DAIDO

DAIDO

Stock Code: 544

DAIDO GROUP LIMITED

2005 ANNUAL REPORT

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CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Mr. To Shu Fai *(Chairman)*
Mr. Fung Wa Ko *(Deputy Chairman)*
Mr. Tang Tsz Man, Philip

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

COMPANY SECRETARY

Mr. Choy Kai Sing

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Unit No. 1906, 19/Floor, West Tower
Shun Tak Centre
168–200 Connaught Road Central
Hong Kong
www.daidohk.com

AUDITORS

Deloitte Touche Tohmatsu
Certified Public Accountants
26th Floor, Wing On Centre
111 Connaught Road Central
Hong Kong

PRINCIPAL BANKERS

DBS Bank (Hong Kong) Limited
Nanyang Commercial Bank, Limited
Standard Chartered Bank

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Union Registrars Limited
311–312 Two Exchange Square, Central
Hong Kong

INVESTOR AND MEDIA RELATIONS

Synchronic Communications Limited
Suite 2003, Fairmont House
8 Cotton Tree Drive
Admiralty
Hong Kong
www.synchronic.com.hk

CHAIRMAN'S STATEMENT

On behalf of the Board of Directors (the "Board"), I am pleased to present the annual results of Daido Group Limited for 2005.

Early 2005 witnessed a steady growth in the industrial property market. The price indices and rental indices of flatted factories in the first quarter of 2005 increased by 8.9% and 2.1% respectively compared with the fourth quarter of 2004. Under these favorable conditions, the Directors decided to sell its two cold storage facilities. The proceeds of the sale reduced the financial burden of the Group considerably and improved the overall financial position of the Group. By identifying the long-term benefits of capitalizing on rental returns, the Group strategically entered into a sub-leasing arrangement for the premises that would then allow the Group to remain in the business of cold storage rental.

In view of the Closer Economic Partnership Arrangement in the Pearl River Delta region, closer economic ties are being made among Hong Kong, Mainland China and Macau, coupled with the fact that China's entry into the World Trade Organisation increasing international trade possibilities, the Directors recognized the economic importance that could bring to cold storage facilities, as well as the excellent logistics opportunities that exist. In order to push the business forward and exploit these favorable opportunities, the Group decided to acquire Best Merchant Group in the early of 2006.

The cold storage and logistics services as well as the ice manufacturing and trading are emerging markets with strong potential for growth. As economic ties continue to get closer in the Pearl River Delta region, one of the Group's key strategies will be to provide a one-stop logistics service between Hong Kong and the Mainland China. Mainland China's Gross Domestic Product is expected to grow by 8–9% in 2006 and it is the intention of the Group to fully exploit this. I am optimistic that the new business direction of the Group will bring brighter results in future.

The construction business continued to downsize in 2005. Our flagship product, Autoclaved Aerated Lightweight Concrete ("ALC"), suffered a further drop in turnover and profits for the third consecutive year. The Board decided to discontinue the operation of the ALC business. Therefore, as of 2006, the Group is no longer operating in the construction market. However, the Group will continue its efforts in exploring other viable business opportunities to further enhance shareholders value.

We believe corporate governance provides us a framework and solid foundation to meet the expectations and provide additional assurance to all of the Group's stakeholders. Therefore, the Group is committed to maintaining a high standard of corporate governance and practices.

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.

Patrick To
Chairman

Hong Kong 21st April, 2006

CHIEF EXECUTIVE OFFICER'S REPORT

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 to turnover and HK$5 million to 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 15th February, 2005 to

CHIEF EXECUTIVE OFFICER'S REPORT

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 Hong Kong 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.

CHIEF EXECUTIVE OFFICER'S REPORT

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 China 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 China'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.

By Order of the Board
Daniel Fung
Chief Executive Officer

Hong Kong 21st April, 2006

DIRECTORS OF THE COMPANY

MR. TO SHU FAI, aged 50, joined the Group and was appointed as the Chairman of the Group in August 2003. He is a merchant with extensive experience and business interest including trading of riversand, bulk cement, concrete bricks and construction steel in Hong Kong and PRC. He is the Chairman of Man Fai Tai Holdings Limited. Mr. To is the Honorary Consul for the Republic of Congo in Hong Kong.

MR. FUNG WA KO, aged 44, joined the Group and appointed as the chief executive officer and executive director in October 2003. He has become the Deputy Chairman of the Group in April 2004. He is responsible for the overall operations throughout the Group. Mr. Fung has over 17 years of experience in the area of business development, corporate management, and budget control. He received his education in the United Kingdom, and has worked in various management positions in Hong Kong, Mainland China, and other countries in Asia Pacific Regions.

MR. TANG TSZ MAN, PHILIP, aged 40, joined the Group as an executive director in August 2003. He is the managing director of Grandtel Communications Limited. Mr. Tang has over ten years of business management experience.

MR. TSE YUEN MING, aged 38, joined the Group as an independent non-executive director in August 2003. He is a partner of Messrs. Tung, Ng, Tse & Heung. Mr. Tse holds a bachelor of laws degree with honours from the University of Hong Kong and admitted to The Supreme Court of Hong Kong as a solicitor in 1993. He is also a director in various companies engaging in animation, trading, card games and construction business in Hong Kong.

MR. LEUNG CHI HUNG, aged 50, joined the Group as an independent non-executive director in September 2003. He has commenced his accountancy professional training since 1976 and is now members of international accountancy bodies. Mr. Leung is also a certified public accountant (Practising) in Hong Kong and a director of the corporate practice Arthur Mo & Co. Limited.

MR. LEUNG, TSZ FUNG DAVID FERREIRA, aged 38, joined the Group as an independent non-executive director in July 2005. He is a merchant with extensive experience trading in Asia countries. Mr. Leung also serves as business consultants in various advertising and event marketing companies.

DIRECTORS' REPORT

The directors present their annual report and the audited consolidated financial statements for the year ended 31st December, 2005.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The activities of its principal subsidiaries are set out in note 44(i) to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st December, 2005 are set out in the consolidated income statement on page 26.

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

RESERVES

Movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity on page 29.

Movements in the reserves of the Company during the year are set out in note 44(ii) to the consolidated financial statements.

INVESTMENT PROPERTIES

Majority of the investment properties of the Group were disposed of during the year. Details of movements in the investment properties of the Group during the year are set out in note 16 to the consolidated financial statements.

PROPERTY, PLANT AND EQUIPMENT

Movements in the property, plant and equipment of the Group during the year are set out in note 17 to the consolidated financial statements.

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.

DIRECTORS' REPORT

DISTRIBUTABLE RESERVES OF THE COMPANY

As at 31st December, 2005, the Company's reserves available for distribution consisted of contributed surplus of HK$84,239,000 (2004: HK$84,239,000) and retained profits of HK$6,986,000 (2004: HK$8,305,000).

Details of the Company's distributable reserves are set out in note 44(ii) to the consolidated financial statements.

DIRECTORS

The directors of the Company during the year and up to the date of this report are:

Executive Directors

Mr. To Shu Fai *(Chairman)*
Mr. Fung Wa Ko *(Deputy Chairman)*
Mr. Tang Tsz Man, Philip

Independent Non-executive Directors

Mr. Tse Yuen Ming
Mr. Leung Chi Hung
Mr. Leung, Tsz Fung David Ferreira (appointed on 12th July, 2005)
Mr. Kwok Shun On (resigned on 12th July, 2005)

In accordance with Clause 86(2) and 87 of the Company's Bye-Laws, Messrs. Leung, Tsz Fung David Ferreira, Tse Yuen Ming and Leung Chi Hung, retire by rotation and being eligible, offer themselves for re-election at the forthcoming annual general meeting.

Independent non-executive directors are not appointed for a specific term. All directors (including independent non-executive directors), with the exception of the Chairman are subject to retirement by rotation in accordance with the Company's Bye-Laws.

None of the directors proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

DIRECTORS' REPORT

DIRECTORS' INTERESTS IN SHARES AND SHARE OPTIONS

At 31st December, 2005, the interests of the directors in the shares and share options of the Company, as recorded in the registers maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance (the "SFO"), or otherwise notified to the Company and the Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transaction by Directors of Listed Companies, were as follows:

Long positions

(1) *Ordinary shares of HK$0.01 each of the Company*

Name of director	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Mr. To Shu Fai *(Note)*	Held by controlled corporations	2,023,231,329	67.44%

Note: The 2,023,231,329 shares are held by Top Synergy Associates Limited ("Top Synergy"), the ultimate holding company of the Company which is owned as to 50% by Vision Harvest Limited ("VHL") and as to 50% by Ever Achieve Enterprises Limited ("EAEL"). The entire issued share capital of VHL is owned by Mr. To Shu Fai. The entire issued share capital of EAEL is owned by Mr. Chung Chiu Pui, Ms. Foo Hang Luen, Monita, Ms. Lee Yun and Mr. Yuen Kin Wing in equal shares. Mr. To Shu Fai and Mr. Tang Tsz Man, Philip, the executive Directors, are also the directors of Top Synergy.

(2) *Directors' interest in the Company's associated corporations*

Name of Director	Name of associated corporation	Total interest	Percentage of total issued share capital
Mr. To Shu Fai	VHL	1 share	100%
Mr. To Shu Fai	Top Synergy	1 share	50%

(3) *Share options*

Particulars of the share option scheme of the Company are set out in note 31 to the consolidated financial statements.

No share option was outstanding as at 1st January, 2005 and 31st December, 2005 and no share option was granted under the share option scheme during the year.

DIRECTORS' REPORT

Other than the holdings disclosed above, none of the Company's directors, chief executives and their associates, had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations at 31st December, 2005.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

At no time during the year was the Company or its ultimate holding company or any of its subsidiaries or fellow subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

At 31st December, 2005, to the best knowledge of the Directors or chief executives of the Company, the following parties (other than a Director or chief executive of the Company), had interests or short positions in the shares or underlying shares of the Company which are required to be disclosed to the Company under the provision of Divisions 2 and 3 of Part XV of the SFO, or, who is expected, directly or indirectly, to be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group:

Long positions:

Name of Shareholder	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Top Synergy Associates Limited *(Note 1)*	2,023,231,329	67.44%
Vision Harvest Limited *(Note 1)*	2,023,231,329	67.44%
Ever Achieve Enterprises Limited *(Note 1)*	2,023,231,329	67.44%
Mr. Chung Chiu Pui *(Note 1)*	2,023,231,329	67.44%
Ms. Foo Hang Luen, Monita *(Note 1)*	2,023,231,329	67.44%
Ms. Lee Yun *(Note 1)*	2,023,231,329	67.44%
Mr. Yuen Kin Wing *(Note 1)*	2,023,231,329	67.44%
Ms. Hui Yin Man *(Note 2)*	2,023,231,329	67.44%
Ms. Chan Yee Wan *(Note 3)*	2,023,231,329	67.44%
Mr. Kwok Yuk Hei *(Note 4)*	2,023,231,329	67.44%
Mr. Jiu Ziang Hwa *(Note 5)*	2,023,231,329	67.44%
Ms. Tsang Yun Kiu *(Note 6)*	2,023,231,329	67.44%

DIRECTORS' REPORT

Note 1: The 2,023,231,329 shares are held by Top Synergy Associates Limited ("Top Synergy"), the ultimate holding company of the Company which is owned as to 50% by Vision Harvest Limited ("VHL") and as to 50% by Ever Achieve Enterprises Limited ("EAEL"). The entire issued share capital of VHL is owned by Mr. To Shu Fai. The entire issued share capital of EAEL is owned by Mr. Chung Chiu Pui, Ms. Foo Hang Luen, Monita, Ms. Lee Yun and Mr. Yuen Kin Wing in equal shares.

Note 2: Ms. Hui Yin Man is the spouse of Mr. To Shu Fai, being the sole shareholder of VHL and the executive Director. Accordingly, Ms. Hui Yin Man has a family interest in 2,023,231,329 shares of the Company.

Note 3: Ms. Chan Yee Wan is the spouse of Mr. Chung Chiu Pui, being one of the shareholders of EAEL. Accordingly, Ms. Chan Yee Wan has a family interest in 2,023,231,329 shares of the Company.

Note 4: Mr. Kwok Yuk Hei is the spouse of Ms. Foo Hang Luen, Monita, being one of the shareholders of EAEL. Accordingly, Mr. Kwok Yuk Hei has a family interest in 2,023,231,329 shares of the Company.

Note 5: Mr. Jiu Ziang Hwa is the spouse of Ms. Lee Yun, being one of the shareholders of EAEL. Accordingly, Mr. Jiu Ziang Hwa has a family interest in 2,023,231,329 shares of the Company.

Note 6: Ms. Tsang Yun Kiu is the spouse of Mr. Yuen Kin Wing, being one of the shareholders of EAEL. Accordingly, Ms. Tsang Yun Kiu has a family interest in 2,023,231,329 shares of the Company.

Save as disclosed above, the Directors or chief executives of the Company are not aware of any person (other than a Director or chief executive of the Company), who, as at 31st December, 2005, had interests or short positions in the shares or underlying shares of the Company which are required to be disclosed to the Company under the provision of Divisions 2 and 3 of Part XV of the SFO, or, who is expected, directly or indirectly, to be interested in 10% or more of the norminal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save as disclosed in the section headed "Connected Transactions" below, no other contract of significance to which the Company or its ultimate holding company or any of its subsidiaries or fellow subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

CONNECTED TRANSACTIONS

Daido Home International Limited ("DHIL"), a wholly-owned subsidiary of the Company, has rented an office from Metro Easy Investments Limited ("Metro Easy"), being a company wholly-owned by Man Fai Tai Holdings Limited, a company wholly-owned by Mr. To Shu Fai, a director of the Company. The office rental paid to Metro Easy by DHIL during the year was approximately HK$627,000.

