hong Kong Parkinson's Disease Foundation, Life Currents and Caring Centre Foundation Limited. Mr. So is one of the independent non-executive directors of Uni-Bio Science Group Limited (formerly known as New Spring Holdings Limited), a company listed on the main board of the Stock Exchange.

LETTER FROM THE OFFEROR

Save as disclosed in the Composite Offer Document, Mr. So does not have any other relationship with any Directors, senior management, substantial shareholders or controlling shareholders of the Company and save as aforesaid, he did not hold any directorship of any listed companies in the last three years.

As at the Latest Practicable Date, Mr. So does not have any interests in Shares within the meaning of Part XV of the SFO.

Mr. ZHOU Yaoming

Mr. Zhou, a proposed independent non-executive Director, aged 70, has over 40 years of experience in academic training and education in the PRC and has been the Principal of Jinan University since 1999. Mr. Zhou graduated from Zhongshan University with a Bachelor Degree in History. Mr. Zhou is one of the independent directors and a member of the Audit, Nominating and Remuneration Committees of Bio-Treat Technology Limited, a company listed on the main board of Singapore Exchange Securities Trading Limited. He is also one of the independent non-executive directors of Uni-Bio Science Group Limited (formerly known as New Spring Holdings Limited), a company listed on the main board of the Stock Exchange.

Save as disclosed in the Composite Offer Document, Mr. Zhou does not have any other relationship with any Directors, senior management, substantial shareholders or controlling shareholders of the Company and he did not hold any directorship of any listed companies in the last three years.

As at the Latest Practicable Date, Mr. Zhou does not have any interests in Shares within the meaning of Part XV of the SFO.

Ms. ZHU You Chun

Ms. Zhu, a proposed independent non-executive Director, aged 69, graduated from Kunming University of Science and Technology with a Bachelor Degree. She has over 40 years of experience in researching and academic training in the PRC and is a professor in the Department of Environmental Science and Engineering, Guangdong University of Technology. Professor Zhu's main areas of research cover wastewater control and solid waste management and reutilization. She has carried out extensive government funded and corporation entrusted environmental research projects, in addition to other design and environmental effect assessment projects. Professor Zhu is an acknowledged expert in the fields of environmental science engineering and has published numerous articles in both Chinese and overseas journals. Her research work has won her awards and certain of her inventions were registered as patents in China. She is also one of the professional committee members of Guangdong Environmental Protection Association and is an expert in the Expert Database of China Environmental Protection Association.

Save as disclosed in the Composite Offer Document, Ms. Zhu does not have any other relationship with any Directors, senior management, substantial shareholders or controlling shareholders of the Company and she did not hold any directorship of any listed companies in the last three years.

As at the Latest Practicable Date, Ms. Zhu does not have any interests in Shares within the meaning of Part XV of the SFO.

LETTER FROM THE OFFEROR

MAINTAINING THE LISTING STATUS OF THE COMPANY

The Stock Exchange has stated that if, at the close of the Offer, less than the minimum prescribed percentage applicable to the Company, being 25% of the issued Shares, are held by the public, or if the Stock Exchange believes that:

- a false market exists or may exist in the trading of the Shares; or
- that there are insufficient Shares in public hands to maintain an orderly market,

it will consider exercising its discretion to suspend dealings in the Shares until the prescribed level of public float is attained.

The Offeror intends to maintain the listing of the Shares on the Stock Exchange. Each of the Offeror, the Company, the existing Directors and the proposed new Directors will undertake to the Stock Exchange to take appropriate steps following the close of the Offer to ensure that sufficient public float exists in the Shares.

FURTHER TERMS OF THE OFFER

Further terms of the Offer, including the procedures for acceptance and the acceptance period, are set out in Appendix I to the Composite Offer Document and in the Form of Acceptance.

TAXATION

Shareholders are recommended to consult their own professional advisers if they are in any doubt as to taxation implications of their accepting the Offer. It is emphasised that none of the Company, the Offeror, First Win, REXCAPITAL, AsiaVest or any of their respective directors or any persons involved in the Offer accepts responsibility for any tax effects on, or liabilities of, any person or persons as a result of their acceptance of the Offer.

GENERAL

To ensure equality of treatment of all Shareholders, those registered Shareholders who hold Shares as nominee for more than one beneficial owner should, as far as practicable, treat the holding of each beneficial owner separately. In order for the beneficial owners of the Shares whose investments are registered in nominee names to accept the Offer, it is essential that they provide instructions to their nominees of their intentions with regard to the Offer.

The attention of the Overseas Shareholders is drawn to the section headed “Overseas Shareholders” in Appendix I to the Composite Offer Document.

LETTER FROM THE OFFEROR

All documents and remittances sent to Shareholders by ordinary post will be sent to them at their own risk. Such documents and remittances will be sent to Shareholders at their respective addresses as they appear in the register of members of the Company or, in the case of joint Shareholders, to the Shareholder whose name stands first in the register of members of the Company, as applicable. None of the Company, the Offeror, First Win, REXCAPITAL or AsiaVest or any of their respective directors or any other person involved in the Offer will be responsible for any loss or delay in transmission or any other liabilities that may arise as a result thereof.

Independent Shareholders are strongly advised to consider carefully the information contained in the letter from the Board, the letter from the Independent Board Committee and the letter from Upbest Securities and Emperor Capital set out in the Composite Offer Document.

ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the Appendices to the Composite Offer Document and the Form of Acceptance, which form part of the Composite Offer Document.

Yours faithfully
For and on behalf of
Always Adept Limited
Yip Wai Leung Jerry
Director

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



CHINA NAN FENG GROUP LIMITED

中國南峰集團有限公司*

(incorporated in Bermuda with limited liability)

(Stock Code: 979)

2 March 2006

To the Independent Shareholders

Dear Sir or Madam,

**MANDATORY CONDITIONAL CASH OFFER BY
ALWAYS ADEPT LIMITED
TO ACQUIRE ALL THE ISSUED SHARES IN CHINA NAN FENG GROUP LIMITED
(OTHER THAN THOSE ALREADY OWNED BY
ALWAYS ADEPT LIMITED AND PARTIES ACTING IN CONCERT WITH IT)**

We, the Independent Board Committee, refer to the composite offer document dated 2 March 2006 issued jointly by the Offeror and the Company (the “Composite Offer Document”), of which this letter forms part. Capitalised terms defined in the Composite Offer Document shall, unless the context otherwise requires, have the same meanings when used herein.

As Directors who are independent of the Offeror or the parties acting in concert with it and have no interest in the Offer, we have been appointed to form the Independent Board Committee to consider the terms of the Offer and Upbest Securities and Emperor Capital have been appointed as the joint independent financial advisers to advise us as to whether the terms of the Offer are fair and reasonable so far as the Independent Shareholders are concerned and whether the Independent Board Committee should recommend the Independent Shareholders to accept the Offer.

We wish to draw your attention to the “Letter from the Offeror” set out on pages 12 to 20 of the Composite Offer Document and the “Letter from Upbest Securities and Emperor Capital” setting out their advice to us in relation to the Offer as set out pages 22 to 36 in the Composite Offer Document.

Having considered the advice given in the letter from Upbest Securities and Emperor Capital, we concur with the advice of Upbest Securities and Emperor Capital and recommend the Independent Shareholders to accept the Offer.

Notwithstanding our recommendation, the Independent Shareholders should consider carefully the terms and conditions of the Offer.

Yours faithfully,

For and on behalf of

Independent Board Committee

Lau Kwok Wah

Huang Shou Deng

Tsui Wing Tak

Independent non-executive Directors

* for identification purposes only

LETTER FROM UPBEST SECURITIES AND EMPEROR CAPITAL

The following is the text of the letter of advice from Upbest Securities and Emperor Capital to the Independent Board Committee in relation to the Offer for the purpose of inclusion in the Composite Offer Document.



美建證券有限公司
Upbest Securities Company Limited

2nd Floor, Wah Kit Commercial Centre,
302 Des Voeux Road Central,
Hong Kong.



英皇融資有限公司
Emperor Capital Limited

28/F., Emperor Group Centre,
288 Hennessy Road, Wanchai, Hong Kong.

2 March 2006

*To the Independent Board Committee
of China Nan Feng Group Limited (the “Company”)*

Dear Sirs,

**MANDATORY CONDITIONAL CASH OFFER BY
ALWAYS ADEPT LIMITED
TO ACQUIRE ALL THE ISSUED SHARES IN CHINA NAN FENG GROUP LIMITED
(OTHER THAN THOSE ALREADY OWNED BY
ALWAYS ADEPT LIMITED AND PARTIES ACTING IN CONCERT WITH IT)**

INTRODUCTION

We refer to our appointment as the joint independent financial advisers to advise the Independent Board Committee in respect to the terms of the Offer, details of which are set out in the “Letter from the Board” and the “Letter from the Offeror” contained in the composite offer document dated 2 March 2006 (the “Composite Offer Document”) to the Shareholders, of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Composite Offer Document unless the context otherwise requires.

The Independent Board Committee has been established to advise the Independent Shareholders in relation to the Offer. We have been appointed and approved by the Independent Board Committee to advise the Independent Board Committee as to whether the terms of the Offer are fair and reasonable so far as the Independent Shareholders are concerned, and to give our opinion to the Independent Board Committee in relation to the Offer for their consideration in making recommendation to the Independent Shareholders on whether or not to accept the Offer.

The Board currently comprises three executive Directors, namely Mr. Tam, Mr. Tao Ke Wei and Mr. Tam Kai On, and three independent non-executive Directors, namely Mr. Lau Kwok Wah, Mr. Huang Shou Deng and Mr. Tsui Wing Tak. As stated in the “Letter from the Board” contained in the Composite Offer Document, Mr. Tam is one of the Vendors and also the sole shareholder and director of Main Faith (the other Vendor) and an executive Director, and Mr. Tao Ke Wei and Mr. Tam Kai On are executive Directors, they are not considered independent for the purpose of giving any advice to the Independent Shareholders in relation to the Offer and are therefore not eligible to be members of the Independent

LETTER FROM UPBEST SECURITIES AND EMPEROR CAPITAL

Board Committee to consider the terms of the Offer. As a result, Mr. Lau Kwok Wah, Mr. Huang Shou Deng and Mr. Tsui Wing Tak, the three independent non-executive Directors, have been appointed as members of the Independent Board Committee to consider whether the terms of the Offer are fair and reasonable and to advise the Independent Shareholders on whether or not to accept the Offer.

BASIS OF OUR OPINION

In formulating our recommendations, we have relied on the information and representations supplied, and the opinions expressed, by the Directors and management of the Group and have assumed that all statements and representations made to us by the Directors and management of the Group or made or referred to in the Composite Offer Document are true and accurate at the time they were made and as at the date of the Composite Offer Document. We have been advised by the Directors that, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no material facts the omission of which would make any statements in the Composite Offer Document misleading. We consider that we have reviewed sufficient information to reach an informed view and to justify our reliance on the accuracy of the information contained in the Composite Offer Document in order to provide a reasonable basis for our recommendation. We have not, however, for the purpose of this exercise, conducted any independent detailed investigation or audit into the business, financial conditions or affairs or the future prospects of the Group. We have however obtained and reviewed sufficient information to support the bases of our opinion.

The information in the Composite Offer Document regarding the Offeror, has been supplied by the Offeror. The directors of the Offeror accepts full responsibility for the accuracy of the information contained in the Composite Offer Document (other than information relating to the Group and the Vendors) and confirms, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in the Composite Offer Document have been arrived at after due and careful consideration and there are no other facts not contained in the Composite Offer Document the omission of which would make any such statement contained in the Composite Offer Document misleading.

We have not considered the tax consequences on the Independent Shareholders arising from acceptances or non-acceptances of the Offers since these are particular to their individual circumstances. In particular, the Independent Shareholders who are residents outside of Hong Kong or subject to overseas taxes or Hong Kong taxation on securities dealings should consider their tax position with regard to the Offers and, if in any doubt, should consult their professional advisers.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion, we have taken into consideration the following principal factors and reasons:

(1) Background information

China Nan Feng Group Limited is incorporated in Bermuda with limited liability and its Shares have been listed on the Stock Exchange since 1997. The principal activities of the Group are construction contractor and provision of management services. As at the Latest Practicable Date, the Company had a market capitalization of approximately HK\$84 million.

LETTER FROM UPBEST SECURITIES AND EMPEROR CAPITAL

On 26 January 2006, the Company and the Offeror jointly announced that the Vendors, with Mr. Tam as warrantor, entered into the Sale and Purchase Agreement with the Purchasers on 13 January 2006, pursuant to which the Vendors have conditionally agree to sell, and the Purchasers have conditionally agreed to purchase, the Sale Shares for an aggregate cash consideration of approximately HK\$29,019,266 (equivalent to HK\$0.093 per Sale Share). The 312,035,123 Sale Shares represent the entire beneficial interests in the Company owned by the Vendors prior to Completion and approximately 36.50% of the entire issued share capital of the Company as at the Latest Practicable Date. Completion took place on 14 February 2006.

Immediately after Completion, the Offeror and parties acting in concert with it owned an aggregate of 312,035,123 Shares, represent approximately 36.50% of the entire issued share capital of the Company as at the Latest Practicable Date. Under Rule 26.1 of the Takeovers Code, the Offeror is required to make a mandatory conditional cash offer for all the issued Shares not already owned by the Offeror and parties acting in concert with it.

(2) Principal terms of the Offer

The Offeror is making a mandatory conditional cash offer to the Shareholders to acquire all the Shares, other than those held by the Offeror and parties acting in concert with it, on terms set out in the Composite Offer Document and in the Form of Acceptance on the following basis:

For each Share HK\$0.093 in cash

The Offer Price of HK\$0.093 per Share is the same as the price agreed to be paid by the Offeror to the Vendors for each Sale Share under the Sale and Purchase Agreement, and represents:

- (a) a premium of 24.00% over the closing price of HK\$0.075 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (b) a premium of approximately 25.68% over the average closing price of approximately HK\$0.074 per Share as quoted on the Stock Exchange over the last 10 consecutive trading days up to and including 13 January 2006;
- (c) a premium of approximately 1,228.57% over the audited net asset value per Share of approximately HK\$0.007 as at 31 December 2004, based on the Company's annual report for the year ended 31 December 2004; and
- (d) a premium of approximately 1,062.50% over the unaudited net asset value per Share of approximately HK\$0.008 as at 30 June 2005, based on the Company's latest interim report for the six-month period ended 30 June 2005.

LETTER FROM UPBEST SECURITIES AND EMPEROR CAPITAL

There are no outstanding options, warrants or securities convertible or exchangeable into Shares as at the Latest Practicable Date.

Further terms and conditions of the Offer, including the procedures for acceptance, are set out in the Composite Offer Document.

(3) Financial performance of the Company

A summary of the audited consolidated results of the Group for the three years ended 31 December 2004 are set out below:

Table 1: Financial performance of the Group

	Year ended 31 December		
	2004	2003	2002
	HK\$'000	HK\$'000	HK\$'000
	audited	audited	audited
Turnover			
Construction contracts in Hong Kong	–	2,026	12,664
Construction contracts in PRC	36,781	12,036	9,368
Provision of network security services	–	–	1,172
Hotel operation	–	–	1,441
	<u>36,781</u>	<u>14,062</u>	<u>24,645</u>
Operating expenses	(46,402)	(160,596)	(270,186)
Operating loss from operating activities	(9,607)	(122,343)	(230,103)
Profit/(loss) before taxation	162,692	(261,745)	(273,766)
Profit/(Loss) attributable to Shareholders	161,851	(262,341)	(213,004)
Earnings/(Loss) per Share	<u>HK\$0.28</u>	<u>(HK\$2.62)</u>	<u>(HK\$2.4)</u>
<i>Operating (Loss) margin</i>	<i>(26.12%)</i>	<i>(870.03%)</i>	<i>(933.67%)</i>
<i>Net profit/(loss) margin</i>	<i>440.04%</i>	<i>(1,865.60%)</i>	<i>(864.29%)</i>

Source: Company annual reports for the three years ended 31 December 2004.

