DAIDO GROUP LIMITED

大同集團有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 544)

ANNUAL RESULTS

FOR THE YEAR ENDED 31ST DECEMBER, 2005

AUDITED RESULTS

The Board of Directors of Daido Group Limited (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31st December, 2005 together with the comparative figures for the year ended 31st December, 2004 as follows:

CONSOLIDATED INCOME STATEMENT

		Continuing operations		**Discontinued operation**		**Total**	
		2005	2004	**2005**	2004	**2005**	2004
	Notes	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Revenue	3	**41,590**	41,194	**55,905**	68,053	**97,495**	109,247
Direct costs		**(50,087)**	(742)	**(39,501)**	(56,790)	**(89,588)**	(57,532)
Gross (loss) profit		**(8,497)**	40,452	**16,404**	11,263	**7,907**	51,715
Other income		**4,810**	817	**2,104**	249	**6,914**	1,066
Selling and distribution costs		**(7)**	—	**(3,105)**	(2,900)	**(3,112)**	(2,900)
Administrative expenses		**(2,960)**	(3,326)	**(8,624)**	(7,279)	**(11,584)**	(10,605)
Impairment loss recognised in respect of trade and other receivables		**—**	—	**(521)**	(1,369)	**(521)**	(1,369)
Reversal of impairment loss recognised in respect of trade and other receivables		**—**	—	**542**	66	**542**	66
Reversal of impairment loss in respect of prepaid lease payments, and property, plant and equipment		**—**	—	**—**	55,946	**—**	55,946
Impairment loss arising from adjustment to fair value less costs to sell		**—**	—	**(74,879)**	—	**(74,879)**	—
Amortisation of goodwill		**—**	(555)	**—**	—	**—**	(555)
Finance costs		**(994)**	(8,463)	**—**	—	**(994)**	(8,463)
Gain on disposal of subsidiaries		**5,289**	—	**—**	—	**5,289**	—
Fair value gain on investment properties		**52**	—	**—**	—	**52**	—
Amortisation of goodwill in an associate		**—**	(166)	**—**	—	**—**	(166)
Share of results of an associate		**(116)**	(288)	**—**	—	**(116)**	(288)
Impairment loss in respect of interest in an associate		**(1,430)**	—	**—**	—	**(1,430)**	—
(Loss) profit before tax		**(3,853)**	28,471	**(68,079)**	55,976	**(71,932)**	84,447
Taxation	4	**(664)**	2,502	**(854)**	(530)	**(1,518)**	1,972
(Loss) profit for the year	5	**(4,517)**	30,973	**(68,933)**	55,446	**(73,450)**	86,419

Dividend	6	**—**	—
(Loss) earnings per share — basic	7		
— from continuing and discontinued operations		**(2.45) cents**	2.88 cents
— from continuing operations		**(0.15) cents**	1.03 cents

CONSOLIDATED BALANCE SHEET

		At 31st December,	
		2005	2004
	Notes	***HK$'000***	*HK$'000*
			(restated)
NON-CURRENT ASSETS			
Investment properties		**17,000**	609,000
Property, plant and equipment		**776**	65,798
Goodwill		**—**	4,534
Interest in an associate		**—**	1,546
Long-term receivables		**—**	13,724
Rental deposits paid		**71,292**	—
Prepaid lease payments		**—**	24,992
Deposit paid for acquisition of subsidiaries		**10,000**	—
Deferred tax assets		**—**	942
		99,068	720,536
CURRENT ASSETS			
Inventories		**—**	5,929
Trade and other receivables	8	**2,814**	23,001
Prepaid lease payments		**—**	605
Loans receivable		**—**	7,875
Tax recoverable		**—**	122
Bank balances and cash		**199,936**	12,863
		202,750	50,395
Assets classified as held for sale		**38,466**	—
		241,216	50,395
CURRENT LIABILITIES			
Amounts due to customers for contract work		**—**	13,545
Trade and other payables	9	**1,722**	24,664
Borrowings		**—**	150,865
Obligations under a finance lease		**127**	—
Unclaimed dividends		**19**	20
		1,868	189,094