DIRECTORS' REPORT

The independent non-executive directors confirm that the transaction has been entered into by the Group in the ordinary course of its business, on normal commercial terms and in accordance with the terms of the agreement governing such transaction that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The office rent was charged at terms agreed by the parties concerned.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31st December, 2005, the aggregate amount of turnover attributable to the Group's five largest customers accounted for approximately 53% of the Group's total turnover and the turnover attributable to the Group's largest customer accounted for approximately 43% of the Group's total turnover.

The aggregate amount of purchases attributable to the Group's five largest suppliers accounted for approximately 46% the Group's total purchases and the purchases attributable to the Group's largest supplier accounted for approximately 14% the Group's total purchases.

At no time during the year did a director, an associate of a director or a shareholder of the Company (which to the knowledge of the directors owns more than 5% of the Company's share capital) have an interest in any of the Group's five largest suppliers or customers.

EMOLUMENT POLICY

The emolument policy of the employees of the Group is set up by the management on the basis of their merit, qualifications and competence.

The emoluments of the directors of the Company are decided by the remuneration committee, having regard to the Company's operating results, individual performance and comparable market statistics.

PRE-EMPTIVE RIGHTS

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

CORPORATE GOVERNANCE

The Company is committed to maintaining a high standard of corporate governance practices. Information on the corporate governance practices adopted by the Company is set out in the "Corporate Governance Report" on pages 15 to 24.

DIRECTORS' REPORT

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31st December, 2005.

APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received, from each of the independent non-executive directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Rules Governing the Listing Securities on the Stock Exchange. The Company considers all of the independent non-executive directors are independent.

POST BALANCE SHEET EVENT

Details of significant event occurring after the balance sheet date are set out in note 43 to the consolidated financial statements.

AUDITORS

A resolution will be submitted to the forthcoming annual general meeting of the Company to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board

To Shu Fai
CHAIRMAN

21st April, 2006

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

The Board and senior management are committed to maintaining a high standard of corporate governance. It is believed that high standards of corporate governance provide a framework and solid foundation for achieving, attracting and retaining the high standard and quality of the Group's management, promoting high standards of accountability and transparency, sound internal control and meeting the expectations of all of the Group's various stakeholders.

The Board has adopted the code provisions set out in the Code of Corporate Governance Practices ("the Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("the Listing Rules"), which has become effective on 1st January, 2005. Throughout the year ended 31st December, 2005, the Company has taken appropriate actions to comply with most of the Code Provisions, except for certain deviations in respect of the service terms and rotation of Directors. Further appropriate actions will be taken by the Company for complying with the Code.

CORPORATE GOVERNANCE STRUCTURE

The Board is charged with the duty to put in place a proper corporate governance structure of the Company. It is primarily responsible for the leadership and control of the Company and oversees the Group's businesses, strategic decisions and performances. Under the Board, there are currently 3 subcommittees, namely Audit Committee, Remuneration Committee and Nomination Committee. All these committees perform their distinct roles in accordance with their respective terms of reference and assist the Board in supervising certain functions of the senior management.

BOARD COMPOSITION AND BOARD PRACTICES

The Board comprises six directors, of whom three are executive directors namely, Mr. To Shu Fai *(Chairman)*, Mr. Fung Wa Ko *(Deputy Chairman)* and Mr. Tang Tsz Man, Philip, and three are independent non-executive directors namely, Mr. Tse Yuen Ming, Mr. Leung Chi Hung and Mr. Leung, Tsz Fung David Ferreira. To the best knowledge of the Company, there is no financial, business, family or other material/ relevant relationship among the Directors, especially between the Chairman and the Chief Executive Officer of the Company. Such balanced Board composition, coupled with the strong independent element, is over and above the recommended practice under the Code for the Board to have at least one-third in number of its members comprising independent non-executive directors. The participation of independent non-executive directors in the Board brings independent judgement to ensure that the interests of all shareholders of the Company have been duly considered.

CORPORATE GOVERNANCE REPORT

Independent Non-executive Directors

Pursuant to Rules 3.10(1) and 3.10(2) of the Listing Rules, the Company has appointed three independent non-executive directors, of whom Mr. Leung Chi Hung is certified public accountant (Practising) in Hong Kong. He has commenced his accountancy professional training since 1976 and is now members of international accountancy bodies.

The independent non-executive directors take an active role in Board meetings, contribute to the development of strategies and policies and make sound judgement in various aspects. They will take lead when potential conflicts of interest arise. They are also members of various Board committees and devote sufficient amount of time and attention to the affairs of the Company. Thus, the Board considers the current board size as adequate for its present operations. Detail of backgrounds and qualifications of the chairman of the Company, the deputy chairman of the Company and the other Directors are set out in page 7 of this annual report.

The Board considers that all of the independent non-executive directors are independent and has received from each of them the annual confirmation of independence required by the Rule 3.13 of the Listing Rules.

The Board is responsible for approving and monitoring business plans, evaluating the performance of the Group and overseeing management. The Board also focuses on overall strategies and policies with particular attention paid to the growth and financial performance of the Group.

The Board delegates day-to-day operations of the Group to executive directors and senior management, while reserving certain key matters for its approval. Decisions of the Board are communicated to the management through executive directors who have attended at Board meetings.

The Board held regular Board meetings for four times and other Board meeting for eight times during the year ended 31st December, 2005. Details of the Directors' attendance are as follows:

Executive Directors

Mr. To Shu Fai *(Chairman)*	9/12
Mr. Fung Wa Ko *(Chief Executive Officer)*	12/12
Mr. Tang Tsz Man, Philip	2/12

Independent Non-executive Directors

Mr. Tse Yuen Ming	8/12
Mr. Leung Chi Hung	8/12
Mr. Leung, Tsz Fung David Ferreira (appointed on 12th July, 2005)	2/8
Mr. Kwok Shun On (resigned on 12th July, 2005)	1/4

CORPORATE GOVERNANCE REPORT

Apart from the regular Board meetings of the year, the Board of Directors will meet on other occasions when a board-level decision on a particular matter is required. The Directors will receive details of agenda items for decision and minutes of committee meetings at each Board meeting.

In addition, to facilitate the decision-making process, the Directors are free to have access to the management for enquiries and to obtain further information, when required. The Directors can also seek independent professional advice, in appropriate circumstances, at the Company's expense in discharging their duties to the Company. All Directors have unrestricted access to the advice and services of the Company Secretary, who ensures that the Board receives appropriate and timely information for its decision-making and that board procedures are being followed. Moreover, the Company Secretary prepares minutes and keeps records of matters discussed and decisions resolved at all Board meeting. The minutes are open for inspection at any reasonable time on reasonable notice by any Director.

According to the Code requirement, the Company should arrange appropriate insurance cover in respect of legal action against its Directors. In order to comply with the Code, the Company has arranged liabilities insurance for all Directors.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

There is no service contract entered between each of the executive directors of the Company and the Company except for Mr. Fung Wa Ko. There was a service contract of Mr. Fung being appointed as a chief executive officer of the Company entered with the Company. The service contract of Mr. Fung was commenced from 13th October, 2003 and shall continue until terminated by either party giving the other not less than one month's notice.

The independent non-executive directors were not appointed for a specific term but subject to retirement by rotation and re-election at the annual general meetings of the Company in accordance with the Bye-laws of the Company. In view of the Code, the Company is taking steps to replace the independent non-executive directors' current appointment with specific term of appointments. The Company has proposed that all independent non-executive directors will retire in the coming annual general meeting and being eligible, offer themselves for re-election. Moreover, a service contract will be entered with each independent non-executive director for an initial period of one year and will continue thereafter unless and until terminated by either party given the other not less than three months' notice, if they are re-elected in the coming annual general meeting.

According to the provisions of the Bye-laws of the Company, any director appointed by the Board either to fill a casual vacancy or as an addition to the Board shall hold office until the next following annual general meeting of the Company and shall then be eligible for re-election. Furthermore, at each annual general meeting one-third of the Directors for the time being (or, if their number is not a multiple of three (3), the number nearest to but not greater than one-third) shall retire from office by rotation provided that

CORPORATE GOVERNANCE REPORT

notwithstanding anything herein, 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.

Amendments of the Bye-laws of the Company will be proposed at the forthcoming annual general meeting in order to comply with the Code.

Each newly appointed Director is reminded orally their duties and responsibilities as Directors of listed company under the Listing Rules, related ordinances and relevant regulatory requirements of Hong Kong. Orientation meeting with newly appointed Director will be held for briefing on business and operations of the Company. Updates are provided to Directors when necessary to ensure Group conducts its businesses.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The Chairman and Chief Executive Officer of the Company perform separate functions to ensure an appropriate balance of power, increased accountability and greater capacity of the Board for independent decision making. The Chairman has executive responsibilities and provides leadership to the Board in terms of establishing policies and business directions. The Chairman ensures that the Board works effectively and discharges its responsibilities, and that all key and appropriate issues are discussed by the Board in a timely manner.

Acting as the Chairman of the Board, Mr To Shu Fai leads the Board and ensures all Directors are properly briefed on issues to be discussed at board meetings. Acting as the Chief Executive Officer, Mr. Fung Wa Ko is responsible for the day-to-day operations of the Group, attends to formulation and successful implementation of policies, and assumes full accountability to the Board for all operations of the Group. Working with the executive management team of each core business division, he ensures the smooth operations and development of the Group. He maintains a continuing dialogue with the Chairman and all Directors to keep them fully informed of all major business developments and issues.

COMMITTEES OF THE BOARD

Nomination Committee

The Nomination Committee was established on 30th June, 2005 with adoption of its terms of reference on 12th July, 2005. The terms of reference of the Nomination Committee include making recommendations for all appointment and re-appointment of Directors to the Board. It comprises three members, all of whom are independent non-executive directors. The members are:

Mr. Tse Yuen Ming *(Chairman)*
Mr. Leung Chi Hung
Mr. Leung, Tsz Fung David Ferreira

CORPORATE GOVERNANCE REPORT

The Nomination Committee has established a formal and transparent process for the Company in the appointment of new Directors and re-nomination and re-election of Directors at regular intervals. It is also responsible for determining the independence of each Director and conducting formal assessment of the effectiveness of the Board as a whole and the contribution of each Director to the effectiveness of the Board. In evaluating the Board's performance, the Nomination Committee considers a number of factors, including those set out in the Code.

In accordance with the Company's Bye-laws, one-third of the Directors will retire from office at the Company's annual general meeting. In accordance with Clause 87 of the Company's Bye-Laws, Mr. Tse Yuen Ming and Mr. Leung Chi Hung will retire by rotation at the forthcoming annual general meeting of the Company and, being eligible, offer himself for re-election. In accordance with Clause 86(2) of the Company's Bye-Laws, Mr. Leung, Tsz Fung David Ferreira will retire at the forthcoming annual general meeting of the Company and, being eligible, offer himself for re-election. None of the independent non-executive Directors has served as Directors for more than five years.

Remuneration Committee

The Remuneration Committee was established on 30th June, 2005 with adoption of its terms of reference on 12th July, 2005. The Remuneration Committee consists of three independent non-executive directors and its members are:

Mr. Leung, Tsz Fung David Ferreira *(Chairman)*
Mr. Tse Yuen Ming
Mr. Leung Chi Hung

The Remuneration Committee is charged with the responsibility of determining the specific remuneration packages of all executive directors and senior management, including benefits-in-kind, pension rights, and compensation payments, and to advise the Board on the remuneration of the independent non-executive directors. In developing remuneration policies and making recommendation as to the remuneration of the Directors and senior management, the Remuneration Committee takes into account of the performance of the Group as well as those individual Directors and senior management.

Remuneration package for executive directors:

1. The remuneration for the executive directors comprises basic salary, annual bonus, other benefits and retirement benefits scheme.

2. Salaries are reviewed annually. Salary increases are made where the Remuneration Committee believes that adjustments are appropriate to reflect performance, contribution, increased responsibilities and/or by reference to market/sector trends.

CORPORATE GOVERNANCE REPORT

3. In addition to basic salary, executive directors and employees of the Company and its subsidiaries are eligible to receive a discretionary bonus taking into consideration factors such as market conditions as well as corporate and individual performances.

4. In order to attract, retain and motivate executives and key employees of the Group, the Company has adopted a share option scheme on 29th August, 2000 ("2000 Option Scheme"), which was terminated on 9th January, 2006, and a new share option scheme on 9th January, 2006 ("2006 Option Scheme") in order to comply with the amended Chapter 17 of the Listing Rules. Such incentive schemes enable the eligible persons to obtain an ownership interest in the Company and thus will motivate them to optimize their contributions to the Group.

5. Details of the amount of Directors' emoluments during the financial year ended 31st December, 2005 are set out in note 13 to the consolidated financial statements and details of the 2000 and 2006 Option Schemes are set out in the Directors' Report and note 31 to the consolidated financial statements.

The Remuneration Committee meets at least once a year. The first Remuneration Committee meeting was held on 16th August, 2005.