LETTER FROM UPBEST SECURITIES AND EMPEROR CAPITAL

Turnover of the Group decreased significantly from approximately HK\$24,645,000 in 2002 to approximately HK\$14,062,000 in 2003, representing approximately a decrease of 42.94%. According to the Company's annual report, the decrease was mainly due to the emanating outbreak of SARS (Severe Acute Respiratory Syndrome). According to the Census and Statistics Department, the number of establishments for all building and civil engineering projects and the value of sub-contract work rendered by fee sub-contractors are as follows:

Year	Number of establishments for all building and civil engineering projects	Value of sub-contract work rendered by fee sub-contractors (HK\$ million)
2000	20,181	92,965
2001	19,521	90,247
2002	19,878	86,102
2003	19,520	77,956
2004	18,302	68,359

The above table shows that there exists a decreasing trend regarding the number of establishments for all building and civil engineering projects since 2000. The number of establishments for all building and civil engineering projects decreased from 20,181 of year 2000 to 18,302 of year 2004, representing a decrease of 9.31%. These indicated that despite the recovery of the overall economy in Hong Kong after the SARS outbreak and the strong rebound of the property sector, the construction industry in Hong Kong did not stage a meaningful recovery and continued to be one of the sectors which lagged behind the general economic recovery in Hong Kong.

The performance of the Group is even worse when compared to the industry as a whole. The turnover of the Group derived from Hong Kong construction projects decreased from approximately HK\$12,664,000 (representing approximately 0.02% of the total value of sub-contract work rendered by fee sub-contractors) for the year 2002 to approximately HK\$2,026,000 (representing less than 0.01% of the total value of sub-contract work rendered by fee sub-contractors) for the year 2003. In view of the continuing difficult operating environment and the high costs of maintaining a full construction management team in Hong Kong, the Group decided to substantially scaled down its loss making Hong Kong construction division since the second half of 2003 and focused its efforts in the more promising construction market in Guangdong Province, the People's Republic of China (the "PRC"). Turnover derived from construction contracts in the PRC increased by 205.59%, while there is no turnover derived from construction contracts in Hong Kong. However, after taking into account the macroeconomic adjustment the PRC economy underwent, we are of the view that the construction industry prospects remain uncertain.

The Group generated a profit attributable to Shareholders of HK\$161.8 million in the year 2004, which mainly includes a gain of approximately HK\$100.3 million arising from debts discharged under the creditors' scheme, a gain of around HK\$50.2 million arising from deconsolidation of a wholly-owned subsidiary of the Company, upon receiving a winding-up Court order and a gain of HK\$23.0 million arising from the disposal of subsidiaries which the Board resolved not to provide additional financial resources thereto. Had these incomes from the above one-off events be excluded, the Group will result in a net loss of approximately HK\$11.7 million.

LETTER FROM UPBEST SECURITIES AND EMPEROR CAPITAL

The Group reported a net loss of HK\$262,341,000 and HK\$213,004,000 for the years 2003 and 2002 respectively. However, after taking into account the following items which is not related to the core construction contracting business, the Group will result in a net loss of approximately HK\$16,492,000 for the year 2003 and a net profit of approximately HK\$38,526,000 for the year 2002.

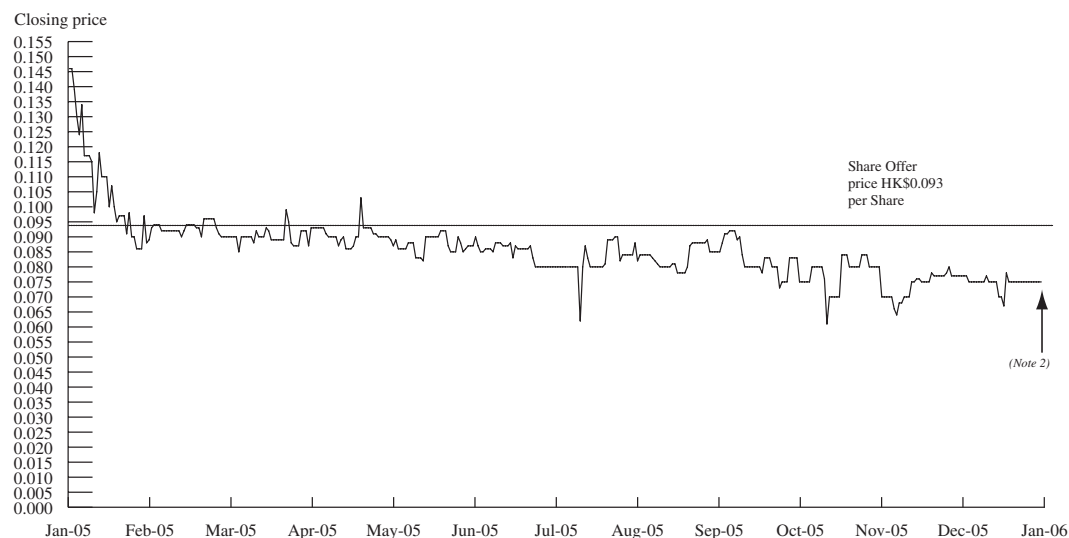
	Year ended 31 December	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
	audited	audited
Provision for doubtful debts and loans receivable	6,001	63,165
Provision for claims	17,270	–
Provision for litigation losses	72,662	–
Amortization of intangible assets	14,551	151,726
Amortization of premium on acquisition of associated companies	7,764	5,823
Impairment loss on investments in associated companies	11,862	–
Impairment loss on investments held for resale	115,739	30,816
	<u>245,849</u>	<u>251,530</u>

(4) Historical share price performance

(a) Market price of the Shares

A chart of historical closing prices of the Shares for the period from 27 January 2005 (being the first trading day of the twelve full calendar months prior to the date of the Announcement) to 26 January 2006 (being the date of the Announcement) (the “Review Period”) is set out below:

Chart 1: Share price performance



Source: Stock Exchange website

LETTER FROM UPBEST SECURITIES AND EMPEROR CAPITAL

Notes:

- (1) On trading days when trading in the Shares are suspended, the closing price equals to that of the preceding trading day.
- (2) 26 January 2006 being the date of the Announcement.

Table 2 below sets out the trading statistics for the Review Period:

Table 2: Trading statistics for the Review Period

	Closing Price <i>HK\$</i>	Premium/(discount) of Offer Price over/(to) closing price %
The Last Trading Day (13 January 2006)	0.075	24.00%
Highest (28 April 2005)	0.103	(9.71%)
Lowest (1 November 2005)	0.061	52.46%
Average during the one-month period prior to the date of the Announcement	0.074	25.68%
Average during the three-month period prior to the date of the Announcement	0.075	24.00%
Average during the six-month period prior to the date of the Announcement	0.080	16.25%
Average during the twelve-month period prior to the date of the Announcement	0.084	10.71%

Source: Stock Exchange website

During the Review Period, the Shares were traded in the range from HK\$0.061 to HK\$0.103. As illustrated in Table 2 above, the Offer Price represents a significant premium over the average closing price of the Shares during the one-month, three-month, six-month and twelve-month periods prior to the date of the Announcement.

LETTER FROM UPBEST SECURITIES AND EMPEROR CAPITAL

Table 3 below sets out the trading statistics for the period from 27 January 2006 (being the first trading day immediately after the date of Announcement) to the Latest Practicable Date (the “Post-Announcement Period”):

Table 3: Trading statistics for the Post-Announcement Period

	Closing Price <i>HK\$</i>	Premium/(discount) of Offer Price over/(to) closing price %
27 January 2006, being the first trading day immediately after the date of Announcement	0.107	(13.08%)
Latest Practicable Date	0.098	(5.10%)
Highest (27 January 2006)	0.107	(13.08%)
Lowest (13 February 2006)	0.091	2.20%
Average	0.095	(2.11%)

Source: Stock Exchange website

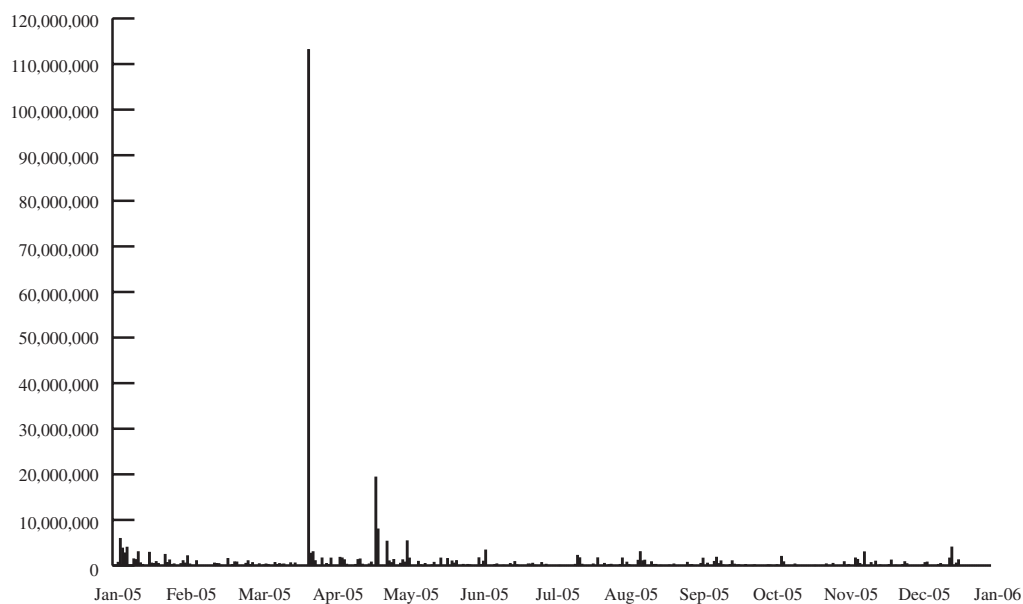
From Chart 1 and Table 3, it can be seen that the Share price on 27 January 2006, being the trading day immediately after the date of the Announcement increased by 42.67% to HK\$0.107, when compared with the closing price of the Last Trading Day of HK\$0.075. The prices of the Shares traded at above the Offer price and closed at HK\$0.098 per Share as at the Latest Practicable Date. Although there is no certainty as to the specific causes for such increase in Shares prices, we believed that it could have been prompted by the higher value of the price of the Offers relative to the market prices of the Shares before the Announcement. In the absence of supporting fundamentals of the Group particularly given its continued loss-making performance, we believe such current level of the Share price levels might not be sustainable in the absence of the Offer.

LETTER FROM UPBEST SECURITIES AND EMPEROR CAPITAL

(b) *Liquidity of the Shares*

Chart 2 and Table 4 below set out the total number and average daily number of Shares traded per month and the respective percentages of monthly trading volume compared to the issued share capital and the Shares held by the public during the Review Period:

Chart 2: Historical daily trading volume of the Shares



Source: Stock Exchange website

LETTER FROM UPBEST SECURITIES AND EMPEROR CAPITAL

Table 4: Historical trading volume of the Shares

Month	Total trading volume (Shares)	Average daily trading volume (Shares)	Average daily trading volume to total issued Shares (Note 1)	Average daily trading volume to total issued Shares held by the public (Note 2)
2005				
January (27 to 31)	900,000	300,000	0.04%	0.06%
February	9,396,000	552,706	0.06%	0.10%
March	124,792,974	6,239,649	0.73%	1.16%
April	41,167,150	2,058,358	0.24%	0.38%
May	22,793,100	1,139,655	0.13%	0.21%
June	11,007,600	500,345	0.06%	0.09%
July	6,265,000	313,250	0.04%	0.06%
August	12,904,000	561,043	0.07%	0.10%
September	7,886,100	375,529	0.04%	0.07%
October	4,927,200	246,360	0.03%	0.05%
November	5,364,000	243,818	0.03%	0.05%
December	8,642,500	432,125	0.05%	0.08%
2006				
January (1 to 26)	7,993,100	888,122	0.10%	0.16%

Source: Stock Exchange website

Notes:

(1) Based on 854,770,446 Shares.

(2) Based on 538,943,037 Shares after deduction of 312,035,123 Shares, 1,917,095 Shares and 1,875,191 Shares held by Mr. Tam Jin Rong (308,223,869 Shares of the 312,035,123 Shares were held as corporate interest under Main Faith Limited, a company wholly and beneficially owned by Mr. Tam Jin Rong), Mr. Tao Ke Wei and Mr. Tam Kai On respectively.

In March 2005, a placement of 98,900,000 existing Shares by Main Faith was conducted. If the placement Shares were excluded from the trading volume, the total trading volume for March 2005 was 25,892,974 Shares and the average daily trading volume will then be 1,294,649 Shares.

As indicated in the above table, during the Review Period, the trading volume of the Shares on the Stock Exchange was low with the highest average daily trading volume of 6,239,649 Shares, equivalent to approximately 0.73% of the total number of Shares in issue and 1.16% of the Shares held by the public. Independent Shareholders should note that during the Review Period, the average daily turnover of the Shares was constantly below 0.40% of the Shares held by the public save for the month of March 2005 when the placement took place.

LETTER FROM UPBEST SECURITIES AND EMPEROR CAPITAL

Based on the trading volume of the Shares in the past, in our view, the level of liquidity of the Shares may not be sufficient for the Independent Shareholders to sell a significant number of their Shares in the market without exerting a downward pressure on the market price of the Shares. We therefore consider that the Offer represents an opportunity for the Independent Shareholders to realize their investments in the Company if they so wish.

(5) Indicative valuation benchmarks

(a) *Net asset value*

Based on the audited consolidated balance sheet of the Group as at 31 December 2004, the Group recorded an audited consolidated net asset value of approximately HK\$5,646,000, equivalent to approximately HK\$0.007 per Share based on 854,770,446 Shares in issue as at 31 December 2004. The Offer Price is at a premium of approximately 1,228.57% over the audited net asset value per Share as at 31 December 2004. Furthermore, according to the unaudited interim report for the 6 months ended 30 June 2005, the Group's unaudited consolidated net asset value was approximately HK\$7 million, equivalent to around HK\$0.008 per Share based on 854,770,446 Shares in issue as at 30 June 2005. The Offer Price is at a premium of 1,062.50% over the unaudited net asset value per Share as at 30 June 2005. On this basis, we are of the view that the Offer Price is fair and reasonable in terms of premium to net asset value.

(b) *Price/earning multiples*

Price/earning multiple is one of the most commonly used benchmarks for valuing a company. The Company has recorded net losses for the two years ended 31 December 2003. For the financial year ended 31 December 2004, the HK\$161.8 million profit generated by the Group mainly includes gain of approximately HK\$173.5 million arising from debt discharged under the Creditors' Scheme, deconsolidation of a loss making wholly-owned subsidiary of the Company and the disposal of subsidiaries which the Directors resolved not to provide additional financial resources to those businesses. Had these three one-off incomes been excluded, the Group would have recorded a net loss of HK\$11.7 million for the year ended 31 December 2004. As such, the use of price/earning multiples as reference to assess the Offer Price is inappropriate.

(c) *Dividend yield*

The Group has not declared any dividend in the past 3 financial years. Given the Company's dividend payment record, we consider that the use of dividend yield as reference to assess the Offer Price is not applicable.

(6) Cash offer precedents

In accessing the fairness and reasonableness of the Offer Price, we have attempted to compare it with the cash offers made within the prior six full month period for companies listed on the Main Board of the Stock Exchange which are engaged in the construction business. However, we are unable to identify any cash offers made by a main board listed company in the construction business within the prior six full month period, we consider that to select all cash offers made by companies listed on the

LETTER FROM UPBEST SECURITIES AND EMPEROR CAPITAL

Main Board of the Stock Exchange is the best alternative for making comparison. As such, we have identified, to the best of our knowledge and based on the information from the website of the Stock Exchange, all cash offers to acquire the entire share capital of the respective offerees (the “Comparable Offers”) made for companies that are listed on the Main Board of the Stock Exchange (the “Comparable Companies”) within the six full month period prior to the Latest Practicable Date. Table 5 is a summary of the Comparable Offers in terms of the share offer price to the respective closing price as at the last trading day prior to the announcement.