Liabilities associated with assets classified as held for sale	**13,294**	—
	15,162	189,094
NET CURRENT ASSETS (LIABILITIES)	**226,054**	(138,699)
	325,122	581,837
CAPITAL AND RESERVES		
Share capital	**30,000**	30,000
Reserves	**284,706**	358,156
	314,706	388,156
NON-CURRENT LIABILITIES		
Borrowings	**—**	187,181
Obligations under a finance lease	**366**	—
Rental deposits received	**10,050**	—
Guarantee money received	**—**	3,000
Deferred tax liabilities	**—**	3,500
	10,416	193,681
	325,122	581,837

Notes:

1. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/ CHANGES IN ACCOUNTING POLICIES

In the current year, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations ("INTs") (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") that are effective for accounting periods beginning on or after 1st January, 2005. The application of the new HKFRSs has resulted in a change in the presentation of the consolidated income statement, consolidated balance sheet and consolidated statement of changes in equity. 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 and/or prior accounting years are prepared and presented:

Business combinations

In the current year, the Group has applied HKFRS 3, *Business combinations*. The principal effects of the application of HKFRS 3 to the Group are summarised below:

Goodwill

In previous years, goodwill arising on acquisitions after 1st January, 2001 was capitalised and amortised over its estimated useful life. With respect to goodwill previously capitalised on the balance sheet, the Group has discontinued amortising such goodwill from 1st January, 2005 onwards and goodwill will be tested for impairment at least annually. Goodwill arising on acquisitions after 1st January, 2005 is measured at cost less accumulated impairment losses (if any) after initial recognition. As a result of this change in accounting policy, no amortisation of goodwill has been charged in the current year. Comparative figures for 2004 have not been restated.

Non-current assets held for sale and discontinued operations

HKFRS 5 *Non-current assets held for sale and discontinued operations* requires non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the assets (or disposal group) are available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of the assets' previous carrying amounts and fair values less costs to sell.

In addition, HKFRS 5 classifies an operation as discontinued at the date the operation meets the criteria to be classified as held for sale or when the entity has disposed of the operation.

The transitional provisions of HKFRS 5 applied prospectively. Accordingly, the investment properties disposed of through the disposal of subsidiaries during the year not classified as held for sale on 31st December, 2004.

Financial instruments

In the current year, the Group has applied HKAS 32 *Financial instruments: Disclosure and presentation* and HKAS 39 *Financial instruments: Recognition and measurement*. HKAS 32 requires retrospective application. The application of HKAS 32 has had no material effect on the presentation of financial instrument in the Group's financial statements. HKAS 39, which is effective for annual periods beginning on or after 1st January, 2005, generally does not permit to recognise, derecognise or measure financial assets and liabilities on a retrospective basis. The principal effects resulting from the implementation of HKAS 39 are summarised below:

Classification and measurement of financial assets and financial liabilities

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

Financial assets and financial liabilities other than debt and equity securities

From 1st January, 2005 onwards, the Group classifies and measures its financial assets and financial liabilities other than debt and equity securities (which were previously outside the scope of Statement of Standard Accounting Practice 24) in accordance with the requirements of HKAS 39. Financial assets under HKAS 39 are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables" or "held-to-maturity financial assets". Financial liabilities are generally classified as "financial liabilities at fair value through profit or loss" or "financial liabilities other than financial liabilities at fair value through profit or loss ("other financial liabilities")". Other financial liabilities are carried at amortised cost using the effective interest method. The application of HKAS 39 has had no material effect on the presentation of financial instrument in the Group's financial statements.

Owner-occupied leasehold interest in land

In previous years, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured using the cost model. In the current year, the Group has applied HKAS 17 *Leases*. Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid lease payments under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis. This change in accounting policy has been applied retrospectively. As a result of the adjustments, property, plant and equipment and prepaid lease payments at 1st January, 2004 were decreased by HK$4,767,000 and increased by HK$4,767,000 respectively. Amortisation of prepaid lease payments and depreciation for the year ended 31st December, 2004 was increased by HK$440,000 and decreased by 440,000 respectively. The financial effect of the adoption is noted in note 2.