Audit Committee

The Audit Committee was established on 12th January, 2000 with reference to "A Guide for the Formation of an Audit Committee" issued by the Hong Kong Institute of Certified Public Accountants. In accordance with the requirements of the Code, the terms of reference of the Audit Committee were revised on 12th July, 2005 in terms substantially the same as the provisions set out in the Code. The Audit Committee comprises three members, all of whom are independent non-executive directors. The members are:

Mr. Leung Chi Hung *(Chairman)*
Mr. Leung, Tsz Fung David Ferreira
Mr. Tse Yuen Ming

The primary duties of the Audit Committee are to review, supervise and ensure the objectivity and credibility of financial reporting and internal control procedures as well as to maintain an appropriate relationship with the external auditors of the Company.

For the year ended 31st December, 2005, the Audit Committee met five times during the year, in particular, to review and discuss (1) the accounting principles and practices adopted by the Group; (2) the auditing and financial reporting matters; (3) the re-appointment of external auditors; and (4) the establishment of internal control system with external auditors. The Audit Committee has also reviewed the interim results and the audited financial statements. Each member of the Audit Committee has unrestricted access to the Auditors and all senior management of the Group. *At least once annually, the Audit Committee meets the external auditors without the presence of the management.*

CORPORATE GOVERNANCE REPORT

The Audit Committee has recommended to the Board of Directors that Deloitte Touche Tohmatsu, *Certified Public Accountants*, be nominated for re-appointment as auditors of the Company at the forthcoming annual general meeting of the Company.

Attendance Record at Board Committee Meetings

The following table shows the attendance of Directors at Board Committee meetings during the year:

	Number of meetings attended/Number of meetings held		
Directors	**Nomination Committee**	**Remuneration Committee**	**Audit Committee**
Independent Non-executive Directors			
Mr. Leung Chi Hung	0/0	1/1	5/5
Mr. Leung, Tsz Fung David Ferreira	0/0	1/1	1/2
Mr. Tse Yuen Ming	0/0	1/1	5/5
Mr. Kwok Shun On	N/A	N/A	2/3

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibilities for the preparation of the financial statements of the Group and ensure that the financial statements are in accordance with statutory requirements and applicable accounting standards. The Directors also ensure the timely publication of the financial statements of the Group.

The statement of the external auditors of the Company, Deloitte Touche Tohmatsu, *Certified Public Accountants* ("Deloitte Touche Tohmatsu"), about their reporting responsibilities on the financial statements of the Group is set out in the Report of Auditors on page 25.

The Directors confirm that, to the best of their knowledge, information and belief, having made all reasonable enquiries, they are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("the Model Code") as set out in Appendix 10 of the Listing Rules.

CORPORATE GOVERNANCE REPORT

Having made specific enquiry with all Directors, each of whom has confirmed that he/she has complied with the required standard of dealings set out in the Model Code for the year ended 31st December, 2005 save for the below disclosed.

By a magistrate's summons dated 1st March, 2006, the Company was charged by the Securities and Futures Commission ("SFC") with the offence under the Securities and Futures Ordinance ("SFO") and such charge relates to a copy of the announcement dated 16th October, 2003 being provided by the Company to the Stock Exchange, which contained allegedly false or misleading information and the Company allegedly knowing or being reckless as to whether the information was false or misleading.

Save for the above, no members of the Group was engaged in any litigation or arbitration or claim of material importance and there was no litigation, arbitration or claim of material importance known to the Directors to be pending or threatened by any member of the Group.

Mr. To Shu Fai, the executive Director was engaged in the following litigations in relation to the SFO:

(a) By a magistrate's summons dated 1st March, 2006, Mr. To Shu Fai was charged by the SFC with the offence under the SFO and such charge relates to Mr. To as a director of the Company on or about 16th October, 2003 allegedly consenting to or conniving at the alleged commission of such offence by the Company as mentioned above or the alleged commission of such offence by the Company as mentioned above being attributable to alleged recklessness of Mr. To Shu Fai;

(b) By two magistrate's summons both dated 1st March, 2006, Mr. To Shu Fai was charged by the SFC with the offences under the SFO and such charges relate to the alleged non-compliance with the requirements for notification of cessation of interest in 200 million shares of the Company by Mr. To Shu Fai as Director to the Stock Exchange and the Company, respectively as laid down under the SFO; and

(c) By four magistrate's summons all dated 1st March, 2006, Mr. To Shu Fai was charged by the SFC with the offences under the SFO and such charges relate to Mr. To as a director of Top Synergy and Vision Harvest Limited ("VHL") respectively allegedly consenting to or conniving at the alleged commission of such offences by Top Synergy and VHL, respectively in respect of the alleged non-compliance with the requirements for notification of cessation of interest in 200 million shares of the Company by Top Synergy to the Stock Exchange and the Company, respectively and also by VHL to the Stock Exchange and the Company respectively as laid down under the SFO or the alleged commission of such offences by Top Synergy and also by VHL, respectively being attributable to alleged recklessness of Mr. To Shu Fai.

CORPORATE GOVERNANCE REPORT

EXTERNAL AUDITORS AND THEIR REMUNERATION

The Group's external auditors are Deloitte Touche Tohmatsu for the year ended 31st December, 2005 and they will hold office until the conclusion of the forthcoming annual general meeting of the Company. The annual financial statement for the year ended 31st December, 2005 has been audited by Deloitte Touche Tohmatsu.

The Audit Committee is responsible for considering the appointment of the external auditor and also reviews any non-audit functions performed by the external auditor for the Group. In particular, the Committee will consider, in advance of them being contracted for and performed, whether such non-audit functions could lead to any potential material conflict of interest. The Audit Committee reviews each year a letter from the external auditors confirming their independence and objectivity and holds meetings with Deloitte Touche Tohmatsu to discuss the scope of their audit.

For the year ended 31st December, 2005, the external auditors of the Group provided the following services to the Group:

	2005 **HK$'000**	2004 HK$'000
Audit services	**720**	650
Taxation advisory services	**17**	17
Review on 2005 interim results	**170**	140
Other advisory services	**1,135**	—
Total:	**2,042**	807

The Audit Committee is of the view that the auditors' independence was not affected by the provision of these non-audit related services during the year ended 31st December, 2005.

INTERNAL CONTROL AND RISK MANAGEMENT

The Board is responsible for ensuring that an adequate system of internal controls is maintained within the Group, and for reviewing its effectiveness through the Audit Committee.

The internal control systems are designed to meet the Group's particular needs and the risks to which it is exposed, and by their nature can only provide reasonable, but not absolute assurance against misstatement or loss and to manage, but not to eliminate, risks of failure in achieving the Group's objectives.

CORPORATE GOVERNANCE REPORT

Procedures have been set up for safeguarding assets against unauthorized use or disposition, controlling over capital expenditure, maintaining proper accounting records and ensuring the reliability of financial information used for business and publication. Qualified management throughout the Group maintains and monitors the internal control systems on an ongoing basis.

The Board, through the Audit Committee, has conducted annually reviews of the effectiveness and the adequacy of the Group's system of internal control.

During the year under review, based on the evaluations made by the Audit Committee, the Board was satisfied that nothing has come to its attention to cause the Board to believe that the system of internal control is inadequate; and there is an ongoing process to identify, evaluate and manage significant risks faced by the Group.

SHAREHOLDERS' RIGHTS AND INVESTOR RELATIONS

The Company uses two-way communication channels to account to shareholders and investors for the performance of the Company. The Company values communication with shareholders and investors. Enquiries and suggestions from shareholders or investors are welcomed through the following channels to the Company Secretary:

(i) By mail to the Company's head office at Unit No. 1906, 19/F., West Tower, Shun Tak Centre, 168–200 Connaught Road Central, Hong Kong;

(ii) By telephone at telephone number (852) 3107 8600;

(iii) By fax at fax number (852) 2666 0803; or

(iv) By email at irelations@daidohk.com.

The annual general meeting is the principal forum for formal dialogue with shareholders, where the Board is available to answer questions about specific resolutions being proposed at the meeting and also about the business of the Group. Extensive information about the Group's activities is provided in its annual reports and interim reports which are sent to shareholders and investors. The Company's announcements, press release and publication are circulated and are also available on the Stock Exchange website. The periodic presentation and conference calls with the institutional investors and analysts are made from time to time to release the Group's latest business development plan. In order to provide effective disclosure to shareholders and investors and to ensure they all receive equal access to the same information at the same time, information considered to be of a price sensitive nature is released by way of formal public announcement as required by the Listing Rules.

In order to promote effective communication, the Company also maintains a website (www.daidohk.com) which includes past and latest information relating to the Group and its businesses.

AUDITORS' REPORT

Deloitte.
德勤

TO THE MEMBERS OF DAIDO GROUP LIMITED
(incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Daido Group Limited (the "Company") and its subsidiaries (the "Group") on pages 26 to 83 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of consolidated financial statements which give a true and fair view. In preparing consolidated financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the consolidated financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the consolidated financial statements, and of whether the accounting policies are appropriate to the circumstances of the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the consolidated financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31st December, 2005 and of the loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong, 21st April, 2006

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31ST DECEMBER, 2005

		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	*5*	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	*6*	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	*7*	—	—	—	55,946	—	55,946
Impairment loss arising from adjustment to fair value less costs to sell	*43(iii)*	—	—	(74,879)	—	(74,879)	—
Amortisation of goodwill		—	(555)	—	—	—	(555)
Finance costs	*8*	(994)	(8,463)	—	—	(994)	(8,463)
Gain on disposal of subsidiaries	*9*	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	*10*	(1,430)	—	—	—	(1,430)	—
(Loss) profit before tax		(3,853)	28,471	(68,079)	55,976	(71,932)	84,447
Taxation	*11*	(664)	2,502	(854)	(530)	(1,518)	1,972
(Loss) profit for the year	*12*	(4,517)	30,973	(68,933)	55,446	(73,450)	86,419
Dividend	*14*					—	—
(Loss) earnings per share — basic	*15*						
— from continuing and discontinued operations						(2.45) HK cents	2.88 HK cents
— from continuing operations						(0.15) HK cents	1.03 HK cents

CONSOLIDATED BALANCE SHEET

AT 31ST DECEMBER, 2005

	NOTES	2005 HK$'000	2004 HK$'000 (restated)
NON-CURRENT ASSETS			
Investment properties	*16*	**17,000**	609,000
Property, plant and equipment	*17*	**776**	65,798
Goodwill	*18*	**—**	4,534
Interest in an associate	*19*	**—**	1,546
Long-term receivables	*20*	**—**	13,724
Rental deposits paid		**71,292**	—
Prepaid lease payments	*21*	**—**	24,992
Deposit paid for acquisition of subsidiaries		**10,000**	—
Deferred tax assets	*32*	**—**	942
		99,068	720,536
CURRENT ASSETS			
Inventories	*22*	**—**	5,929
Trade and other receivables	*23*	**2,814**	23,001
Prepaid lease payments	*21*	**—**	605
Loans receivable	*24*	**—**	7,875
Tax recoverable		**—**	122
Bank balances and cash		**199,936**	12,863
		202,750	50,395
Assets classified as held for sale	*43(iii)*	**38,466**	—
		241,216	50,395
CURRENT LIABILITIES			
Amounts due to customers for contract work	*26*	**—**	13,545
Trade and other payables	*27*	**1,722**	24,664
Borrowings	*28*	**—**	150,865
Obligations under a finance lease	*29*	**127**	—
Unclaimed dividends		**19**	20
		1,868	189,094
Liabilities associated with assets classified as held for sale	*43(iii)*	**13,294**	—
		15,162	189,094
NET CURRENT ASSETS (LIABILITIES)		**226,054**	(138,699)
		325,122	581,837

CONSOLIDATED BALANCE SHEET

AT 31ST DECEMBER, 2005

	NOTES	2005 HK$'000	2004 HK$'000
			(restated)
CAPITAL AND RESERVES			
Share capital	30	**30,000**	30,000
Reserves		**284,706**	358,156
		314,706	388,156
NON-CURRENT LIABILITIES			
Borrowings	28	**—**	187,181
Obligations under a finance lease	29	**366**	—
Rental deposits received		**10,050**	—
Guarantee money payable		**—**	3,000
Deferred tax liabilities	32	**—**	3,500
		10,416	193,681
		325,122	581,837

The consolidated financial statements on pages 26 to 83 were approved and authorised for issue by the Board of Directors on 21st April, 2006 and are signed on its behalf by:

TO SHU FAI
CHAIRMAN

FUNG WA KO
DEPUTY CHAIRMAN

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31ST DECEMBER, 2005

	Share capital HK$'000	Investment properties revaluation reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1st January, 2004	30,000	3,014	168,723	201,737
Surplus on revaluation of investment properties recognised directly in equity	—	100,000	—	100,000
Profit for the year	—	—	86,419	86,419
Total recognised income for the year	—	100,000	86,419	186,419
At 31st December, 2004	30,000	103,014	255,142	388,156
At 1st January, 2005	30,000	103,014	255,142	388,156
Effect of changes in accounting policies	—	(103,014)	103,014	—
As restated	30,000	—	358,156	388,156
Total recognised expenses for the year — loss for the year	—	—	(73,450)	(73,450)
At 31st December, 2005	30,000	—	284,706	314,706