Table 5: Comparable Offers

Company (Stock code)	Share offer price HK\$	Closing price as at the last trading day HK\$	Audited net asset value per share as at the last financial year end prior to the cash offer HK\$	Premium/ (discount) of share offer price over/to closing price as at the last trading day %	Premium/ (discount) of share offer price over/to audited net asset value per share %
Greater China Holdings Limited (431)	0.5000	0.4300	0.558	16.28%	(10.39%)
The Hong Kong Building and Loan Agency Limited (145)	1.0933	1.0200	0.975	7.19%	13.13%
China Investment Fund Company Limited (612)	0.1625	0.1490	0.150	9.06%	8.33%
Wanji Pharmaceutical Holdings Limited (835)	0.1000	0.1400	0.012	(28.57%)	733.33%
New Spring Holdings (690)	0.4970	0.5000	0.420	(0.60%)	18.33%
UDL Holdings Limited (620)	0.0400	0.0230	(0.060)	73.91%	N/A
GeoMaxima Energy Holdings Limited (702)	0.0362	0.0550	0.116	(34.18%)	(68.79%)
Goldigit Atom-tech Holdings Limited (2362)	0.2000	0.1200	0.144	66.67%	38.89%
China National Resources Development Holdings Limited (661)	0.0330	0.1750	0.021	(81.14%)	57.14%
China Resources Peoples Telephone Company Limited (331)	4.5500	3.9000	1.490	16.67%	205.37%
MAXX Bioscience Holdings Limited (512)	0.0750	0.1030	0.111	(27.18%)	(32.43%)
China Motion Telecom International Limited (989)	0.0694	0.1150	0.468	(39.65%)	(85.17%)
The Company	0.0930	0.0750	0.007	24.00%	1,228.57%

Source: Stock Exchange website

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As indicated in the table above, the share offer prices of the Comparable Offers to their respective closing prices as at the last trading day ranged from a premium of approximately 73.91% to a discount of approximately 81.14% and the share offer prices of the Comparable Offers to their respective audited net asset value per share ranged from a premium of approximately 733.33% to a discount of approximately 85.17%. The Offer Price of HK\$0.093 represents a premium of approximately 24.00% over the closing price of the Shares as at the Last Trading Day. The Offer Price also represents a premium of approximately 1,228.57% over the net asset value per Share as at 31 December 2004, which is the highest amongst the Comparable Offers. On this basis, we are of the view that the Offer Price is fair and reasonable in terms of premium to the closing price of the Last Trading Day and to the net asset value.

(7) Intention of the Offeror

The Offeror is an investment holding company incorporated in the British Virgin Islands with limited liability. Both the Offeror and First Win are wholly owned by Always New Limited, which is a company incorporated in the British Virgin Islands and wholly owned by the Trustee. Save for the transactions contemplated by the Sale and Purchase Agreement, the Offeror has not conducted any business since its incorporation and it does not have any material assets as at the Latest Practicable Date. Immediately prior to Completion, neither the Offeror nor Mr. Yip nor parties acting in concert with either of them owned any Shares or any options, warrants or securities convertible into Shares.

As stated in “Letter from the Offeror” contained in the Composite Offer Document, following the close of the Offer, the Offeror intends to continue the existing business of the Group and will regularly review its business activities and assets. The Offeror has no intention to discontinue the employment of the employees (save for a change in the composition of the Board and the company secretary of the Company and change in directorships in certain subsidiaries of the Company) or to dispose of or re-deploy the assets of the Group other than those in its ordinary course of business. The Offeror has no plan on any injection of any assets or businesses into the Company as at the Latest Practicable Date.

All existing Directors, namely Mr. Tam, Mr. Tao Ke Wei and Mr. Tam Kai On and three independent non-executive Directors, namely Mr. Lau Kwok Wah, Mr. Huang Shou Deng and Mr. Tsui Wing Tak, will resign from their respective directorship of the Company and such resignation will take effect on the first closing date of the Offer or the date when the Offer becomes or is declared unconditional, whichever is the later, in compliance with Rule 7 of the Takeovers Code.

Mr. Tam Pei Qiang has resigned from office as the secretary and qualified accountant of the Company with effect from 14 February 2006 and Mr. Cheng Sing Wai has been appointed to replace Mr. Tam Pei Qiang to act as the secretary and qualified accountant of the Company with effect from 14 February 2006.

It is the intention of the Offeror that immediately following the despatch of the Composite Offer Document, Mr. Yip Wai Leung Jerry, Mr. Ming Kar Fook Charles will be appointed as executive Directors and Mr. So Yin Wai, Mr. Zhou Yaoming and Ms. Zhu You Chun will be appointed as independent non-executive Directors. The brief biographies of the proposed new Directors are set out in the “Letter from the Offeror” contained in the Composite Offer Document.

LETTER FROM UPBEST SECURITIES AND EMPEROR CAPITAL

The performance of the new Board as a whole is yet to be demonstrated. The Independent Shareholders are reminded of the uncertainty on whether the new Board can achieve in restoring the Company's profitability in the near future.

Based on the aforesaid, it is noted that the principal business of the Company shall not change in the near future, however, the business plans and strategies for the future business development of the Company are still under review by the Offeror. With the competitive environment and the establishment of new management team, there is no assurance that the Company's financial performance will turn-around in the near future. Given the above uncertainties, unless Independent Shareholders are confident with the business prospects and future management of the Company, we are of the view that the Offer represents an opportunity for Independent Shareholders to realize their investment in the Company.

(8) Recommendation

In arriving at our recommendation in respect of the Offer, we have considered the principal factors as summarized below:

- (1) The Company has been making losses in the 2 years ended 31 December 2003. For the year ended 31 December 2004, the Group will result in a net loss of HK\$11.7 million had the Group not earned three one-off incomes as mentioned above;
- (2) The Offer Price represents a significant premium ranged from 10.71% to 25.68% over the average closing price of the Shares during the one-month, three-month, six-month and twelve-month periods prior to the date of the Announcement;
- (3) The Offer Price represents a premium of approximately 1,228.57% over the net asset value per Share as at 31 December 2004, which is the highest amongst the Comparable Offers;
- (4) The historical liquidity and trading volume of the Shares had been low. It may be difficult for the Independent Shareholders to dispose of their Shares in the market although the current prices of Shares are trading above the Offer Price. There is no assurance that prices of the Shares will remain at the current level after the closing of the Offer;
- (5) The Company has not declared any dividend for the three years ended 31 December 2004 and for the six months ended 30 June 2005; and
- (6) The construction industry in Hong Kong did not stage a meaningful recovery and continued to be one of the sectors which lagged behind the general economic recovery in Hong Kong. In view of the continuing difficult operating environment, competitive environment and the high costs of maintaining a full construction management team in Hong Kong, the Group had substantially scaled down its loss making Hong Kong construction and focused in the development of the construction market in PRC. However, the PRC property market remain uncertain with the macroeconomic control. With the poor past performance and the uncertainty underlying the Hong Kong and PRC property market, the future business development and prospects of the Company remain uncertain.

LETTER FROM UPBEST SECURITIES AND EMPEROR CAPITAL

Based on the above, we are of the view that the Offer is fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to accept the Offer.

However, we would also like to advise the Independent Board Committee to recommend those Independent Shareholders who intend to accept the Offer to closely monitor the price and liquidity of the Shares in the market during the period of the Offer, and to consider selling their Shares in the market rather than accepting the Offer, if the net proceeds of such sale would exceed the amount receivable under the Offer.

For those Independent Shareholders who wish to retain part or all of their investments in the Shares, they should carefully consider the future intention of the Offeror regarding the Company and the implication of possible suspension of dealings in Shares, the details of which are set out in this letter and the “Letter from the Offeror” contained in the Composite Offer Document.

Independent Shareholders should read carefully the procedures for accepting the Offer as detailed in Appendix I to the Composite Offer Document and the accompanying Form of Acceptance.

Yours faithfully,

For and on behalf of

Upbest Securities Company Limited

Cheng Kai Ming, Charles

Director

Li Kwok Cheung, George

Director

For and on behalf of

Emperor Capital Limited

Louisa Choi

Director

1. PROCEDURE FOR ACCEPTANCE

If the Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title in respect of your Shares are in your name, and you wish to accept the Offer, you must send the duly completed Form of Acceptance together with the relevant Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof), to the Registrar, Computershare Hong Kong Investor Services Limited of Shops 1712-1716, 17/F., Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong in any event not later than 4:00 p.m. on Thursday, 23 March 2006 or such later time and/or date as the Offeror may determine and announce in accordance with the Takeovers Code.

If the Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title in respect of your Shares is in the name of a nominee company or some name other than your own, and you wish to accept the Offer whether in full or in respect of part of your holding of Shares, you must either:

- (a) lodge your Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) with the nominee company, or other nominee, with instructions authorising it to accept the Offer on your behalf and requesting it to deliver the relevant Form of Acceptance duly completed together with the relevant share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) to the Registrar; or
- (b) arrange for the Shares to be registered in your name by the Company through the Registrar and send the relevant Form of Acceptance duly completed together with the relevant share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) to the Registrar; or
- (c) if your Shares have been lodged with your licensed securities dealer in securities/custodian bank through CCASS, instruct your licensed securities dealer in securities/custodian bank to authorise HKSCC Nominees Limited to accept the Offer on your behalf on or before the deadline set out by HKSCC Nominees Limited. In order to meet the deadline set by HKSCC Nominees Limited, you should check with your licensed securities dealer in securities/custodian bank for the timing on processing of your instruction, and submit your instruction to your licensed securities dealer in securities/custodian bank as required by them; or
- (d) if your Shares have been lodged with your Investor Participant Account with CCASS, authorise your instruction via the CCASS Phone System or CCASS Internet System on or before the deadline set out by HKSCC Nominees Limited.

If the Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title in respect of your Shares (and/or any satisfactory indemnity or indemnities required in respect thereof) is not readily available and/or is lost and you wish to accept the Offer, as the case may be, the relevant Form of Acceptance should nevertheless be completed and delivered to the Registrar together with a letter stating that you have lost one or more of your Share certificate(s) and/or transfer receipts and/or other document(s) of title (and/or satisfactory indemnity or indemnities required in respect thereof) or that it/they is/are not

readily available. If you find such document(s) or if it/they become available, the relevant Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) should be forwarded to the Registrar as soon as possible thereafter. If you have lost your Share certificate(s), you should also write to the Registrar a letter of indemnity which, when completed in accordance with the instruction given, should be returned to the Registrar.

If you have lodged transfer(s) of any of your Shares for registration in your name and have not yet received your Share certificate(s), and you wish to accept the Offer, you should nevertheless complete the relevant Form of Acceptance and deliver it/them to the Registrar together with the transfer receipt(s) duly signed by yourself. Such action will be deemed to be an irrevocable authority to the Offeror or its agent(s) to collect from the Company or the Registrar on your behalf the relevant Share certificate(s) when issued and to deliver such certificates to the Registrar and to authorise and instruct the Registrar to hold such certificate(s), subject to the terms and conditions of the Offer, as if it/they were delivered to the Registrar with the relevant Form of Acceptance.

An acceptance of the Offer may not be counted as valid unless:

- (a) it is received by the Registrar on or before the latest time for acceptance at 4:00 p.m. on Thursday, 23 March 2006 or such later time and/or date as the Offeror may determine and announce in accordance with the Takeovers Code and the Registrar has recorded that the acceptance has been so received; and
- (b) the Form of Acceptance is duly completed and is:
 - (i) accompanied by Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title in respect of the relevant Shares (and/or any satisfactory indemnity or indemnities required in respect thereof) and, if those certificate(s) are not in the name of the acceptor, such other documents (e.g. a duly stamped transfer of the relevant Shares in blank or in favour of the acceptor executed by the registered holder) in order to establish the right of the acceptor to become the registered holder of the relevant Shares; or
 - (ii) from a registered Shareholder or his personal representatives (but only up to the amount of the registered holding and only to the extent that the acceptance relates to the Shares which are not taken into account under another sub-paragraph of this paragraph (b)); or
 - (iii) certified by the Registrar or the Stock Exchange.

If the Form of Acceptance is executed by a person other than the registered Shareholder, appropriate evidence of authority to the satisfaction of the Registrar (e.g. grant of probate or certified copy of a power of attorney) must be produced.

No acknowledgment of receipt of any Form of Acceptance, Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) will be given.

2. SETTLEMENT

Provided that the relevant Form of Acceptance and the relevant Share certificate(s) and/or transfer receipt(s) and/or any document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) are in complete and good order in all respects and have been received by the Registrar not later than by 4:00 p.m. on Thursday, 23 March 2006 or such later time and/or date as the Offeror may determine and announce in accordance with the Takeovers Code, a cheque for the amount representing the cash consideration due to you in respect of the Shares tendered by you under the Offer, less seller's ad valorem stamp duty payable by you will be despatched to you by ordinary post at your own risk as soon as possible but in any event within 10 days of the date on which all relevant documents which render such acceptance complete and valid are received by the Registrar, or of the date on which the offer become or is declared unconditional, whichever is later. If the Offer does not become unconditional and lapses, the share certificate(s) and/or other document(s) of title tendered under the Offer will be returned to the Shareholders within 10 days in accordance with the Takeovers Code.

Settlement of the consideration to which any accepting Shareholder are entitled under the Offer will be implemented in full in accordance with the terms of the Offer, without regard to any lien, right of set-off, counterclaim or other similar right to which the Offeror may otherwise be, or claim to be, entitled against such accepting Shareholder.

3. ACCEPTANCE PERIOD, REVISIONS AND EXTENSIONS

The Offer reserves the right to extend the period of the Offer in accordance with the provisions of the Takeovers Code. Unless the Offer has previously been extended, the Forms of Acceptance must be received by 4:00 p.m. on Thursday, 23 March 2006 and the Offer will close at the same time. Pursuant to the Takeovers Code, if the Offer becomes or is declared unconditional, it will remain open for acceptance for not less than 14 days thereafter. An announcement will be made as and when the Offer becomes unconditional.

The Offeror reserves the right to revise the terms of the Offer in accordance with the provisions of the Takeovers Code. If, in the course of an Offer, the Offeror revises its terms, all Shareholders, whether or not they have already accepted the Offer, will be entitled to the revised terms and a revised offer must be kept open for at least 14 days following the date on which a revised offer document is posted.

4. ANNOUNCEMENTS

- (i) By 6:00 p.m. on Thursday, 23 March 2006, which is the Closing Date, the Offeror must inform the Executive and the Stock Exchange of its decisions in relation to revision or expiry of the Offer. The Offeror shall publish a teletext announcement through the Stock Exchange by 7:00 p.m. on the Closing Date stating whether the Offer has expired, been extended or revised (as the case may be). Such announcement will be published on the next business day in accordance with paragraph (iii) below. The announcement shall specify the total number of Shares and the rights over Shares which the Offeror and parties acting in concert with it, directly and indirectly, owns or controls as at the date of that announcement; the number of Shares for which valid acceptances have been received, held, controlled or directed by the Offeror or parties acting in concert with it before the Offer period; and the

number of Shares acquired or agreed to be acquired by the Offeror or parties acting in concert with it during the period of the Offer.

The announcement shall include details of voting rights, rights over Shares, derivatives and arrangements as required by Rule 3.5(c), (d) and (f) of the Takeovers Code. The announcement shall also specify the percentages of the relevant class of share capital and the percentages of voting rights of the Company represented by these numbers of Shares.