Investment properties

In the current year, the Group has, for the first time, applied HKAS 40 *Investment property*. The Group has elected to use the fair value model to account for its investment properties which requires gains or losses arising from changes in the fair value of investment properties to be recognised directly in the profit or loss for the period in which they arise. In previous periods, investment properties under the predecessor standard were measured at open market values, with revaluation surplus or deficits credited or charged to investment property revaluation reserve unless the balance on this reserve was insufficient to cover a revaluation decrease, in which case the excess of the revaluation decrease over the balance on the investment property revaluation reserve was charged to the income statement. Where a decrease had previously been charged to the income statement and revaluation subsequently arose, that increase was credited to the income statement to the extent of the decrease previously charged. The Group has applied the relevant transitional provisions in HKAS 40 and elected to apply HKAS 40 from 1st January, 2005 onwards. The amount held in investment property revaluation reserve at 1st January, 2005 of HK$103,014,000 has been transferred to the Group's retained profits. Comparative figures have been restated.

The Group has not early applied the following new standards, amendments and interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these new standards, amendments or interpretations will have no material impact on the financial statements of the Group.

HKAS 1 (Amendment)	Capital disclosures[1]
HKAS 19 (Amendment)	Actuarial gains and losses, group plans and disclosures[2]
HKAS 21 (Amendment)	Net investment in a foreign operation[2]
HKAS 39 (Amendment)	Cash flow hedge accounting of forecast intragroup transactions[2]
HKAS 39 (Amendment)	The fair value option[2]
HKAS 39 & HKFRS 4 (Amendments)	Financial guarantee contracts[2]
HKFRS 6	Exploration for and evaluation of mineral resources[2]
HKFRS 7	Financial instruments: disclosures[1]
HK(IFRIC)-INT 4	Determining whether an arrangement contains a lease[2]
HK(IFRIC)-INT 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds[2]
HK(IFRIC)-INT 6	Liabilities arising from participating in a specific market — waste electrical and electronic equipment[3]
HK(IFRIC)-INT 7	Applying the restatement approach under HKAS 29Financial Reporting in Hyperinflationary Economies[4]

[1] Effective for annual periods beginning on or after 1st January, 2007.

[2] Effective for annual periods beginning on or after 1st January, 2006.

[3] Effective for annual periods beginning on or after 1st December, 2005.

[4] Effective for annual periods beginning on or after 1st March, 2006.

2. SUMMARY OF THE EFFECT OF THE CHANGES IN ACCOUNTING POLICIES

The effects of the changes in the accounting policies described above on the results for the current and prior years are as follows:

	2005	2004
	HK$'000	*HK$'000*
Decrease in amortisation of goodwill	**93**	—
Increase in fair value gain on investment properties	**52**	—
Increase in gain on disposal of subsidiaries	**103,014**	—
Increase in impairment loss arising from adjustment to fair value less costs to sell	**(74,879)**	—
Decrease in loss for the year	**28,280**	—

The cumulative effects of the application of the new HKFRSs as at 31st December, 2004 and 1st January, 2005 are summarised below:

	As at 31st December, 2004, (originally stated)	Adjustments	As at 31st December, 2004 (restated)	Adjustments	**As at 1st January, 2005 (restated)**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	**HK$'000**
Balance sheet items					
Property, plant and equipment	91,395	(25,597)	65,798	—	**65,798**
Prepaid lease payments	—	25,597	25,597	—	**25,597**
		—		—	
Investment properties revaluation reserve	103,014	—	103,014	(103,014)	**—**
Retained profits	255,142	—	255,142	103,014	**358,156**
		—		—	

The adoption of new HKFRSs has no material impact on the equity as at 1st January, 2004.

3. SEGMENT INFORMATION

Business segments

For management purposes, the Group is currently organised into three operating divisions — construction work contracting and sales of concrete products, sub-leasing of properties and property investment.

In December 2004, the Group entered into a conditional Sale and Purchase Agreement to dispose of the entire issued capital in certain subsidiaries, all of which carried on property investment businesses. The property investment businesses became discontinued upon the completion of the disposal on 15th February, 2005 and the property investment business was disclosed as discontinued operation in last year's consolidated financial statements.

During the year, the Group has purchased investment properties and explored this business again. Accordingly, the property investment segment is disclosed as continuing operations for the year, and the comparative figures of property investment segment was re-classified from discontinued operation as continuing operations.

On 22nd February, 2006, the Company announced that a conditional sale and purchase agreement was entered into among one of its wholly-owned subsidiaries and the purchaser on 17th February, 2006 in respect of the disposal of the entire issued capital in certain subsidiaries which carried out construction work contracting and sales of concrete products. The disposal was approved by the shareholders on 6th March, 2006. Details of the disposal were set out in the circular of the Company dated 22nd March, 2006. Accordingly, the business segment of construction work contracting and sales of concrete products was classified as discontinued operation, and the comparative figures of construction work contracting and sales of concrete products was re-classified from continuing operations as discontinued operation.