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31ST DECEMBER, 2005

	NOTE	**2005 HK$'000**	2004 HK$'000 (restated)
OPERATING ACTIVITIES			
(Loss) profit before tax		**(71,932)**	84,447
Adjustments for:			
Allowance for inventories		**45**	178
Amortisation of goodwill		**—**	555
Amortisation of goodwill in an associate		**—**	166
Depreciation and amortisation		**6,825**	5,797
Fair value gain on investment properties		**(52)**	—
Finance costs		**994**	8,463
Gain on disposal of interests in subsidiaries		**(5,289)**	—
Gain on disposal of property, plant and equipment		**(21)**	—
Impairment loss in respect of interest in an associate		**1,430**	—
Impairment loss recognised in respect of trade and other receivables		**521**	1,369
Reversal of impairment loss recognised in respect of prepaid lease payments, and property, plant and equipment		**—**	(55,946)
Impairment loss arising from adjustment to fair value less costs to sell		**74,879**	—
Interest income		**(5,789)**	(1,055)
Reversal of impairment loss recognised in respect of trade and other receivables		**(542)**	(66)
Share of results of an associate		**116**	288
Operating cash flows before movements in working capital		**1,185**	44,196
Decrease (increase) in inventories		**161**	(957)
Decrease in trade and other receivables and deposits		**43,403**	9,369
Decrease in amounts due from customers for contract work		**—**	2
Decrease in amounts due to customers for contract work		**(9,528)**	(1,322)
Decrease in trade and other payables, rental deposits and guarantee money received		**(3,389)**	(4,260)
Decrease in amount due to ultimate holding company		**—**	(900)
Net cash generated from operations		**31,832**	46,128
Hong Kong Profits Tax paid		**(365)**	(2,205)
NET CASH FROM OPERATING ACTIVITIES		**31,467**	43,923
INVESTING ACTIVITIES			
Interest received		**5,787**	1,155
Purchase of investment properties		**(16,948)**	—
Purchase of property, plant and equipment		**(362)**	(733)
Proceeds from disposal of property, plant and equipment		**21**	—
Acquisition of an associate		**—**	(2,000)
Disposal of subsidiaries, net of cash and cash equivalent disposed of	*33*	**525,217**	—
Decrease in other loans receivable		**—**	4,875
Deposit paid for acquisition of subsidiaries		**(10,000)**	—
NET CASH FROM INVESTING ACTIVITIES		**503,715**	3,297

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31ST DECEMBER, 2005

	2005 HK$'000	2004 HK$'000 (restated)
FINANCING ACTIVITIES		
Dividend paid	**(1)**	(80)
Interest paid	**(4,172)**	(10,222)
Repayment of borrowings	**(338,046)**	(31,876)
Repayment of obligations under a finance lease	**(45)**	—
CASH USED IN FINANCING ACTIVITIES	**(342,264)**	(42,178)
NET INCREASE IN CASH AND CASH EQUIVALENTS	**192,918**	5,042
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**12,863**	7,821
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	**205,781**	12,863
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Bank balances and cash	**205,781**	12,863

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2005

1. GENERAL

The Company is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The Company's parent and ultimate holding company is Top Synergy Associates Limited, a company which is incorporated in the British Virgin Islands. The addresses of the registered office and principal place of business of the Company are disclosed in the section headed "Corporate information" in the annual report.

The principal activities of the Group are manufacture, sales and installation of autoclaved aerated lightweight concrete blocks and panels ("ALC products"), sub-leasing of properties and properties investment.

The consolidated financial statements are presented in Hong Kong dollars, which is the same as the functional currency of the Company.

2. 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. With respect to goodwill previously capitalised on the consolidated balance sheet, the Group on 1st January, 2005 eliminated the carrying amount of the related accumulated amortisation of HK$1,018,000 with a corresponding decrease in the cost of goodwill (see note 18). 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2005

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES *(Continued)*

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 principally 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.

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 the Group shall not reclassify or re-present amounts presented for non-current assets or for the assets and liabilities of disposal groups classified as held for sale in the consolidated balance sheet for prior periods to reflect the classification in the consolidated balance sheet for the latest period presented.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2005

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

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 HK$440,000 respectively. The financial effect of the adoption is further disclosed in note 3.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2005

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES *(Continued)*

Investment properties

In the current year, the Group has, for the first time, applied HKAS 40 *Investment property*. The Group has elected to use the fair value model to account for its investment properties which requires gains or losses arising from changes in the fair value of investment properties to be recognised directly in the profit or loss for the period in which they arise. In previous periods, investment properties under the predecessor accounting standard were measured at open market values, with revaluation surplus or deficits credited or charged to investment properties 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 properties 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 properties revaluation reserve at 1st January, 2005 of HK$103,014,000 has been transferred to the Group's retained profits. Comparative figures have not 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 29 Financial 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2005

3. 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 **HK$'000**	2004 HK$'000
Decrease in amortisation of goodwill	**93**	—
Increase in fair value gain on investment properties	**52**	—
Decrease in gain on disposal of subsidiaries	**(103,014)**	—
Increase in impairment loss arising from adjustment to fair value less costs to sell	**(74,879)**	—
Increase in loss for the year	**(177,748)**	—

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

	At 31st December, 2004, (originally stated) HK$'000	Effect on HKAS 17 HK$'000	At 31st December, 2004 (restated) HK$'000	Effect on HKAS 40 HK$'000	**At 1st January, 2005 (restated) HK$'000**
Property, plant and equipment	91,395	(25,597)	65,798	—	**65,798**
Prepaid lease payments	—	25,597	25,597	—	**25,597**
Total effect on assets and liabilities		—		—	
Investment properties revaluation reserve	103,014	—	103,014	(103,014)	**—**
Retained profits	255,142	—	255,142	103,014	**358,156**
Total effect on equity		—		—	

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2005

4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared under the historical cost basis except for certain assets, which are measured at fair values.

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance. The principal accounting policies adopted are as follows:

Basis of consolidation

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

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 intercompany transactions and balances within the Group have been eliminated on consolidation.

Goodwill

Goodwill arising on acquisitions prior to 1st January, 2005

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2005

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Goodwill *(Continued)*

Impairment of goodwill

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

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

Investments in associates

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the profit or loss and of changes in equity of the associate, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Where a group entity transacts with an associate of the Group, unrealised profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2005

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recoverable principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition.

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

Revenue recognition

Construction contracts

When the outcome of a construction contract can be estimated reliably, revenue from fixed price construction contracts is recognised on the percentage of completion method, measured by reference to the proportion that costs incurred to date bear to estimated total costs for each contract. Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.

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

Others

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

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Investment properties

On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured using the fair value model. Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the period in which they arise.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2005

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investment properties *(Continued)*

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use or no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated income statement in the year in which the item is derecognised.

Property, plant and equipment

Property, plant and equipment are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives, using the straight-line method.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as assets owned by the Group or, where shorter, the term of the relevant lease.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year in which the item is derecognised.

Owner-occupied leasehold interest in land

The land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification. 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 classified as prepaid lease payments under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis.

Inventories

Inventories are stated at the lower of cost and net realisable value.

The cost of inventories of ALC products comprises direct materials and, where applicable, direct labour costs and those production overheads that have been incurred in bringing the inventories to their present location and condition, is calculated using the weighted average cost method.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2005

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Construction contracts

Where the outcome of a construction contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the balance sheet date, as measured by the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is shown as an amount due from customers for contract work. For contracts where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is shown as an amount due to customers for contract work. Amounts received before the related work is performed are included in the balance sheet, as a liability, as advances received. Amounts billed for work performed but not yet paid by the customer are included in the balance sheet under trade and other receivables.

Impairment (other than goodwill)

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2005

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leasing

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

The Group as lessor

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

The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss.

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

Retirement benefit costs

Payments to defined contribution retirement benefit plan/the Mandatory Provident Fund Scheme are charged as an expense as they fall due.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2005

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise.

Taxation

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2005

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

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

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

Financial instruments

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

Trade and other receivables, loans receivable

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

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits and are subject to an insignificant risk of changes in value. Bank balances are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest method.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2005

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial liabilities and equity

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

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue cost.

Borrowings

Borrowings are initially recorded at the proceeds and are subsequently measured at amortised cost, using the effective interest method. Finance costs, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accrual basis to the income statement using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Trade and other payables, unclaimed dividends and guarantee money payable

Trade and other payables, unclaimed dividends and guarantee money payable are initially measured at fair value and are subsequently measured at amortised cost, using the effective interest rate method.

5. REVENUE AND SEGMENT INFORMATION

An analysis of the Group's revenue for the year, for both continuing and discontinued operations, is as follows:

	2005 **HK$'000**	2004 HK$'000
Continuing operations		
Rental income	**41,590**	41,194
Discontinued operation		
Revenue from construction work contracting and sales of concrete products	**55,905**	68,053
	97,495	109,247

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2005

5. REVENUE AND SEGMENT INFORMATION *(Continued)*

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. Sub-leasing of properties is a new segment in the current year.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2005

5. REVENUE AND SEGMENT INFORMATION *(Continued)*

Business segments *(Continued)*

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)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2005

5. REVENUE AND SEGMENT INFORMATION *(Continued)*

BALANCE SHEET

	Continuing operations			Discontinued operation	
	Sub-leasing HK$'000	Property investment HK$'000	Total HK$'000	Construction work contracting and sales of concrete products HK$'000	Consolidated 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 HK$'000	Property investment HK$'000	Total HK$'000	Construction work contracting and sales of concrete products HK$'000	Consolidated 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)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2005

5. REVENUE AND SEGMENT INFORMATION *(Continued)*

2004

	Continuing operation	Discontinued operation	
	Property investment HK$'000	Construction work contracting and sales of concrete products HK$'000	Consolidated 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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2005

5. REVENUE AND SEGMENT INFORMATION *(Continued)*

BALANCE SHEET

	Continuing operation	Discontinued operation	
	Property investment HK$'000	Construction work contracting and sales of concrete products HK$'000	Consolidated 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 operation	Discontinued operation	
	Property investment HK$'000	Construction work contracting and sales of concrete products HK$'000	Consolidated 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 customers located in 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2005

6. OTHER INCOME

	Continuing operations		Discontinued operation		Consolidated	
	2005	2004	**2005**	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Exchange gain, net	**—**	—	**—**	8	**—**	8
Gain on disposal of property, plant and equipment	**—**	—	**21**	—	**21**	—
Guarantee deposits forfeited	**—**	—	**106**	—	**106**	—
Interest income from						
— bank deposits	**4,501**	—	**705**	6	**5,206**	6
— loans receivable	**309**	817	**274**	232	**583**	1,049
Write back of provision for staff commission	**—**	—	**203**	—	**203**	—
Sundry income	**—**	—	**795**	3	**795**	3
	4,810	817	**2,104**	249	**6,914**	1,066

7. REVERSAL OF IMPAIRMENT LOSS IN RESPECT OF PREPAID LEASE PAYMENTS, AND PROPERTY, PLANT AND EQUIPMENT

Discontinued operation

During last year, the directors had reviewed the carrying values of the prepaid lease payments for land and buildings by reference to a professional valuation made by Vigers Appraisal & Consulting Limited, an independent firm of professional property valuers, on 30th April, 2004 on open market value basis. Impairment loss recognised before of HK$21,270,000 and HK$34,676,000 in respect of the prepaid lease payments, and property, plant and equipment has been reversed accordingly. The directors considered that the value of the prepaid lease payments for land and buildings as at 31st December, 2004 was not materially different from the professional valuation made at 30th April, 2004.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2005

8. FINANCE COSTS

	Continuing operations		Discontinued operation		Consolidated	
	2005	2004	**2005**	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Interest on bank and other loans wholly repayable within five years	**994**	8,463	**—**	—	**994**	8,463

9. GAIN ON DISPOSAL OF SUBSIDIARIES

On 30th December, 2004, the Company announced that a conditional sale and purchase agreement was entered into among one of its indirectly wholly-owned subsidiary, the purchaser and the Company on 13th December, 2004 in respect of the disposal of entire issued capital in Best Goal International Limited and Double Worth Profits Limited, both are indirectly wholly-owned subsidiaries of the Company (the "Disposed Group"), which carried on property investment businesses, for a cash consideration of HK$650,000,000 (the "Disposal"). Details of the Disposal were set out in the circular of the Company dated 20th January, 2005.

At the special general meeting held on 7th February, 2005, an ordinary resolution proposed to approve the Disposal and the new lease arrangement was duly passed by the shareholders. On 15th February, 2005, the board of directors announced that all conditions under the sale and purchase agreement were satisfied and the completion of the Disposal took place, and the new lease arrangement executed on the same date.

The gain on disposal of subsidiaries was HK$5,289,000. No tax charge or credit arose on the Disposal.

The carrying amounts of the assets and liabilities of the Disposed Group at date of disposal are disclosed in note 33.