- (ii) As required under the Takeovers Code and the Listing Rules, all announcements in relation to the Offer, in respect of which the Executive and the Stock Exchange have confirmed that they have no further comments thereon, must be published as a paid announcement in at least one English language newspaper and one Chinese language newspaper, being in each case a newspaper which is published daily and circulated generally in Hong Kong and specified in the list of newspapers issued and published in the Gazette for the purpose of section 71A of the Companies Ordinance, and must be published on the Stock Exchange website.

5. RIGHT OF WITHDRAWAL

Acceptances of the Offer shall be irrevocable and will not be permitted to be withdrawn, except (a) in the circumstances to the effect that if the Offeror is unable to comply with any of the requirements of making announcements under Rule 19 of the Takeovers Code relating to the Offer, the Executive may require that acceptors be granted a right of withdrawal, on terms acceptable to the Executive, until such requirements are met; or (b) in compliance with Rule 17 of the Takeovers Code which provides an acceptor shall be entitled to withdraw this acceptance after 21 days from the first closing date of the Offer, if the Offer has not by then become unconditional as to acceptance.

6. STAMP DUTY

Seller's ad valorem stamp duty arising in connection with acceptance of the Offer amounting to 0.1% of the amount payable in respect of the relevant acceptances or if higher, the market value of the Shares, will be deducted from the amount payable to Shareholders who accept the Offer. The Offeror will bear its own portion of buyer's ad valorem stamp duty at the rate of 0.1% of the amount payable in respect of the relevant acceptances or if higher, the market value of the Shares, and will be responsible to account to the Stamp Office of Hong Kong for stamp duty payable for the sale and purchase of the relevant Shares pursuant to the acceptance of the Offer.

7. OVERSEAS SHAREHOLDERS

The making of the Offer to Overseas Shareholders may be prohibited or affected by the laws of the relevant jurisdictions. Overseas Shareholders should obtain appropriate legal advice on, inform themselves about and observe any applicable legal requirement. It is the responsibility of each Overseas Shareholders who wishes to accept the Offer to satisfy himself, herself or itself as to the full observance of the laws of the relevant jurisdiction in connection therewith, including the obtaining of any governmental, exchange control or other consents which may be required and the compliance with other necessary formalities or legal requirements and the payment of any transfer or other taxes due in respect of such jurisdiction.

8. TAXATION

Shareholders are recommended to consult their own professional advisers if they are in any doubt as to taxation implications of their accepting the Offer. It is emphasised that none of the Company, the Offeror, First Win, REXCAPITAL, AsiaVest or any of their respective directors or any persons involved in the Offer accepts responsibility for any tax effects on, or liabilities of, any person or persons as a result of their acceptance of the Offer.

9. GENERAL

- (i) Acceptance of the Offer by any person or persons holding Shares will be deemed to constitute a warranty by such person or persons to the Offeror that the Share(s) acquired under the Offer are sold by any such person or persons free from all liens, charges, encumbrances, equities and third party rights and together with all rights attaching thereto, including the right to receive all dividends and distributions declared, made or paid on or after the date of the Composite Offer Document.
- (ii) All communications, notices, Forms of Acceptance, certificates, transfer receipts, other documents of title (and/or any satisfactory indemnity or indemnities required in respect thereof) and remittances to be delivered by or sent to or from the Shareholders will be delivered by or sent to or from them, or their designated agents, through post at their own risk, and none of the Offeror, the Company, First Win, REXCAPITAL, AsiaVest, the Registrar or any of their respective agents, accepts any liability for any loss in postage or any other liabilities that may arise as a result thereof.
- (iii) The provisions set out in the Forms of Acceptance form part of the terms of the Offer.
- (iv) The accidental omission to despatch the Composite Offer Document and/or the Form of Acceptance or any of them to any person to whom the Offer are made will not invalidate the Offer in any way.
- (v) The Offer and all acceptances will be governed by and construed in accordance with the laws of Hong Kong.
- (vi) Due execution of a Form of Acceptance will constitute an authority to the Directors, the Offeror or such person or persons as they may direct, to complete and execute any document on behalf of the person or persons accepting the Offer and to do any other act that may be necessary or expedient for the purposes of vesting in the Offeror, or such person or persons as they may direct, the Shares in respect of which such person or persons has/have accepted the Offer.
- (vii) References to the Offer in the Composite Offer Document and in the Forms of Acceptance shall include any extension and/or revision thereof.
- (viii) The English text of the Composite Offer Document and the Forms of Acceptance shall prevail over the Chinese text.

1. FINANCIAL SUMMARY

The following is a summary of the results of the Group for each of the three financial years ended 31 December 2004 prepared based on the Company's annual reports for the financial years ended 31 December 2003 and 2004.

RESULTS

	Year ended 31 December		
	2004	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	36,781	14,062	24,645
Operating loss after finance costs	(10,875)	(126,382)	(234,736)
Shares of profits/(losses) of associated companies	–	2	(486)
Amortisation of premium on acquisition of associated companies	–	(7,764)	(5,823)
Impairment loss on investments in associated companies	–	(11,862)	–
Impairment loss on investments held for resale	–	(115,739)	(30,816)
Gain/(loss) on disposal of subsidiaries	23,022	–	(1,905)
Gain on deconsolidation of a subsidiary	50,239	–	–
Gain on debt discharged under Creditors' Scheme	100,306	–	–
Profit/(loss) before taxation	162,692	(261,745)	(273,766)
Taxation	(841)	(596)	–
Profit/(loss) from operating activities	161,851	(262,341)	(273,766)
Minority interest	–	–	60,762
Profit/(loss) attributable to shareholders	<u>161,851</u>	<u>(262,341)</u>	<u>(213,004)</u>
Dividends	<u>–</u>	<u>–</u>	<u>–</u>
Earnings/(loss) per share			
– Basic	HK\$0.28	HK\$(2.62)	HK\$(2.40)
– Diluted	N/A	N/A	N/A

There were neither extraordinary nor exceptional items during each of the three years ended 31 December 2004.

No dividend has been paid or declared by the Company for each of the three years ended 31 December 2004.

No qualified opinion has been issued by the Company's auditors for each of the three years ended 31 December 2004.

2. AUDITED FINANCIAL STATEMENTS

The following is the audited consolidated income statement of the Group for each of the two years ended 31 December 2004, the audited consolidated balance sheet of the Group as at 31 December 2003 and 2004, the audited balance sheet of the Company as at 31 December 2003 and 2004, the audited consolidated statement of changes in equity of the Group for the year ended 31 December 2004 and the audited consolidated cash flow statement of the Group for each of the two years ended 31 December 2004, together with the relevant notes ("Financial Statements"), as extracted from the Company's annual report for the year ended 31 December 2004. Terms defined herein are applied to this section only.

CONSOLIDATED INCOME STATEMENT

		Year ended 31 December	
		2004	2003
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	4	36,781	14,062
Other revenue	4	14	24,191
Construction contract costs		(34,222)	(16,174)
Hotel operation costs		–	(1,200)
Staff costs	5	(6,035)	(8,279)
Depreciation		(415)	(705)
Provision for doubtful debts and loans receivable	5	(139)	(6,001)
Provision for claims		–	(17,270)
Provision for litigation losses		–	(72,662)
Amortisation of intangible assets		–	(14,551)
Other operating expenses		(5,591)	(23,754)
Operating loss from operating activities	5	(9,607)	(122,343)
Gain arising from debts discharged under Creditors' Scheme	6	100,306	–
Gain on deconsolidation of a subsidiary under winding-up Court order	7	50,239	–
Gain on disposal of subsidiaries	28(c)	23,022	–
Share of results of associated companies		–	2
Amortisation of premium on acquisition of associated companies		–	(7,764)
Impairment loss on investments in associated companies		–	(11,862)
Impairment loss on investments held for resale		–	(115,739)
Finance costs	8	(1,268)	(4,039)
Profit/(loss) from operating activities before taxation			
Continuing operations		162,692	(260,545)
Discontinued operations	10	–	(1,200)
Taxation	9(a)	(841)	(596)
Profit/(loss) attributable to shareholders	11	<u>161,851</u>	<u>(262,341)</u>
Earnings/(Loss) per share			
– Basic	12	HK\$0.28	(HK\$2.62)
– Diluted	12	N/A	N/A

CONSOLIDATED BALANCE SHEET*At 31 December 2004*

	<i>Note</i>	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Non-current assets			
Intangible assets	15	–	–
Property, plant and equipment	16	3,477	539
Investments in associated companies	18	–	–
		<u>3,477</u>	<u>539</u>
Current assets			
Inventory	19	748	–
Investments held for resale	17(a)	–	–
Gross amounts due from customers on construction contracts	21	16,993	–
Accounts receivable	22	–	1,693
Prepayments, deposits and other receivables		2,644	5,747
Club membership	20	245	245
Bank and cash balances		<u>3,365</u>	<u>112</u>
		<u>23,995</u>	<u>7,797</u>
Less: Current liabilities			
Accounts payable	23	3,913	32,209
Accruals and other payables		7,975	94,814
Redeemable debentures		–	40,000
Loan notes		–	10,000
Current portion of long term borrowings	24	71	–
Shareholder's loan	25	7,670	8,125
Provision for taxation		<u>974</u>	<u>749</u>
		<u>20,603</u>	<u>185,897</u>
Net current assets/(liabilities)		<u>3,392</u>	<u>(178,100)</u>
Total assets less current liabilities		6,869	(177,561)
Non-current liabilities			
Long term borrowings	24	<u>1,223</u>	<u>–</u>
NET ASSETS/(LIABILITIES)		<u><u>5,646</u></u>	<u><u>(177,561)</u></u>
Capital and reserves			
Share capital	26(a)	8,548	204,923
Reserves	27(a)	<u>(2,902)</u>	<u>(382,484)</u>
SHAREHOLDERS' FUNDS/(CAPITAL DEFICIENCY)		<u><u>5,646</u></u>	<u><u>(177,561)</u></u>

BALANCE SHEET*At 31 December 2004*

	<i>Note</i>	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Non-current assets			
Investments in subsidiaries	17(b)	<u>(19,925)</u>	<u>–</u>
Current assets			
Prepayments, deposits and other receivables		5	2,150
Bank and cash balances		<u>2,807</u>	<u>60</u>
		<u>2,812</u>	<u>2,210</u>
Current liabilities			
Accounts payable	23	–	17,270
Accruals and other payables		3,515	56,169
Redeemable debentures		–	40,000
Loan notes		–	10,000
Shareholder's loan	25	7,644	8,125
Provision for taxation		<u>134</u>	<u>134</u>
		<u>11,293</u>	<u>131,698</u>
NET CURRENT LIABILITIES		<u>(8,481)</u>	<u>(129,488)</u>
NET LIABILITIES		<u><u>(28,406)</u></u>	<u><u>(129,488)</u></u>
Capital and reserves			
Share capital	26(a)	8,548	204,923
Reserves	27(b)	<u>(36,954)</u>	<u>(334,411)</u>
CAPITAL DEFICIENCY		<u><u>(28,406)</u></u>	<u><u>(129,488)</u></u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY*For the year ended 31 December 2004*

	Reserves						Total HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Contributed surplus HK\$'000	Exchange reserve HK\$'000	General reserves HK\$'000	Accumulated losses HK\$'000	
Balance at 1 January 2003	194,046	459,012	22,130	569	–	(601,285)	74,472
Shares issued for debt equity swap arrangements (note 26(a)(ii))	10,877	–	–	–	–	–	10,877
Realisation of exchange reserve on deconsolidation of a subsidiary	–	–	–	(569)	–	–	(569)
Loss for the year	–	–	–	–	–	(262,341)	(262,341)
Balance at 31 December 2003	204,923	459,012	22,130	–	–	(863,626)	(177,561)
Share premium cancellation (note 27(i))	–	(459,012)	459,012	–	–	–	–
Capital reduction (note 26(a)(iv))	(203,898)	–	203,898	–	–	–	–
Issue of Offer Shares (note 26(a)(v))	5,123	17,931	–	–	–	–	23,054
Offer Shares issue expenses	–	(2,150)	–	–	–	–	(2,150)
Issue of Creditors Shares (note 26(a)(vi))	1,800	16,200	–	–	–	–	18,000
Top-Up subscription of new shares (note 26(a)(vii))	600	4,200	–	–	–	–	4,800
New shares issue expenses	–	(218)	–	–	–	–	(218)
Credit transfer (note 27(ii))	–	–	(606,013)	–	–	606,013	–
Realisation of contributed surplus on disposal of a subsidiary (note 28(c))	–	–	(22,130)	–	–	–	(22,130)
Transfer from accumulated losses (note 27(iii))	–	–	–	–	62	(62)	–
Profit for the year	–	–	–	–	–	161,851	161,851
Balance at 31 December 2004	8,548	35,963	56,897	–	62	(95,824)	5,646

CONSOLIDATED CASH FLOW STATEMENT*For the year ended 31 December 2004*

	2004	2003
<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit/(Loss) from operating activities before taxation	162,692	(261,745)
Adjustments for:		
Share of results of associated companies	–	(2)
Provision for doubtful debts and loans receivable	139	6,001
Interest income	(4)	(1)
Finance costs	1,268	4,039
Impairment loss on investments held for resale	–	115,739
Impairment loss on investments in associated companies	–	11,862
Impairment loss on intangible assets	–	2,426
Impairment loss on club membership	–	125
Depreciation of property, plant and equipment	477	705
Amortisation of intangible assets	–	14,551
Amortisation of premium on acquisition of associated companies	–	7,764
Gain on deconsolidation of a subsidiary under winding up Court order	(50,239)	–
Property, plant and equipment written off	–	1,064
Gain arising from debts discharged under Creditors' Scheme	(100,306)	–
Gain on disposal of subsidiaries	(23,022)	–
Loss on disposal of club membership	–	193
Provision for claims	–	17,270
Provision for litigation losses	–	72,662
Warranty claims on a disposed subsidiary	–	6,000
Profit guarantee related to acquisition of a subsidiary	–	(12,000)
Profit guarantee related to acquisition of associated companies	–	(7,000)
Operating loss before working capital changes	(8,995)	(20,347)
(Increase)/decrease in gross amounts due from customers on construction contracts	(16,993)	568
Decrease in accounts receivable	1,693	493
Increase in inventory	(748)	–
Decrease in prepayments, deposits and other receivables	793	911
Increase/(decrease) in accounts payable	1,845	(3,556)
Decrease in gross amounts due to customers on construction contracts	–	(229)
Increase in accruals and other payables	5,690	17,333

CONSOLIDATED CASH FLOW STATEMENT (Continued)*For the year ended 31 December 2004*

	<i>Note</i>	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Cash used in operations		(16,715)	(4,827)
Net interest paid		<u>(1,268)</u>	<u>(4,038)</u>
Net cash used in operating activities		<u>(17,983)</u>	<u>(8,865)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Deconsolidation of a winding-up subsidiary	28(b)	(43)	–
Purchase of property, plant and equipment		(3,415)	(622)
Disposal of subsidiaries	28(c)	(2)	–
Interest received		4	–
Proceeds from disposal of club membership		–	500
Deconsolidation of a subsidiary		<u>–</u>	<u>(6)</u>
Net cash used in investing activities		<u>(3,456)</u>	<u>(128)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of share capital		27,636	–
Payment to scheme creditors		(12,000)	–
Advances from a shareholder		7,762	7,331
Proceeds from bank borrowing		1,300	–
Repayment of bank borrowing		<u>(6)</u>	<u>–</u>
Net cash generated from financing activities		<u>24,692</u>	<u>7,331</u>
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		3,253	(1,662)
CASH AND CASH EQUIVALENTS AT 1 JANUARY		<u>112</u>	<u>1,774</u>
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		<u><u>3,365</u></u>	<u><u>112</u></u>
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS			
Bank and cash balances		<u><u>3,365</u></u>	<u><u>112</u></u>

NOTES TO THE FINANCIAL STATEMENTS*For the year ended 31 December 2004***1. ORGANISATION AND OPERATION**

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

The Company is an investment holding company. The principal activities of its subsidiaries are set out in note 17(b) to the financial statements.