Segment information about these businesses is presented below as primary segment information.

2005

	Continuing operations			Discontinued operation	
	Sub-leasing	**Property investment**	**Total**	**Construction work contracting and sales of concrete products**	**Consolidated**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
REVENUE	36,445	5,145	41,590	55,905	97,495
SEGMENT RESULT	(13,778)	5,067	(8,711)	6,800	(1,911)
Unallocated corporate income					4,429
Unallocated corporate expenses					(2,372)
Impairment loss arising from adjustment to fair value less costs to sell	—	—	—	(74,879)	(74,879)
Finance costs	—	(994)	(994)	—	(994)
Gain on disposal of subsidiaries	—	5,289	5,289	—	5,289
Fair value gain on investment properties	—	52	52	—	52
Share of results of an associate					(116)
Impairment loss in respect of interest in an associate					(1,430)
Loss before tax					(71,932)
Taxation					(1,518)
Loss for the year					(73,450)

BALANCE SHEET

	Continuing operations			Discontinued operation	
	Sub-leasing	**Property investment**	**Total**	**Construction work contracting and sales of concrete products**	**Consolidated**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
ASSETS					
Segment assets	88,636	17,065	105,701	38,466	144,167
Unallocated corporate assets					196,117
Consolidated total assets					340,284
LIABILITIES					
Segment liabilities	10,632	74	10,706	13,294	24,000
Unallocated corporate liabilities					1,578
Consolidated total liabilities					25,578

OTHER INFORMATION

	Continuing operations			Discontinued operation	
	Sub-leasing	**Property investment**	**Total**	**Construction work contracting and sales of concrete products**	**Consolidated**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Allowance for inventories	—	—	—	45	45
Capital expenditure	800	16,948	17,748	100	17,848
Depreciation and amortisation	23	—	23	6,802	6,825
Gain on disposal of property, plant and equipment	—	—	—	(21)	(21)
Guarantee money forfeited	—	—	—	(106)	(106)
Impairment loss recognised in respect of trade and other receivables	—	—	—	521	521
Reversal of impairment loss recognised in respect of trade and other receivables	—	—	—	(542)	(542)
Write back of provision for staff commission	—	—	—	(203)	(203)

2004

	Continuing operations	Discontinued operation	
	Property investment	Construction work contracting and sales of concrete products	Consolidated
	HK$'000	*HK$'000*	*HK$'000*
REVENUE	41,194	68,053	109,247
SEGMENT RESULT	39,854	(149)	39,705
Amortisation of goodwill	(555)	—	(555)
Unallocated corporate expenses			(1,732)
Reversal of impairment loss in respect of prepaid lease payments, and property, plant and equipment	—	55,946	55,946
Finance costs	(8,463)	—	(8,463)
Amortisation of goodwill in an associate			(166)
Share of results of an associate			(288)
Profit before tax			84,447
Taxation			1,972
Profit for the year			86,419

BALANCE SHEET

	Continuing operations	Discontinued operation	
	Property investment	Construction work contracting and sales of concrete products	Consolidated
	HK$'000	*HK$'000*	*HK$'000*
ASSETS			
Segment assets	627,415	135,817	763,232
Interest in an associate			1,546
Unallocated corporate assets			6,153
Consolidated total assets			770,931
LIABILITIES			
Segment liabilities	3,742	35,327	39,069
Unallocated corporate liabilities			343,706
Consolidated total liabilities			382,775

OTHER INFORMATION

	Continuing operations	Discontinued operation	
	Property investment	Construction work contracting and sales of concrete products	Consolidated
	HK$'000	*HK$'000*	*HK$'000*
Allowance for inventories	—	178	178
Capital expenditure	—	733	733
Depreciation and amortisation	—	5,797	5,797
Impairment loss recognised in respect of trade and other receivables	—	1,369	1,369
Reversal of impairment loss recognised in respect of trade and other receivables	—	(66)	(66)

Geographical segments

More than 90% of the activities of the Group are based in Hong Kong and more than 90% of the Group's turnover and loss/profit during the year are derived from Hong Kong.