10. IMPAIRMENT LOSS IN RESPECT OF INTEREST IN AN ASSOCIATE

Continuing operations

During the year, based on the Group's assessment of the carrying amount of the interest in the associate by considering the continuous operating loss since recent years, the directors consider that an impairment loss of HK$1,430,000 in respect of the goodwill to be recognised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2005

11. 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
Underprovision in respect of prior years	**—**	1,113	**—**	—	**—**	1,113
	342	2,083	**—**	—	**342**	2,083
Deferred tax (note 32)						
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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2005

11. TAXATION *(Continued)*

The tax charge (credit) for the year can be reconciled to the (loss) profit before tax per the consolidated income statement as follows:

	2005	2004
	HK$'000	HK$'000
(Loss) profit before tax	**(71,932)**	84,447
Tax at the Hong Kong Profits Tax rate of 17.5%	**(12,588)**	14,778
Tax effect of expenses not deductible for tax purpose	**13,269**	397
Tax effect of income not taxable for tax purpose	**(3,596)**	(9,854)
Utilisation of tax losses previously not recognised	**(835)**	(3,768)
Tax effect of tax losses previously not recognised but recognised in current year	**—**	(2,618)
Tax effect of deductible temporary differences not recognised	**260**	—
Tax effect of tax losses not recognised	**5,124**	—
Depreciation allowances claimed subsequently not agreed by the Inland Revenue Department and utilised in current year	**—**	(1,967)
Underprovision in respect of prior years	**—**	1,113
Others	**(116)**	(53)
Tax charge (credit) for the year	**1,518**	(1,972)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2005

12. (LOSS) PROFIT FOR THE YEAR

	Continuing operations		Discontinued operation		Consolidated	
	2005 HK$'000	2004 HK$'000	**2005 HK$'000**	2004 HK$'000	**2005 HK$'000**	2004 HK$'000 (restated)
(Loss) profit for the year has been arrived at after charging (crediting):						
Allowance for inventories	**—**	—	**45**	178	**45**	178
Amortisation of prepaid lease payments	**—**	—	**605**	440	**605**	440
Auditors' remuneration	**415**	345	**305**	305	**720**	650
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**	—
Minimum lease payments for operating leases in respect of rented premises	**56**	—	**685**	695	**741**	695
Gross rental income from investment properties *(note)*	**(5,145)**	(41,194)	**—**	—	**(5,145)**	(41,194)
Less: Direct expenses from investment properties that generated rental income during the year	**136**	2,156	**—**	—	**136**	2,156
	(5,009)	(39,038)	**—**	—	**(5,009)**	(39,038)
Other rental income	**(36,445)**	—	**—**	—	**(36,445)**	—
Less: Direct expenses from other properties that generated rental income during the year	**49,995**	—	**—**	—	**49,995**	—
	13,550	—	**—**	—	**13,550**	—
Staff costs	**565**	411	**15,858**	27,462	**16,423**	27,873
Less: Amount capitalised in contract work	**—**	—	**(4,979)**	(13,216)	**(4,979)**	(13,216)
	565	411	**10,879**	14,246	**11,444**	14,657

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2005

Note: No contingent rental income for the year (2004: HK$994,000).

13. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

The emoluments paid or payable to the directors were as follows:

	To Shu Fai HK$'000	Fung Wa Ko HK$'000	Tang Tsz Man, Philip HK$'000	Tse Yuen Ming HK$'000	Kwok Shun On HK$'000	Leung Chi Hung HK$'000	Leung Tsz Fung David Ferreira HK$'000	**2005 HK$'000**
Fees	—	—	—	80	40	80	40	**240**
Other emoluments								
Salaries and other benefits	200	920	120	—	—	—	—	**1,240**
Contributions to retirement benefits scheme	—	35	2	—	—	—	—	**37**
Total emoluments	200	955	122	80	40	80	40	**1,517**

	To Shu Fai HK$'000	Fung Wa Ko HK$'000	Tang Tsz Man, Philip HK$'000	Tse Yuen Ming HK$'000	Kwok Shun On HK$'000	Leung Chi Hung HK$'000	2004 HK$'000
Fees	—	—	—	80	80	80	240
Other emoluments							
Salaries and other benefits	—	650	170	—	—	—	820
Contributions to retirement benefits scheme	—	30	2	—	—	—	32
Total emoluments	—	680	172	80	80	80	1,092

No director waived any emoluments in the years ended 31st December, 2005 and 2004.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2005

13. DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(Continued)*

(b) Employees' emoluments

The five highest paid individuals included one (2004: one) director, details of whose emoluments are set out above. The emoluments of the remaining four (2004: four) individuals, are as follows:

	2005 **HK$'000**	2004 HK$'000
Salaries and other benefits	**2,389**	2,389
Contribution to retirement benefits scheme	**126**	124
	2,515	2,513

Their emoluments were within the following band:

	2005 **Number of employees**	2004 Number of employees
Nil to HK$1,000,000	**4**	4

14. DIVIDEND

No interim dividend is paid during the year (2004: nil).

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2005

15. (LOSS) EARNINGS PER SHARE

From continuing and discontinued operations

The calculation of the basic (loss) earnings per share is based on the following data:

	2005 HK$'000	2004 HK$'000
(Loss) earnings		
(Loss) earnings for the purposes of basic (loss) earnings per share	(73,450)	86,419

	'000	'000
Number of shares		
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 is based on the following data:

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

The denominators used are the same as those detailed above for basic (loss) earnings per share.

From discontinued operation

Basic loss per share for discontinued operation is 2.30 HK cents (2004: basic 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2005

15. (LOSS) EARNINGS PER SHARE *(Continued)*

From discontinued operation *(Continued)*

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

	Impact on (loss) earnings per share	
	2005	2004
	HK cents	HK cents
Reported figures before adjustments	**3.47**	2.88
Adjustments arising from changes in accounting policies *(see note 3)*	**(5.92)**	—
Restated	**(2.45)**	2.88

16. INVESTMENT PROPERTIES

	HK$'000
FAIR VALUE	
At 1st January, 2004	509,000
Surplus on revaluation	100,000
At 31st December, 2004	609,000
Disposal upon disposal of subsidiaries	(609,000)
Addition	16,948
Gain on change in fair value	52
At 31st December, 2005	17,000

The fair value of the Group's investment properties at 31st December, 2005 have been arrived at on the basis of a valuation carried out on that date by RHL Appraisal Ltd., an independent firm of professional property valuers not connected with the Group. RHL Appraisal Ltd. are members of the Hong Kong Institute of Surveyors, and have appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations. The valuation, which conforms to International Valuation Standards, was arrived at by reference to market evidence of transaction prices for similar properties.

All the investment properties of the Group are situated in Hong Kong and held under medium-term leases. The investment properties disposed of during the year were rented out under operating leases. The investment properties as at 31st December, 2005 are vacant.

All of the Group's leasehold interests in land held under operating leases to earn rentals are measured using the fair value model and are classified and accounted as investment properties.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2005

17. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land HK$'000	Industrial buildings HK$'000	Furniture and fixtures HK$'000	Motor vehicles HK$'000	Plant and machinery and equipment HK$'000	Total HK$'000
COST						
At 1st January, 2004 as originally stated	31,415	71,111	1,114	452	131,945	236,037
Effect of changes in accounting policies *(note 2)*	(31,415)	—	—	—	—	(31,415)
At 1st January, 2004 as restated	—	71,111	1,114	452	131,945	204,622
Additions	—	—	3	—	730	733
Disposals	—	—	—	—	(84)	(84)
At 31st December, 2004	—	71,111	1,117	452	132,591	205,271
Additions	—	—	180	574	146	900
Transferred to assets classified as held for sale	—	(71,111)	(956)	(365)	(132,504)	(204,936)
Disposals	—	—	(162)	(123)	(148)	(433)
At 31st December, 2005	—	—	179	538	85	802
DEPRECIATION AND IMPAIRMENT						
At 1st January, 2004 as originally stated	26,648	63,617	1,083	378	103,798	195,524
Effect of changes in accounting policies *(note 2)*	(26,648)	—	—	—	—	(26,648)
At 1st January, 2004 as restated	—	63,617	1,083	378	103,798	168,876
Provided for the year	—	2,183	8	56	3,110	5,357
Impairment loss reversed	—	(34,676)	—	—	—	(34,676)
Eliminated on disposals	—	—	—	—	(84)	(84)
At 31st December, 2004	—	31,124	1,091	434	106,824	139,473
Provided for the year	—	3,018	8	30	3,164	6,220
Transferred to assets classified as held for sale	—	(34,142)	(933)	(322)	(109,837)	(145,234)
Eliminated on disposals	—	—	(162)	(123)	(148)	(433)
At 31st December, 2005	—	—	4	19	3	26
CARRYING VALUES						
At 31st December, 2005	—	—	175	519	82	776
At 31st December, 2004	—	39,987	26	18	25,767	65,798

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2005

17. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

The above items of property, plant and equipment are depreciated on a straight-line method at the following rate per annum:

Industrial buildings	Over the shorter of the terms of the leases, or 20 to 25 years
Furniture and fixtures	10%–33$^{1}/_{3}$%
Motor vehicles	20%–33$^{1}/_{3}$%
Plant and machinery and equipment	5%–50%

The industrial buildings of the Group are situated in Hong Kong and are held under medium-term leases.

The carrying value of motor vehicles includes an amount of HK$520,000 (2004: nil) in respect of asset held under finance leases.

18. GOODWILL

	HK$'000
COST	
At 1st January, 2004 and 2005	5,552
Elimination of accumulated amortisation upon the application of HKFRS 3 (see note 2)	(1,018)
Eliminated on disposal of subsidiaries	(4,534)
At 31st December, 2005	—
AMORTISATION	
At 1st January, 2004	463
Amortised for the year	555
At 1st January, 2005	1,018
Elimination of accumulated amortisation upon the application of HKFRS 3 (see note 2)	(1,018)
At 31st December, 2005	—
CARRYING VALUES	
At 31st December, 2005	—
At 31st December, 2004	4,534

Prior to 31st December, 2004, goodwill was amortised using the straight-line method over its estimated useful life of ten years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2005

19. INTEREST IN AN ASSOCIATE

	2005	2004
	HK$'000	HK$'000
Cost of investment in an associate	**3,257**	3,257
Share of post-acquisition losses, net of dividends received	**(1,827)**	(1,711)
Less: Impairment	**(1,430)**	—
	—	1,546

Prior to 31st December, 2004, goodwill was amortised using the straight-line method over its estimated useful life of five years.

Included in the cost of investment in an associate is goodwill of nil (2004: HK$1,257,000) arising on acquisition of the associate in prior year.

As at 31st December, 2005, the Group has interest in the following associate:

Name	**Form of business structure**	**Place of incorporation and operation**	**Class of shares held**	**Proportion of nominal value of issue capital held indirectly by the Company**	**Principal activities**
iNeTalk.com Limited	Incorporated	Hong Kong	Ordinary	16% *(note)*	Development and deployment of high quality Internet-based communication services

Note: This company has been accounted for as an associate as, in the opinion of the directors, the Group is in a position to exercise significant influence over the management of this company as majority of the board of directors are also directors of the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2005

19. INTEREST IN AN ASSOCIATE *(Continued)*

Summarised unaudited financial information in respect of the Group's associate is set out below:

	2005 HK$'000	2004 HK$'000
Total assets	**3,478**	3,856
Total liabilities	**(2,483)**	(2,048)
Net assets	**995**	1,808
Group's share of associate's net assets	**—**	289
Revenue	**7,230**	12,413
Loss for the year	**(725)**	(1,800)
Group's share of associate's net loss	**(116)**	(288)

20. LONG-TERM RECEIVABLES

	2005 HK$'000	2004 HK$'000
Other loans *(note a)*	**—**	13,406
Retention receivables *(note b)*	**—**	6,923
	—	20,329
Less: amounts due within one year included in		
— trade and other receivables	**—**	(1,730)
— loans receivable *(note a)*	**—**	(4,875)
Amounts due after one year	**—**	13,724

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2005

20. LONG-TERM RECEIVABLES *(Continued)*

(a) Included loans of HK$10,406,000 to the tenant of the Group's investment properties for the purpose of upgrading the machinery and equipment in the cold storage warehouses are secured, bore interest at Hong Kong Prime Lending Rate per annum and repayable by 16 quarterly instalments commencing on 19th December, 2003. The loans had been fully repaid during the year.

(b) The retention receivables were not yet due at the balance sheet date according to the provisions in the construction contracts and hence, no aged analysis is presented.

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

21. PREPAID LEASE PAYMENTS

	2005 **HK$'000**	2004 HK$'000
Prepayments for leasehold interest in land in Hong Kong held under medium-term leases	—	4,327
Reversal of impairment loss	—	21,270
	—	25,597
Analysed for reporting purposes as:		
Current assets	—	605
Non-current assets	—	24,992
	—	25,597

22. INVENTORIES

	2005 **HK$'000**	2004 HK$'000
Raw materials	—	1,790
Work in progress	—	1,095
Finished goods	—	2,836
Supplies	—	208
	—	5,929

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2005

23. 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:

	2005 **HK$'000**	2004 HK$'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 the carrying amounts of trade and other receivables approximate to their fair values.

24. LOANS RECEIVABLE

	2005 **HK$'000**	2004 HK$'000
Interest bearing at 9.12% per annum	—	3,000
Interest bearing at 5.125% per annum	—	4,875
	—	7,875

Notes: The directors consider the carrying amounts of loans receivable approximate to their fair values.

25. OTHER FINANCIAL ASSETS

Other financial assets include deposit paid for acquisition of subsidiaries, rental deposits paid and bank balances and cash. Bank balances and cash comprise short term bank deposits at prevailing market interest rates and fixed interest rate of 3.85% per annum. The directors consider the rental deposits paid and bank balances and cash approximate to their fair values.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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26. AMOUNTS DUE TO CUSTOMERS FOR CONTRACT WORK

	2005 **HK$'000**	2004 HK$'000
Contracts in progress at the balance sheet date:		
Contract costs incurred to date plus attributable profits less recognised losses	—	137,400
Progress payments received and receivable	—	(150,945)
	—	(13,545)
Analysed for reporting purposes as:		
Amounts due to customers for contract work	—	(13,545)

27. TRADE AND OTHER PAYABLES

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

	2005 **HK$'000**	2004 HK$'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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2005

28. BORROWINGS

	2005 HK$'000	2004 HK$'000
Secured		
Bank loans *(note 1)*	—	222,655
Other loans *(note 2)*	—	115,391
	—	338,046
The borrowings are repayable as follows:		
On demand or within one year	—	150,865
In the second year	—	39,075
In the third to fifth years inclusive	—	148,106
	—	338,046
Less: Amounts due for settlement within one year shown under current liabilities	—	(150,865)
Amounts due for settlement after one year	—	187,181

Notes:

1. The bank loans were secured by the investment properties previously owned by the Group, an assignment of rental over the investment properties and the shares of certain subsidiaries, bore interest at 2.04% per annum and repayable by instalments. The last instalment of one bank loan is repayable in September 2007 while another bank loan is repayable in June 2009. The bank loans had been fully repaid during the year.