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS**(a) Basis of preparation**

The financial statements have been prepared under the historical cost convention.

The Company had net current liabilities and capital deficiency of HK\$8,481,000 and HK\$28,406,000 respectively as at 31 December 2004.

The financial statements have been prepared on a going concern basis, the validity of which depends upon the financial support of a substantial shareholder, who agreed to provide not more than HK\$10 million to finance the working capital requirements of the Company.

The accounting policies used in the preparation of the financial statements are consistent with the previous year.

The Hong Kong Institute of Certified Public Accountants ("HKICPA") has issued a number of new and revised Hong Kong Financial Reporting Standards ("HKFRS") and Hong Kong Accounting Standards which are effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRS in the financial statements for the year ended 31 December 2004.

(b) Capital reorganisation, creditors' scheme of arrangement, open offer and whitewash waiver

In response to the summary judgment 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 capital reorganisation of the Company ("Capital Reorganisation") which involved (a) consolidation of every 20 existing shares of HK\$0.10 each into 1 consolidated share of HK\$2.00 each on 2 December 2003 ("Consolidated Shares"); (b) a subdivision of each authorized and unissued share into 200 adjusted shares of HK\$0.01 each 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.
- (ii) 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 ("Total Indebtedness") as at the date for determination of entitlements of the Scheme Creditors (the "Scheme Record Date") being discharged in full and final settlement by way of a combination of the cash payment and the issuance of Consolidated Shares ("Creditors Shares") 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 Shares; and

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS (Continued)**(b) Capital reorganisation, creditors' scheme of arrangement, open offer and whitewash waiver (Continued)**

- (iii) raised approximately HK\$23.1 million (before expenses) on 27 April 2004 by way of the issue of 512,308,705 new Consolidated Shares ("Offer Shares") on the basis of an assured allotment of five Offer Shares for the equivalent of every Consolidated Share held by shareholders other than overseas shareholders (the "Qualifying Shareholders") at the subscription price of HK\$0.045 per Offer Share (the "Open Offer"). Qualifying Shareholders will not be allotted any Offer Shares in excess of their assured allotments.

The implementation of the 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 restructuring proposal have been fulfilled on 27 April 2004. After the completion of Capital Reorganisation, the Creditors' Scheme and the Open Offer, Mr. Tam Jin Rong beneficially held 410,935,123 shares, representing 51.7%, of issued shares of the Company.

3. PRINCIPAL ACCOUNTING POLICIES

The financial statements have been prepared in accordance with generally accepted accounting principles in Hong Kong and with accounting standards issued by the HKICPA.

(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, controls more than half of the voting power; has the power to govern the financial and operating policies; to appoint or remove the majority of the members of the Board of Directors; or to cast majority of votes at the meetings of the Board of Directors.

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.

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.

(b) Associated companies

An associated company is a company, not being a subsidiary or a joint venture, in which an equity interest is held for long-term and significant influence is exercised in its management.

The Group's investments in associated companies include the Group's share of the net assets of the associated companies (plus the premium paid/less any discount on acquisition in so far as it has not already been written off or amortised). The Group's share of post-acquisition results of associated companies is included in the consolidated income statement.

Unrealised profits and losses resulting from transactions between the Group and its associated companies are eliminated to the extent of the Group's interest in the associated companies, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised in the consolidated income statement.

3. PRINCIPAL ACCOUNTING POLICIES (*Continued*)

(c) Foreign currency translation

Transactions in foreign currencies are translated into Hong Kong dollars at the approximate rates of exchange ruling 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 consolidated income statement.

The balance sheets of subsidiaries and associated companies expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst income statements' items are translated at average rates. Exchange differences are dealt with as a movement in reserves. Upon the disposal of an overseas subsidiary or associated company, the related cumulative exchange difference is included in the consolidated income statement as part of the gain or loss on disposal.

(d) Intangibles

(i) Goodwill

Goodwill represents the excess of the cost of investments over the fair value of the Group's share of the net assets of the acquired subsidiaries at the date of acquisition.

Goodwill on acquisitions occurring on or after 1 January 2001 is included in intangible assets and is amortised using the straight line method over its estimated useful life, but not exceeding twenty years.

(ii) Hotel operating licence

Hotel operating licence is stated at purchased cost less accumulated amortisation and impairment losses.

Expenditure on licence is capitalised and amortised using the straight line method over their estimated useful lives, but not exceeding 20 years. The licence is not revalued as there is no active market for the licence.

(e) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses and are depreciated at rates sufficient to write off their costs over their estimated useful lives on a straight line basis. 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	10%

Major costs incurred in restoring property, plant and equipment to their normal working condition are charged to the consolidated income statement. Improvements are capitalised and depreciated over their expected useful lives to the Group.

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.

(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.

3. PRINCIPAL ACCOUNTING POLICIES (Continued)**(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 total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

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) Revenue recognition**(i) Contract revenue**

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

(ii) Interest income

Interest income is recognised to the extent when the revenue can be measured reliably.

(i) Impairment of assets

The carrying amounts of assets and intangible assets are reviewed at each balance sheet date to assess whether there is any indication of impairment. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the consolidated income statement.

(j) Other investments

Other investments are stated at cost less impairment losses, if any. The carrying amounts of the investments are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amount of such investment is reduced to its fair value. The amount of the reduction is recognised as an expense in the consolidated income statement.

(k) Club membership

Club membership is stated at cost less any impairment in value. The carrying amount of individual club membership is reviewed at each balance sheet date to assess whether the fair value has declined below the carrying amount. When a decline other than temporary has occurred, the carrying amount of such club membership is reduced to its fair value. The amount reduced is recognised as an expense in the consolidated income statement.

Upon disposal of the membership, the difference between net disposal proceeds and the carrying amount is charged or credited to the consolidated income statement.

3. PRINCIPAL ACCOUNTING POLICIES (Continued)**(l) Accounts receivable**

Provision is made against accounts receivable to the extent which they are considered to be doubtful. Accounts receivable in the consolidated balance sheet are stated net of such provision.

(m) Cash and cash equivalents

Cash and cash equivalents represent cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term highly liquid investments which are readily convertible into known amounts of cash and subject to an insignificant risk of change in value, having been within three months of maturity at acquisition. For the purpose of cash flow statement, bank overdrafts which are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents.

(n) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for 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.

(o) Borrowing costs

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

(p) 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.

(q) 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 individual or corporate entities.

(r) Event after the balance sheet date

Post-year-end 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-year-end events that are not adjusting events are disclosed in the notes when material.

(s) Segment reporting

In accordance with the Group's internal financial reporting the Group has determined that business segments be presented as the primary reporting format and geographical as the secondary reporting format.

3. PRINCIPAL ACCOUNTING POLICIES (Continued)**(t) 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.

- (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.

(u) Taxation

The charge for taxation is based on the results for the year as adjusted for items which are non-assessable or disallowable. Hong Kong profits tax is provided at the rate prevailing for the year based on the assessable profit for the year less allowable losses, if any, brought forward.

Deferred taxation is provided in full, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries and associated companies, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred taxation is charged or credited to the consolidated income statement, except when it relates to items charged or credited directly to equity, in which case the deferred taxation is also dealt with in equity.

(v) Discontinuing operation

A discontinuing operation is a clearly distinguishable component of the Group’s business that is disposed of or abandoned pursuant to a single plan, and which represents a separate major line of business or geographical area of operations.

4. REVENUE AND TURNOVER

	Group	
	2004	2003
	HK\$'000	HK\$'000
Turnover		
Construction contracts in Hong Kong	–	2,026
Construction contracts in the PRC	36,781	12,036
	<u>36,781</u>	<u>14,062</u>
Other revenue		
Interest income		
– bank deposits	4	1
Profit guarantee related to acquisition of a subsidiary	–	12,000
Profit guarantee related to acquisition of associated companies	–	7,000
Waiver of accounts payable	–	1,368
Bad debts recovery	–	3,799
Others	10	23
	<u>14</u>	<u>24,191</u>
Total revenue	<u>36,795</u>	<u>38,253</u>

Primary reporting format – business segments

	Turnover		Operating profit/(loss)	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Construction contracts in				
Hong Kong	–	2,026	(11,073)	(89,940)
Construction contracts in the PRC	36,781	12,036	1,466	(15,580)
Hotel operation	–	–	–	(16,808)
Money lending	–	–	–	(15)
	<u>36,781</u>	<u>14,062</u>	<u>(9,607)</u>	<u>(122,343)</u>
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			23,022	–
Impairment loss on investments in associated companies			–	(11,862)
Impairment loss on investments held for resale			–	(115,739)
Share of results of associated companies			–	2
Amortisation of premium on acquisition of associated companies			–	(7,764)
Finance costs			(1,268)	(4,039)
Profit/(loss) from operating activities before taxation			162,692	(261,745)
Taxation			(841)	(596)
Profit/(loss) attributable to shareholders			<u>161,851</u>	<u>(262,341)</u>

4. REVENUE AND TURNOVER (Continued)

Primary reporting format – business segments

	Construction contracts		Hotel operation		Money lending		Unallocated		Total	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment assets	21,830	2,199	–	–	–	5			21,830	2,204
Unallocated assets	–	–	–	–	–	–			5,642	6,132
Total assets	<u>21,830</u>	<u>2,199</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>5</u>			<u>27,472</u>	<u>8,336</u>
Segment liabilities	9,190	80,835	–	–	–	1			9,190	80,836
Unallocated liabilities	–	–	–	–	–	–			12,636	105,061
Total liabilities	<u>9,190</u>	<u>80,835</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>1</u>			<u>21,826</u>	<u>185,897</u>
Capital expenditure	<u>1,019</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>2,396</u>	<u>622</u>	<u>3,415</u>	<u>622</u>
Depreciation and amortisation	<u>62</u>	<u>–</u>	<u>–</u>	<u>14,551</u>	<u>–</u>	<u>–</u>	<u>415</u>	<u>705</u>	<u>477</u>	<u>15,256</u>
Provision for doubtful debts and loans receivable	<u>135</u>	<u>529</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>4</u>	<u>5,472</u>	<u>139</u>	<u>6,001</u>
Provision for claims and litigation losses	<u>–</u>	<u>63,486</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>26,446</u>	<u>–</u>	<u>89,932</u>

Secondary reporting format – geographical segments

	Turnover		Operating profit/(loss)		Total assets		Capital expenditure	
	2004	2003	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	–	2,026	161,256	(95,627)	5,642	6,456	2,396	622
PRC	36,781	12,036	1,436	(146,495)	21,830	1,880	1,019	–
Singapore	–	–	–	(19,623)	–	–	–	–
	<u>36,781</u>	<u>14,062</u>	<u>162,692</u>	<u>(261,745)</u>	<u>27,472</u>	<u>8,336</u>	<u>3,415</u>	<u>622</u>

5. OPERATING LOSS

Operating loss is stated after charging the following:

	Group	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Amortisation of intangible assets (<i>note 15</i>)		
Hotel operating licence	–	14,551
Auditors' remuneration	600	450
Depreciation	477	705
Impairment loss on intangible assets	–	2,426
Impairment loss on club membership	–	125
Property, plant and equipment written off	–	1,064
Loss on disposal of club membership	–	193
Operating leases:		
Hire of office equipment	104	208
Land and buildings	501	2,116
Provision for claims	–	17,270
Provision for litigation losses	–	72,662
Provision for doubtful debts and loans receivable	139	6,001
Warranty claims on a disposed subsidiary	–	6,000
Retirement benefit costs (<i>note 13</i>)	74	35
Staff costs (including directors' emoluments, <i>note 14</i>)	6,035	8,279

6. 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 Scheme Record Date 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.

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

The gain on deconsolidation of a subsidiary under winding-up Court order represents the gain arising on deconsolidation of Prosperity Construction and Decoration Limited ("PCDL"), a subsidiary of the Company. Upon PCDL received a winding-up order issued by the High Court of Hong Kong on 9 June 2004, PCDL had a substantial capital deficiency and had an insignificant scale of operation. This resulted in a gain of HK\$50 million. Further details are disclosed in note 28(b).

8. FINANCE COSTS

	2004 HK\$'000	Group 2003 HK\$'000
Interest on bank loans and overdraft	3	–
Interest on loan notes and redeemable debentures repayable within five years	604	3,647
Others	661	392
	<u>1,268</u>	<u>4,039</u>

9. TAXATION

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

	2004 HK\$'000	Group 2003 HK\$'000
PRC income taxes	<u>841</u>	<u>596</u>

No provision for Hong Kong profits tax is required since the Group has sufficient tax losses brought forward to set off against current year's assessable profit. PRC income taxes are calculated at tax rates applicable in the PRC in which subsidiaries of the Group are assessable for tax.

- (b) Reconciliation between taxation and tax at the applicable rate:

	2004 HK\$'000	2003 HK\$'000
Profit/(loss) before taxation	<u>162,692</u>	<u>(261,745)</u>
Tax at the applicable tax rate	28,694	(45,543)
Tax effect of income that is not taxable in determining taxable profit	(53,000)	(3,325)
Tax effect of expenses that are not deductible in determining taxable profit	33,586	38,534
Tax effect of unused tax losses not recognised	–	10,892
Tax effect of utilisation of tax losses not previously recognised	(8,804)	–
Effect of different tax rates of subsidiaries operating in other jurisdiction	<u>365</u>	<u>38</u>
Taxation charge	<u>841</u>	<u>596</u>

The applicable tax rate represents the weighted average of the rates of taxation prevailing in the relevant jurisdictions in which the Group operates.

- (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\$4,419,000 (2003: HK\$59,141,000) as at 31 December 2004. Certain tax losses are yet to be agreed by the Hong Kong Inland Revenue Department.

10. DISCONTINUED OPERATIONS

Pursuant to an underwriting agreement and a supplementary underwriting agreement, the Group was granted a right to manage and operate a hotel wholly-owned by a third party for a period of two years from 8 March 2002 to 7 March 2004. The Company after reviewing the hotel management operation has resolved on 7 November 2003 not to provide additional financial resources to support such operation. As a result, the hotel management operation was considered as a discontinued operation in previous year.

11. PROFIT/(LOSS) ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders is dealt with in the income statement of the Company to the extent of HK\$57,596,000 (2003: Loss HK\$301,525,000).

12. EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings per share is based on the Group's profit attributable to shareholders of HK\$161,851,000 (2003: Loss HK\$262,341,000) and on the weighted average number of 574,681,847 (2003: 100,092,544) ordinary shares in issue during the year.

There was no potential dilutive shares during the year ended 31 December 2004.

13. RETIREMENT BENEFIT COSTS

The Group operates a Mandatory Provident Fund Scheme (the "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 based on a percentage of the employees' basic salaries 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\$74,000 (2003: HK\$35,000) represents contributions payable to the MPF Scheme and a state-managed defined contribution scheme by the Group.

14. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

Directors' emoluments, disclosed pursuant to Section 161(1) of the Companies Ordinance and the Listing Rules of the Stock Exchange of Hong Kong Limited, were as follows:

	Executive directors		Group Non-executive directors	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Fees	–	–	238	–
Other emoluments:				
Basic salaries	5,026	6,129	–	–
Retirement benefit costs	27	9	–	–
Other allowances	61	–	–	–
	<u>5,114</u>	<u>6,138</u>	<u>238</u>	<u>–</u>

Out of the total emoluments of HK\$5,114,000 to executive directors as stated above, HK\$2,048,000 are unpaid and included under accruals and other payables in the Company's balance sheet on page 20.