More than 90% of the Group's assets are located in Hong Kong and more than 90% of additions to property, plant and equipment and investment properties during the year are incurred in Hong Kong.

4. TAXATION

	Continuing operations		**Discontinued operation**		**Consolidated**	
	2005	2004	**2005**	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
The charge (credit) comprises:						
Hong Kong Profits Tax						
Current year	**342**	970	**—**	—	**342**	970
Under provision in respect of prior years	**—**	1,113	**—**	—	**—**	1,113
	342	2,083	**—**	—	**342**	2,083
Deferred tax						
Current year	**322**	(4,585)	**854**	530	**1,176**	(4,055)
Tax charge (credit)	**664**	(2,502)	**854**	530	**1,518**	(1,972)

Hong Kong Profits Tax is calculated at 17.5% of the estimated assessable profit for both years.

5. (LOSS) PROFIT FOR THE YEAR

	Continuing operations		**Discontinued operation**		**Consolidated**	
	2005	2004	**2005**	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
						(restated)
(Loss) profit for the year has been arrived at after charging (crediting):						
Amortisation of prepaid lease payments	**—**	—	**605**	440	**605**	440
Depreciation for property, plant and equipment						
Owned assets	**5**	—	**6,197**	5,357	**6,202**	5,357
Assets held under finance leases	**18**	—	**—**	—	**18**	—
Exchange loss, net	**—**	—	**10**	—	**10**	—

6. DIVIDEND

No interim dividend is paid during the year.

The directors do not recommend the payment of a dividend for the year.

7. (LOSS) EARNINGS PER SHARE

From continuing and discontinued operations

The calculation of the basic (loss) earnings per share attributable to the ordinary equity holders of the parent is based on the following data:

	2005	2004
	HK$'000	*HK$'000*
(Loss) earnings		
(Loss) earnings for the purposes of basic (loss) earnings per share	**(73,450)**	86,419
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares for the purpose of basic (loss) earnings per share	**3,000,000**	3,000,000

From continuing operations

The calculation of the basic (loss) earnings per share from continuing operations attributable to the ordinary equity holders of the parent is based on the following data:

	2005	2004
	HK$'000	*HK$'000*
(Loss) earnings		
(Loss) earnings for the year attributable to equity holders of the parent	**(73,450)**	86,419
Less: loss (profit) for the year from discontinued operation	**68,933**	(55,446)
(Loss) earnings for the purposes of basic earnings per share from continuing operations	**(4,517)**	30,973

From discontinued operation

Basic loss per share for discontinued operation is 2.30 HK cents (2004: earnings per share of 1.85 HK cents) per share, based on the loss for the year from discontinued operation of HK$68,933,000 (2004: profit of HK$55,446,000). The denominators used are the same as those detailed above for basic (loss) earnings per share.

The following table summarises the impact on both basic and diluted (loss) earnings per share as a result of:

	Impact on (loss) earnings per share	
	2005	2004
	cents	*cents*
Reported figures before adjustments	**(1.51)**	2.88
Adjustments arising from changes in accounting policies (see note 2)	**(0.94)**	—
Restated	**(2.45)**	2.88

8. TRADE AND OTHER RECEIVABLES

The Group allows a credit period ranging from 15 to 45 days to its customers.

Included in trade and other receivables are trade receivables with an aged analysis as follows:

	THE GROUP	
	2005	2004
	HK$'000	*HK$'000*
0–30 days	**—**	13,642
31–60 days	**—**	3,315
61–90 days	**—**	647
91–120 days	**—**	174
More than 120 days	**—**	1,286
	—	19,064

The directors consider that the carrying amounts of trade and other receivables approximate to their fair values.

9. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables with an aged analysis as follows:

	THE GROUP	
	2005	2004
	HK$'000	*HK$'000*
0–30 days	**—**	3,111
31–60 days	**—**	2,588
61–90 days	**—**	850
91–120 days	**—**	—
More than 120 days	**—**	528
	—	7,077

The directors consider that the carrying amounts of trade and other payables approximate to their fair values.

DIVIDEND

The Board of Directors of the Company do not recommend the payment of a dividend for the year ended 31st December, 2005 (2004: HK$Nil per share).