2. The other loans were secured by the shares of certain subsidiaries, bore interest at 3% per annum and repayable within one year. The loans were advanced from independent third parties. The other loans had been fully repaid during the year.

3. The directors consider that the carrying amounts of the loans approximate to their fair values.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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29. OBLIGATIONS UNDER A FINANCE LEASE

	Minimum lease payment		Present value of minimum lease payment	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
THE GROUP				
Within one year	**153**	—	**127**	—
In the second to fifth year inclusive	**395**	—	**366**	—
	548	—	**493**	—
Less: future finance charges	**(55)**	—		
Present value of lease obligations	**493**	—		
Less: Amount due for settlement within one year shown under current liabilities			**(127)**	—
Amount due for settlement after one year			**366**	—

The obligations under a finance lease represents the finance lease for one motor vehicle. The term of the lease is for four years at a fixed rate of 2.5% per annum and is secured by the lessor's charge over the leased asset.

30. SHARE CAPITAL

	Number of shares	Amount
		HK$'000
Ordinary shares of HK$0.01 each		
Authorised:		
At 1st January, 2004, 31st December, 2004 and 2005	5,000,000,000	50,000
Issued and fully paid:		
At 1st January, 2004, 31st December, 2004 and 2005	3,000,000,000	30,000

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2005

31. SHARE OPTION SCHEME

Pursuant to the Share Option Scheme (the "Option Scheme") of the Company adopted on 29th August, 2000 which became effective on 10th November, 2000 for the primary purpose of providing incentive to directors and eligible employees, and which will expire ten years after the date of adoption, the directors of the Company may grant options to executive directors or full time employees of the Group to subscribe for shares in the Company at a price not less than 80% of the average of the closing prices of the Company's shares on the five trading days immediately preceding the offer of the options or the nominal value of the shares, whichever is the greater. The maximum number of shares in respect of which options may be granted under the Option Scheme may not exceed 10% of the issued share capital of the Company from time to time excluding any shares issued upon the exercise of options granted pursuant to the Option Scheme. No employee may be granted options which would enable him or her to subscribe for an aggregate of more than 25% of the aggregate number of shares under the Option Scheme. Upon acceptance of option, the grantee shall pay HK$1 to the Company as consideration.

The directors noted that an announcement was issued by the Stock Exchange on 23rd August, 2001 to introduce certain amendments to Chapter 17 (Equity Securities — Share Option Schemes) of The Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and that such amendments became effective on 1st September, 2001.

Prior to 1st September, 2001, the exercise price is determined by the directors of the Company at a price not less than 80% of the average of the closing prices of the shares on the Stock Exchange on the five trading days immediately preceding the date of offer of the options or the nominal value of the shares, whichever is the higher. With effect from 1st September, 2001, the exercise price is determined by the directors of the Company, and will not be less than the higher of the closing price of the Company's shares on the date of grant, and the average closing prices of the shares for the five business days immediately preceding the date of grant.

As the Option Scheme no longer complies with the amended rules in the Listing Rules governing share schemes, no further option can be granted under the Option Scheme from 1st September, 2001 unless the grant complies with the amended Chapter 17 of the Listing Rules. Nevertheless, options previously granted under the Scheme will continue to be exercisable in accordance with the Option Scheme.

No share option was granted or exercised during the year and outstanding at 31st December, 2004 and 2005.

In relation to share options granted before 1st January, 2005, the Group elected not to apply HKFRS 2 *Share-based payment* with respect to share options granted on or before 7th November, 2002 and vested before 1st January, 2005.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2005

32. DEFERRED TAX

The following are the major deferred tax assets and liabilities recognised by the Group and movements thereon during the current and prior years.

	Tax losses	Accelerated tax depreciation	Total
	HK$'000	HK$'000	HK$'000
At 1st January, 2004	1,472	(8,085)	(6,613)
Credit for the year	2,418	1,637	4,055
At 31st December, 2004	3,890	(6,448)	(2,558)
(Charge) credit for the year	(1,386)	210	(1,176)
Eliminated on disposal of subsidiaries	(2,346)	6,168	3,822
Amount transferred to liabilities associated with assets classified as held for sale	(88)	—	(88)
At 31st December, 2005	70	(70)	—

For the purposes of balance sheet presentation, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	2005	2004
	HK$'000	HK$'000
Deferred tax assets	**—**	942
Deferred tax liabilities	**—**	(3,500)
	—	(2,558)

At the balance sheet date, the Group has unused tax losses of HK$154,002,000 (2004: HK$150,820,000) available for offset against future profits. A deferred tax has been recognised in respect of tax losses of HK$905,000 (2004: HK$22,231,000) of such losses. No deferred tax asset has been recognised in respect of the remaining tax losses of HK$153,097,000 (2004: HK$128,589,000) due to the unpredictability of future profit streams.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2005

32. DEFERRED TAX *(Continued)*

At the balance sheet date, the Group has deductible temporary difference of HK$1,486,000 (2004: nil). No deferred tax assets has been recognised in relation to such deductible temporary differences as it is not probable that sufficient taxable profit will be available against which the deductible temporary differences can be utilised.

33. DISPOSAL OF SUBSIDIARIES

As referred to in note 9, in February 2005, the Group disposed of certain subsidiaries. The net assets of the subsidiaries at the time of disposal were as follows:

	2005 HK$'000
Net assets disposed of:	
Investment properties	609,000
Goodwill	4,534
Long-term receivables	13,406
Trade and other receivables	105
Tax recoverable	145
Bank balances and cash	3,215
Trade and other payables	(48)
Amounts due to the disposed subsidiaries	(103,392)
Deferred tax liabilities	(3,822)
Net assets disposed of	523,143
Gain on disposal of interests in subsidiaries	5,289
Net consideration	528,432
Satisfied by:	
Net cash consideration	528,432
Net cash inflow arising on disposal:	
Net cash consideration	528,432
Bank balances and cash disposed of	(3,215)
	525,217

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2005

33. DISPOSAL OF SUBSIDIARIES *(Continued)*

The subsidiaries disposed of during the year has constitute a cash outflow of HK$191,000 in the Group's operating activities, cash inflow of HK$156,000 in the investing activities and cash outflow of HK$740,000 in financing activities.

The subsidiaries disposed of during the year contributed HK$5,145,000 to the Group's turnover and a gain of HK$3,131,000 to the Group's loss for the year.

34. MAJOR NON-CASH TRANSACTIONS

During the year, the Group entered into a finance lease in respect of the acquisition of property, plant and equipment with a total capital value at the inception of the lease of HK$538,000 (2004: nil).

35. PLEDGE OF ASSETS

At 31st December, 2004, the Group had pledged its investment properties of HK$609,000,000 as securities against bank loans granted to the Group. The pledge was released and the bank loans had been settled during the year.

At 31st December, 2004, the Group has pledged the shares of certain of its subsidiaries to a bank and other independent third parties as securities for bank and other loans granted to the Group. The pledge was released and the loans had been settled during the year.

36. CONTINGENT LIABILITIES

At the balance sheet date, the Group had the following contingent liabilities:

(i) At 27th September, 2002, a Dangerous Hillside Order was issued by the Buildings Department requiring necessary improvement works to be carried out on the hillside adjacent to the Group's investment properties, which had been disposed of in February 2005 through the disposal of subsidiaries. After the disposal, the Group is still liable to the necessary improvement works. Final tender for the relevant improvement works was made to a contractor for a sum of HK$856,262 on 7th November, 2005. The total cost for the work is estimated to be HK$1,500,000.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2005

36. CONTINGENT LIABILITIES *(Continued)*

(ii) At 15th February, 2005, a deed of indemnity in the amount of HK$5,000,000 in respect of taxation was entered into among one of the subsidiaries and the Disposed Group which were indirectly wholly-owned subsidiaries of the Company and disposed of by the Company in early 2005 regarding the potential tax claims by tax authority to the Disposed Group. The directors are of the opinion that the potential for the tax claims was remote and hence, will not give rise to any material adverse impact on the financial position of the Group. No provision has been made in the consolidated financial statements.

(iii) At 31st December, 2004, certain subsidiaries have been named as defendant in High Court actions in respect of injury claims from the workers with accidents occurred in 1999 and 2000 and the injury claims amounted to approximately HK$7,500,000. The claims had been settled during the year.

37. CAPITAL COMMITMENTS

At 31st December 2005, the Group entered into an agreement to acquire subsidiaries for a total consideration of HK$56 million (subject to adjustment) and a deposit of HK$10 million has been paid during the year.

38. OPERATING LEASE ARRANGEMENTS

The Group as lessee

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2005	2004
	HK$'000	HK$'000
Within one year	**57,514**	—
In the second to fifth years inclusive	**228,033**	—
Over five years	**291,486**	—
	577,033	—

At 31st December, 2005, leases are negotiated for terms of fourteen years and can be terminated by surrendering one year notice after the first ten years of tenancy. Monthly rental are fixed and recognised over the terms of the leases.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2005

38. OPERATING LEASE ARRANGEMENTS *(Continued)*

The Group as lessor

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

	2005 **HK$'000**	2004 HK$'000
Within one year	**56,875**	10,050
In the second to fifth year inclusive	**227,501**	—
After five years	**291,486**	—
	575,862	10,050

At 31st December, 2005, leases are negotiated for terms of fourteen years and can be terminated by surrendering one year notice after the first ten years of tenancy. Monthly rental are fixed and recognised over the terms of the leases.

At 31st December, 2004, leases are negotiated for terms of three years and can be terminated by surrendering three months' notice from the landlord or the tenant after the first year lease. Monthly rental are recognised over the terms of the leases. Contingent rent income were calculated based on the excess of certain amount of turnover of the relevant operation that occupied the properties over the pre-determined monthly rentals agreed by both parties.

39. RETIREMENT BENEFITS SCHEMES

The Group participated in both a defined contribution scheme which is registered under the Occupational Retirement Scheme Ordinance (the "ORSO Scheme") and a Mandatory Provident Fund Scheme (the "MPF Scheme") established under the Mandatory Provident Fund Ordinance in December 2000. The assets of the schemes are held separately from those of the Group, in funds under the control of trustees. The original ORSO Scheme operated by the Group were cancelled accordingly. Employees who were members of the ORSO Scheme prior to the establishment of the MPF Scheme were switched to the MPF Scheme, whereas all new employees joining the Group on or after 1st December, 2000 are required to join the MPF Scheme.

In addition to the mandatory contribution of 5% of the payroll costs, the Group voluntary contributes 0.5% to 5%, depends on the years of service of the employee, to the MPF Scheme.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2005

39. RETIREMENT BENEFITS SCHEMES *(Continued)*

Where there are employees who leave the MPF Scheme prior to vesting fully in the contributions, the market value of the unvested portion will be refunded to the Group.

The total cost charged to the consolidated income statement of HK$791,000 (2004: HK$852,000) represents contributions payable to the MPF Scheme, after forfeited contributions utilised in the MPF Scheme of HK$25,000 (2004: HK$225,000), by the Group during the year.

40. RELATED PARTY TRANSACTIONS

During the year, the Group entered into the following transactions with related parties:

	2005	2004
	HK$'000	HK$'000
Office rent paid to a related company *(note)*	**627**	684

Note: The related company is beneficially held by Mr. To Shu Fai, a director of the Company.

Compensation of key management

The key management of the Group comprises all directors and the four highest paid employees, details of their remuneration are disclosed in note 13. The remuneration of directors is determined by the remuneration committee having regard to the performance of individuals and market trends.

41. KEY SOURCE OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies, management makes various estimates based on past experiences, expectations of the future and other information. The key sources of estimation uncertainty that may significantly affect the amounts recognised in the consolidated financial statements are disclosed below:

Estimated impairment on trade and loans receivable

Management regularly reviews the recoverability and/or aging of the trade and loans receivable. Appropriate impairment for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2005

41. KEY SOURCE OF ESTIMATION UNCERTAINTY *(Continued)*

Estimated impairment on trade and loans receivable *(Continued)*

In determining whether impairment for bad and doubtful debts is required, the Group takes into consideration the aging status and likelihood of collection. Specific allowance is only made for receivables that are unlikely to be collected and is recognised on the difference between the estimated future cash flow expected to receive discounted using the originally effective interest rate and its carrying value.

42. FINANCIAL RISKS AND MANAGEMENT

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations at 31st December 2005 in relation to each class of recognised financial assets is the carrying amounts of those assets as stated in the consolidated balance sheet.

The Group is exposed to concentration of credit risk as a substantial portion of its sales is generated from a limited number of customers. During the year, the top five customers of the Group accounted for about 53% (2004: 66%) of the Group's sales. The Group manages its credit risk by closely monitoring the granting of credit. The Group also reviews the recoverable amount of each individual trade receivable at each balance sheet date to ensure that adequate allowances are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because majority of the counterparties are banks and creditworthy financial institutions.

Liquidity risk

The Group is exposed to minimal liquidity risk as the Group closely monitors its cash flow position.