The number of directors whose emoluments fell within the following bands is as follows:

	Group	
	2004	2003
HK\$Nil – HK\$ 1,000,000	3	6
HK\$1,000,001 – HK\$1,500,000	3	3
HK\$1,500,001 – HK\$2,000,000	1	–
HK\$2,000,001 – HK\$2,500,000	–	1
HK\$2,500,001 – HK\$3,000,000	<u>–</u>	<u>–</u>

Under the Creditors' Scheme (note 2(b)(ii)), the executive directors waived emoluments of HK\$1,080,000 during the year. The waived emoluments were included in gain arising from debts discharged under Creditors' Scheme and credited to the consolidated income statement. No share option has been granted to the directors during the year.

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include four (2003: four) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining one (2003: one) individual during the year are as follows:

	Group	
	2004	2003
	HK\$'000	HK\$'000
Basic salaries	360	456
Retirement benefit costs	<u>27</u>	<u>8</u>
	<u>387</u>	<u>464</u>

14. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (*Continued*)(b) Five highest paid individuals (*Continued*)

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

	2004	Group 2003
HK\$Nil – HK\$1,000,000	<u>1</u>	<u>1</u>

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.

15. INTANGIBLE ASSETS

Group

**Hotel operating
licence
HK\$'000**

Cost

At 1 January 2004	29,103
Disposal of a subsidiary	<u>(29,103)</u>
At 31 December 2004	<u>–</u>

Amortisation and impairment

At 1 January 2004	29,103
Disposal of a subsidiary	<u>(29,103)</u>
At 31 December 2004	<u>–</u>

Net book value

At 31 December 2003 and 2004	<u>–</u>
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16. PROPERTY, PLANT AND EQUIPMENT

Group

	Leasehold land and buildings <i>HK\$'000</i>	Leasehold improvements <i>HK\$'000</i>	Furniture, fixtures and equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
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
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
Net book value					
At 31 December 2004	2,170	294	979	34	3,477
At 31 December 2003	–	218	321	–	539

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

At 31 December 2004 the net book value of property, plant and equipment was pledged as security for the Group's bank loan amounted to HK\$2,170,000 (2003: HK\$Nil).

17. INVESTMENTS

(a) Group – Investment held for resale

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Unlisted shares, at cost	28,672	142,778
Amount due from investment held for resale	2,144	3,777
Less: Impairment loss	(30,816)	(146,555)
	<u>–</u>	<u>–</u>

Investment held for resale was related to an investment in a subsidiary whose subsidiaries own the film copyright and licences. In 2003, investments held for resale also included investment in a disposed subsidiary which was engaged in the provision of network security services.

17. INVESTMENTS (Continued)

(b) Company – Investments in subsidiaries

	2004 HK\$'000	2003 HK\$'000
Unlisted shares, at cost	3	155,540
Less: Impairment loss	(3)	(155,540)
	—	—
Amounts due from subsidiaries	185,716	381,480
Less: Provision	(173,139)	(381,480)
	12,577	—
Amounts due to subsidiaries	(32,502)	—
	(19,925)	—

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

The following is a list of the principal subsidiaries at 31 December 2004:

Company name	Place of incorporation and principal operation	Issued/ registered and paid up capital	Equity interest attributable to the Group	Principal activities
Prosperity Construction (Hong Kong) Limited	Hong Kong	HK\$2	100%	Construction contractor
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
中盛園林有限公司	PRC	RMB500,000	100%	Construction contractor

* Shares held directly by the Company

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.

18. INVESTMENTS IN ASSOCIATED COMPANIES

	2004 <i>HK\$'000</i>	Group 2003 <i>HK\$'000</i>
Share of net liabilities	–	(1,724)
Premium on acquisition of associated companies	–	27,173
Less: Amortisation of premium on acquisition	–	(13,587)
Less: Impairment loss	–	(11,862)
	<u>–</u>	<u>–</u>
	<u>–</u>	<u>–</u>

In May 2004, one of the Group's subsidiaries, Hodgkins Enterprises Limited ("Hodgkins"), was struck off and accordingly the associated companies held by Hodgkins are excluded from the Group.

19. INVENTORIES

	2004 <i>HK\$'000</i>	Group 2003 <i>HK\$'000</i>
Raw materials	331	–
Construction supplies	417	–
	<u>748</u>	<u>–</u>
	<u>748</u>	<u>–</u>

20. CLUB MEMBERSHIP

	Group <i>HK\$'000</i>
Cost	
At 1 January 2004	370
Deconsolidation of a winding-up subsidiary	(125)
	<u>245</u>
At 31 December 2004	<u>245</u>
Impairment	
At 1 January 2004	125
Deconsolidation of a winding-up subsidiary	(125)
	<u>–</u>
At 31 December 2004	<u>–</u>
Net book value	
At 31 December 2003 and 2004	<u>245</u>

21. CONSTRUCTION CONTRACTS IN PROGRESS

	2004 HK\$'000	Group 2003 HK\$'000
Costs incurred plus attributable profit less foreseeable losses	34,416	–
Less: Progress billings	(17,423)	–
	<u>16,993</u>	<u>–</u>
Amounts due from customers on construction contracts	16,993	–
Amounts due to customers on construction contracts	–	–
	<u>16,993</u>	<u>–</u>

At 31 December 2004, retention held by customers for contract work included in prepayments, deposits and other receivables of the Group amounted to HK\$721,000 (2003: HK\$186,000).

At 31 December 2004, retention held by the Group for contract work included in accruals and other payables amounted to HK\$1,105,000 (2003: HK\$673,000).

22. ACCOUNTS RECEIVABLE

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

	2004 HK\$'000	Group 2003 HK\$'000
Less than 3 months	–	1,693
3 months to 6 months	–	–
6 months to 1 year	–	–
Over 1 year	576	4,767
Less: Provision for doubtful debts	(576)	(4,767)
	<u>–</u>	<u>1,693</u>

23. ACCOUNTS PAYABLE

	Group 2004 HK\$'000	Group 2003 HK\$'000	Company 2004 HK\$'000	Company 2003 HK\$'000
Less than 3 months	3,123	1,371	–	–
3 months to 6 months	246	17,270	–	17,270
6 months to 1 year	–	127	–	–
Over 1 year	544	13,441	–	–
	<u>3,913</u>	<u>32,209</u>	<u>–</u>	<u>17,270</u>

24. LONG TERM BORROWINGS

	2004 HK\$'000	Group 2003 HK\$'000
Interest bearing borrowings		
Bank loan, secured	1,294	–
Current portion of long term borrowings	(71)	–
	<u>1,223</u>	<u>–</u>

The bank loan is repayable as follows:

Within one year	71	–
In the second year	73	–
In the third to fifth years	232	–
After five years	918	–
	<u>1,294</u>	<u>–</u>

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

25. SHAREHOLDER'S LOAN

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

26. SHARE CAPITAL

(a) Share capital

	Number of shares '000	Par value HK\$'000
Authorised:		
Ordinary shares of HK\$0.10 each at 1 January 2003	4,000,000	400,000
Share consolidation (<i>note (i)</i>)	(3,800,000)	–
	<u>200,000</u>	<u>400,000</u>
Ordinary shares of HK\$2 each at 31 December 2003	200,000	400,000
Share subdivision (<i>note (iii)</i>)	39,800,000	–
	<u>40,000,000</u>	<u>400,000</u>
Ordinary shares of HK\$0.01 each at 31 December 2004		
Issued and fully paid:		
Ordinary shares of HK\$0.10 each at 1 January 2003	1,940,461	194,046
Shares issued for debt equity swap arrangements (<i>note (ii)</i>)	108,774	10,877
Share consolidation (<i>note (i)</i>)	(1,946,773)	–
	<u>102,462</u>	<u>204,923</u>
Ordinary shares of HK\$2 each at 31 December 2003	102,462	204,923
Capital reduction (<i>note (iv)</i>)	–	(203,898)
Issue of Offer Shares (<i>note (v)</i>)	512,308	5,123
Issue of Creditors Shares upon settlement of debts (<i>note (vi)</i>)	180,000	1,800
Top-Up subscription (<i>note (vii)</i>)	60,000	600
	<u>854,770</u>	<u>8,548</u>
Ordinary shares of HK\$0.01 each at 31 December 2004		

26. SHARE CAPITAL (Continued)**(a) Share capital (Continued)**

Note:

- (i) Pursuant to the Capital Reorganisation (note 2(b)(i)), a resolution was passed at a special general meeting held on 1 December 2003, every twenty issued and unissued shares of HK\$0.10 each in the capital of the Company be consolidated into one share of HK\$2.00 each. This process was completed on 2 December 2003.
- (ii) In May 2003, the Group has entered into settlement agreement (“Debt Equity Swap”) with 16 creditors whereby these creditors agreed to accept 108,774,440 new shares of the Company at HK\$0.10 each as full and final settlement of the aggregate liabilities due to these creditors amounting to HK\$10,877,000.
- (iii) Pursuant to the Capital Reorganisation (note 2(b)(i)), 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.
- (iv) Pursuant to the Capital Reorganisation (note 2(b)(i)), 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.
- (v) Pursuant to the Open Offer (note 2(b)(iii)), on 27 April 2004, 512,308,705 Offer Shares of HK\$0.01 each, ranking pari passu in all respects with the existing ordinary shares of the Company were issued at a subscription price of HK\$0.045 per Offer Shares.
- (vi) Pursuant to the Creditors’ Scheme (note 2(b)(ii)), 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 Shares to the Scheme Creditors for the settlement of the Total Indebtedness owed by the Company to the Scheme Creditors.
- (vii) 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 I”) and, a top-up subscription agreement (“Top-Up Subscription Agreement I”) with a placing agent and the Company respectively.

Pursuant to the Placing Agreement I, 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 which is independent individual, corporate and/or institutional investors on 13 December 2004.

Pursuant to the Top-Up Subscription Agreement I, Main Faith subscribed for an aggregate of 60,000,000 shares at a price of HK\$0.08 per share. The Top-Up subscription share ranking pari passu in all respects with the existing ordinary shares of the Company.

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

26. SHARE CAPITAL (Continued)**(b) Share option scheme**

On 11 June 1997, the Company in general meeting adopted a share option 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 of Hong Kong Limited ("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.

As at 31 December 2004, there are no outstanding share options granted.

27. RESERVES

(a) Group

	Share premium <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Exchange reserve <i>HK\$'000</i>	General reserves <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
Balance at 1 January 2003	459,012	22,130	569	–	(601,285)	(119,574)
Realisation of exchange reserve on deconsolidation of a subsidiary	–	–	(569)	–	–	(569)
Loss for the year	–	–	–	–	(262,341)	(262,341)
Balance at 31 December 2003	459,012	22,130	–	–	(863,626)	(382,484)
Share premium cancellation (notes (i) and (ii))	(459,012)	459,012	–	–	–	–
Capital reduction (note 26(a)(iv))	–	203,898	–	–	–	203,898
Issue of Offer Shares (note 26(a)(v))	17,931	–	–	–	–	17,931
Offer Shares issue expenses	(2,150)	–	–	–	–	(2,150)
Issue of Creditors Shares (note 26(a)(vi))	16,200	–	–	–	–	16,200
Top-Up subscription of new shares (note 26(a)(vii))	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 28(c))	–	(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)
Company and subsidiaries	459,012	22,130	–	–	(863,142)	(382,000)
Associated companies	–	–	–	–	(484)	(484)
At 31 December 2003	459,012	22,130	–	–	(863,626)	(382,484)
Company and subsidiaries	35,963	56,897	–	62	(95,824)	(2,902)
Associated companies	–	–	–	–	–	–
At 31 December 2004	35,963	56,897	–	62	(95,824)	(2,902)

The contribution surplus of the Group represents the remaining balance of the aggregate amount of the capital reduction and the share premium cancellation after credit transferred to accumulated losses pursuant to the implementation of restructuring proposal on 27 April 2004.

27. RESERVES (Continued)

(b) Company

	Share premium HK\$'000	Contributed surplus HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
Balance at 1 January 2003	459,012	–	(491,898)	(32,886)
Loss for the year	–	–	(301,525)	(301,525)
Balance at 31 December 2003	459,012	–	(793,423)	(334,411)
Share premium cancellation (note (i) and (ii))	(459,012)	459,012	–	–
Capital reduction (note 26(a)(iv))	–	203,898	–	203,898
Issue of Offer Shares (note 26(a)(v))	17,931	–	–	17,931
Offer Shares issue expenses	(2,150)	–	–	(2,150)
Issue of Creditors Shares (note 26(a)(vi))	16,200	–	–	16,200
Top-Up subscription of new shares (note 26(a)(vii))	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)

The contribution surplus of the Company represents the remaining balance of the aggregate amount of the capital reduction and the share premium cancellation after credit transferred 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.

Note:

- (i) Pursuant to the Capital Reorganisation (note 2(b)(i)) 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 (note 2(b)(i)) 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.

28. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Analysis of changes in financing during the year:

	2004			2003		
	Share capital and share premium	Loan notes, debenture and promissory notes	Total	Share capital and share premium	Loan notes, debenture and promissory notes	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Beginning of year	663,935	50,000	713,935	653,058	69,800	722,858
Shares issued for debt equity swap arrangements	–	–	–	10,877	(800)	10,077
Non-cash consideration for settlement for loan notes and debentures	–	–	–	–	(19,000)	(19,000)
Share premium cancellation	(459,012)	–	(459,012)	–	–	–
Capital reduction	(203,898)	–	(203,898)	–	–	–
Issue of Offer Shares	23,054	–	23,054	–	–	–
Offer Shares issue expenses	(2,150)	–	(2,150)	–	–	–
Repayment to Scheme Creditors	–	(4,656)	(4,656)	–	–	–
Issue of creditors' shares for non-cash consideration	18,000	(6,984)	11,016	–	–	–
Top-up subscription	4,800	–	4,800	–	–	–
New shares issue expenses	(218)	–	(218)	–	–	–
Discharged by creditors' scheme	–	(38,360)	(38,360)	–	–	–
End of year	<u>44,511</u>	<u>–</u>	<u>44,511</u>	<u>663,935</u>	<u>50,000</u>	<u>713,935</u>

(b) Gain on deconsolidation of a subsidiary under winding up Court order

	2004	2003
	HK\$'000	HK\$'000
Net liabilities of winding up subsidiary		
Bank and cash balances	43	–
Accruals and other payables	(37,577)	–
Accounts payable	(12,695)	–
Retention payables	(10)	–
	<u>(50,239)</u>	<u>–</u>
Net cash outflow arising from deconsolidation of a subsidiary under winding up Court order:		
Bank and cash balances	<u>(43)</u>	<u>–</u>

28. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (*Continued*)

(c) Gain on disposal of subsidiaries

During the year, the Group disposed of subsidiaries namely, Prosper eVision Management Limited, OLS Management Limited, Top Wishes Holdings Limited, OLS Investment Holdings Limited and Prosper eVision Finance Limited for a nominal consideration of HK\$6.

	Total <i>HK\$'000</i>
Net (liabilities)/assets disposed of:	
Prepayments, deposits and other receivables	22
Bank and cash balances	2
Trade payables	(176)
Other payables and accrued liabilities	(721)
Taxation	(19)
Net amounts due to group companies	(282,996)
	(283,888)
Contributed surplus	(22,130)
Waiver of amounts due to group companies	282,996
	(23,022)
Gain on disposal of subsidiaries	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 resulted in a loss of HK\$201,000 to the Group which was included in the determination of consolidated income statement.

(d) Major non-cash transactions

Upon the completion of the Creditors' Scheme on 27 April 2004, total indebtedness of HK\$100,306,000 was waived by Scheme Creditors.

29. LEASE COMMITMENTS

At 31 December 2004, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	Land and buildings		Others	
	2004	2003	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	–	369	–	208
In the second to fifth years	–	225	–	69
After five years	–	–	–	–
	<u>–</u>	<u>594</u>	<u>–</u>	<u>277</u>

30. CONTINGENT LIABILITIES

At 31 December 2004, the Company executed corporate guarantee amounting to HK\$1,294,000 (2003: Nil) in favour of a bank to secure a bank loan granted to its subsidiary.