MANAGEMENT DISCUSSION AND ANALYSIS

Introduction

Driven by a strong rebound of the Hong Kong economy, the property market entered a healthy growth over the past year. Under such favourable condition, the two cold storage facilities located in Kwai Chung were sold for $650 million, giving the Group the opportunity to repay all its existing bank loans and thus substantially improve its liquidity. However, the recovery of local economy failed to act as a catalyst for improvement in the public housing construction industry. One of the Group's core business segments, Autoclaved Aerated Lightweight Concrete ("ALC"), continued to downsize in 2005 and the Board finally decided to discontinue this operation at the beginning of 2006. The reasons of downsizing and disposal will be discussed in more detail in the analysis. The business results for 2005 are, then, as follows:

Financial Performance

In 2005, the Group's turnover was approximately HK$97 million, representing a 11% decrease over the previous year. Net loss attributable to shareholders was approximately HK$73 million (as compared to HK$86 million net profit in 2004). This significant decline in profit was due primarily to the creation of rental payment as a result of the sale and lease back arrangement and the disposal of the two cold storage warehouses as disclosed in the circular of the Company dated 20th January, 2005 of approximately HK$14 million and the impairment loss arising from adjustment to fair value less costs to sell of HK$75 million.

Business Review

Property investment

The two cold storage warehouse properties in Kwai Chung (the "Properties") contributed HK$5 million in turnover and HK$5 million in profit to the Group from January to mid-February before the completion of disposal of the Properties. As explained in the circular of the Company dated 20th January, 2005, the disposal of the Properties improved the financial position of the Group by reducing the gearing of the Group to a healthy level and at the same time increases the cash and reserve of the Group for future expansion.

Sub-leasing

The sub-leasing arrangement contributed HK$36 million to turnover and HK$14 million to the loss for the year.

The sub-leasing of the Properties were an integral part of the disposal of the Properties under which, one of the subsidiaries of the Group leased the Properties from the landlord for fourteen years with rental review in every three-year period and sub-leased the Properties to Best Merchant Group (the "Tenant") also for fourteen years and also with a rental review in every three-year period. Under the sub-leasing arrangement, the Group received HK$3,350,000 per month from the Tenant from 15 February 2005 to 30th November, 2005 and thereafter HK$4,739,600 per month until 14th February, 2008, nevertheless the Group paid HK$4,739,600 per month to the landlord from 15th February, 2005 to 14th February, 2008. The difference of the rent received and the rent paid during the period from 15th February, 2005 to 30th November, 2005 of approximately HK$14 million significantly affected the result of the Group for the year.

The directors, anticipates the sub-leasing arrangement may benefit the Group after 15th February, 2008 when the first rental review takes place.

Autoclaved Aerated Lightweight Concrete ("ALC") Business

The ALC business registered a turnover of HK$56 million, which represented a 18% decrease compared to the previous year (2004: HK$68.1 million). It is to be noted that turnover in this business sector has decreased year on year since 2003. It has fallen from HK$84 million in 2003, to HK$68.1 million in 2004, and now finally to HK$56 million in 2005.

The production of ALC blocks and panels is one of the Group's core business, which accounts for the majority of its overall turnover previously. However, with continuous contracting in turnover and profit, the directors decided to cease operating in the building materials sector.

There are many reasons why the ALC business continued to downsize, among others, including firstly the Housing Authority endorsed resale of surplus Home Ownership Scheme flats from 2007 onwards, thus reducing the construction of Home Ownership Scheme flats in future. Secondly, the construction of public rental house flats is actually falling. According to the Hong Kong Housing Authority's website, the number of public rental house flats constructed is expected to fall from 21,000 units in 2005 to 15,600 units per year for the next five years. As ALC product mainly supplied to the construction of Home Ownership Scheme flats and public rental house flats, it was the opinion of the Board that profits and operational turnover were unlikely to improve in 2006. In an ever-competitive market, material prices also drove to the detriment of our profit margins. Furthermore, tapping into the Macau market has not yet been materialised. It became apparent that the ALC business was no longer economically viable. The Board would rather re-direct the resources to other viable business opportunity using the proceeds from the disposal of this business segment.

Liquidity & Financial Resources

For the year ended 31st December, 2005 the Group recorded net current assets of HK$226 million, of which approximately HK$206 million is cash and bank deposits. Current liabilities were HK$15 million. The gearing ratio was just 3.3%. With regard to foreign currency exposure, the monetary assets and liabilities of the Group are principally denominated in Hong Kong dollars. The directors consider that the Group's exposure to the exchange rate risk is not significant.