Market risk

(i) *Foreign exchange risk*

The Group's functional and presentation currency has been in Hong Kong dollars since the operations are mainly in Hong Kong dollars and the operating expenses incurred are denominated in Hong Kong dollars. Accordingly, the directors consider the foreign exchange risk is not significant.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2005

42. FINANCIAL RISKS AND MANAGEMENT *(Continued)*

Market risk *(Continued)*

(ii) *Interest rate risk*

The Group's interest rate risk which relates primarily to the bank deposits, obligations under a finance lease and borrowings is minimal due to their short-term nature. The management will closely monitor the interest rate exposures.

43. POST BALANCE SHEET EVENTS

(i) The Board announced that on 17th October, 2005, Newton Luck Limited ("Newton"), a wholly-owned subsidiary of the Company, entered into the an agreement with Choice Master Investments Limited ("Choice Master"), an independent third party, and Mr. Yeung Ming Kwong, Tony, the sole and beneficial shareholder and director of Choice Master pursuant to which Newton conditionally agreed to acquire and Choice Master conditionally agreed to sell to Newton the entire share of Best Merchant Limited for a total consideration of HK$56 million (subject to adjustment), and the Mr. Yeung Ming Kwong, Tony agreed to guarantee to Newton the performance of the obligations and duties of Choice Master under the agreement to pay, on demand, any sum which Choice Master fails to pay Newton in accordance with the agreement. The acquisition had been completed on January 2006.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2005

43. POST BALANCE SHEET EVENTS *(Continued)*

The net assets acquired in the transaction, and the goodwill arising, approximate to acquiree's carrying amount before combination, as follows:

	HK$'000
Net assets acquired:	
Property, plant and equipment	23,438
Trade and other receivables	39,460
Bank and cash balances	2,229
Trade and other payables	(13,322)
Deferred tax liability	(1,523)
Borrowing	(3,436)
Tax payable	(6,859)
	39,987
Goodwill	16,013
Total consideration satisfied by:	
Cash	56,000
Net cash outflow arising on acquisition:	
Cash consideration paid	(56,000)
Cash and cash equivalents acquired	2,229
	(53,771)

The goodwill arising on the acquisition of Best Merchant Limited is attributable to the anticipated profitability and the future operating synergies from the combination.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2005

43. POST BALANCE SHEET EVENTS *(Continued)*

(ii) The directors also proposed to adopt a new share option scheme which will be put to shareholders for approval at the special general meeting. The existing share option scheme of the Company, which was adopted on 29th August, 2000, will be terminated upon and subject to the adoption of the new share option scheme.

Details of the above are set out in the circular of the Company dated 23rd December, 2005. The above resolutions were approved by the shareholders during the special general meeting of the Company being convened on 9th January, 2006.

(iii) 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 Daido Building Materials Limited, Daido Home International (B.V.I.) Limited, Daido Home International Limited and Ytong Hong Kong Limited, all are indirect wholly-owned subsidiaries of the Company, which carried on business of construction work contracting and sales of concrete products, for a cash consideration of HK$25,000,000. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2005

43. POST BALANCE SHEET EVENTS *(Continued)*

The major classes of assets and liabilities of construction works contracting and sales of concrete products as at 31st December, 2005 are as follows:

	HK$'000
Properties, plant and equipment	59,702
Long-term receivables	5,636
Prepaid lease payments	24,992
Inventories	5,723
Trade and other receivables	8,245
Rental deposits paid	114
Loans receivable	3,000
Deferred tax assets	88
Bank balances and cash	5,845
Impairment loss arising from adjustment to fair value less costs to sell	(74,879)
Assets classified as held for sale	38,466
Amounts due to customers for contract work	4,017
Trade and other payables	9,190
Guarantee money received	87
Liabilities associated with assets classified as held for sale	13,294

The subsidiaries disposed of during the year has constitute a cash inflow of HK$21,256,000 (2004: HK$25,029,000) in the Group's operating activities, cash outflow of HK$900,000 (2004: HK$495,000) in the investing activities and did not have cash flow in respect of financing activities for both years.

The subsidiaries to be disposed of contributed HK$55,905,000 to the Group's turnover and a loss of HK$68,933,000 to the Group's loss for the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2005

44. COMPANY'S BALANCE SHEET

	Notes	2005 HK$'000	2004 HK$'000
NON-CURRENT ASSET			
Investments in subsidiaries	*i*	**123,239**	123,239
CURRENT ASSETS			
Other receivables		**107**	110
Amounts due from subsidiaries		**—**	258
Bank balances and cash		**34**	36
		141	404
CURRENT LIABILITIES			
Other payables		**1,295**	1,079
Amounts due to subsidiaries		**842**	—
Unclaimed dividends		**19**	20
		2,156	1,099
NET CURRENT LIABILITIES		**(2,015)**	(695)
		121,224	122,544
CAPITAL AND RESERVES			
Share capital		**30,000**	30,000
Reserves	*ii*	**91,224**	92,544
		121,224	122,544

Notes:

(i) Investments in subsidiaries

	2005 HK$'000	2004 HK$'000
Unlisted shares, at cost	**123,239**	123,239

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2005

44. COMPANY'S BALANCE SHEET *(Continued)*

(i) Investments in subsidiaries *(Continued)*

Particulars of the principal subsidiaries at 31st December, 2005 are as follows:

Name	Place of incorporation/ operation	Issued and fully paid share capital	Proportion of nominal value of issued capital held by the Company		Principal activities
			Directly	Indirectly	
Best Shining Limited	Hong Kong	HK$1 Ordinary share	—	100%	Property investment
Daido (BVI) Limited	British Virgin Islands	US$2 Ordinary shares	100%	—	Investment holding
Daido Building Materials Limited	Hong Kong	HK$20 Ordinary shares HK$10,000 Non-voting deferred shares*	—	100%	Manufacture and sales of ALC products
Daido Home International Limited	Cayman Islands	HK$225,375,000 Ordinary shares HK$91,500,000 Convertible redeemable preference shares**	—	100%	Investment holding, sales and installation of ALC products and sales of building materials
Diamond Sparkling Limited	Hong Kong	HK$10 Ordinary shares	—	100%	Sub-leasing of investment properties
Newton Luck Limited	British Virgin Islands	US$1 Ordinary share	—	100%	Investment holding
Ytong Hong Kong Limited	Hong Kong	HK$20 Ordinary shares HK$10,000 Non-voting deferred shares*	—	100%	Installation of ALC products

* The deferred shares practically carry no right to dividend or to receive notice of or to attend or vote at any general meeting of the respective company or to participate in any distribution on winding up.

** The convertible redeemable preference shares of Daido Home International Limited carry 2% dividend per annum and have the right to receive notice of, attend, speak and vote at meetings of members only for those circumstances as mentioned in its Articles of Association.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2005

44. COMPANY'S BALANCE SHEET *(Continued)*

(i) Investments in subsidiaries *(Continued)*

Except for the convertible redeemable preference shares of Daido Home International Limited, none of the subsidiaries had any debt security outstanding at the end of the year or at any time during the year.

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

(ii) Reserves

	Contributed surplus HK$'000	Retained profits HK$'000	Total HK$'000
As 1st January, 2004	84,239	8,174	92,413
Profit for the year	—	131	131
At 31st December, 2004	84,239	8,305	92,544
Loss for the year	—	(1,319)	(1,319)
At 31st December, 2005	84,239	6,986	91,225

Notes:

The contributed surplus of the Company represents the difference between the underlying net assets of the subsidiaries acquired by the Company as at the date of the group reorganisation and the nominal amount of the Company's share capital issued as consideration for the acquisition.

Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus account of the Company is available for distribution. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus, if:

(i) it is, or would after the payment be, unable to pay its liabilities as they become due; or

(ii) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium account.

In the opinion of the directors, the Company's reserves available for distribution to shareholders are as follows:

	2005 **HK$'000**	2004 HK$'000
Contributed surplus	**84,239**	84,239
Retained profits	**6,986**	8,305
	91,225	92,544

FINANCIAL SUMMARY

	Year ended 31st December,				
	2005	2004	2003	2002	2001
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
				(restated)	
Turnover	**97,495**	109,247	152,112	158,634	199,170
(Loss) profit for the year	**(73,450)**	86,419	20,831	16,283	29,659

	As at 31st December,				
	2005	2004	2003	2002	2001
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
				(restated)	
Total assets	**340,284**	770,931	629,294	234,167	253,815
Total liabilities	**(25,578)**	(382,775)	(427,557)	(58,315)	(87,262)
Shareholders' equity	**314,706**	388,156	201,737	175,852	166,553

2002 figures have been adjusted to reflect the change in accounting policy for the adoption of Statement of Standard Accounting Practice ("SSAP") 12 (Revised) issued by Hong Kong Institute of Certified Public Accountants (the "HKICPA"). No restatement of consolidated financial statements of 2001 was made for the adoption of SSAP 12 (Revised) as the directors of the Company considered it is not practical to do so.

In addition, no restatement of consolidated financial statements from 2001 to 2003 was made for the adoption of new Hong Kong Financial Reporting Standards issued by the HKICPA that are effective for accounting periods beginning on or after 1st January, 2005 as the directors of the Company considered it is not practical to do so.

PARTICULARS OF INVESTMENT PROPERTIES

Name/location	Lease expiry	Use	Approximate gross floor area sq. ft.	Group's attributable interest %	Lease term
Units 80, 81, 93, Coffee Shop and Unit 80A on the Basement Floor, Hunghom Commercial Centre, 37–39 Ma Tau Wai Road, Kowloon	2047	Vacant	9,056	100	Medium-term leases

NOTICE OF 2006 ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the 2006 Annual General Meeting of Daido Group Limited (the "Company") will be held at Plaza IV, Lower Lobby, Novotel Century Hong Kong, 238 Jaffe Road, Wanchai, Hong Kong on Thursday, 25th May, 2006 at 10:00 a.m. for the following purposes:

1. To receive and consider the audited financial statements and the reports of the directors and of the auditors for the year ended 31st December, 2005.

2. To re-elect directors and to authorize the Board of Directors to fix their remuneration.

3. To re-appoint auditors and to authorize the Board of Directors to fix their remuneration.

   As special business, to consider and, if thought fit, pass the following resolutions as Ordinary Resolutions:

4. "**THAT**:

   (a) subject to paragraph (b) below, the exercise by the directors of the Company during the Relevant Period (as hereinafter defined) of all the powers of the Company to purchase its own shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") or on any other stock exchange on which the securities of the Company may be listed and recognized by the Securities and Futures Commission and the Stock Exchange for this purpose, subject to and in accordance with all applicable laws and the requirements of the Rules Governing the Listing of Securities on the Stock Exchange (as amended from time to time) or of any other stock exchange, be and is hereby generally and unconditionally approved;

   (b) the aggregate nominal amount of the shares of the Company to be purchased by the Company pursuant to the approval in paragraph (a) above during the Relevant Period shall not exceed 10% of the nominal amount of the share capital of the Company in issue as at the date of passing of this Resolution and the said approval shall be limited accordingly; and

   (c) for the purpose of this Resolution, "Relevant Period" means the period from the passing of this Resolution until whichever is the earliest of:

      (i) the conclusion of the next annual general meeting of the Company; or

      (ii) the expiration of the period within which the next annual general meeting of the Company is required by the Bye-Laws of the Company or any applicable law to be held; or

      (iii) the revocation or variation of the authority given under this Resolution by an ordinary resolution of the shareholders of the Company in general meeting."

NOTICE OF 2006 ANNUAL GENERAL MEETING

5. "**THAT**:

(a) subject to paragraph (b) below, a general mandate be and is hereby unconditionally given to the directors of the Company to exercise all the powers of the Company during the Relevant Period (as hereinafter defined) to allot, issue and deal with the shares in the capital of the Company (including making and granting offers, agreements and options which would or might require the exercise of such power, whether during the continuance of the Relevant Period or thereafter);

(b) the aggregate nominal amount of the share capital of the Company allotted or agreed conditionally or unconditionally to be allotted or dealt with pursuant to the approval in paragraph (a) above during the Relevant Period, otherwise than pursuant to the following, shall not exceed 20% of the nominal amount of the share capital of the Company in issue as at the date of passing of this Resolution and the said approval shall be limited accordingly:

(i) a rights issue where shares are offered for a period fixed by the directors of the Company to holders of shares whose names appear on the register of members of the Company on a fixed record date in proportion to their then holdings of such shares (subject to such exclusion or other arrangements as the directors of the Company may deem necessary or expedient in relation to fractional entitlements or having regard, as appropriate, to any restrictions or obligations under the laws of, or the requirements of any recognized regulatory body or stock exchange in, any territory applicable to the Company);

(ii) any issue of shares in the Company under any share option scheme or similar arrangement for the time being adopted for the grant or issue to officers and/or employees of the Company and/or any of its subsidiaries of shares or rights to acquire shares of the Company and approved by The Stock Exchange of Hong Kong Limited;

(iii) any issue of shares in the Company upon the exercise of subscription rights or conversion rights attaching to any warrants or any convertible notes of the Company;

(iv) any scrip dividend scheme or any similar arrangement implemented in accordance with the Bye-Laws of the Company; and

(c) for the purpose of this Resolution, "Relevant Period" means the period from the passing of this Resolution until whichever is the earliest of:

(i) the conclusion of the next annual general meeting of the Company; or

(ii) the expiration of the period within which the next annual general meeting of the Company is required by the Bye-Laws of the Company or any applicable law to be held; or

NOTICE OF 2006 ANNUAL GENERAL MEETING

(iii) the revocation or variation of the authority given under this Resolution by an ordinary resolution of the shareholders of the Company in general meeting."