31. BANKING FACILITIES

At 31 December 2004, the Group has banking facilities totaling HK\$1,294,000. These banking 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.

32. RELATED PARTY TRANSACTIONS

- (a) Pursuant to the Creditors' Scheme (note 2(b)(ii)), the Group repaid an aggregate amount of HK\$626,000 in cash and issued an aggregate of 9,395,000 Creditors Shares to four executive directors so as to discharge total scheme indebtedness of HK\$6,726,000 owing to four executive directors. The resulting gain of HK\$5,160,000 arising from debts discharged under the Creditors' Scheme has been credited to the income statement.
- (b) Pursuant to an agreement entered into between the Company and a shareholder, 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 25). The loan is unsecured and repayable on demand. During the year, the Group paid interest of HK\$495,000 in relation to shareholder's loan.
- (c) During the year, the Group recognised construction revenue of HK\$366,000 (2003: HK\$1,667,000) from a company in which an executive director of the Company is a beneficial shareholder.
- (d) During the year, the Group paid rental of 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.
- (e) As at 31 December 2004, included in the following accounts are amounts due from a company in which an executive director is a beneficial shareholder:

	2004	2003
	<i>HK\$</i>	<i>HK\$</i>
Prepayments, deposits and other receivables	84,000	83,000
Gross amounts due from customers on construction contracts	<u>121,000</u>	<u>–</u>

33. POST BALANCE SHEET EVENTS

- (a) On 13 January 2005, the Group injected HK\$1,000,000 capital into a newly formed subsidiary 中盛企業管理顧問有限公司. The capital injection has been verified by a firm of certified public accountants in the PRC on 20 January 2005.
- (b) On 23 March 2005, Main Faith entered into a placing agreement (“Placing Agreement II”) and a top-up subscription agreement (“Top-Up Subscription Agreement II”) with a placing agent and the Company respectively.

Pursuant to the Placing Agreement II, Main Faith agreed to place an aggregate of 98,900,000 existing shares at a price of HK\$0.08 per share, on a fully underwritten basis, to not fewer than six placees which are independent individuals, corporate and/or institutional investors. The Placing Agreement II was completed on 31 March 2005.

Pursuant to the Top-Up Subscription Agreement II, Main Faith conditionally agreed to subscribe for an aggregate of 98,900,000 shares at a price of HK\$0.08 per share. However, the Top-Up Subscription Agreement II was lapsed given that one of the conditions precedent has not been fulfilled on or before 6 April 2005. Accordingly, the top-up subscription was not completed and the Company could not obtain the net proceeds of about HK\$7.5 million for the general working capital purpose from the top-up subscription. The Company confirmed that there is no material impact on its financial position as a result thereof.

Details of the Placing Agreement II and Top-Up Subscription Agreement II, and the lapse of Top-Up Subscription Agreement II were disclosed in the Company’s announcements dated 23 March 2005 and 6 April 2005 respectively.

34. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 27 April 2005.

3. INTERIM FINANCIAL INFORMATION

The financial information set out below is extracted from the interim report of the Company for the six months ended 30 June 2005 and is reproduced as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

		For the six months ended 30 June	
		2005 (Unaudited) HK\$'000	Restated 2004 (Unaudited) HK\$'000
	Notes		
Turnover	4	21,412	12,965
Construction contract costs		(17,288)	(11,253)
Gross profit		4,124	1,712
Other revenue		202	4
Gain arising from debts discharged under Creditors' Scheme		–	100,306
Gain on deconsolidation of a subsidiary under winding-up Court order		–	50,235
Gain on disposal of a subsidiary	5	1,067	516
Depreciation		(205)	(276)
Provision for doubtful debts		–	(139)
Staff costs		(1,727)	(2,346)
Professional fees		(144)	(518)
Consultancy fees		(105)	(583)
Other operating expenses		(1,241)	(1,832)
Operating profit from operating activities		1,971	147,079
Finance costs	6	(186)	(811)
Profit before taxation		1,785	146,268
Taxation	8	(428)	(329)
Profit for the period		<u>1,357</u>	<u>145,939</u>
Attributable to:			
Equity holders of the parent		1,357	145,939
Minority interests		–	–
		<u>1,357</u>	<u>145,939</u>
Dividend	9	–	–
Earnings per share – Basic	10	<u>0.16 cents</u>	<u>42.19 cents</u>
– Diluted		<u>N/A</u>	<u>N/A</u>

CONDENSED CONSOLIDATED BALANCE SHEET

		At 30 June 2005 (Unaudited) HK\$'000	Restated At 31 December 2004 (Audited) HK\$'000
	Notes		
Non-current assets			
Property, plant and equipment		3,363	3,477
		<u>3,363</u>	<u>3,477</u>
Current assets			
Inventories	11	550	748
Gross Amounts due from customers on construction contracts	12	15,031	16,993
Prepayments, deposits and other receivables		1,536	2,644
Club membership		245	245
Bank and cash balances		4,875	3,365
		<u>22,237</u>	<u>23,995</u>
Less: Current liabilities			
Accounts payable	13	5,049	3,913
Accruals and other payables		8,880	7,975
Current portion of long term borrowings	14	63	71
Shareholder's loan	15	2,401	7,670
Provision for taxation		1,008	974
		<u>17,401</u>	<u>20,603</u>
Net current assets		<u>4,836</u>	<u>3,392</u>
Total assets less current liabilities		8,199	6,869
Non-current liabilities			
Long term borrowings	14	1,196	1,223
		<u>7,003</u>	<u>5,646</u>
Capital and reserves			
Share capital	16	8,548	8,548
Reserves		(1,545)	(2,902)
		<u>7,003</u>	<u>5,646</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY*For the six months ended 30 June 2005*

	Reserves						Total
	Share	Share	Contributed	Exchange	General	Accumulated	
	capital	premium	surplus	reserve	reserves	losses	
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance at 1 January 2005	8,548	35,963	56,897	–	62	(95,824)	5,646
Profit for the period	–	–	–	–	–	1,357	1,357
Balance at 30 June 2005	<u>8,548</u>	<u>35,963</u>	<u>56,897</u>	<u>–</u>	<u>62</u>	<u>(94,467)</u>	<u>7,003</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	For the six months ended 30 June	
	2005	2004
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit from operating activities before taxation	1,785	146,268
Adjustment for:		
Interest income	(1)	(2)
Gain arising from debts discharged under Creditors' Scheme	–	(100,306)
Gain on deconsolidation of a subsidiary under winding-up Court order	–	(50,235)
Gain on disposal of subsidiaries	(1,067)	(516)
Depreciation	205	276
Provision for doubtful debts	–	139
Finance costs	186	811
	<hr/>	<hr/>
Operating profit/(loss) before working capital changes	1,108	(3,565)
Decrease/(increase) in gross amounts due from customers on construction contracts	1,962	(9,932)
Increase in accounts receivable	–	(829)
Decrease/(increase) in prepayments, deposits and other receivables	1,108	(4,700)
Increase in gross amounts due to customers on construction contracts	–	1,820
Increase in accounts payable	1,681	1,576
Increase in accruals and other payables	1,427	2,059
Decrease in inventories	198	–
	<hr/>	<hr/>
Cash generated from/(used in) operations	7,484	(13,571)
Net interest paid	(19)	–
	<hr/>	<hr/>
Net cash generated from/(used in) operating activities	7,465	(13,571)

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	For the six months ended 30 June	
	2005	2004
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(91)	(502)
Gain on deconsolidation of a subsidiary under winding-up Court order	—	(43)
Net cash used in investing activities	(91)	(545)
CASH FLOWS FROM FINANCING ACTIVITIES		
Interest received	1	2
Proceeds from issue of share capital	—	23,054
Payment to Scheme Creditors	—	(12,000)
(Repayment to)/advances from a shareholder	(5,830)	6,635
Repayments of bank borrowing	(35)	—
Net cash (used in)/generated from financing activities	(5,864)	17,691
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,510	3,575
CASH AND CASH EQUIVALENTS AT 1 JANUARY 2005	3,365	112
CASH AND CASH EQUIVALENTS AT 30 JUNE 2005	<u>4,875</u>	<u>3,687</u>
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Bank and cash balances	<u>4,875</u>	<u>3,687</u>

NOTES TO THE CONDENSED FINANCIAL STATEMENTS*For the six months ended 30 June 2005***1. BASIS OF PREPARATION**

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

2. PRINCIPAL ACCOUNTING POLICIES

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

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

3. CHANGES IN ACCOUNTING POLICIES

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

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

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

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

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

4. SEGMENTAL INFORMATION

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

Primary reporting format – business segments

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

Secondary reporting format – geographical segments

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

5. GAIN ON DISPOSAL OF A SUBSIDIARY

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

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

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

6. FINANCE COSTS

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

7. PROFIT BEFORE TAXATION

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

8. TAXATION

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

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

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

9. DIVIDEND

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

10. EARNINGS PER SHARE

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

There is no potential dilutive shares during the Period.

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

11. INVENTORIES

	At 30 June 2005 (Unaudited) HK\$'000	At 31 December 2004 (Audited) HK\$'000
Raw materials	350	331
Construction supplies	200	417
	<u>550</u>	<u>748</u>

12. CONSTRUCTION CONTRACTS IN PROGRESS

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

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

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

13. ACCOUNTS PAYABLE

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

14. LONG TERM BORROWING

	At 30 June 2005 (Unaudited) HK\$'000	At 31 December 2004 (Audited) HK\$'000
Interest bearing borrowing		
Bank loan, secured	1,259	1,294
Current portion of long term borrowing	(63)	(71)
	<u>1,196</u>	<u>1,223</u>

The bank loan's is repayable as follows:

Within one year	63	71
In the second year	65	73
In the third to fifth years	195	232
After five year	936	918
	<u>1,259</u>	<u>1,294</u>

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

15. SHAREHOLDER'S LOAN

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

16. SHARE CAPITAL

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

17. CONTINGENT LIABILITIES

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

4. STATEMENT OF INDEBTEDNESS

As at 31 December 2005, being the latest practicable date for the purpose of this indebtedness statement prior to printing of the Composite Offer Document, the Group had outstanding borrowings of approximately HK\$9.0 million, comprising amount due to a Director, namely Mr. Tam Jin Rong, of approximately HK\$4.4 million, amounts due to the Directors on accrued director fees of approximately HK\$3.4 million and amount due to a financial institution on property mortgage of approximately HK\$1.2 million which is secured by the pledge of the Group's leasehold land and building, a corporate guarantee executed by the Company and a personal guarantee executed by a Director, Mr. Tam Kai On. As at 31 December 2005, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of the Composite Offer Document, the contingent liability for the Company is the corporate guarantee for property mortgage as described above to the extent of HK\$1.2 million.

Save as aforesaid or otherwise disclosed in the paragraph above, and apart from intra-group liabilities and normal trade payables in the ordinary course of the business, the Group did not have, as at 31 December 2005, any outstanding mortgages, charges, debentures, bank loans and overdrafts, debt securities or loan notes or other similar indebtedness, loan capital issued or outstanding or agreed to be issued, finance leases, liabilities under acceptances or acceptance credits or any finance lease commitments, or any guarantees or other material contingent liabilities.

5. MATERIAL CHANGE

As at the Latest Practicable Date, the Directors confirm that there are no material changes in the financial or trading position or outlook of the Group subsequent to 31 December 2004, being the date to which the last published audited financial statements of the Group were made up.

1. RESPONSIBILITY STATEMENT

The Composite Offer Document includes particulars given in compliance with the Takeovers Code for the purpose of giving information with regard to the Group and the Offer.

The information contained in the Composite Offer Document (other than information relating to the Offeror, the terms and conditions of the Offer and the future intentions of the Offeror in respect of the Group) has been supplied by the Directors who jointly and severally accept full responsibility for the accuracy of the information stated in the Composite Offer Document (other than that relating to the Offeror, the terms and conditions of the Offer and the future intentions of the Offeror in respect of the Group). The Directors confirm, having made all reasonable inquiries, that to the best of their knowledge, opinions expressed in the Composite Offer Document have been arrived at after due and careful consideration and there are no other facts not contained in the Composite Offer Document, the omission of which would make any statements in the Composite Offer Document misleading. The issue of the Composite Offer Document has been approved by the Board.

The Composite Offer Document includes particulars given in compliance with the Takeovers Code for the purpose of giving information with regard to the Offeror, the terms and conditions of the Offer and the future intention of the Offeror regarding the Group. The information contained in the Composite Offer Document relating to the Offeror, the terms and conditions of the Offer and the Offeror's intentions regarding the Group have been supplied by the directors of the Offeror. The directors of the Offeror accept full responsibility for the accuracy of the information contained in the Composite Offer Document, other than that relating to the Group, and confirms, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in the Composite Offer Document have been arrived at after due and careful consideration and there are no other facts not contained in the Composite Offer Document the omission of which would make any statements in the Composite Offer Document misleading.

2. SHARE CAPITAL OF THE COMPANY

(a) Authorised and issued share capital

The authorised and issued share capital of the Company as at the Latest Practicable Date were as follows:

<i>Authorised share capital:</i>	<i>HK\$</i>
<u>40,000,000,000 Shares</u>	<u>400,000,000.00</u>
<i>Issued and fully paid up:</i>	
<u>854,770,446 Shares</u>	<u>8,547,704.46</u>

All existing Shares rank pari passu with each other in all respects, including the rights as to voting, dividends and return of capital upon winding up. No Shares have been issued since the end of the last financial year of the Company ended 31 December 2004.

(b) Share options

There was no outstanding option under the share option scheme of the Company adopted on 11 June 1997. The Board confirms that no share options will be granted under the share option scheme until the close of the Offer.

(c) Convertible securities

The Company has not issued any options, warrants, derivatives or securities convertible or exchangeable into Shares since 31 December 2004, being the date to which the latest published audited consolidated accounts of the Group were made up. As at the Latest Practicable Date, there were no outstanding options, warrants, derivatives or securities convertible or exchangeable into, the Shares.

3. DISCLOSURE OF INTERESTS**(a) Interests and short positions of the Directors in the Company and its associated corporations**

As at the Latest Practicable Date, save as mentioned below, none of the Directors have 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 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 Companies contained in the Listing Rules; or (d) to be disclosed in the Composite Offer Document pursuant to the requirements of the Takeovers Code:

Name of Director	Capacity	Number of Shares held	Approximate shareholding percentage
Mr. Tao Ke Wei	Beneficial owner	1,917,095	0.22%
Mr. Tam Kai On	Beneficial owner	1,875,191	0.22%

(b) Persons who have an interest or short position which is discloseable under Divisions 2 and 3 of Part XV of the SFO

As at the Latest Practicable Date, according to the register kept by the Company pursuant to Section 336 of SFO, and so far as is known to any Directors or chief executive or the Company, the table giving details of the persons 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 held	Approximate shareholding percentage
The Offeror (Note 1)	Beneficial owner	93,610,537	10.95%
First Win (Note 1)	Beneficial owner	218,424,586	25.55%
Always New Limited (Note 1)	Controlled corporation	312,035,123	36.50%
The Trustee (Note 2)	Trustee (other than a bare trustee)	312,035,123	36.50%
Mr. Yip (Note 3)	Founder of a discretionary trust	312,035,123	36.50%
Mrs. Yip (Note 4)	Interest of spouse	312,035,123	36.50%

Notes:

1. Always New Limited holds the entire issued share capital of each of the Offeror and First Win. Always New Limited is deemed to be interested in the Shares held by the Offeror and First Win by virtue of the SFO.
2. The Trustee holds the entire issued share capital of Always New Limited, which owns the Offeror and First Win, which in turn hold 312,035,123 Shares in such numbers as mentioned above.
3. Mr. Yip sets up the Yip's Family Trust. The Trustee holds the entire issued share capital of Always New Limited, which owns the Offeror and First Win, which in turn hold 312,035,123 Shares in such numbers as mentioned above.
4. Mrs. Yip is the spouse of Mr. Yip and she is deemed to be interested in the Shares in which Mr. Yip is interested by virtue of the SFO.