Employment & Remuneration Policy

For the year ended 31st December, 2005, the Group had 44 employees, all of whom were located in Hong Kong. The Group provides a remuneration package to employees including employer voluntary contribution under the Mandatory Provident Fund Scheme and various allowances.

Future Prospects

With Gross Domestic Product on the mainland expected to grow by 8–9% in 2006, according to the National Bureau of Statistics, the economic climate should be highly favourable and opportunities continue to develop throughout the Pearl River Delta region. Hong Kong as the southern doorstep of Mainland China is perfectly positioned and equipped to capitalise on the economic expansion. The Closer Economic Partnership Arrangement lays the foundation for business platform that reaffirms the role of Hong Kong in the Mainland's next phase of economic development. Therefore, the directors believe that the demand for cold storage warehousing facilities and logistics services will offer an optimistic prospect for 2006. In early January 2006, the Group completed an acquisition of Best Merchant Limited and its subsidiaries Brilliant Top In Logistics Limited and Brilliant Cold Storage Management Limited (the "Best Merchant Group") at a consideration of HK$56 million. The Group will continue to provide one-stop logistics and cold storage services between Hong Kong and Mainland China, as well as expand its logistics arm by increasing the number of trucks used for deployment, by using the collective expertise of Best Merchant Group. The Group will also exploit and capitalise on the good profit margins of cold storage and logistics in order that they make a significant contribution to the Group's overall turnover.

CORPORATE GOVERNANCE

The Company has complied with the code provisions as set out in the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 of the Listing Rules throughout the year ended 31st December, 2005, save for a few exceptions specified and explained below:

Code Provision A.4.1

Under the Code, the Non-executive Directors should be appointed for a specific term, subject to re-election.

Currently, the three Independent Non-executive Directors are not appointed for a specific term but are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the provisions of the Bye-laws of the Company.

All Independent Non-executive Directors will retire in the next annual general meeting and will only be re-appointed for one year if they are re-elected in the next annual general meeting.

Code Provision A.4.2

Under the Code, all directors be appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment, and every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

Currently, pursuant to the Article 87 of the Company's Bye-laws, the Chairman of the Board and/or the Managing Director of the Company shall not, whilst holding such office, be subject to retirement by rotation or be taken into account in determining the number of directors to retire in each year. To comply with the Code, the Company will amend the Bye-laws in its next annual general meeting.

The Group will implement in the near future certain internal control procedures where necessary after reviewing the Internal Control and Risk Management Guide issued by the Hong Kong Institute of Certified Public Accountants. We are sure these new moves will assist the healthy growth of the Group.

MODEL CODE

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules for securities transactions by the directors of the Company. Having made specific enquiry of all directors, the directors had complied with the required standard set out in the Model Code throughout the year ended 31st December, 2005.

REVIEW OF RESULTS

The Group's audited consolidated results for the year ended 31st December, 2005 have been reviewed by the Audit Committee of the Company.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31st December, 2005.

PRELIMINARY ANNOUNCEMENT OF THE RESULTS AGREED BY AUDITORS

The figures in respect of the Group's consolidated income statement, consolidated balance sheet and the related notes thereto for the year ended 31st December, 2005 as set out in this preliminary announcement have been agreed by the Group's auditors, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Messrs. Deloitte

Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on this preliminary announcement.

DISCLOSURE OF INFORMATION ON THE WEBSITES OF THE SEHK AND THE COMPANY

A detailed results announcement containing all the information required by paragraphs 45(1) to 45(3) of Appendix 16 of the Listing Rules will be subsequently published on the SEHK and the Company's websites in due course.

DIRECTORS OF THE COMPANY

As at the date of this announcement, the composition of the Board is as follows:

Executive Directors:

Mr. To Shu Fai
Mr. Fung Wa Ko
Mr. Tang Tsz Man, Philip

Independent Non-executive Directors

Mr. Tse Yuen Ming
Mr. Leung, Tsz Fung David Ferreira
Mr. Leung Chi Hung

ACKNOWLEDGEMENT

Finally, on behalf of the Board, I would like to extend our gratitude to our shareholders, customers, management and all of our staff for their continual support to the Company. Your understanding and support is our most valuable asset during these times of change.

By Order of the Board
Patrick To
Chairman

Hong Kong, 21 April, 2006

* *For identification purpose only*