6. "**THAT** conditionally upon Resolutions Numbers 4 and 5 being passed, the general mandate granted to the directors of the Company and for the time being in force to exercise the powers of the Company to allot, issue and deal with shares in the capital of the Company pursuant to Resolution Number 5 be and is hereby extended by the addition to the nominal value of the share capital which may be allotted or agreed conditionally or unconditionally to be allotted and issued by the directors of the Company pursuant to such general mandate of an amount representing the aggregate nominal value of the share capital of the Company repurchased by the Company under the authority granted pursuant to Resolution Number 4, provided that such amount shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing of this Resolution."

As special business to consider and, if thought fit, pass the following resolutions as Special Resolutions:

7. **"THAT** the bye-laws of the Company be and are hereby amended in the following manner:

1. Bye-law 1

By adding the following new definitions and references to Bye-law 1 in appropriate alphabetical sequence:

"electronic" in relating to technology, means having electrical, digital, magnetic, wireless, optical, electromagnetic or similar capabilities and such other meanings as given to it under the Electronic Transactions Act 1999 of Bermuda as may be amended from time to time;

2. Bye-law 2

(i) By inserting in the third line of the existing Bye-laws 2(e) immediately after the words "in a visible form" the following words:

", including in the form of electronic display, provided that both the mode of service of the relevant document or notice and the Member's election (where applicable) comply with all applicable Statutes, rules and regulations";

(ii) By deleting the "." in Bye-law 2(j) and substituting therefor "; and";

NOTICE OF 2006 ANNUAL GENERAL MEETING

(iii) By adding the following new Bye-law 2(k) immediately after the existing Bye-law 2(j):

"(k) references to a document being executed include references to it being executed under hand or under seal or by electronic signature or by any other legally acceptable method and references to a notice or document include a notice or document recorded or stored in any digital, electronic, electrical, magnetic or other retrievable form or medium and information in visible form whether having physical substance or not.";

3. Bye-law 39

By deleting the word "register" in the 10th line of the existing Bye-law 39 and substituting therefor the word "Register";

4. Bye-law 44

By inserting in the 8th line of the existing Bye-law 44 immediately before the words "Designated Stock Exchange" the following words:

"Designated Stock Exchange or by any means in such manner as may be accepted by the";

5. Bye-law 46

By inserting in the 2nd line in the existing Bye-law 46 immediately after the words "common form or in" in the following words:

"a form prescribed by the Designated Stock Exchange or in";

6. Bye-law 51

By inserting in the 3rd line of the existing Bye-law 51 immediately after the words "Designated Stock Exchange" the following words:

"or by any means in such manner as may be accepted by the Designated Stock Exchange";

7. Bye-law 64

By deleting the word "notice" in the 7th and 9th lines of the existing Bye-law 64 and substituting therefor in all cases the word "Notice";

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8. Bye-law 66

(i) by inserting the following words immediately after the words "on a show of hands unless" in the 11th line of the existing Bye-law 66:

"voting by way of a poll is required by the rules of the Designated Stock Exchange or";

(ii) by deleting the full-stop at the end of the existing Bye-law 66(d) and substituting a semicolon therefor and thereafter the word "or";

(iii) by inserting the following new Bye-law 66(e) after the existing Bye-law 66(d):

"(e) if required by the rules of the Designated Stock Exchange, by the chairman of such meeting and/or the Directors who, individually or collectively, hold proxies in respect of shares representing five per cent (5%) or more of the total voting rights of all Members having right to vote at such meeting."; and

(iv) by inserting before the last paragraph of the existing Bye-law 66 the following words:

"Each proxy shall only have one vote on a show of hands and shall be deemed to represent one Member only when making a demand for a poll in accordance with this Bye-law 66 notwithstanding that he has been appointed as proxy by and actually represents more than one Member.";

9. Bye-law 67

by deleting the existing Bye-law 67 in its entirety and substituting the following therefor as new Bye-law 67:

"67. Unless a poll is required or duly demanded and, in the latter case, not withdrawn, the chairman of the meeting should indicate to the meeting of the Company the level of proxies lodged on each resolution and the balance for and against the resolution, after it has been dealt with on a show of hands.";

10. Bye-law 68

by replacing the sentence 'There shall be no requirement for the chairman to disclose the voting figures on a poll.' with the following sentence:

"The Company shall only be required to disclose the voting figures on a poll if such disclosure is required by the rules of the Designated Stock Exchange.";

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11. Bye-law 83

by re-numbering the existing Bye-law 83 as 83(1) and inserting the new Bye-law 83(2) as follows:

"83(2) Where the Company has actual knowledge that any Member is, under the rules of the Designated Stock Exchange, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such Member in contravention of such requirement or restriction shall not be counted.";

12. Bye-law 86

(i) by deleting the sentence "Any Director so appointed by the Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election at that meeting." in the existing Bye-law 86(2) and substituting the following sentence therefor:

"Any Director so appointed by the Board shall hold office only until the next following general meeting of the Company (in the case of the filling of casual vacancy on the Board), or until the next following annual general meeting of the Company (in the case of an addition to the existing Board), and shall then be eligible for re-election at that meeting but shall not be taken into account in determining the Directors or the number of Directors who are to retire by rotation at that meeting."; and

(ii) by deleting the existing Bye-law 86(4) the words "Subject to any provision to the contrary in these Bye-laws" and replacing the word "the" in the 1st line by the word "The" and replacing the word "special" in the 2nd line by the word "ordinary".;

13. Bye-law 87

(i) by deleting the existing Bye-law 87(1) in its entirety and substituting the following therefor as new Bye-law 87(1):

"(1) Notwithstanding any other provisions in the Bye-laws or any contractual or other terms on which any Director may be appointed or engaged, at each annual general meeting, one-third of the Directors for the time being, or, if their number is not a multiple of three, then the number nearest to, but not less than one-third, shall retire from office by rotation, provided that every Director shall be subject to retirement by rotation at least once in every three years."; and

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(ii) by inserting the words "and shall continue to act as a Director throughout the meeting at which he retires" after the word "re-election" at the end of the first sentence of Bye-law 87(2).

14. Bye-law 103

(i) by deleting the existing Bye-law 103(3) in its entirety and substituting the following therefor:

"Where a company (other than a company which is a wholly owned subsidiary of the Company or a subsidiary or associated company of the Company in the voting equity capital of which neither the Director nor any of his associates has any interest(s)) in which a Director together with any of his associates hold five (5) per cent. or more of any class of the voting equity share capital of such company or of the voting rights of any class of shares available to shareholders of the company is materially interested in a transaction, then that Director or his associate(s) shall also be deemed materially interested in such transaction."; and

(ii) by inserting the following new Bye-law 103(5) immediately after the existing Bye-laws 103(4):

"(5) Where a substantial shareholder (within the meaning of the rules of the Designated Stock Exchange) or a Director has a conflict of interest in a matter to be considered by the Board which the Board has determined to be material, the matter should not be dealt with by way of circulation of board resolutions pursuant to this Bye-law or by a committee (except an appropriate board committee set up for that purpose pursuant to a resolution passed in a board meeting) but a board meeting should be held with the presence of the independent non-executive Directors who, and whose associates, have no material interest in the transaction.";

15. Bye-law 115

by deleting the existing Bye-law 115 in its entirety and substituting the following therefor:

"115. A Director may, and on request of a Director the Secretary shall, at any time summon a meeting of the Board. At least 14 days' notice thereof shall be given to each Director, unless all Directors unanimously waive such notice. The notice may either be given in writing or by telephone or by facsimile, telex or telegram at the address or telephone, facsimile or telex number from time to time notified to the Company by such Director or in such other manner as the Board may from time to time determine, as may be accepted by the Designated Stock Exchange and permitted under the Listing Rules, provided that notice need not be given to any Director or alternate Director for the time being absent

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from Hong Kong and irrespective of the length of notice being given, a Director's attendance at the meeting shall be deemed to be a waiver of the requisite length of notice of the meeting by the Director.";

16. Bye-law 132

(i) by deleting in the 1st line of the existing Bye-law 132(1) thereof the word "Register" immediately after the words "Office a" and substituting therefore the word "register";

(ii) by deleting the word "Register" in Bye-law 132(2)(b) and immediately after the words "contained in the" and substituting therefor the word "register".

(iii) by deleting the word "Register" in the fourth line of Bye-law 132(2) immediately after the words "to be entered on the" and substituting therefor the word "register".

(iv) by deleting the word "Register" in the first sentence in Bye-law 132(3) and substituting therefor the word "register".

17. Bye-law 153

(i) by inserting the word "clear" immediately after the words "twenty-one (21)" in the 6th line of the existing Bye-law 153 thereof; and

(ii) by inserting the words "and at the same time as the notice of the annual general meeting" immediately after the words "before the date of the general meeting" in the 6th line of the existing Bye-law 153 thereof.

18. Bye-law 154(2)

by inserting the following words immediately before the full-stop at the end of the existing Bye-law 154(2) thereof:

"and shall give notice thereof to the Members not less than seven (7) days before the annual general meeting provided that the above requirement for sending a copy of such notice to the incumbent Auditor may be waived by notice in writing by the retiring Auditors to the Secretary";

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19. Bye-law 157

by re-numbering the existing Bye-law 157 as 157(1) and inserting the new Bye-law 157(2) as follows:

"157(2) Subject to the provisions of the Act, all acts done by any person acting as Auditor shall, as regards all persons dealing in good faith with the Company, be valid, notwithstanding that there was some defects in their appointment or that they were at the time of their appointment not qualified for appointment or subsequently became disqualified.";

20. Bye-law 160

by deleting the existing Bye-law 160 in its entirety and substituting therefor the following new Bye-law 160:

"Any Notice or document (including any corporate communication within the meaning ascribed thereto under the rules of the Designated Stock Exchange), whether or not, to be given or issued under these Bye-laws from the Company to a Member shall be in writing or by cable, telex or facsimile transmission message or communication and any such Notice and document may be served or delivered by the Company on or to any Member either personally or by sending it through the post in a prepaid envelope addressed to such Member at his registered address as appearing in the Register or at any other address supplied by him to the Company for the purpose or, as the case may be, by transmitting it to any such address or transmitting it to any telex or facsimile transmission number or electronic number or address or website supplied by him to the Company for the giving of Notice to him or which the person transmitting the Notice reasonably and bona fide believes at the relevant time will result in the Notice being duly received by the Member or may also be served by advertisement in appointed newspaper (as defined in the Act) or in newspapers published daily and circulating generally in the territory of and in accordance with the requirements of the Designated Stock Exchange or, to the extent permitted by the applicable laws, by placing it on the Company's website and giving to the Member a notice stating that the Notice or other document is available there (a notice of availability). The notice of availability may be given to the Member by any of the means set out above. In the case of joint holders of a share all Notices shall be given to that one of the joint holders whose name stands first in the Register and notice so given shall be deemed a sufficient service on or delivery to all the joint holders.";

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21. Bye-law 161

(i) by deleting the word "and" at the end of the Bye-law 161(a) and inserting a new Bye-law 161(b) as follows:

"(b) if sent by electronic communication, shall be deemed to be given on the day on which it is transmitted from the server of the Company or its agent. A notice placed on the Company's website is deemed given by the Company to a Member on the day following that on which a notice of availability is deemed served on the Member;";

(ii) by renumbering existing Bye-law 161(b) as a new Bye-law 161(c);

(iii) by inserting the words "other than by advertisement in newspapers in accordance with this Bye-law," immediately after the words "these Bye-laws" in the 1st line of the new Bye-law 161(c); and

(iv) by inserting new Bye-law 161(d) and 161(e) as follows:

"(d) if served by advertisements in newspapers in accordance with this Bye-law, shall be deemed to have been served on the day on which the advertisement is first published; and";

"(e) may be given to a Member either in the English language or the Chinese language, subject to due compliance with all applicable Statutes, rules and regulations.";

22. Bye-law 162(1)

by inserting the words "or served by any means permitted by and" immediately after the words "of any Member" in the 2nd line of the Bye-law 162(1); and

23. Bye-law 163

by inserting in the 1st line of the Bye-law 163 immediately after the words "or facsimile" the words "or electronic"."

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8. "**THAT**, conditional upon the passing of the special resolution set out above, the Bye-laws of the Company be and are hereby replaced in their entirety with the form produced at the meeting, consolidating the amendments referred to above and those amendments made by special resolution on 25th May, 2004 but with no other changes."

By Order of the Board
Choy Kai Sing
Company Secretary

Hong Kong, 29th April, 2006

Notes:

(1) A member of the Company entitled to attend and vote at the meeting is entitled to appoint another person as his proxy to attend and vote in his stead. A proxy need not be a member of the Company.

(2) Where there are joint registered holders of any shares, any one of such persons may vote at the meeting, either personally or by proxy, in respect of such shares as if he was solely entitled thereto; but if more than one of such joint holders be present at the meeting personally or by proxy, that one of the said persons so present whose name stands first on the register of members of the Company in respect of such shares shall alone be entitled to vote in respect thereof.

(3) To be valid, a form of proxy, together with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy thereof, must be deposited at the Company's branch share registrars in Hong Kong, Union Registrars Limited, at 311–312 Two Exchange Square, Central, Hong Kong, as soon as possible but in any event by not later than 48 hours before the time appointed for holding the meeting.