Save as disclosed above, there are no other person who has 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.

(c) Other interests in the Company

As at the Latest Practicable Date:

- (i) save for the holding of 312,035,123 Shares in aggregate, representing approximately 36.5% of the issued share capital of the Company, by the Offeror and First Win, none of the Offeror and parties acting in concert with it, including the sole beneficial owner and the directors of the Offeror, own or control any Shares or securities or has dealt in the Shares or securities of the Company for the period from the six months prior to the date of the Announcement and up to the Latest Practicable Date;
- (ii) save for the sale of the Sale Shares by Mr. Tam and Main Faith which is beneficially owned by Mr. Tam, and the holdings of 1,917,095 Shares and 1,875,191 Shares by Mr. Tao Ke Wei and Mr. Tam Kai On respectively, none of the Directors owned or controlled any Shares or other securities of the Company or has dealt in the Shares or securities of the Company for the period from the six months prior to the date of the Announcement and up to the Latest Practicable Date;
- (iii) there was no irrevocable undertaking regarding whether to accept or reject the Offer, nor was there any agreement or arrangement between any Director and any other person which is conditional on or dependent upon the outcome of the Offer or otherwise connected with the Offer;
- (iv) there was no agreement, arrangement or understanding (including any compensation arrangement) between the Offeror or any parties acting in concert with it and any director, recent directors, shareholders or recent shareholder of the Company having any connection with or dependent upon the Offer;
- (v) no benefit (other than statutory compensation) would be given to any Director as compensation for loss of office or otherwise in connection with the Offer;
- (vi) save for the Sale and Purchase Agreement entered into between the Offeror, First Win and Mr. Tam and Main Faith, there is no contract or arrangement entered into by the Offeror in which a Director has a material personal interest;
- (vii) no subsidiary of the Company nor any pension fund of the Group owned or controlled any interests in the Shares or securities of the Company or had dealt for value in any Shares or securities of the Company for the period from the six months prior to the date of the Announcement and up to the Latest Practicable Date;
- (viii) there is no shareholdings in the Company owned or controlled by a person with whom the Offeror or any person acting in concert with the Offeror has any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code;

- (ix) no persons who had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Offeror or with parties acting in concert with it or with the Company or with any persons who is an associate of Company by virtue of classes (1), (2), (3) and (4) of the definition of associate as described by the Takeovers Code owned or controlled any interests in any Shares or securities of the Company nor had dealt in any Shares or securities of the Company for the period from the six months prior to the date of the Announcement and up to the Latest Practicable Date;
- (x) there are no arrangements of the kind referred to in the third paragraph of Note 8 to Rule 22 of the Takeovers Code which exist between the Offeror, or any person acting in concert with the Offeror, and any other person;
- (xi) no fund manager connected with the Company who managed the shareholdings in the Company on a discretionary basis has any interests in the Shares or securities of the Company nor had dealt in any Shares or securities of the Company for the period from the six months prior to the date of the Announcement and up to the Latest Practicable Date;
- (xii) none of REXCAPITAL, AsiaVest, Emperor Capital and Upbest Securities has any interests in the Shares or securities of the Company, and none of them had dealt in any Shares or securities of the Company for the period from the six months prior to the date of the Announcement and up to the Latest Practicable Date; and
- (xiii) no adviser to the Company as specified in class (2) of the definition of “associate” in the Takeovers Code owned or controlled any Shares or securities of the Company or had dealt for value in the Shares or securities of the Company for the period from the six months prior to the date of Announcement and up to the Latest Practicable Date.

(d) Interests in the Offeror

Both the Offeror and First Win are wholly owned by Always New Limited, which is a company incorporated in the British Virgin Islands and wholly owned by the Trustee. The Sale Shares are the investment assets of the Yip’s Family Trust, which was established by Mr. Yip for the benefit of himself and Mrs. Yip and such beneficiary and/or beneficiaries as the protector (currently being Mr. Yip) of the Yip’s Family Trust may from time to time declare.

As at the Latest Practicable Date:

- (a) neither the Company nor any Directors are interested in any shares in the Offeror or had dealt for value in any shares of the Offeror during the period beginning the six months prior to the date of the Announcement and up to the Latest Practicable Date; and

- (b) none of the Company, REXCAPITAL and AsiaVest and Emperor Capital and Upbest Securities had any interests in the shares of the Offeror.

4. DEALINGS IN SECURITIES

The following table sets out the dealings in the Shares by the Offeror and parties acting in concert with it during the six-month period prior to the date of the Announcement and up to the Latest Practicable Date:

Date	Purchaser	Vendor	No. of Shares transacted	Approximate shareholding percentage	Type of transaction	Price per Share (HK\$)
13 January 2006	The Offeror	Mr. Tam	3,811,254	0.45%	Purchase of Sale Shares	0.093
13 January 2006	The Offeror	Main Faith (Note)	89,799,283	10.50%	Purchase of Sale Shares	0.093
13 January 2006	First Win	Main Faith (Note)	218,424,586	25.55%	Purchase of Sale Shares	0.093

Note: Main Faith is wholly and beneficially owned by Mr. Tam, a Director.

Under the Takeovers Code, as REXCAPITAL and AsiaVest are the joint financial advisers to the Offeror, each of REXCAPITAL and AsiaVest is deemed to be acting in concert with the Offeror for the purpose of the Offer. Other than being financial advisers to the Offeror in connection with the Offer, none of REXCAPITAL and AsiaVest is a Shareholder or has dealt for value in Shares and other securities of the Company for the period from the six months prior to the date of the Announcement and up to the Latest Practicable Date.

Save as disclosed above, the Offeror, the directors of the Offeror and parties acting in concert with the Offeror had no other dealings in the Shares and other securities of the Company in the six-month period prior to the date of the Announcement and up to the Latest Practicable Date.

Save for the disposal of the Sale Shares to the Offeror and First Win by Mr. Tam and Main Faith (in which Mr. Tam, being a Director, is the ultimate beneficial owner), none of the Directors had dealt in any Shares or other securities of the Company for the period from the six months prior to the Announcement and up to the Latest Practicable Date.

5. MARKET PRICES

- (a) The highest and lowest closing price per Share as quoted on the Stock Exchange in the six months period prior to the date of the Announcement and up to and including the Latest Practicable Date, were HK\$0.107 per Share on 27 January 2006, and HK\$0.061 per Share on 1 November 2005, respectively.
- (b) The table below sets out the closing price per Share as quoted on the main board of the Stock Exchange on (i) the last business day of each of the six calendar months immediately preceding the date of the Announcement on which trading of the Shares; (ii) the Last Trading Day; and (iii) the Latest Practicable Date:

Date	Closing price of Shares (HK\$)
29 July 2005	0.080
31 August 2005	0.081
30 September 2005	0.080
31 October 2005	0.076
30 November 2005	0.068
30 December 2005	0.075
Last Trading Day	0.075
Latest Practicable Date	0.098

6. LITIGATION

None of the members of the Group is engaged in any litigation or arbitration of material importance and there is no litigation or claim of material importance known to the Directors to be pending or threatened by or against any member of the Group as at the Latest Practicable Date.

7. MATERIAL CONTRACTS

In the two years immediately preceding the date of the Announcement and up to the Latest Practicable Date, the following contracts that are or may be material, not being contracts entered into in the ordinary course of business, were entered into by the Group or its subsidiaries:

- (a) the provisional agreement dated 24 September 2004 entered into between United Bright Holdings Limited (“United Bright”), a wholly owned subsidiary of the Company and Links & Resources International Limited in relation to the acquisition (“Property Acquisition”) by United Bright of the property situated at Workshop B, 11/F., Cheung Lee Industrial Building, No.9 Cheung Lee Street, Hong Kong at a consideration of HK\$2,174,200;
- (b) the agreement dated 29 October 2004 entered into between United Bright and Links & Resources International Limited in relation to the Property Acquisition;

- (c) the deed of assignment dated 25 November 2004 executed by United Bright and Links & Resources International Limited in relation to the Property Acquisition;
- (d) the loan agreement dated 9 November 2004 entered into between United Bright and HKCB Finance Limited pursuant to which HKCB Finance Limited agreed to lend to United Bright a loan in the principal sum of HK\$1,300,000;
- (e) the guarantee dated 23 November 2004 executed by the Company in favour of HKCB Finance Limited pursuant to the loan agreement referred to paragraph (d) above;
- (f) the subscription agreement dated 29 November 2004 entered into between the Company and Main Faith Limited pursuant to which Main Faith Limited subscribed for 60,000,000 new Shares at HK\$0.08 per Share; and
- (g) the subscription agreement dated 23 March 2005 entered into between the Company and Main Faith Limited pursuant to which Main Faith Limited agreed to subscribe for 98,900,000 new Shares at HK\$0.08 per Share. This agreement was lapsed as set out in the Company's announcement dated 6 April 2005.

Saved as disclosed, no other contracts (not being contracts entered into in the ordinary course of business) were entered into by any member of the Group within the two years prior to the date of the Announcement and up to the Latest Practicable Date which is or may be material.

8. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors have any existing or proposed service contracts with any member of the Group or any associated company of the Company which has more than twelve months to run and none of the Directors have entered into or amended any service contract with any member of the Group or any associated company of the Company within six months before the date of the Announcement.

9. EXPERTS

The following are the qualifications of the experts who have been named in the Composite Offer Document or have given opinions, letters or advice, which are contained in the Composite Offer Document:

REXCAPITAL	a licensed corporation under the SFO to carry on type 6 regulated activity (advising on corporate finance)
AsiaVest	a licensed corporation under the SFO carry on types 4, 6 and 9 regulated activities (advising on securities, advising on corporate finance and asset management)
Emperor Capital	a licensed corporation under the SFO to carry on types 1, 4 and 6 regulated activities (dealing in securities, advising on securities and advising on corporate finance)
Upbest Securities	a licensed corporation under the SFO to carry on types 1, 4, 6 and 9 regulated activities (dealing in securities, advising on securities, advising on corporate finance and asset management)

Each of REXCAPITAL, AsiaVest, Emperor Capital and Upbest Securities has given and has not withdrawn its respective written consent to the issue of the Composite Offer Document with the inclusion of its respective letter and/or report and/or reference to its respective name, in the form and context in which it respectively appears.

10. GENERAL

- (a) The registered office of the Company is Clarendon House, 2 Church Street, Hamilton HM11, Bermuda. Its principal place of business in Hong Kong is at Room B, 11/F, Cheung Lee Industrial Building, No. 9 Cheung Lee Street, Chai Wan, Hong Kong
- (b) The principal members of the Offeror's concert group comprise:
 - (i) the Offeror, whose registered office is at P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands;
 - (ii) the directors of the Offeror, namely, Mr. Yip, Winning Faith Limited and Intersmart Profits Limited, each of which is independent from and not connected with the Company or any of the Directors, chief executive or substantial shareholders of the Company and its subsidiaries or any of their respective associates. Both Winning Faith Limited and Intersmart Profits Limited are companies incorporated in the British Virgin Islands with limited liability and wholly owned by Lam, Kwok, Kwan & Cheng C.P.A. Limited and they were appointed to serve as nominee directors of the Offeror in a professional capacity at the request of Mr. Yip;

- (iii) First Win, whose registered office is at Sea Meadow House, Blackburne Highway, Road Town, Tortola, British Virgin Islands;
- (iv) the directors of First Win, namely, Mrs. Yip, Winning Faith Limited and Intersmart Profits Limited, each of which is independent from and not connected with the Company or any of the Directors, chief executive or substantial shareholders of the Company and its subsidiaries or any of their respective associates. Both Winning Faith Limited and Intersmart Profits Limited are companies incorporated in the British Virgin Islands with limited liability and wholly owned by Lam, Kwok, Kwan & Cheng C.P.A. Limited and they were appointed to serve as nominee directors of First Win in a professional capacity at the request of Mrs. Yip;
- (v) Always New Limited, being the sole shareholder of each of the Offeror and First Win. The registered office of Always New Limited is at P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands;
- (vi) the sole director of Always New Limited, namely, Intersmart Profits Limited;
- (vii) New Zealand Professional Trustee Limited, a company incorporated in New Zealand and whose registered office is at Level 7 SIL House, 44-52 Weellesley Street, Auckland, being the trustee for the time being of the Yip's Family Trust, which holds all the issued shares in the capital of Always New Limited; and
- (viii) the Yip's Family Trust, a discretionary family trust constituted by a deed of settlement dated 5 December 2005 and entered into between the Trustee and Mr. Yip, whereby Mr. Yip established the discretionary family trust for the benefit of himself and Mrs. Yip and such beneficiary and/or beneficiaries as Mr. Yip, the protector for the time being of the discretionary family trust, may from time to time declare.

The correspondence address of the Offeror and the above parties acting in concert with the Offeror is at 31, New Henry House, 10 Ice House Street, Central, Hong Kong.

- (c) REXCAPITAL and AsiaVest are the joint financial advisers to the Offeror in respect of the Offer. The registered office of REXCAPITAL is at Suite 3403, 34/F., COSCO Tower, Grand Millennium Plaza, 183 Queen's Road Central, Hong Kong. The registered office of AsiaVest is at Room 3105, Alexandra House, 16-20 Chater Road, Central, Hong Kong.
- (d) As at the Latest Practicable Date and save for disclosed under the sub-heading namely "Completion of the Offer" in the letter from the Offeror, there is no other agreement, arrangement or understanding as to the Shares acquired in pursuance of the Offer will be transferred to any other persons by the Offeror.

- (e) As at the Latest Practicable Date, Mr. Tao Ke Wei is the beneficial owner of 1,917,095 Shares and Mr. Tam Kai On is the beneficial owner of 1,875,191 Shares. None of them have indicated that they will accept or reject the Offer. Save as aforesaid, none of the Directors held any Shares as at the Latest Practicable Date and intend to accept or reject the Offer.
- (f) There is no agreement or arrangements to which the Offeror is a party which relates to the circumstances in which the Offeror may or may not invoke or seek to invoke a condition to the Offer.
- (g) The Company's Hong Kong branch share registrar and transfer office is Computershare Hong Kong Investor Services Limited, Shops 1712-1716, 17/F Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong.
- (h) All time references contained in the Composite Offer Document refer to Hong Kong time.
- (i) The English text of the Composite Offer Document and the Form of Acceptance shall prevail over the Chinese text.

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection (i) during normal business hours on any weekday (except for public holidays) at the office of the Company at Room B, 11/F, Cheung Lee Industrial Building, No. 9 Cheung Lee Street, Chai Wan, Hong Kong, (ii) on the transaction specific website (www.rexcapital.com.hk/chinananfeng/generaloffer.html), and (iii) the website of the SFC (www.sfc.hk), from the date of the Composite Offer Document up to and including the Closing Date:

- (a) the memorandum of association and bye-laws of the Company and the memorandum and articles of association of the Offeror;
- (b) the annual reports of the Company for the two years ended 31 December 2004;
- (c) the letter from the Independent Board Committee, the text of which is set out on page 21 of the Composite Offer Document;
- (d) the letter from the Offeror, the text of which is set out on pages 12 to 20 of the Composite Offer Document;
- (e) the letter from Upbest Securities and Emperor Capital to the Independent Board Committee, the text of which is set out on pages 22 to 36 of the Composite Offer Document;
- (f) the contracts referred to under the paragraph headed "Material contracts" in this appendix;
- (g) the written consents referred to under the paragraph headed "Experts" in this appendix;
- (h) the Sale and Purchase Agreement; and
- (i) the Composite Offer Document.